

November 19, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2010-0296 – Union Gas Limited – C1 Kirkwall to Dawn and M12-X –
Reply Argument**

On September 30, 2010 Union Gas Limited (“Union”) submitted its application and evidence seeking approval of both a firm C1 transportation rate from Union’s interconnect at Kirkwall to Dawn and a firm, bi-directional, M12-X transportation rate (the “New Services”).

On October 5, 2010 the Ontario Energy Board (the “Board”) issued its procedural order outlining the dates for interrogatories and arguments to be submitted to the Board.

Union received three interrogatories, all from Board staff, regarding this application. Subsequently, Board staff, the Federation of Rental Property Owners (“FRPO”) and Canadian Manufacturers and Exporters (“CME”) submitted their arguments supporting the approval of Union’s application. No other submissions were received.

Notwithstanding that Board Staff, FRPO, and CME all recommended that the application be approved, Union wishes to respond to comments made in their submissions.

Directive to Review the Rate-Making Methodology of the New Services

Board staff suggested that the Board approve the new services and issue a directive to Union to review the rate-making methodology of these services as part of rebasing.

In Union’s submission, it is not necessary for the Board to issue a directive that Union review the rate-making methodology of the New Services as part of rebasing. The rate-making methodology for all of Union’s regulated services is reviewed through the normal course of rebasing. Further, in Union’s response to Board staff interrogatory B1.03 c), Union has committed to complete this review as part of Union’s 2013 rebasing. No specific directive is required to ensure this review.

Interim Approach

FRPO suggested that, should the Board approve the New Services, the approval should be an interim approach, and that the rate-making methodology can be reviewed during rebasing to ensure that new services can “contribute to the recovery of asset costs to mitigate reduction in demand for traditional services”.

Union is not seeking interim approval of the New Services. An interim approval would only create confusion with shippers who bid in the open season. As noted above, Union has committed to review the rate-making methodology for these New Services, as with all of Union’s regulated services, through the normal course of rebasing. Union does not anticipate that, during the course of rebasing, the rates for the New Services will change significantly from those proposed. Furthermore, as noted in evidence, the C1 rate as proposed does contribute to the reasonable recovery of the fixed costs associated with the assets to provide the transportation service, and through the conversion of M12 customers to the new M12-X service, the risk associated with a potential reduction in demand for traditional services is being mitigated.

Z-Factor Treatment

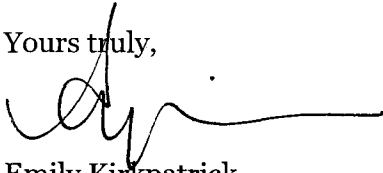
CME indicated that Z-factor treatment of the revenues relating to the New Services may be warranted for 2012, although it acknowledged that there is a Z-factor eligibility issue and that it is not seeking a determination on the issue at this time.

Z-factor treatment of the revenues relating to the New Services is not appropriate either now or in 2012. A review of the five elements of the Z-factor eligibility criteria, as set out in the EB-2007-0606 Settlement Agreement, demonstrates that Z-factors relate to variations in costs, not revenue, due to factors outside the Utility’s control. Events resulting in changes to the level of revenue, for any reason, were not contemplated within the Z-factor criteria and Z-factor treatment is not an appropriate means to address them.

Further, Union’s incentive regulation (“IR”) mechanism (and IR mechanisms in general) is structured to encourage the company to pursue sustainable productivity gains over the IR term. Sustainable productivity gains are achieved by implementing measures that reduce or maintain cost levels or by growing revenue by, for example, introducing new services. During the term of the IR, productivity gains incremental to those included in the pricing formula accrue to the ratepayer only in so far as they contribute to earnings sharing. To suggest that it would be appropriate to build any incremental productivity gains into rates prior to rebasing is inappropriate and inconsistent with the EB-2007-0606 Settlement Agreement.

Union respectfully requests the Board's approval of the C1 Kirkwall to Dawn and M12-X services as filed.

Yours truly,

A handwritten signature in black ink, appearing to be 'Emily Kirkpatrick', with a long horizontal flourish extending to the right.

Emily Kirkpatrick

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EK

c.c.: Karen Hockin, Union Gas
Mark Kitchen, Union Gas
Lawrie Gluck, Board Staff
EB-2010-0296 Intervenors