January 6, 2011

Ontario Energy Board
2300 Yonge Street
Toronto, ON
M4P 1E4
ATTN: Kirsten Walli, Board Secretary

Dear Ms. Walli:

RE: Pre-Approval of the Cost Consequences of Three Long-Term Transportation Contracts - Board File No. EB 2010-0300

This letter responds to the Board's request on December 21, 2010 for additional information in the above noted application.

1. **With respect to the Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Transportation Contracts – Part V – Other Considerations, item 5.2 which states "an assessment of retail competition impacts and potential impacts on existing transportation facilities in the market (in term of Ontario customers)".**

   In light of the recent TransCanada PipeLines Limited ("TCPL") interim tolls application, filed with the National Energy Board ("NEB") on December 9, 2010, please provide the financial impact(s) of decontracting long-haul services from TCPL's mainline for the equivalent volume associated with the three proposed long-term transportation contracts (i.e., 51,101 GJ/d) using the 2011 interim tolls filed in TCPL's application.

   Response:

   Attached is the Contracting Analysis showing the comparative landed costs of the proposed supply routes incorporating the 2011 TCPL Proposed Settlement tolls for the full 10-year period of the contracts. TCPL applied to the NEB in December, 2010 for an order implementing the proposed tolls on an interim basis effective January 1, 2011. The NEB subsequently ordered (TGI-04-2010) that the 2011 interim Mainline tolls be set at the 2010 levels in the absence of an examination of the substantive and contested issues of the TCPL proposed tolls.

   Should the TCPL proposed settlement tolls be ultimately implemented, the impact on the landed costs compared to that of the current tolls of the 3 new paths is:

- Niagara to Dawn increases from 8.29 to 8.35 ($US/mmBtu)
- Dawn to NDA increases from 8.89 to 8.94 ($US/mmBtu)
- Dawn to EDA increases from 8.77 to 8.84 ($US/mmBtu)

Summary - Landed Cost Comparison ($US/mmBtu)

NORTH CONTRACTS	2010 Tolls ($1.64 CDN/GJ Emp to EDA)	NEB-Filed 2011 Proposed Settlement Tolls ($1.33 CDN/GJ Emp to EDA)	NEB-Filed 2011 Status Quo Tolls ($2.91 CDN/GJ Emp to EDA)
Dawn to EDA	**8.77**	**8.84**	**8.92**
Dawn to NDA	**8.89**	**8.94**	**9.12**
Empress to EDA	9.24	9.03	10.46
Empress to NDA	8.82	8.71	9.78

NIAGARA CONTRACT	2010 Tolls ($1.64 CDN/GJ Emp to EDA)	NEB-Filed 2011 Proposed Settlement Tolls ($1.33 CDN/GJ Emp to EDA)	NEB-Filed 2011 Status Quo Tolls ($2.91 CDN/GJ Emp to EDA)
Vector - 2008	7.95	7.95	7.95
Trunkline/Panhandle	8.03	8.03	8.03
Panhandle LH	7.81	7.81	7.81
Alliance/Vector	8.39	8.39	8.39
TCPL Empress to SWDA	8.56	8.44	9.61
TCPL Niagara to Dawn	**8.29**	**8.35**	**8.35**

The landed costs of the existing Empress to NDA and EDA paths are reduced from 8.82 to 8.71 and 9.24 to 9.03 ($US/mmBtu) respectively. In this landed cost analysis Union has made no assumptions regarding a movement in the AECO basis in response to the proposed settlement. It is possible that the basis will increase to offset some of the toll reduction if demand for gas in the WCSB increases as a result of the lower tolls. If the basis does increase, it would favour the economics of the short haul paths. It should also be noted that the settlement term expires at 2013 year-end, only 2 months into the 10 year long-term contracts in this application. Tolls beyond this time are uncertain.

For comparative purposes, Union has also provided the Contracting Analysis using the TCPL Status Quo tolls. These tolls are derived using the existing methodology to calculate new tolls for 2011 ($2.91 CDN/GJ for long-haul). In all cases the landed costs for any paths using TCPL capacity (short and long-haul) are increased but the contract paths proposed in Union's application are more competitive than the long-haul Empress to Ontario paths. The

TCPL Status Quo tolls represent an extreme high end of the spectrum while the Settlement Proposal tolls represent an extreme low end of the spectrum and are not expected to be in place for an extended period of time.

2. **Is Union supportive of the December 9, 2010 TCPL application for 2011 interim tolls and the related settlement agreement filed with the NEB? Please explain.**

   Response:

   Attached is Union's submission to the NEB in response to TCPL's application for 2011 interim tolls.

   Union has specific concerns of the proposed settlement relating to the toll methodology change that would shift the burden of long-haul costs to short haul service paths. In Union's view this change would shift the dynamics of emerging supplies entering Ontario and may have adverse effects on Ontario rate payers including reduced liquidity at Dawn and reduced supply diversity. As presented in the Natural Gas Market Review, Union believes that both are necessary in maintaining and growing a healthy and competitive energy market in Ontario. Although competitive long-haul tolls are important to Union's ratepayers, the methodology by which those tolls are derived and the resulting impacts on all service areas is equally important. Changes in methodology for cost allocation or rate design require thorough review and supporting materials. In the NEB's letter accompanying the Order to set current tolls as interim tolls, the Board noted:

   > *The Application proposes interim tolls and tariff changes that are associated with significant changes to the established Mainline toll design and method of allocating costs. The Mainline Surcharge on the Alberta System would also be a significant change. The Board is of the view that it is not appropriate for such fundamental changes to be implemented on an interim basis in the face of significant opposition*

   Like other TCPL shippers, Union views the proposed settlement as a short term bridge to attract shippers through deferring significant costs to future periods. The settlement accomplishes this by reducing depreciation rates and deferring the recovery of past cost variances to future periods. Union wishes to see greater focus on developing long-term solutions for TCPL tolls and declining throughput issues.

   Union is hopeful that further negotiations on both of these items will yield an industry solution that is acceptable to all parties.

3. **The Canadian Association of Petroleum Producers ("CAPP") filed a letter dated December 10, 2010 with the NEB concerning TCPL's 2011 interim toll application. In that letter CAPP indicated that "the trend in the east has been increasingly to use the Mainline for short-haul transportation on TransCanada, in particular Dawn, while shedding long-haul". The current TCPL cost allocation and toll design methodologies have resulted in an increase in long-haul tolls and this has raised concerns regarding TCPL's ability to provide competitive access for supply to markets served by the**

Mainline. Taking into consideration CAPP's concerns, please comment on whether Union's application presently before the Ontario Energy Board exacerbate or mitigate the issues raised by CAPP in its letter as it relates to the transportation costs paid by Ontario consumers. Please explain.

Response:

The Niagara to Kirkwall contract (21,101 GJ/d) will initially replace a portion of Dawn purchased supply and after 2015 a portion of the Alliance based supply. There will therefore be no impact on TCPL long-haul flows or tolls as a result of this contract, but instead there will be incremental contracted volumes and revenues on TCPL's Niagara to Kirkwall system.

The Parkway to EDA and the Parkway to NDA contracts will replace in total 20,000 GJ/d of long-haul flows from Empress to Ontario. This will have the impact of increasing long-haul tolls under current tolling methodologies. However, although it is not possible for Union to know the exact impact this level of decontracting will have on the long-haul tolls, the 20,000 GJ/d represents a small portion of the total long-haul flows (1.3%) and Union expects that the resulting impact on TCPL long-haul tolls would be minimal

Union's proposal does not mitigate the issue raised by CAPP, however, as indicated by Union in its prefiled evidence, there are benefits associated with the Parkway contracts to Ontario consumers in the form of cost savings and increased diversity and security of supply. As indicated by Union at the Natural Gas Market Review, the realization of these benefits is directly linked to removing the capacity constraint between Parkway and Maple. As a default supplier, Union is able to underpin the expansion of this new infrastructure in the province for the benefit of its customers. By acquiring the Parkway to EDA and NDA capacity, Union is supporting efforts to remove the Parkway to Maple bottleneck that is impeding the flow of natural gas in Ontario.

Yours truly,

[original signed by]

Karen Hockin
Manager, Regulatory Initiatives

cc: Mark Kitchen, Union Gas
Neil McKay, Board Staff
Emily Kirkpatrick, Torys

Long-term Transportation Contracting Analysis

North Contracts - TCPL 2011 New Proposed Tolls

Route (A)	Point of Supply (B)	Basis Differential $US/mmBtu (C)	Supply Cost $US/mmBtu (D) = Nymex + (C)	Unitized Demand Charge $US/mmBtu (E)	Commodity Charge $US/mmBtu (F)	Fuel Charge $US/mmBtu (G)	100% LF Transportation Inclusive of Fuel $US/mmBtu (H) = (E) + (F) + (G)	Landed Cost $US/mmBtu (I) = (D) + (H)	**Landed Cost $Cdn/Gj (J)**	Point of Delivery (K)
Dawn to EDA	Dawn	0.68	8.39	0.3404	0.0000	0.1051	0.4454	$8.84	**$9.16**	EDA
Dawn to NDA	Dawn	0.68	8.39	0.4287	0.0000	0.1230	0.5517	$8.94	**$9.27**	NDA
Dawn to WDA	Dawn	0.68	8.39	0.8045	0.0000	0.2023	1.0068	$9.40	**$9.74**	WDA
TCPL EDA	Empress	-0.30	7.42	1.3745	0.0000	0.2381	1.6126	$9.03	**$9.35**	EDA
TCPL NDA	Empress	-0.30	7.42	1.1037	0.0000	0.1876	1.2913	$8.71	**$9.02**	NDA
TCPL WDA	Empress	-0.30	7.42	0.7452	0.0000	0.1216	0.8668	$8.28	**$8.58**	WDA

Assumptions used in Devleoping Long-term Transportation Contracting Analysis:

Annual Gas Supply & Fuel Ratio Forecasts	**Point of Supply Col (B) above**	**2013 $US/mmBtu**	**2014 $US/mmBtu**	**2015 $US/mmBtu**	**2016 $US/mmBtu**	**2017 $US/mmBtu**	**2018 $US/mmBtu**	**2019 $US/mmBtu**	**2020 $US/mmBtu**	**2021 $US/mmBtu**	**2022 $US/mmBtu**	**Average Annual Gas Supply Cost $US/mmBtu Col (D) above**	**Fuel Ratio Forecasts Col (G) above**
Henry Hub (NYMEX) $US/mmBtu		$6.18	$6.45	$6.99	$6.98	$7.05	$7.85	$8.25	$8.66	$9.24	$9.50	$7.72	
Dawn to EDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	1.24%
Dawn to NDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	1.45%
Dawn to WDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	2.38%
TCPL EDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	3.21%
TCPL NDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	2.53%
TCPL WDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	1.64%

Sources for Assumptions:

Gas Supply Prices (Col D):	ICF International; April 201(	
Fuel Ratios (Col G)	Average ratio over the previous 12 months or Pipeline Foreca:	
Transportation Tolls (Cols E & F)	Tolls in effect on Alternative Routes at the time of Union's Analysis, TCPL tolls from New Proposal NEB filir	
Foreign Exchange (Col K)	$1 US =	$1.093 CDN
Energy Conversions (Col K	1 dth = 1 mmBtu =	1.055056 GJs
Union's Analysis Completed	Jan'11	

Long-term Transportation Contracting Analysis
Niagara Contract - TCPL 2011 New Proposed Tolls

Route (A)	Point of Supply (B)	Basis Differential $US/mmBtu (C)	Supply Cost $US/mmBtu (D) = Nymex + (C)	Unitized Demand Charge $US/mmBtu (E)	Commodity Charge $US/mmBtu (F)	Fuel Charge $US/mmBtu (G)	100% LF Transportation Inclusive of Fuel $US/mmBtu (H) = (E) + (F) + (G)	Landed Cost $US/mmBtu (I) = (D) + (H)	**Landed Cost $Cdn/Gj (J)**	Point of Delivery (K)
Vector - 2008	Chicago	0.26	7.61	0.2500	0.0019	0.0822	0.3341	$7.95	**$8.23**	Dawn
Trunkline/Panhandle	Trunkline Field Zone	0.12	7.48	0.1900	0.0274	0.3305	0.5479	$8.03	**$8.31**	Dawn
Panhandle Longhaul	Panhandle Field Zone	-0.34	7.01	0.4251	0.0442	0.3268	0.7961	$7.81	**$8.09**	Dawn
Alliance/Vector	Alliance Field Zone	-0.66	6.70	1.6209	-0.2934	0.3683	1.6957	$8.39	**$8.69**	Dawn
TCPL SWDA	Empress	-0.31	7.05	1.1909	0.0000	0.1974	1.3883	$8.44	**$8.74**	Dawn
TCPL Niagara	Niagara	0.84	8.20	0.1531	0.0000	0.0000	0.1531	$8.35	**$8.65**	Dawn

Assumptions used in Devleoping Long-term Transportation Contracting Analysis:

Annual Gas Supply & Fuel Ratio Forecasts	**Point of Supply Col (B) above**	**2012 $US/mmBtu**	**2013 $US/mmBtu**	**2014 $US/mmBtu**	**2015 $US/mmBtu**	**2016 $US/mmBtu**	**2017 $US/mmBtu**	**2018 $US/mmBtu**	**2019 $US/mmBtu**	**2020 $US/mmBtu**	**2021 $US/mmBtu**	**Average Annual Gas Supply Cost $US/mmBtu Col (D) above**	**Fuel Ratio Forecasts Col (G) above**
Henry Hub (NYMEX) $US/mmBtu		$5.91	$6.18	$6.45	$6.99	$6.98	$7.05	$7.85	$8.25	$8.66	$9.24	$7.36	
Vector - 2008	Chicago	$6.09	$6.37	$6.67	$7.26	$7.20	$7.30	$8.11	$8.54	$8.95	$9.63	$7.61	1.08%
Trunkline/Panhandle	Trunkline Field Zone	$5.95	$6.24	$6.54	$7.11	$7.10	$7.19	$7.99	$8.41	$8.82	$9.42	$7.48	4.42%
Panhandle Longhaul	Panhandle Field Zone	$5.62	$5.87	$6.10	$6.63	$6.58	$6.69	$7.49	$7.90	$8.32	$8.93	$7.01	4.46%
Alliance/Vector	Alliance Field Zone	$5.27	$5.53	$5.78	$6.31	$6.25	$6.42	$7.19	$7.60	$7.99	$8.62	$6.70	5.50%
TCPL SWDA	Empress	$5.56	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$7.05	2.80%
TCPL Niagara	Niagara	$6.50	$6.84	$7.22	$7.88	$7.85	$7.93	$8.74	$9.18	$9.59	$10.24	$8.20	0.00%

Sources for Assumptions:

Gas Supply Prices (Col D):	ICF International; April 201(		
Fuel Ratios (Col G)	Average ratio over the previous 12 months or Pipeline Foreca:		
Transportation Tolls (Cols E & F)	Tolls in effect on Alternative Routes at the time of Union's Analysis, TCPL tolls from New Proposal NEB fili		
Foreign Exchange (Col K)	$1 US =	$1.093	CDN
Energy Conversions (Col K	1 dth = 1 mmBtu =	1.055056	GJs
Union's Analysis Completed	Jan'11		

Long-term Transportation Contracting Analysis
North Contracts - TCPL Status Quo Tolls

Route (A)	Point of Supply (B)	Basis Differential $US/mmBtu (C)	Supply Cost $US/mmBtu (D) = Nymex + (C)	Unitized Demand Charge $US/mmBtu (E)	Commodity Charge $US/mmBtu (F)	Fuel Charge $US/mmBtu (G)	100% LF Transportation Inclusive of Fuel $US/mmBtu (H) = (E) + (F) + (G)	Landed Cost $US/mmBtu (I) = (D) + (H)	**Landed Cost $Cdn/Gj (J)**	Point of Delivery (K)
Dawn to EDA	Dawn	0.68	8.39	0.4055	0.0198	0.1051	0.5303	$8.92	**$9.24**	EDA
Dawn to NDA	Dawn	0.68	8.39	0.5760	0.0327	0.1230	0.7317	$9.12	**$9.45**	NDA
Dawn to WDA	Dawn	0.68	8.39	1.3510	0.0880	0.2023	1.6413	$10.03	**$10.39**	WDA
TCPL EDA	Empress	-0.30	7.42	2.6191	0.1858	0.2381	3.0430	$10.46	**$10.83**	EDA
TCPL NDA	Empress	-0.30	7.42	2.0356	0.1403	0.1876	2.3635	$9.78	**$10.13**	NDA
TCPL WDA	Empress	-0.30	7.42	1.3222	0.0934	0.1216	1.5372	$8.95	**$9.27**	WDA

Assumptions used in Devleoping Long-term Transportation Contracting Analysis:

Annual Gas Supply & Fuel Ratio Forecasts	**Point of Supply Col (B) above**	**2013 $US/mmBtu**	**2014 $US/mmBtu**	**2015 $US/mmBtu**	**2016 $US/mmBtu**	**2017 $US/mmBtu**	**2018 $US/mmBtu**	**2019 $US/mmBtu**	**2020 $US/mmBtu**	**2021 $US/mmBtu**	**2022 $US/mmBtu**	**Annual Gas Supply Cost $US/mmBtu Col (D) above**	**Fuel Ratio Forecasts Col (G) above**
Henry Hub (NYMEX) $US/mmBtu		$6.18	$6.45	$6.99	$6.98	$7.05	$7.85	$8.25	$8.66	$9.24	$9.50	$7.72	
Dawn to EDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	1.24%
Dawn to NDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	1.45%
Dawn to WDA	Dawn	$6.65	$7.01	$7.66	$7.63	$7.72	$8.54	$8.98	$9.40	$10.02	$10.31	$8.39	2.38%
TCPL EDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	3.21%
TCPL NDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	2.53%
TCPL WDA	Empress	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$9.23	$7.42	1.64%

Sources for Assumptions:

Gas Supply Prices (Col D): ICF International; April 2010

Fuel Ratios (Col G): Average ratio over the previous 12 months or Pipeline Forecast

Transportation Tolls (Cols E & F): Tolls in effect on Alternative Routes at the time of Union's Analysis, TCPL tolls from Status Quo NEB filing

Foreign Exchange (Col K): $1 US = $1.093 CDN

Energy Conversions (Col K) 1 dth = 1 mmBtu = 1.055056 GJs

Union's Analysis Completed: Jan'11

Long-term Transportation Contracting Analysis

Niagara Contract - TCPL Status Quo Tolls

Route (A)	Point of Supply (B)	Basis Differential $US/mmBtu (C)	Supply Cost $US/mmBtu (D) = Nymex + (C)	Unitized Demand Charge $US/mmBtu (E)	Commodity Charge $US/mmBtu (F)	Fuel Charge $US/mmBtu (G)	100% LF Transportation Inclusive of Fuel $US/mmBtu (H) = (E) + (F) + (G)	Landed Cost $US/mmBtu (I) = (D) + (H)	**Landed Cost $Cdn/Gj (J)**	Point of Delivery (K)
Vector - 2008	Chicago	0.26	7.61	0.2500	0.0019	0.0822	0.3341	$7.95	**$8.23**	Dawn
Trunkline/Panhandle	Trunkline Field Zone	0.12	7.48	0.1900	0.0274	0.3305	0.5479	$8.03	**$8.31**	Dawn
Panhandle Longhaul	Panhandle Field Zone	-0.34	7.01	0.4251	0.0442	0.3268	0.7961	$7.81	**$8.09**	Dawn
Alliance/Vector	Alliance Field Zone	-0.66	6.70	1.6209	-0.2934	0.3683	1.6957	$8.39	**$8.69**	Dawn
TCPL SWDA	Empress	-0.31	7.05	2.2097	0.1560	0.1974	2.5631	$9.61	**$9.96**	Dawn
TCPL Niagara	Niagara	0.84	8.20	0.1531	0.0000	0.0000	0.1531	$8.35	**$8.65**	Dawn

Assumptions used in Devleoping Long-term Transportation Contracting Analysis:

Annual Gas Supply & Fuel Ratio Forecasts	**Point of Supply Col (B) above**	**2012 $US/mmBtu**	**2013 $US/mmBtu**	**2014 $US/mmBtu**	**2015 $US/mmBtu**	**2016 $US/mmBtu**	**2017 $US/mmBtu**	**2018 $US/mmBtu**	**2019 $US/mmBtu**	**2020 $US/mmBtu**	**2021 $US/mmBtu**	**Average Annual Gas Supply Cost $US/mmBtu Col (D) above**	**Fuel Ratio Forecasts Col (G) above**
Henry Hub (NYMEX) $US/mmBtu		$5.91	$6.18	$6.45	$6.99	$6.98	$7.05	$7.85	$8.25	$8.66	$9.24	$7.36	
Vector - 2008	Chicago	$6.09	$6.37	$6.67	$7.26	$7.20	$7.30	$8.11	$8.54	$8.95	$9.63	$7.61	1.08%
Trunkline/Panhandle	Trunkline Field Zone	$5.95	$6.24	$6.54	$7.11	$7.10	$7.19	$7.99	$8.41	$8.82	$9.42	$7.48	4.42%
Panhandle Longhaul	Panhandle Field Zone	$5.62	$5.87	$6.10	$6.63	$6.58	$6.69	$7.49	$7.90	$8.32	$8.93	$7.01	4.46%
Alliance/Vector	Alliance Field Zone	$5.27	$5.53	$5.78	$6.31	$6.25	$6.42	$7.19	$7.60	$7.99	$8.62	$6.70	5.50%
TCPL SWDA	Empress	$5.56	$5.84	$6.12	$6.68	$6.63	$6.78	$7.56	$7.97	$8.37	$8.99	$7.05	2.80%
TCPL Niagara	Niagara	$6.50	$6.84	$7.22	$7.88	$7.85	$7.93	$8.74	$9.18	$9.59	$10.24	$8.20	0.00%

Sources for Assumptions:

Gas Supply Prices (Col D):	ICF International; April 201(	
Fuel Ratios (Col G)	Average ratio over the previous 12 months or Pipeline Foreca:	
Transportation Tolls (Cols E & F)	Tolls in effect on Alternative Routes at the time of Union's Analysis, TCPL tolls from Status Quo NEB fili	
Foreign Exchange (Col K	$1 US =	$1.093 CDN
Energy Conversions (Col K	1 dth = 1 mmBtu =	1.055056 GJs
Union's Analysis Completed	Jan'11	

unionqas
A Spectra Energy Company

December 17, 2010

National Energy Board,
444 7th Avenue S.W.,
CALGARY, Alberta.
T2P OX8
ATTN: Anne-Marie Erickson

Dear Ms Erickson:

RE: TransCanada PipeLines Limited (TCPL) Application for Mainline and Alberta System 2011 Interim Tolls

Union Gas Limited ("Union") is responding to TCPL's Application for Mainline and Alberta System 2011 Interim Tolls dated December 9, 2010.

Union serves 1.3 million residential, commercial and industrial customers throughout Northern and South Western Ontario and holds over 500,000 GJ/d of long and short haul Mainline capacity which represents approximately 15% of the Mainline revenue. Union was an active participant in TCPL's Tolls Task Force ("TTF") and the discussion on various issues encapsulated under the headline of "Mainline Competitiveness'. It was Union's understanding that the intent of these discussions was to develop a sustainable solution to address the threat of escalating tolls and provide greater toll certainty and stability.

Union did not support this proposal at the TTF because it does not adequately address certain key needs and concerns that were raised by eastern market participants. The specific concerns expressed by Union included firstly, the proposed toll methodology changes which would shift the burden of long haul costs to short haul service paths and, secondly, the failure of the proposal to provide sustainable long term solutions. Similar views were expressed by others who were unable to support the proposal.

While Union commends TCPL's efforts to address the underutilization of its mainline system and escalating tolls, Union does not believe interim tolls should be established based on a contested settlement. TCPL's alternative proposal reflecting an Eastern Zone toll of $2.91/GJ is also inappropriate for establishing interim tolls as it sets tolls at an uncompetitive level and therefore conflicts with the efforts of the Mainline Competitiveness negotiations that are still underway.

Union would therefore recommend that TCPL's interim 2011 tolls be fixed at a level equal to the existing 2010 final tolls. In our view, the existing 2010 tolls reflect a neutral basis for fostering continued negotiations with a view to achieving a toll settlement with broader industry support. Alternatively, if the National Energy Board is concerned that existing tolls will result in an unacceptable level of deferred costs that cannot be addressed through negotiations, Union recommends that interim tolls be fixed as proposed by TCPL excluding the toll methodology changes referred to above.

Union is committed to working with TCPL and industry stakeholders and looks forward to continued timely and inclusive negotiations that will yield a long term industry solution that is more broadly accepted.

Regards,

Original Signed by

UNION GAS LIMITED.

Patricia Planting,
Manager, Upstream Regulation.

cc: Ms. K Delkus – TransCanada PipeLines