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Ontario

BY E-MAIL

November 17, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Board Staff Interrogatories
Union Gas Limited - Board File No. EB-2010-0300
Pre-Approval of the Cost Consequences of Three Long-Term Transportation Contracts

In accordance with Procedural Order No. 1, please find attached Board staff's interrogatories in this proceeding. Please forward the attached to Union Gas Limited and to all intervenors in the proceeding.

Sincerely,

Original Signed By

Hima Desai
Advisor

Attachment

Board Staff Interrogatories
EB-2010-0300
Union Gas Limited – Pre-Approval of the Cost Consequences of Three Long-Term Transportation Contracts

Compliance with the Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply an/or Upstream Transportation Contracts
Reference: EB-2008-0280 Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts

1) As per Part VI of the filing guidelines, please file the signed Precedent Agreement for the three contracts.

Union Gas Limited's In-Franchise Customers
Reference: page 2, paragraph 4

2) At page 2, paragraph 4 of Union Gas Limited's ("Union") Application, Union states that "all three contracts are aimed at improving the security of supply for Union's in-franchise customers".

   a) Please confirm that each of the proposed long-term transportation contracts is to serve in-franchise customers only.

   b) If not, please explain how serving ex-franchise customers under these proposed long-term transportation contracts improve security for Union's in-franchise customers.

Long-Term Transportation Contracting Analysis
Reference: Exhibit A, Appendix D

3) Union has provided a Long-term Transportation Contracting Analysis at Exhibit A, Appendix D.

   Please provide the landed costs of the status quo (e.g., purchasing natural gas from the Western Canadian Sedimentary Basin ("WCSB") and moving the gas along the TransCanada PipeLines Limited ("TCPL") system to Ontario)?

Marcellus Shale
Reference: Exhibit A, page 4, Exhibit A, Appendix E

4) At Exhibit A, page 4 of 14, Union states that "Union's Niagara contract will allow the utility to purchase a portion of these Marcellus supplies at Niagara". On page 5 of

14, Union also states that the "Niagara contract fits into Union's overall gas supply portfolio in terms of contract length".

In the Report of the Board entitled *Draft LTC Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts* (the "LTC Report") dated February 11, 2009, the Board indicated that it needed to understand "how the contract fits into the utility's overall transportation and natural gas supply portfolio".

a) Please provide, in table format, a breakdown of Union's natural gas supply portfolio itemized by contract length, volume, services, supply source, price, effective date, and expiration date for each of its supply contracts in its portfolio.

b) Please provide a description of the natural gas supply contracts that Union will purchase at Niagara from the Marcellus supplies (that correspond with the proposed transportation contracts) in terms of contract length, volume, services, price, effective date, and expiration date.

c) Over the 10-year term of the proposed long-term transportation contracts, what is the percentage of natural gas supply coming from the Marcellus supplies to serve Union's in-franchise customer?

d) Over the 10-year term of the proposed long-term transportation contracts, what is the percentage of natural gas supply coming from the WCSB to serve Union's in-franchise customers?

e) In addition to the chart found at Exhibit A, Appendix E, please provide a detailed table that itemizes Union's transportation portfolio (including name of pipeline and route, service, term, volume (in GJ/day), receipt / delivery points, cost per year (in CDN $), effective date, and expiration date for each of the transportation contracts).

f) What is the percentage of Union's proposed long-term transportation contracts (in terms of volume (GJ/d)) compared to Union's total portfolio of transportation contracts for firm transportation service (as outlined in Exhibit A, Appendix E)? Will the percentage change over the 10-year term of the proposed long-term transportation contracts?

The Parkway Contracts
Reference: Exhibit A, page 9

5) At Exhibit A, page 9 of 14, Union states that the delivery point in the contract from Parkway to Union EDA is the Union EDA.

a) Please provide the exact delivery point or points within Union's EDA.

b) Please confirm that the TCPL tolls will not vary according to delivery point or points.

c) Will all in-franchise customers in Union's EDA have direct access to the Marcellus supplies? Please explain.

d) Please provide a map identifying the delivery points and showing the areas that will have direct access to the new supplies.

6) At Exhibit A, page 9 of 14, Union states that the delivery point in the contract from Parkway to Union NDA is the Union NDA.

a) Please provide the exact delivery point or points within Union's NDA.

b) Please confirm that the TCPL tolls will not vary according to delivery point or points.

c) Will all in-franchise customers in Union's NDA have direct access to the Marcellus supplies? Please explain.

d) Please provide a map identifying the delivery points and showing the areas that will have direct access to the new supplies.

Need/Benefits/Costs/Risk Mitigation
Reference: Page 2, Paragraph 4

7) Please explain how Union's in-franchise customers that are captive to existing pipeline system (e.g., TCPL's Mainline) for natural gas supply and therefore have limited direct access to new supply sources will benefit from the diversity of supply associated with the proposed transportation contracts.

a) How will Union ensure that only the in-franchise customers that benefit from the diversity of supply pay for these proposed long-term transportation contracts? Please explain.

b) How will Union ensure that the in-franchise customers that do not benefit from the diversity of supply do not have to pay for these proposed long-term transportation contracts?

c) Is it possible that pursuing the three proposed long-term contracts could result in greater price differentials between rates in the Northern Delivery Area and those in the Southern Delivery Area? Please explain.

Reference: Exhibit A, page 6

8) Will the rate classes that benefit from the proposed long- term contracts be responsible for any additional costs related to these contracts (e.g., decontracting costs, underutilized transportation capacity)?

9) At Exhibit A, page 6 of 14, Union states that "should Union's purchases on behalf of in-franchise customers decline drastically during the course of the Niagara/Kirkwall supply contract, Union has sufficient flexibility within the balance of its portfolio to decontract supply from other sources".

    a) Are there costs associated with decontracting supply from other sources? If so, what are the costs?

    b) Will Union recover these costs from its in-franchise customers?

        i) If so, how will these costs be recovered from Union's in-franchise customers? For example, are these costs allocated evenly across Union's delivery areas and rate classes? Please explain.

    c) Is Union able to decontract transportation from the Niagara/Kirkwall contract? What about the Parkway contracts?

    d) If so, what are the costs from decontracting transportation?

        i) Will these costs be recovered from Union's in-franchise customers? For example, are these costs allocated evenly across Union's delivery areas and rate classes? Please explain.

    e) What will happen if the anticipated production at Marcellus does not materialize and as a result the natural gas flows into Niagara decline?

        i) Does Union have a risk mitigation plan in place that addresses the risk(s) of underutilized transportation capacity in relation to the three proposed long-term transportation contracts? Please explain.

            (1) How will Union minimize this transportation risk?

            (2) Please explain how this risk (of underutilized transportation capacity) will be allocated between ratepayers and/or Union's shareholder.

10) In the LTC Report, the Board indicated that it needed to understand the potential impacts on existing transportation pipeline facilities when approving long-term contracts for new infrastructure. Section 5.2 of the LTC guidelines states that an

assessment of the potential impacts on existing transportation pipelines in the market (in terms of Ontario customers) is required.

a) Is Union planning to decontract transportation for the equivalent volume associated with the proposed long-term transportation contracts (i.e., 51,101 GJ/d)? If so, when?

b) Please identify the pipeline(s) and route(s) for decontracting transportation.

   i) What is the potential financial impact of decontracting transportation capacity of over 50,000 GJ/d on existing transportation pipeline facilities (in terms of Ontario customers)?

   ii) Will this potential impact affect in-franchise customers similarly across Union's delivery areas? For example, will this potential impact affect Union's captive customers in northern and eastern delivery areas differently than customers in Union's southern delivery area? Please explain.