April 18, 2011

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2011-0038 - Union Gas Limited - 2010 Earnings Sharing & Disposition of Deferral Accounts and Other Balances

Enclosed is the application and evidence submitted by Union Gas Limited ("Union") concerning the final disposition and recovery of certain 2010 year-end deferral account and other balances and the calculation of its 2010 utility earnings for the purposes of earnings sharing.

Union notes that Section 36 (4.2) of the Ontario Energy Board Act, 1998 states that with respect to non-commodity related deferral accounts *"the Board shall at least once every 12 months, or such period as is prescribed by the regulations, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates."* These deferral accounts were last disposed of by the Board in its EB-2010-0039 Decision and Order dated September 3, 2010.

The Application is supported by evidence which is outlined below:

Tab 1	2010 Deferral Account Balances, Market Transformation Incentive and Tax Change Amounts
Tab 2	2010 Utility Results, Earnings Sharing and Utility Financial Reporting Package
Tab 3	Allocation and Disposition of 2010 Deferral Account Balances, Market Transformation Incentive, 2010 Federal & Provincial Tax Changes and 2010 Earnings Sharing Amounts
Tab 4	Allocation of Costs between Union's Regulated and Unregulated Storage Operations
Tab 5	Incremental Transportation Contracting Analysis

Union proposes that the impacts which result from the disposition of 2010 deferral account and other balances and 2010 earnings sharing be implemented on October 1, 2011 to align with other rate changes implemented through the Quarterly Rate Adjustment Mechanism.

Also, consistent with the Board's Decision and Order in EB-2010-0039 (concerning the disposition of Union's 2009 deferral account balances) Union proposes that interest accrue starting January 1, 2011 on the amount due to Union as a result of Union's claim of entitlement for the market transformation incentive at the interest rate for deferral and variance accounts approved by the Board. This approach is consistent with how the balance would have been treated had a deferral account been established to record this amount.

In EB-2010-0039 Union agreed to commission an independent study of its cost allocation methodology for allocation of costs between its regulated and unregulated storage operations ("the Study") as described in the Settlement Agreement. Union agreed the Study would be filed in connection with its application to dispose of 2010 deferral account balances with sufficient time to permit full discovery and review of the Study. Union has included the Study in the evidence at Tab 4.

In accordance with the Board-approved Settlement Agreement in the EB-2005-0520 proceeding, Union agreed to report new upstream transportation contracts with a term of one year or longer that may form part of Union's "system" sales service in the future. Union has included in the evidence at Tab 5 Incremental Transportation Contracting Analysis for four contracts.

In EB-2010-0359 Union included a prior period deferral account adjustment for an error in the recording of costs related to the transportation of gas from Dawn to Parkway to serve Union's North sales service and bundled-t customers. Union proposed to adjust its 2010 earnings sharing calculation to reflect the amount of the 2009 earnings sharing payable to ratepayers as a result of the error. Union has adjusted its 2010 earnings sharing calculation accordingly.

By letter to the Board dated July 22, 2010 (EB-2010-0039) Union informed the Board that its 2009 year-end tax provision was understated as result of changes in the calculation of taxable capital. Union proposed to bring forward the true-up as part of the disposition of the Union's 2010 deferral account balances and 2010 earnings sharing. Union has adjusted its 2010 deferral account balances accordingly.

The approved IR mechanism provides for the sharing (50/50 between Union and its customers) of actual utility earnings greater than 200 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.

The approved IR mechanism also provides for the sharing (10/90 between Union and its customers, in the customers favour) of actual utility earnings greater than 300 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.

Union's 2010 actual utility earnings exceeded the 200 basis point threshold by 37 basis points. Union is, therefore, seeking an order or orders approving $3.433 million as the customer portion of earnings sharing in 2010 and the proposed disposition of that amount to Union's customers. Union did not exceed the 300 basis point threshold in 2010.

If you have any questions concerning this application and evidence please contact me at (519) 436-5476.

Yours truly,

[*Original Signed by*]

Chris Ripley
Manager, Regulatory Applications

cc Crawford Smith (Torys)
EB-2010-0148 Intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule. B);

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders amending or varying the rate or rates charged to customers as of October 1, 2011;

APPLICATION

1. Union Gas Limited ("Union") is a business corporation, incorporated under the laws of Ontario, with its head office in the Municipality of Chatham-Kent.

2. Union conducts an integrated natural gas utility business that combines the operations of selling, distributing, transmitting and storing gas within the meaning of the *Ontario Energy Board Act, 1998* (the "Act").

3. In EB-2009-0275, Union applied to the Ontario Energy Board (the "OEB") for an order approving or fixing just and reasonable rates and other charges for the sale, distribution, storage and transmission of gas by Union effective January 1, 2010 through an incentive rate (IR) mechanism. The Board approved Union's request. In doing so, the OEB approved the continuation of certain deferral accounts. The order also identified certain impacts on the setting of 2010 rates that resulted from prior proceedings.

4. In its EB-2006-0021 Decision with Reasons, the OEB decided that Union is entitled to an incentive payment of up to $0.500 million in each year of the multi-year DSM plan based on the measured success of market transformation programs.

5. In its EB-2005-0520 decision, the Board required Union to report new upstream transportation contracts with a term of one year or longer that may form part of Union's "system" sales service in the future.

6. In its EB-2007-0606 Decision, the OEB directed Union to share the impact of federal and provincial tax changes 50/50 between Union and its customers.

7. The approved IR mechanism provides for the sharing (50/50 between Union and its customers) of actual utility earnings greater than 200 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.

8. Union's 2010 actual utility earnings exceeded this threshold. The customer portion of earnings sharing above the 200 basis point threshold is $3.433 million.

9. The approved IR mechanism also provides for the sharing (90/10 between Union and its customers, in the customers favour) of actual utility earnings greater than 300 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.

10. Union's 2010 actual utility earnings did not exceed this threshold.

11. As part of Union's 2009 Deferral Disposition and Earnings Sharing proceeding (EB-2010-0039), Union agreed to commission an independent study of its allocation methodology for allocation of costs between its regulated and unregulated storage operations. In response, Union has filed a copy of the study of its cost allocation methodology.

12. Union applies for the:

a) approval of final balances for all 2010 deferral accounts and an order for final disposition of those balances;

b) approval of the market transformation incentive for 2010 and an order for final disposition of the balance;

c) approval of the impact of federal and provincial tax changes in 2009 and 2010 and an order for final disposition of the balances;

d) approval of $3.433 million as the customer portion of earnings sharing in 2010 and the proposed disposition of that amount to Union's customers; and,

e) approval of its regulated and unregulated cost allocation methodology.

13. Union also applies to the OEB for such interim order or orders approving interim rates or other charges and accounting orders as may from time to time appear appropriate or necessary.

14. Union further applies to the Board for all necessary orders and directions concerning pre-hearing and hearing procedures for the determination of this application.

15. This application is supported by written evidence. This evidence may be amended from time to time as required by the OEB, or as circumstances may require.

16. The persons affected by this application are the customers resident or located in the municipalities, police villages and Indian reserves served by Union, together with those to whom Union sells gas, or on whose behalf Union distributes, transmits or stores gas. It is impractical to set out in this application the names and addresses of such persons because they are too numerous.

17. The address of service for Union is:

Union Gas Limited
P.O. Box 2001
50 Keil Drive North
Chatham, Ontario
N7M 5M1
Attention: Chris Ripley
Manager, Regulatory Applications

Telephone: (519) 436-5476

Fax: (519) 436-4641

- and -

Torys LLP
Suite 3000, Maritime Life Tower
P.O. Box 270
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N2
Attention: Crawford Smith

Telephone: (416) 865-8209

Fax: (416) 865-7380

DATED: April 18, 2011

UNION GAS LIMITED

By its Solicitors

Torys
Suite 3000, Maritime Life Tower
P.O. Box 270
Toronto-Dominion Centre
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M5K 1N2
Attention: Crawford Smith

Telephone: (416) 865-8209

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Tab 1

2010 DEFERRAL ACCOUNT BALANCES, MARKET TRANSFORMATION INCENTIVE AND TAX CHANGE AMOUNTS

2010 YEAR-END DEFERRAL ACCOUNT BALANCES

Union has classified the deferral accounts approved by the Board for use in 2010 into three groups:

a) Unabsorbed Demand Cost;
b) Storage accounts; and
c) Other accounts.

The net balance in the above deferral accounts together with the market transformation incentive and the 2009 and 2010 tax change amounts at December 31, 2010, result in a $2.511 million credit payable to Union's ratepayers. Interest has been calculated on account balances according to the Board-approved accounting orders. The applicable short-term interest rates used were 0.55% for the months of January through June, 0.89% for the months of July through September, and 1.20% for the months of October through December as prescribed by the Board in EB-2006-0117.

Tab 1, Schedule 1 provides a summary of the deferral account balances, market transformation incentive and 2009 and 2010 tax change amounts.

Account No. 179-108 Unabsorbed Demand Costs

The balance in Account No. 179-108 Unabsorbed Demand Cost Variance Account ("UDC") is not prospectively recovered or refunded as part of the approved Quarterly Rate Adjustment Mechanism. It has therefore been included in this submission.

The credit balance of $4.615 million in the UDC account is the difference between the actual UDC incurred by Union and the amount of UDC collected in rates.

1. UDC Recovery in Rates

To meet customer demands across Union's franchise area and the targeted storage inventory levels at October 31, Union's 2010 approved rates included UDC of 4.4 PJs in the Northern and Eastern Operations area and 0.2 PJs in the Southern Operations area.

In 2010, Union's actual UDC was 13.207 PJs in the Northern and Eastern Operations area and 1.391 PJs in the Southern Operations area.

For 2010, Union's total UDC was $2.387 million. Union collected $6.981 million in rates and recorded an associated interest credit of $0.021 million. The result is a credit in the UDC deferral account of $4.615 million. Table 1 below provides the derivation of the UDC deferral account balances by operations area.

Table 1 UDC Deferral Account by Operational Area ($000s)				
Line No		Northern and Eastern Operations area	Southern Operations area	Total Franchise area
1	Collected in Rates	6,853	0,128	6,981
2	UDC Costs Incurred	2,160	0,227	2,387
3	Variance (line 2 – line 1)	(4,693)	0,099	(4,594)
4	Interest	(0,022)	0,001	(0,021)
5	(Credit)/Debit to Operations areas	(4,715)	0,100	(4,615)

A description of each item follows:

Collected in Rates

Board-approved rates for 2010 included $5.483 million associated with planned UDC in the Northern and Eastern Operations area and $0.117 million associated with planned UDC in the Southern Operations area. For 2010, Union actually recovered $6.853 million in the North and $0.128 million in the South.

UDC Incurred

Consistent with past UDC deferral account dispositions, Union proposes to assign the total cost of $2.387 million to each operations area in proportion to the actual excess supply. This results in UDC of $2.160 million for the Northern and Eastern Operations area and $0.227 million for the Southern Operations area.

Interest

Interest associated with UDC amounted to a credit of $0.022 million for the Northern and Eastern Operations area and a debit of $0.001 million for the Southern Operations area for a net credit of $0.021 million.

(Credit)/Debit to Operations areas

The UDC deferral account has a net total credit balance of $4.615 million. The balance applicable to customers in the Northern and Eastern Operations area is a credit of $4.715 million. The balance applicable to customers in the Southern Operations area is a debit of $0.100 million.

STORAGE DEFERRAL ACCOUNTS

Actual net revenues from storage services are deferred against the net revenues included in the rates approved by the Board. The credit balance of $9.309 million represents the ratepayer portion in the following storage deferral accounts.

Account No. 179-70 Short-Term Storage and Other Balancing Services

The Short-Term Storage and Other Balancing Services deferral account includes revenues from C1 Off-Peak Storage, Gas Loans, Enbridge LBA, Supplemental Balancing Services, C1 Short-Term Firm Peak Storage, and C1 Firm Short-Term Deliverability. The net margin for Short-Term Storage and Other Balancing Services is determined by deducting the costs incurred to provide service from the gross revenue.

The credit balance in the Short-Term Storage and Other Balancing Services deferral account is $0.657 million. The balance is calculated by comparing the actual 2010 net margin for Short-Term Storage Services of $16.753 million to the net margin approved by the Board of $15.829 million in the EB-2007-0606 Rate Order. The result is a net deferral credit of $0.924 million. The net deferral margin is adjusted to reflect the 79% Utility portion (EB-2005-0551) and is to equal $0.730 million, of which 90% or $0.657 million is shared with ratepayers. The details of the balance are found at Tab 1, Schedule 6.

Account No. 179-72 Long-Term Peak Storage Services

The Long-Term Peak Storage Services deferral account includes revenues from High Deliverability Storage, T1 Deliverability Upstream Balancing, Downstream Balancing, Dehydration Service, Storage Compression, C1 Long-Term Storage, and Long-Term

Peak Storage. The net margin for Long-Term Storage Services is determined by deducting the costs incurred to provide the service from gross revenue.

The credit balance in the Long-Term Peak Storage Services deferral account of $8.652 million is 25% of the variance between the forecast of $21.405 million and the actual net revenues of $56.013 million. The details of the balance are found at Tab 1, Schedule 6.

The balance in the Long-Term Peak Storage Service deferral account reflects the rate payer portion of the deferred margin or 25% of the difference between actual revenue in excess of the costs to provide Long-Term Peak Storage Services and the revenue forecast in excess of the cost to provide these services as approved by the Board in the EB-2005-0520 Rate Order.

OTHER DEFERRAL ACCOUNTS

Account No. 179-26 Deferred Customer Rebates/Charges

The Deferred Customer Rebates/Charges account has no balance. This account captures unclaimed cheques related to amounts refunded to customers that arose from the disposition of deferral balances as approved by the Board.

Account No.179-75 Lost Revenue Adjustment Mechanism ("LRAM")

The LRAM deferral account has a debit balance of $2.384 million. This balance includes volume variances related to 2009 audited versus unaudited demand side management ("DSM") activities and the unaudited volumes related to 2010 DSM activities.

Tab 1, Schedule 2, page 1 provides the breakdown of the LRAM deferral account balance for 2009 and 2010. Tab 1, Schedule 2, pages 2 and 3 provide the LRAM volumes and the corresponding revenue impacts related to 2009 and 2010 DSM activities respectively. The calculations for lost revenues reflect the Board's ruling in EB-2006-0021 Decision with Reasons (page 11) which states that the first year impact will be calculated as 50% of the annual volumetric impact multiplied by the distribution rate for each of the rate classes that the volumetric variance occurred in.

The audit of 2009 DSM volumes is complete. The amount Union proposes to dispose of for 2009 is a debit balance of $1.707 million (Tab 1, Schedule 2, page 2, line 18, column (g)) which is composed of the following:

- 50% of the variance between lost revenues resulting from the audited 92,604 volumes savings and those resulting from the unaudited forecasted volumes savings of 108,975 10^3 m^3 at 2009 rates;
- lost revenues from audited 2009 volumes savings of 92,604 10^3 m^3 at 2010 rates.

In 2010, the variance is a debit balance of $0.677 million (Tab 1, Schedule 2, page 3, line 18, column (c)). The 2010 variance represents 50% of the forecasted volumes savings of 122,888 $10^3 m^3$. There were no 2010 DSM volumes included in 2010 rates. The process to finalize DSM balances for 2010 includes an audit of Union's DSM Annual Report, which is subsequently reviewed by the Evaluation and Audit Committee, communicated to the DSM Consultative and filed with the Board.

Consistent with the approach taken related to activity in previous deferral disposition proceedings, Union is proposing to dispose of the LRAM balance related to unaudited 2010 DSM activities. Recognizing this balance may still change following the audit, any amount disposed of would be subject to a future true-up. Any true-up amount will be captured in the deferral account for future disposition in the same way the 2009 variance has been trued-up in this proceeding.

Account No. 179-103 Unbundled Services Unauthorized Storage Overrun

No unauthorized storage overrun charges were incurred by customers electing unbundled service in 2010.

Account No.179-111 Demand Side Management Variance Account

This account records the difference between actual direct DSM costs incurred and the direct DSM budget included in rates. The credit balance of $1.020 million (Tab 1, Schedule 3, line 13, column (c)) represents the difference between actual 2010 DSM expenditures of $19.907 million and $20.927 million included in rates.

The $1.020 million credit balance was related to decreased direct DSM program costs below what was planned for 2010. The details of the 2010 DSM under spend are presented in Table 2 below.

Table 2

2010 DSM Total Spend

Line No.		2010 Plan	2010 Actual	Variance
		(a)	(b)	(c)
1	Residential	2,964	2,888	(76)
2	Low Income	1,732	1,575	(157)
3	Commercial	4,555	3,932	(623)
4	Distribution Contract	4,714	5,130	416
5	Market Transformation	1,330	1,328	(2)
6	Other Direct Program costs	7,332	6,753	(579)
7	Total	22,627	21,607	(1,020)

(“GDAR”) Costs

The GDAR costs deferral account has no balance. The GDAR costs deferral account represents the difference between the actual capital costs incurred to implement the process and system changes needed to achieve compliance with GDAR and the capital costs included in rates as approved by the Board.

Account No. 179-113 Late Payment Penalty (“LPP”) Litigation

The debit balance of $1.812 million in the LPP Litigation deferral account is the cost incurred in 2010 as a result of the settlement in the late payment penalty litigation. The settlement approved by the Ontario Superior Court on February 10, 2009, ordered Union to make a payment to the Winter Warmth Fund of $1.8 million in 2010. As part of the Settlement Agreement to the 2009 Deferral Disposition and Earnings Sharing proceeding (EB-2010-0039) Union agreed to dispose of the LPP costs over three years resulting in a payment of $1.8 million in 2010.

Account No. 179-115 Shared Savings Mechanism (“SSM”) Variance Account

This account has a debit balance of $5.985 million consisting of a $6.156 million debit from 2010 DSM activity and a credit of $0.170 million related to the 2009 audit true-up to DSM activity in 2010. Tab 1, Schedule 4 provides the breakdown of the SSM variance account. The account was established in 2006, in accordance with the mechanism approved by the Board in the EB-2005-0507 proceeding, to record any shareholder incentive earned by Union related to DSM activities.

Union has completed the audit of 2009 DSM activity and there is a decrease of $0.170 million in the resulting SSM incentive payout variance (Tab 1, Schedule 4, line 13, column (c)). Upon completion of the audit of Union’s 2009 DSM activity, the adjustments resulted in a net decrease in the level of TRC achieved. This adjustment to Union's pre-audit TRC results decreased the SSM payout by $0.170 million.

In accordance with previous Board-approved practice, Union is proposing to dispose of the recorded SSM balance related to unaudited 2010 DSM activities. Recognizing this balance may still change following the audit, any amount disposed of would be subject to a future true-up. Any true-up amount will be captured in the deferral account for future disposition.

Account No. 179-117 Carbon Dioxide Offset Credits

This account has no balance. The account was created in accordance with the Board's Decision in the EB-2006-0021 proceeding to record the amounts representing proceeds from the sale of or other dealings in carbon dioxide offset credits earned as a result of Union's DSM activities.

Account No. 179-118 Average Use Per Customer

The Average Use Per Customer deferral account has a debit balance of $0.611 million which represents a balance of $0.601 million and interest of $0.010 million.

The debit balance of $0.601 million is the margin variance resulting from the difference between the actual rate of decline in use-per-customer for 2010 and forecast rate of decline in use-per-customer included in Union's Board-approved 2010 rates. Actual and forecast rates of decline in use-per-customer were calculated on a percentage and rate class specific basis for rate classes M1, M2, Rate 01 and Rate 10, were normalized for weather and excluded the volume impacts attributed to DSM. The details of the Average Use Per Customer deferral account balance can be found at Tab 1, Schedule 5.

Account No. 179-120 International Financial Reporting Standards ("IFRS") Conversion

In accordance with the Board-approved Settlement Agreement in EB-2010-0039 Union agreed to remove from the deferral account the capital costs associated with upgrading Union's accounting system in order to report results under IFRS. These capital costs were replaced by the annual revenue requirement related to those capital costs as outlined in Table 3, and are to be included in the respective future deferral account disposition proceedings.

Accordingly, the 2010 IFRS Conversion Costs deferral account has a debit balance of $0.124 million.

Table 3

IFRS Conversion Costs by Year

($ Millions)

Line No.		2008	2009	2010	2011	2012	2013	2014	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Proposed by Union	$1.918	$2.071	$ -	$ -	$ -	$ -	$ -	$3.989
2	Less capital expenditures	0.953	0.459	-	-	-	-	-	1.412
3	O&M	0.965	1.612	-	-	-	-	-	2.577
4	Revenue requirement	-	-	0.124	0.335	0.538	0.505	0.244	1.747
5		$0.965	$1.612	$0.124	$0.335	$0.538	$0.505	$0.244	$4.324

Account No. 179-121 Cumulative Under-recovery – St. Clair Transmission Line and Account No. 179-122 – Impact of Removing St. Clair Transmission Line from Rates

On February 4th, 2011, Union filed a letter under docket number EB-2010-0039 requesting declaratory relief from the Board ordering that the amounts in the deferral accounts 179-121 and 197-122 not be disposed of until the sale of the St. Clair Line has closed or the project is cancelled. An oral hearing of this matter was held on April 6th, 2011 and a decision is pending. Union will maintain the balance in Account 179-121 and will continue to track in Account 179-122 the amounts in rates related to the St. Clair Line pending the Board's EB-2010-0039 decision.

Account No. 179-123 Conservation Demand Management

The Conservation Demand Management ("CDM") account captures 50% of revenues generated from CDM programs. This account has no balance since Union was not involved in CDM activities in 2010.

Account No. 179-124 Harmonized Sales Tax

On July 1, 2010, Harmonized Sales Tax ("HST") came into effect in Ontario, combining provincial and federal taxes. The impact of HST resulted in both savings and additional costs to Union related to the provincial component of the tax.

In its EB-2010-0148 Decision, the Board ordered Union to establish a deferral account to record as a credit the amount of Provincial Sales Tax ("PST") previously paid and collected in approved rates that is now subject to HST tax credits (i.e. the savings to Union). Additionally, the Board ordered Union to record in the deferral account as a debit the amount of HST paid on taxable items for which no tax credits are received (i.e. the additional costs to Union). Union will share the net impact 50/50 between the ratepayers and the shareholders.

To calculate the 2010 HST deferral balance, Union reviewed the 2010 transactions for: a) Capital and O&M purchases that were subject to PST but are now subject to a tax credit; and, b) Compressor Fuel costs that are now subject to PST with no tax credit.

For 2010 the HST deferral account is a credit balance of $0.051 million. This balance, by component, Capital, Operations & Maintenance, and Compressor Fuel Costs, is provided in Table 4. A discussion of each component is also provided below.

Table 4

50% of Net Savings (Costs) from the impact of HST to be shared with Ratepayers

($ Millions)

Line No.		2010
1	Capital Savings	$0.052
2	Operations and Maintenance Savings	0.224
3	Compressor Fuel Costs	(0.225)
4		$0.051

Capital

Prior to July 2010, PST paid on capital purchases was included in capital costs. With the introduction of HST in July 2010, a tax credit was created for the provincial component of HST paid on capital purchases. As a result, Union is collecting PST in rates for which it now can claim a tax credit. This generates a savings to ratepayers.

The revenue requirement associated with Capital expenditures is recovered through rates. Consistent with this approach, the HST impact related to Capital is also calculated based on revenue requirement. In 2010, Union had a tax savings of $3.330 million related to Capital, including $0.032 million of O&M overhead Capitalization, for the period July to December. After applying the half-year rule, Union applied depreciation, interest, return and income taxes to calculate the revenue requirement impact for Capital. The revenue requirement impact is a credit of $0.104 million, of which 50% or $0.052 million is the ratepayer portion. The calculation of this balance is provided in Table 5 below. The HST impact on capital expenditures will be included in rate base when Union rebases its rates in 2013.

Table 5
HST Capital Summary

Line No			($Millions)	
1	Capital PST Savings Estimate (July - Dec)		$3.330	
2	1/2 year rule		0.5	
3	Depreciation	3.30%	0.027	(1)
4	Interest	4.61%	0.038	(1)
5	Return	3.07%	0.025	(1)
6	Income Taxes	33.00%	0.012	
7	Revenue Requirement Impact		$0.104	

Note:
(1) Rates stated are annual rates, therefore calculated 6/12 to align with July - Dec impact.

Operations & Maintenance ("O&M")

Prior to July 2010, PST paid on O&M purchases was included as an expense in rates. As a result of the introduction of the HST in July 2010, except where restricted by the

Canada Revenue Agency, the provincial component of the HST is subject to tax credit. This results in a 2010 tax savings of $0.714 million.

Where Union pays HST on O&M purchases that were previously exempt and tax credits are now restricted, Union incurs additional costs not included in rates. This results in a 2010 tax cost of $0.234 million.

Certain O&M costs are related to Overhead Capitalization and must be removed from the O&M HST impact calculations and included in the Capital HST impacts. For 2010, Union transferred cost of $0.032 million to Capital.

The net impact to Union in 2010 is a savings of $0.448 million, of which 50%, or $0.224 million is attributable to ratepayers.

Compressor Fuel Costs

Prior to July 2010, Union did not assess PST on the gas used in its own operations. As a result of the introduction of the HST in July 2010, Union is required to assess HST on its own use of gas. No tax credit exists for the provincial component of HST on own-use compressor fuel, resulting in an additional compressor fuel costs to Union. In 2010, the increased compressor fuel cost to Union was $0.450 million, of which 50%, or $0.225 million is attributable to ratepayers.

OTHER ITEMS

Market Transformation Incentive

Union is claiming a $0.500 million incentive for the Market Transformation ("MT") drain water heat recovery program created and executed in Union's operations area in 2010. This incentive amount is based upon meeting or exceeding the performance goals as outlined by the MT Scorecard, filed with the Board on October 30, 2009. The 2010 MT Scorecard is presented below in Table 6.

Table 6

2010 MT Scorecard - DWHR

Line No.	Element	Indicator (weighting)	5.0%	100.0%	150.0%	Projected Outcome	Result	Projected Score
1	Ultimate Outcomes	Participating Builders (15)	106	111	116	116	1.5	30/20
2		Units Installed (new build) as a percentage of 2010 housing starts* (80)	13.3% or 2,006	15.3% or 2,308	17.3% or 2,610	2331	1.105	88.3/80
3	TOTAL:							118.3/100

* Units installed (new build) is based on an end of year housing starts 14,829

The process to finalize DSM related balances includes an audit of Union's DSM Annual Report, review by the Evaluation and Audit Committee and communication to the DSM Consultative. Consistent with the approach taken related to 2009 activity in EB-2010-

0039, and in an effort to dispose of deferral account balances in a timely manner, Union is proposing to dispose the forecast MT balance related to unaudited 2010 MT activities as measured by the MT Scorecard within the DSM portfolio at this time. The variances between the MT payout balances calculated out of audited and unaudited results would be subject to a future true-up. Any true-up amount will be captured in a future disposition in the same way the LRAM variance from 2010 has been trued up in this proceeding.

OTHER ITEMS

Federal and Provincial Tax Changes

In accordance with the Board's EB-2007-0606 decision, 50% of the impact of the tax reductions became subject to annual deferral account treatment. Union recorded a credit of $0.573 million in 2010, which represents 50% of the tax benefit arising from a decrease in the income tax rates from 32% to 31%. This income tax rate reduction was not legislated at the time rates were set and, accordingly, the full benefits were not included in customer's 2010 rates.

Taxable Capital Base Changes

On October 6, 2006, the Federal and Ontario governments signed a Memorandum of Agreement that stated it was their intention to "increase the harmonization of the tax systems in Canada, reduce the compliance costs for businesses and reduce administration costs for governments". Bill 174 received royal assent on June 4, 2007 to implement the harmonization of the Federal and Ontario corporate tax systems. When the agreement was made to harmonize corporate tax systems in 2009 a significant tax change was made under this agreement. The harmonized calculation of Paid Up Capital for Ontario Capital Tax purposes no longer included a deduction for the difference between the Net Book Value and the Un-depreciated Capital Cost of a company's fixed assets. Union however did not factor in this change to the Paid Up Capital for Ontario Capital Tax calculation in the evidence it filed in its 2009 rate application.

By letter to the Board dated July 22, 2010 (EB-2010-0039) Union noted that as part of filing its 2009 tax returns it determined the 2009 year-end tax provision had been understated. Although the actual Ontario capital tax rate applied was consistent with the tax rate used in Union's 2009 rates, the capital tax base to which the actual tax rate was applied was different than that used in Union's 2009 rates. Union stated that the true-up for the understatement of 2009 capital taxes would be included in the disposition of Union's 2010 deferral account balances and earnings sharing.

This change to the taxable capital base required Union to update the calculation of cumulative tax savings and the ratepayer portion of the tax savings for 2009 and 2010.

For 2009, the ratepayer portion of the updated cumulative tax savings related to the taxable capital change has decreased from a credit of $0.907 million to a debit of $0.320

million. or a difference of $1.227 million. This amount was approved in Union's 2011 rate order (EB-2010-0148) at Working Papers, Schedule 15, line 28, column (d).

For 2010, the ratepayer portion of the updated cumulative tax savings related to the taxable capital change has decreased from a credit of $3.172 million to a credit of $2.763 million or a difference of $0.409 million. This amount was approved in Union's 2011 rate order (EB-2010-0148) at Working Papers, Schedule 15, line 19, column (f) (ratepayer portion = 50% x $0.818 million).

Accordingly, the combined 2009 and 2010 ratepayer portion of the updated cumulative tax savings related to the taxable capital change, including interest of $0.005 million, is a debit of $1.641 million.

Schedules

UNION GAS LIMITED
Deferral Account Balances, Market Transformation Incentive, Federal and Provincial Tax Changes, and Taxable Capital Base Changes
Year Ending December 31, 2010

Line No.	Account Number	Account Name	Balance ($000's)	(1)
	Gas Supply Accounts:			
1	179-108	Unabsorbed Demand Cost (UDC) Variance Account	(4,615)	(2)
	Storage Accounts:			
2	179-70	Short-Term Storage and Other Balancing Services	(657)	
3	179-72	Long-Term Peak Storage Services	(8,652)	
4	Total Storage Accounts (Lines 2 + 3)		(9,309)	
	Other:			
5	179-26	Deferred Customer Rebates/Charges	-	
6	179-75	Lost Revenue Adjustment Mechanism	2,384	
7	179-103	Unbundled Services Unauthorized Storage Overrun	-	
8	179-111	Demand Side Management Variance Account	(1,020)	
9	179-112	Gas Distribution Access Rule (GDAR) Costs	-	
10	179-113	Late Payment Penalty Litigation	1,812	
11	179-115	Shared Savings Mechanism	5,985	
12	179-117	Carbon Dioxide Offset Credits	-	
13	179-118	Average Use Per Customer	611	
14	179-120	IFRS Conversion Cost	124	
15	179-121	Cumulative Under-recovery – St. Clair Transmission Line	-	
16	179-122	Impact of Removing St. Clair Transmission Line from Rates	-	
17	179-123	Conservation Demand Management	-	
18	179-124	Harmonized Sales Tax	(51)	
19	Total Other Accounts (Lines 5 through 18)		9,845	
20	Total Deferral Account Balances (Lines 1 + 4 + 19)		(4,079)	
21		Market Transformation Incentive	500	
22		Federal and Provincial Tax Changes	(573)	
23		Taxable Capital Base Changes	1,641	
24	**Total Deferral Account Balances, Market Transformation Incentive and Federal and Provincial Tax Changes (Lines 20 + 21 + 22 + 23)**		(2,511)	

Notes:
(1) Account balances include interest to December 31, 2010 per accounting order EB-2010-0148.

(2) With the exception of UDC (No. 179-108), all gas supply-related deferral account balances are disposed through the QRAM process.

UNION GAS LIMITED
Lost Revenue Adjustment Mechanism
Breakdown of 2010 LRAM Deferral Account Balance

Line No.	Particulars ($)	Amounts by DSM Plan Year 2009 (1)	2010 (2)	Total Amount in LRAM Deferral Account
		(a)	(b)	(c)
	South			
1	M1 Residential	217,259	98,962	316,221
2	M1 Commercial	267,665	126,176	393,841
3	M1 Industrial	22,354	810	23,164
4	M2 Commercial	350,470	95,916	446,387
5	M2 Industrial	75,368	71,209	146,577
	Industrial			
6	M4	26,847	31,208	58,055
7	M5	88,740	60,650	149,390
8	M7	2,921	13,853	16,774
9	T1	20,622	14,527	35,149
10		1,072,246	513,312	1,585,558
	North			
11	Residential 01	92,195	44,634	136,829
12	Commercial 01	126,963	38,036	164,999
13	Commercial 10	68,549	24,850	93,399
14	Industrial 10	299,976	8,846	308,822
	Industrial			
15	Rate 20	16,541	11,517	28,058
16	Rate 100	30,790	35,537	66,327
17		635,014	163,420	798,434
18	Total	1,707,260	676,732	2,383,992

Notes:
(1) EB-2011-0038, Exhibit A, Tab 1, Schedule 2, page 2 of 3, column (g).
(2) EB-2011-0038, Exhibit A, Tab 1, Schedule 2, page 3 of 3, column (c).

UNION GAS LIMITED
Lost Revenue Adjustment Mechanism
2009 - Audited

Line No.	Particulars	2009 Audited Volumes (1)	2009 Unaudited Volumes	Delivery Rates: 2009 Rates	Delivery Rates: 2010 Rates	Net Revenue Impact: 2009 (2)	Net Revenue Impact: 2010	Net LRAM Deferral Account Balance Proposed for Disposition Including Interest
		10^3 m^3	10^3 m^3	$\$/10^3$ m^3	$\$/10^3$ m^3	($)	($)	($)
		(a)	(b)	(c)	(d)	(e) = [(a)-(b)]x (c) x 50%	(f) = (a) x (d)	(g) = (e) + (f)
	South							
1	M1 Residential	6,066	8,301	48.500	44.749	(54,189)	271,447	217,259
2	M1 Commercial	6,355	7,044	48.500	44.749	(16,715)	284,380	267,665
3	M1 Industrial	537	606	48.500	44.749	(1,676)	24,030	22,354
4	M2 Commercial	9,233	10,338	41.989	40.470	(23,189)	373,660	350,470
5	M2 Industrial	2,065	2,456	41.989	40.470	(8,203)	83,571	75,368
	Industrial							
6	M4	3,631	4,502	9.602	8.545	(4,180)	31,027	26,847
7	M5	6,411	7,157	16.182	14.783	(6,034)	94,774	88,740
8	M7	1,218	1,226	3.812	2.411	(15)	2,937	2,921
9	T1	26,145	32,032	0.846	0.884	(2,490)	23,112	20,622
10		61,661	73,661			(116,691)	1,188,937	1,072,246
	North							
11	Residential 01	1,196	1,662	100.505	96.673	(23,426)	115,621	92,195
12	Commercial 01	1,464	1,568	93.755	90.054	(4,876)	131,839	126,963
13	Commercial 10	1,206	1,493	67.834	64.910	(9,732)	78,281	68,549
14	Industrial 10	5,072	5,128	62.218	59.486	(1,737)	301,713	299,976
	Industrial							
15	Rate 20	4,652	4,222	3.280	3.404	706	15,835	16,541
16	Rate 100	17,353	21,242	2.255	2.027	(4,384)	35,175	30,790
17		30,943	35,314			(43,450)	678,464	635,014
18	Total	92,604	108,975			(160,141)	1,867,401	1,707,260

Notes:

(1) Audited Demand Side Management 2009 Annual Report, page 60 (submitted by Union to the OEB Secretary on August 20, 2010 in compliance with section 2.1.12 of the Board's Reporting and Record Keeping Requirements).

(2) The 50% factor reflects the Board's ruling in EB-2006-0021 Decision with Reasons (page 11) which states that the first year impact will be calculated as 50% of the annual volumetric impact multiplied by the distribution rate for each of the rate classes that the volumetric variance occurred in.

UNION GAS LIMITED
Lost Revenue Adjustment Mechanism
2010 - Unaudited

Line No.	Particulars	2010 Unaudited Volumes (1) 10^3 m^3	2010 Delivery Rates $/$10^3$ m^3	Revenue Impact(2) ($)
		(a)	(b)	(c) = (a) x (b) x 50%
	South			
1	M1 Residential	4,423	44.749	98,962
2	M1 Commercial	5,639	44.749	126,176
3	M1 Industrial	36	44.749	810
4	M2 Commercial	4,740	40.470	95,916
5	M2 Industrial	3,519	40.470	71,209
	Industrial			
6	M4	7,304	8.545	31,208
7	M5	8,205	14.783	60,650
8	M7	11,491	2.411	13,853
9	T1	32,867	0.884	14,527
10		78,226		513,312
	North			
11	Residential 01	923	96.673	44,634
12	Commercial 01	845	90.054	38,036
13	Commercial 10	766	64.910	24,850
14	Industrial 10	297	59.486	8,846
	Industrial			
15	Rate 20	6,767	3.404	11,517
16	Rate 100	35,064	2.027	35,537
17		44,662		163,420
18	Total	122,888		676,732

Notes:

(1) Based on unaudited 2010 DSM evaluation results.

(2) The 50% factor reflects the Board's ruling in EB-2006-0021 Decision with Reasons (page 11) which states that the first year impact will be calculated as 50% of the annual volumetric impact multiplied by the distribution rate for each of the rate classes that the volumetric variance occurred in.

UNION GAS LIMITED
Demand Side Management Variance Account

Line No.	Particulars ($000s)	DSM Costs in 2010 Rates[1]	Actual DSM Costs	Account Balance
		(a)	(b)	(c) = (b) - (a)
	South			
1	M1	6,891	9,999	3,108
2	M2	2,856	1,271	(1,585)
3	M4	2,146	260	(1,886)
4	M5	-	632	632
5	M7	816	770	(46)
6	T1	1,332	2,344	1,012
7		14,040	15,275	1,235
	North			
8	Rate 01	2,053	1,525	(528)
9	Rate 10	1,765	319	(1,446)
10	Rate 20	1,174	352	(822)
11	Rate 100	1,896	2,437	541
12		6,887	4,632	(2,255)
13	Total	20,927	19,907	(1,020)

Notes:
(1) The allocation of the costs is consistent with EB-2005-0520, Exhibit G3, Tab 5, Schedule 21, updated to reflect EB-2005-0520 Board decision.

UNION GAS LIMITED
Shared Savings Mechanism
Based on 2009 Audited and 2010 unaudited Results

Line No.	Particulars ($)	2009 Amount: Amount Based on 2009 Audited Results[1]	2009 Amount: Amount Disposed of in EB-2010-0039 [2]	2009 Amount: Net Amount	2010 Amount Based on Unaudited Results [1]	Total for 2009 and 2010
		(a)	(b)	(c) = (a) - (b)	(d)	(e) = (c) + (d)
	South					
1	M1	1,635,470	1,552,215	83,255	859,686	942,941
2	M2	1,066,315	1,127,895	(61,580)	544,266	482,686
3	M4	340,348	332,091	8,257	467,085	475,342
4	M5	426,894	435,042	(8,148)	362,449	354,301
5	M7	126,158	115,644	10,514	516,139	526,653
6	T1	2,240,804	2,247,755	(6,951)	1,264,262	1,257,311
7		5,835,989	5,810,642	25,347	4,013,887	4,039,234
	North					
8	Rate 01	341,284	321,291	19,993	173,973	193,966
9	Rate 10	537,875	510,481	27,394	60,295	87,689
10	Rate 20	322,488	273,168	49,320	318,613	367,933
11	Rate 100	1,713,596	2,006,002	(292,406)	1,588,823	1,296,417
12		2,915,243	3,110,941	(195,698)	2,141,704	1,946,006
13	Total	8,751,232	8,921,583	(170,351)	6,155,591	5,985,240

Notes:

(1) The SSM incentives for 2009 and 2010 are calculated and allocated among rate classes using the mechanism approved by the Board in EB-2006-0021.

(2) EB-2010-0039 Exhibit A, Tab 1 Schedule 4, Column (f).

UNION GAS LIMITED
Calculation of Balances by Rate Class in Average Use Per Customer Deferral Account (No. 179-118)

Line No.	Particulars (m^3)		Rate 01 (a)	Rate 01 (b)	Rate 10 (c)	Rate 10 (d)	Rate M1/M2 (e)	Rate M1/M2 (f)	Net Account Balance (g)
1	2009 Target Average Use		3,128	(0.8%)	139,768	1.3%	4,264	(0.5%)	
2	2009 Actual Average Use	(1)	3,213	(1.2%)	161,203	(0.3%)	4,182	(2.1%)	
3	2010 Target Average Use		3,128	(0.0%)	148,852	6.5%	4,239	(0.6%)	
4	2010 Actual Average Use		3,175	(1.2%)	171,877	6.6%	4,104	(1.9%)	
5	Forecast decline in Average Use per customer (line 3 - line 2)	(2)	(85)		(12,351)		57		
6	Actual decline in Average Use per customer (line 4 - line 2)		(38)		10,674		(78)		
7	Change in Average Use - Forecast vs. Actual (line 5 - line 6)	(3)	(47)		(23,025)		135		
8	2007 Board Approved Number of Customers		295,672		2,966		987,063		
9	Volume Impact (10^3m^3)		(14,076.6)		(68,166.8)		132,872.5		
10	2010 Board Approved Average Delivery Rate ($/$10^3m^3$)	(4)	75.300		49.131		37.706		
11	Average Use Deferral ($) (line 9 x line 10)	(5)	$ (1,059,974)		$ (3,349,127)		$ 5,010,077		$600,976

Notes:
(1) Updated for 2009 audited DSM results.
(2) Calculated volume variance by rate class after applying the Average Use percentage identified in Board-approved accounting order for deferral account #179-118.
(3) Change in Average Use is calculated as the year-over-year volume variance after actual volumes are weather normalized and DSM adjusted for 2010 unaudited LRAM volume savings.
(4) Obtained from the four quarterly approved rates.
(5) EB-2011-0038, Exhibit A, Tab 1, Schedule 1.

UNION GAS LIMITED
Details of Balances in Storage Deferral Accounts
($ Millions)

Line No.		2010 Short-term (179-70) (a)	2010 Long -term (179-72) (b)	2010 Total (c)	2009 Total (d)	Variance (e)
1	Storage revenue	20.887	111.941	132.828	135.286	(2.458)
	Operating costs					
2	Cost of gas	1.873	(1.282)	0.591	6.318	(5.727)
3	O&M	2.261	11.078	13.339	12.897	0.442
4	Depreciation	-	8.645	8.645	7.312	1.333
5	Property & capital taxes	-	1.661	1.661	1.754	(0.093)
6		4.134	20.102	24.236	28.281	(4.045)
7	Interest, return and income taxes	-	35.826	35.826	33.236	2.590
8	Net margin	16.753	56.013	72.766	73.769	(1.003)
9	Board approved	15.829	21.405	37.234	37.234	-
10	Excess	$ 0.924	$ 34.608	$ 35.532	$ 36.535	$ (1.003)

UNION GAS LIMITED
Assignment of Union's 2010 Unregulated Storage Costs to its Short-Term and Long-Term Accounts

Line No.	Item	2010 Actual Amount ($000)		Assignment Basis to 179-70 (Short-Term) and 179-72 (Long-Term)
	Revenue			
1		132,828		Based on services provided.
2	**Total Revenue (A)**	132,828		
	Commodity Costs			
3	UFG	2,049		Ratio of actual unregulated short and long-term volume to total actual unregulated volumes Short-Term= 3.8%/(3.8%+8.1%)=31.9% Long-Term=8.1%/(3.8%+8.1%)=68.1%
4	Compressor Fuel	3,684		Ratio of actual unregulated short and long-term storage activity to actual total storage activity Short-Term varies monthly, annual average=33.1% Long-Term varies monthly, annual average=66.9%
5	Customer Supplied Fuel	-5,321		Direct to Long-Term Storage
6	Third Party Storage	179		Direct to Long-Term Storage as per Union's 2007 approved cost allocation study
7	**Total Commodity(B)**	**591**		
	Demand Costs			
8	O&M	11,078		Direct to Long-Term Storage Total unregulated O&M assigned using Union's Board-approved 2007 cost allocation methodology
9	Depreciation	8,645		Direct to Long-Term Storage Total unregulated depreciation assigned using Union's Board-approved 2007 cost allocation methodology
10	Property & Capital Tax	1,661		Direct to Long-Term Storage Total unregulated property & capital tax allocated using Union's Board-approved 2007 cost allocation methodology
11	Interest Expense	11,348		Direct to Long-Term Storage Weighted average interest rate of 4.95% times the total 2010 unregulated rate base assigned using Union's Board-approved 2007 cost allocation methodology
12	Return	16,263		Direct to Long-Term Storage Board-approved 2007 weighted average return rate of 3.07% times the total 2010 unregulated rate base assigned using Union's Board-approved 2007 cost allocation methodology, plus Incremental Return on 2010 unregulated rate base , plus Return on purchased assets
13	Income Tax on Return	8,215		Direct to Long-Term Storage Income tax required on return assuming a tax rate of 33.56%
14	Revenue Requirement on 7.9 PJs of excess in-franchise storage capacity	2,261		Direct to Short-Term Storage O&M, depreciation, taxes and regulated return on equity of 7.9 PJs of storage services. Amount has been charged to unregulated business each year 2007 through 2010.
15	**Total Demand Costs (C)**	**59,471**		
	Net Margin (D)= (A)-(B)-(C)			
16	**Net Margin**	**$72,766**		

Tab 2

2010 UTILITY RESULTS AND EARNINGS SHARING

2010 UTILITY RESULTS

For the year ended December 31, 2010, Union's actual revenue sufficiency from utility operations is $7.5 million lower relative to 2009. Table 1 below provides the results from Union's actual utility operations for 2010.

Table 1

Calculation of Revenue Deficiency/(Sufficiency) from Utility Operations
For the Year Ended December 31, 2010
($ millions)

Line No.	Particulars	Board Approved 2007	Actual 2009	Actual 2010	Increase/ (decrease) 2010 vs 2009
		(a)	(b)	(c)	(d) = (c)-(b)
1	Gas sales and distribution revenue	1,796.8	1,699.5	1,497.4	
2	Cost of gas	1,134.3	1,019.3	793.6	
3	Gas distribution margin	662.5	680.2	703.8	23.6
4	Transportation	127.4	177.3	183.3	6.0
5	Other revenue	24.4	26.7	23.5	(3.2)
6	Expenses	567.4	575.4	605.8	30.4
7	Income taxes	8.7	28.8	25.0	(3.8)
8	Utility income	238.1	280.0	279.8	(0.2)
9	Cost of Capital	259.5	260.2	260.8	0.6
10	Revenue deficiency/(sufficiency) after tax	21.4	(19.8)	(19.0)	0.8
11	Provision for income taxes on deficiency / (sufficiency)	12.1	(9.8)	(8.5)	1.3
12	Distribution revenue deficiency/(sufficiency)	33.5	(29.6)	(27.5)	2.1
13	Storage premium adjustment	33.5	22.0	16.6	(5.4)
14	Total revenue deficiency/(sufficiency)	-	(51.6)	(44.1)	7.5

The primary drivers of Union's 2010 financial results relative to 2009 are provided in detail below.

Gas Distribution Margin

The increase in gas distribution margin of $23.6 million relative to 2009 was mainly driven by the result of a decrease in the cost of gas of $36.4 million due to lower unaccounted for gas, partially offset by a decrease in general service revenues of $11.8 million and a decrease in in-franchise contract delivery revenues of $1.2 million.

Transportation Revenue

The increase in transportation revenue of $6.0 million in 2010 relative to 2009 was mainly driven by the result of an increase in long-term transportation revenue of $4.3 million and an increase in short-term transportation and exchange revenue of $2.8 million.

Operating Expenses

The increase in operating expenses of $33.0 million in 2010 relative to 2009 was mainly driven by the result of an increase in O&M of $31.3 million due to higher employee costs, and an increase in depreciation of $3.0 million, partially offset by a reduction in property and capital taxes of $1.5 million.

2010 EARNINGS SHARING

The benchmark return on equity ("ROE") for 2010 was 8.54%. Union's actual ROE from utility operations in 2010 was 10.91% or 237 basis points above the 2010 benchmark ROE. This results in earnings sharing for 2010 of $3.433 million (Tab 2, Appendix B, Schedule 1, column (d), line 35).

The calculation of earnings sharing for 2010 is found at Tab 2, Appendix B, Schedule 1. To calculate actual utility earnings Union starts in column (a) with Union's total corporate revenues and operating expenses as reported in the annual financial statements; column (b) removes revenues and costs associated with Union's unregulated storage operations; column (c) makes adjustments that would normally be made under cost of service to arrive at utility earnings for ratemaking before interest and income taxes. To arrive at utility earnings for the purposes of earnings sharing, deemed interest, income taxes and preferred dividends are calculated and deducted from utility earnings before interest and income taxes. The adjustments are discussed in more detail below.

Unregulated Storage Operations

The revenues and costs for Union's unregulated storage operations are shown in Tab 2, Appendix B, Schedule 1, column (b). The methodology used to segregate the unregulated storage financial information can be found at Tab 4. Further details are found at the following schedules at page Tab 2, Appendix B:

- Schedule 2, Page 1: Continuity of Property, Plant and Equipment
- Schedule 2, Page 2: Continuity of Accumulated Depreciation
- Schedule 3: Provision for Depreciation, Amortization and Depletion
- Schedule 4: Continuity of Storage Additions

Cost of Gas Deferral Adjustment

In 2009, Union's earnings subject to sharing were understated by approximately $3.5 million as a result of a gas cost deferral entry to refund to customers the cost of Dawn to Parkway transportation. The refund to customers of the Dawn to Parkway capacity costs was not appropriate and was corrected in the January 2011 QRAM application (EB-2010-0359).

In 2010, as a result of the 2009 correction, Union's earnings subject to sharing included the $3.5 million from 2009, increasing the earnings sharing payable to ratepayers by $1.75 million.

Other Adjustments

Consistent with Section 10.1 of the EB-2007-0606 Settlement Agreement, Union is making the following adjustments (Tab 2, Appendix B, Schedule 1, column (c)):

a) St. Clair Transmission Line activity

b) SSM incentive payments

c) Accounting adjustment

d) Charitable donations

e) Interest on customer deposits

f) Other

St. Clair Transmission Line activity

In the EB-2008-0411 Decision, the Board granted Union leave to sell the St. Clair Transmission Line to Dawn Gateway Pipelines Limited Partnership. As a result, revenue of $0.326 million and costs of $0.342 million have been removed from utility earnings.

SSM Incentive Payments

Other revenue includes the revenue recorded from the 2010 SSM of $4.659 million. The SSM payment is an incentive to the company to encourage it to actively pursue DSM activities to achieve results beyond the targeted levels. To ensure that the full amount of the SSM accrues to the company and that the incentive is maintained, the SSM revenue is removed from the earnings sharing calculation. This treatment is in accordance with the EB-2007-0606 Settlement Agreement and with past earnings sharing calculations.

Accounting Adjustment

An adjustment of $0.912 million is a result of the difference between the 2009 deferral disposition application amount requested by Union and the Board-approved amounts for items to be excluded from utility earnings.

Charitable Donations

Charitable donations are costs incurred by the utility that are not recovered from customers in rates. The reduction in costs of $0.698 million follows the treatment of charitable donations under cost of service ratemaking and the EB-2007-0606 Settlement Agreement.

Interest on Customer Deposits

Interest on customer deposits of $0.621 million paid out during the year (recorded in the company's accounts as interest expense) is included in the expenses allowable as deductions from earnings consistent with the treatment under cost of service ratemaking and the EB-2007-0606 Settlement Agreement.

Other

Provisions for accruals recorded in 2010 have been removed from the earnings sharing calculation.

Calculation of Earnings

Determining the amount of earnings for sharing requires a calculation of interest, dividends and income taxes based on the utility rate base to arrive at utility earnings to common shareholder. The amount of the storage premium is then added to earnings to calculate the ROE to compare to the threshold return. These calculations and amounts are discussed further below:

Interest, Income Taxes and Preferred Dividends

The approach used to calculate interest and income taxes to determine earnings subject to sharing is the same approach used for rate making under cost of service.

Utility interest expense of $148.409 million is calculated using actual utility rate base, deemed capital structure, and actual average interest rates adjusted for fees and other costs. The calculation can be found at Tab 2, Appendix A, Schedule 4.

Current utility income taxes are calculated using utility income before interest and taxes, less deemed interest costs, permanent and timing differences to arrive at taxable income multiplied by the current tax rates. The calculation can be found at Tab 2, Appendix A, Schedule 14.

Preferred share dividend requirements are based on deemed capital structure and cost of capital.

Storage Premium Adjustment

Earnings from utility operations are increased by the portion of the storage premium reflected in approved rates to determine utility earnings subject to sharing. In 2010, the amount of the ratepayer benefit is $16.605 million pre-tax which is comprised of revenue excess generated from long-term and short-term storages services. The amount for long-term storages services is $5.351 million or 25% of the $21.405 million forecast revenue excess generated from long-term storage services. The amount for short-term storages is $11.254 million or 71% of the $15.829 million forecast revenue excess on short-term storage services (EB-2007-0606, Rate Order Working Papers, Schedule 16). The after tax earnings impact of the premium in 2010 is $3.692 million and $7.765 million for long-term and short-term storage respectively.

Return on Equity ("ROE")

Actual ROE is determined using utility earnings calculated as described above divided by deemed common equity at 36% of actual utility rate base. The actual 2010 ROE is 10.91% (Tab 2, Appendix B, Schedule 1, column (d), line 28).

Earnings Subject to Sharing

The actual ROE is compared to the ROE generated by applying the Board's approved ROE formula. If the difference between the actual ROE and the benchmark ROE is greater than 200 basis points but less than 300 basis points, the excess earnings are shared 50/50 between Union and its ratepayers. For 2010, the difference is 237 basis points or $2.369 million, after tax (Tab 2, Appendix B, Schedule 1, column (d), line 34). When grossed up for income taxes, the amount of the earnings sharing is $3.433 million (Tab 2, Appendix B, Schedule 1, column (d), line 35). If the difference between the actual ROE and the benchmark ROE exceeded 300 basis points then that excess over 300 basis points would have been shared 90/10 to the benefit of ratepayers. This did not occur in 2010.

APPENDIX A

UNION GAS LIMITED
Annual Reporting Requirement
Year Ended December 31, 2010

Schedule	Contents
1	Calculation of revenue deficiency / (sufficiency)
2	Statement of utility income
3	Statement of earnings before interest and taxes
4	Summary of cost of capital
5	Total weather normalized throughput volume by service type and rate class
6	Total actual (non-weather normalized) throughput volumes by service type and rate class
7	Total weather normalized gas sales revenue by service type and rate class
8	Total actual (non-weather normalized) gas sales revenue by service type and rate class
9	Delivery revenue by service type and rate class
10	Total customers by service type and rate class
11	Summary revenue from regulated transportation
12	Other revenue
13	Operating and maintenance expense by cost type
14	Calculation of utility income taxes
15	Calculation of capital cost allowance
16	Provision for depreciation, amortization and depletion
17	Capital expenditure by function
18	Statement of utility rate base

UNION GAS LIMITED
Calculation of Revenue Deficiency/(Sufficiency)
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
1	Operating revenue	1,948,549	1,903,541	1,704,286
2	Cost of service	1,710,465	1,623,522	1,424,455
3	Utility income	238,084	280,019	279,831
4	Requested return	259,490	260,189	260,845
5	Revenue deficiency / (sufficiency) after tax	21,407	(19,830)	(18,986)
6	Provision for income taxes on deficiency / (sufficiency)	12,104	(9,767)	(8,530)
7	Total revenue deficiency / (sufficiency)	$ 33,511	$ (29,596)	$ (27,516)

UNION GAS LIMITED
Statement of Utility Income
Year Ended December 31

Line No.	Particulars ($000s)		Board-Approved 2007 (a)		Actual 2009 (b)		Actual 2010 (c)
	Operating Revenues:						
1	Gas sales		1,796,757		1,699,503		1,497,451
2	Transportation		127,358		177,325		183,331
3	Other		24,434		26,713		23,504
4	Earnings sharing		-		-		-
5			1,948,549		1,903,541		1,704,286
	Operating Expenses:						
6	Cost of gas		1,134,293		1,019,356		793,619
7	Operating and maintenance expenses		325,623		318,064		349,373
8	Depreciation		173,780		187,173		190,176
9	Other financing		315		474		621
10	Property and capital taxes		67,709		66,638		65,130
11			1,701,720		1,591,705		1,398,919
	Other Income (Expense)						
12	Lobo C/Brantford-Kirkwall write off		-		(1,889)		-
13	Gain/(Loss) on sale of assets		-		-		1
14	Other		-		-		-
15	Gain/(Loss) on foreign exchange		-		(1,161)		(501)
16					(3,050)		(500)
17	Utility income before income taxes		246,829		308,786		304,867
18	Income taxes		8,745		28,767		25,036
19	Total utility income	$	238,084	$	280,019	$	279,831

UNION GAS LIMITED
Statement of Earnings Before Interest and Taxes
Year Ended December 31

Line No.	Particulars ($000s)	2007 Board-Approved Corporate	2007 Board-Approved Non-Utility Storage	2007 Board-Approved Adjustments	2007 Board-Approved Utility	2009 Actual Corporate	2009 Actual Non-Utility Storage	2009 Actual Adjustments	2009 Actual Utility	2010 Actual Corporate	2010 Actual Non-Utility Storage	2010 Actual Adjustments	2010 Actual Utility
		(a)	(b)	(c)	(d)=(a)-(b)+(c)	(e)	(f)	(g)	(h)=(e)-(f)+(g)	(i)	(j)	(k)	(l)= (i)-(j)+(k)
	Operating Revenues:												
1	Operating revenue	1,796,757	-	-	1,796,757	1,699,503	-	-	1,699,503	1,497,451	-	-	1,497,451
2	Storage & Transportation	191,444	60,019	(4,067)	127,358	299,108	119,909	(1,874)	177,325	307,561	123,904	(326) i	183,331
3	Other	24,434	-	-	24,434	35,760	-	(9,047)	26,713	28,913	-	(5,409) ii	23,504
4	Earnings Sharing	-	-	-	-	-	-	-	-	-	-	-	-
5		2,012,635	60,019	(4,067)	1,948,549	2,034,371	119,909	(10,921)	1,903,541	1,833,925	123,904	(5,735)	1,704,286
	Operating Expenses:												
6	Cost of gas	1,135,842	1,549	-	1,134,293	1,025,674	6,318		1,019,356	793,775	726	570	793,619
7	Operating and maintenance expenses	333,029	7,002	(404)	325,623	332,607	12,897	(1,646)	318,064	363,410	13,339	(698) iv	349,373
8	Depreciation	178,502	4,722	-	173,780	194,485	7,312	-	187,173	198,821	8,645	-	190,176
9	Other financing	-	-	315	315	-	-	474	474	-	-	621 v	621
10	Property and capital taxes	68,671	962	-	67,709	68,392	1,754	-	66,638	66,791	1,661	-	65,130
11		1,716,044	14,235	(89)	1,701,720	1,621,158	28,281	(1,172)	1,591,705	1,422,797	24,371	493	1,398,919
	Other Income (Expense)												
12	Lobo C/Brantford-Kirkwall write off	-	-	-	-	(1,889)	-	-	(1,889)	-	-	-	-
13	Gain/(Loss) on sale of assets	-	-	-	-	(6,838)	(436)	6,402	-	(399)	(400)	-	1
14	Other	-	-	-	-	(1,094)	(1,094)	-	-	(1,067)	(1,067)	-	-
15	Gain/(Loss) on foreign exchange	-	-	-	-	(1,207)	(46)	-	(1,161)	(520)	(19)	-	(501)
16						(11,028)	(1,576)	6,402	(3,050)	(1,986)	(1,486)	-	(500)
17	Earnings Before Interest and Taxes	$ 296,591	$ 45,784	$ (3,978)	$ 246,829	$ 402,185	$ 90,052	$ (3,347)	$ 308,786	$ 409,142	$ 98,047	$ (6,228)	$ 304,867

Notes:

i) St. Clair Line activity

ii)	Shared Savings Mechanism	(4,659)
	Market Transformation Incentive	(500)
	CDM / HPNC	(250)
		(5,409)
iii)	St. Clair Line activity	(342)
	Accounting adjustment	912
		570

iv) Donations

v) Customer deposit interest

UNION GAS LIMITED
Summary of Cost of Capital
Year Ended December 31

		2007 Board-Approved				2009 Actual				2010 Actual			
		Utility Capital Structure		Cost Rate	Return	Utility Capital Structure		Cost Rate	Return	Utility Capital Structure		Cost Rate	Return
Line No.	Particulars	($000s)	(%)	%	($000s)	($000s)	(%)	%	($000s)	($000s)	(%)	%	($000s)
1	Long-term debt	2,016,833	61.66	7.66%	154,389	2,088,700	59.97	7.22%	150,719	2,084,793	58.39	7.07%	147,336
2	Unfunded short-term debt	(28,980)	(0.89)	1.58%	(457)	37,811	1.09	1.60%	606	97,441	2.73	1.10%	1,073
3	Total debt	1,987,853	60.77	7.74%	153,932	2,126,511	61.06		151,325	2,182,234	61.12		148,409
4	Preference shares	105,519	3.23	4.74%	4,998	102,514	2.94	2.60%	2,665	102,760	2.88	2.60%	2,670
5	Common equity	1,177,522	36.00	8.54%	100,560	1,253,827	36.00	8.47%	106,199	1,285,309	36.00	8.54%	109,765
6	Total rate base	$ 3,270,894	100.00		$ 259,490	$ 3,482,852	100.00		$ 260,189	$ 3,570,303	100.00		$ 260,845

UNION GAS LIMITED
Total Weather Normalized Throughput Volume by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

		2007 Board Approved						2009 Actual						2010 Actual					
Line No.	Particulars (10^3m^3)	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	General Service																		
1	Rate M1 Firm	-	-	-	-	-	-	1,979,771	572,068	302,210	19,655	-	2,873,704	2,118,409	504,495	237,115	14,910	-	2,874,930
2	Rate M2 Firm	2,249,002	1,377,551	105,414	230,800	-	3,962,767	385,361	361,522	52,786	285,746	-	1,085,415	421,358	350,019	36,680	259,176	-	1,067,233
3	Rate 01 Firm	502,613	400,625	-	2,073	-	905,311	578,841	322,564	-	6,319	-	907,725	632,832	266,016	-	7,502	-	906,349
4	Rate 10 Firm	135,308	139,784	-	106,277	-	381,369	125,382	114,496	-	110,378	-	350,256	141,898	97,576	-	98,323	-	337,797
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
6	Total General Service	2,886,923	1,917,960	105,414	339,150	-	5,249,447	3,069,355	1,370,650	354,996	422,098	-	5,217,100	3,314,497	1,218,106	273,795	379,911	-	5,186,310
	Wholesale - Utility																		
7	Rate M9 Firm	-	-	-	24,506	-	24,506	-	-	-	54,889	-	54,889	-	-	-	61,047	-	61,047
8	Rate M10 Firm	202	-	-	-	-	202	47	171	-	-	-	218	35	129	-	-	-	164
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
10	Total Wholesale - Utility	202	-	-	24,506	-	24,708	47	171	-	54,889	-	55,107	35	129	-	61,047	-	61,211
	Contract																		
11	Rate M4	23,609	-	-	429,418	-	453,027	21,425	4,365	-	419,452	-	445,242	14,885	4,116	-	419,190	-	438,191
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	277,546	-	277,546	-	-	-	443,826	-	443,826	-	-	-	313,077	-	313,077
14	Rate 20 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Rate 20 Transportation	24,982	-	-	146,571	354,035	525,588	14,646	-	-	116,355	426,099	557,100	13,891	-	-	108,600	423,214	545,705
16	Rate 100 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	2,275,112	2,275,112	-	-	-	-	1,806,803	1,806,803	-	-	-	-	1,882,208	1,882,208
18	Rate T-1 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	4,889,989	4,889,989	-	-	-	-	3,310,337	3,310,337	-	-	-	-	4,102,748	4,102,748
20	Rate T-3 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	321,455	321,455	-	-	-	-	264,174	264,174	-	-	-	-	253,595	253,595
22	Rate M5	-	-	-	404,634	-	404,634	1,741	-	-	472,831	-	474,572	19,866	1,550	-	506,430	-	527,846
23	Rate 25	41,048	-	-	-	63,597	104,645	69,323	-	-	-	132,823	202,146	44,741	-	-	-	175,593	220,334
24	Rate 30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Total Contract	89,639	-	-	1,258,169	7,904,188	9,251,996	107,135	4,365		1,452,464	5,940,236	7,504,200	93,384	5,666	-	1,347,297	6,837,358	8,283,705
26	Total Throughput Volume	2,976,764	1,917,960	105,414	1,621,825	7,904,188	14,526,151	3,176,537	1,375,186	354,996	1,929,451	5,940,236	12,776,407	3,407,915	1,223,901	273,795	1,788,255	6,837,358	13,531,225

UNION GAS LIMITED
Total Throughput Volume by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

Line		2007 Board-Approved						2009 Actual						2010 Actual					
No.	Particulars (10^3m^3)	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	General Service																		
1	Rate M1 Firm	-	-	-	-	-	-	2,010,236	581,108	307,277	19,929	-	2,918,550	2,050,177	488,246	229,478	14,430	-	2,782,331
2	Rate M2 Firm	2,249,002	1,377,551	105,414	230,800	-	3,962,767	389,433	365,175	53,482	288,829	-	1,096,919	407,787	338,745	35,499	250,828	-	1,032,858
3	Rate 01 Firm	502,613	400,625	-	2,073	-	905,311	591,391	321,915	-	6,471	-	919,777	584,831	245,838	-	6,933	-	837,602
4	Rate 10 Firm	135,308	139,784	-	106,277	-	381,369	145,116	110,899	-	98,702	-	354,717	132,869	91,368	-	92,067	-	316,303
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	2,886,923	1,917,960	105,414	339,150	-	5,249,447	3,136,176	1,379,097	360,759	413,931	-	5,289,963	3,175,663	1,164,197	264,977	364,258	-	4,969,094
	Wholesale - Utility																		
7	Rate M9 Firm	-	-	-	24,506	-	24,506	-	-	-	54,889	-	54,889	-	-	-	61,047	-	61,047
8	Rate M10 Firm	202	-	-	-	-	202	47	171	-	-	-	218	35	129	-	-	-	164
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Total Wholesale - Utility	202	-	-	24,506	-	24,708	47	171	-	54,889	-	55,107	35	129	-	61,047	-	61,211
	Contract																		
11	Rate M4	23,609	-	-	429,418	-	453,027	21,425	4,365	-	419,452	-	445,242	14,885	4,116	-	419,190	-	438,191
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	277,546	-	277,546	-	-	-	443,826	-	443,826	-	-	-	313,077	-	313,077
14	Rate 20 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Rate 20 Transportation	24,982	-	-	146,571	354,035	525,588	14,646	-	-	116,355	426,099	557,100	13,891	-	-	108,600	423,214	545,705
16	Rate 100 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	2,275,112	2,275,112	-	-	-	-	1,806,803	1,806,803	-	-	-	-	1,882,208	1,882,208
18	Rate T-1 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	4,889,989	4,889,989	-	-	-	-	3,310,337	3,310,337	-	-	-	-	4,102,748	4,102,748
20	Rate T-3 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	321,455	321,455	-	-	-	-	264,174	264,174	-	-	-	-	253,595	253,595
22	Rate M5	-	-	-	404,634	-	404,634	1,741	-	-	472,831	-	474,572	19,866	1,550	-	506,430	-	527,846
23	Rate 25	41,048	-	-	-	63,597	104,645	69,323	-	-	-	132,823	202,146	44,741	-	-	-	175,593	220,334
24	Rate 30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Total Contract	89,639	-	-	1,258,169	7,904,188	9,251,996	107,135	4,365	-	1,452,464	5,940,236	7,504,200	93,384	5,666	-	1,347,297	6,837,358	8,283,705
26	Total Throughput Volume	2,976,764	1,917,960	105,414	1,621,825	7,904,188	14,526,151	3,243,358	1,383,633	360,759	1,921,284	5,940,236	12,849,270	3,269,081	1,169,992	264,977	1,772,602	6,837,358	13,314,010

UNION GAS LIMITED
Total Weather Normalized Gas Sales Revenue by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

		2009 Actual						2010 Actual					
Line No.	Particulars ($000s)	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	General Service												
1	Rate M1 Firm	841,187	71,929	37,317	1,246	-	951,679	746,295	63,488	29,759	916	-	840,458
2	Rate M2 Firm	128,504	17,468	4,246	12,499	-	162,717	113,556	17,213	3,237	11,491	-	145,497
3	Rate 01 Firm	276,476	70,508	-	964	-	347,948	250,083	60,364	-	1,154	-	311,600
4	Rate 10 Firm	51,891	12,811	-	10,629	-	75,331	40,558	11,410	-	10,462	-	62,430
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	1,298,058	172,716	41,563	25,338	-	1,537,675	1,150,492	152,475	32,996	24,023	-	1,359,986
	Wholesale - Utility												
7	Rate M9 Firm	-	-	-	970	-	970	-	-	-	876	-	876
8	Rate M10 Firm	16	5	-	-	-	21	9	3	-	-	-	12
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	
10	Total Wholesale - Utility	16	5	-	970	-	991	9	3	-	876	-	888
	Contract												
11	Rate M4	7,037	132	-	13,098	-	20,267	3,887	115	-	11,540	-	15,542
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	
13	Rate M7	-	-	-	9,020	-	9,020	-	-	-	6,381	-	6,381
14	Rate 20 Storage	-	-	-	-	1,199	1,199	-	-	-	-	1,376	1,376
15	Rate 20 Transportation	4,699	-	-	7,431	7,514	19,644	3,861	-	-	8,532	7,407	19,801
16	Rate 100 Storage	-	-	-	-	816	816	-	-	-	-	839	839
17	Rate 100 Transportation	-	-	-	-	13,293	13,293	-	-	-	-	12,639	12,639
18	Rate T-1 Storage	-	-	-	-	9,746	9,746	-	-	-	-	9,982	9,982
19	Rate T-1 Transportation	-	-	-	-	45,824	45,824	-	-	-	-	49,548	49,548
20	Rate T-3 Storage	-	-	-	-	1,447	1,447	-	-	-	-	1,392	1,392
21	Rate T-3 Transportation	-	-	-	-	3,803	3,803	-	-	-	-	3,614	3,614
22	Rate M5	477	-	-	8,938	-	9,415	4,765	36	-	8,759	-	13,560
23	Rate 25	19,558	-	-	-	2,797	22,355	11,070	-	-	-	3,536	14,606
24	Rate 30	-	-	-	-	130	130	-	-	-	-	66	66
25	Total Contract	31,771	132	-	38,487	86,569	156,959	23,583	151	-	35,212	90,400	149,345
26	Total Revenue	$ 1,329,845	$ 172,853	$ 41,563	$ 64,795	$ 86,569	$ 1,695,625	$ 1,174,085	$ 152,629	$ 32,996	$ 60,111	$ 90,400	$ 1,510,220

UNION GAS LIMITED
Total Gas Sales Revenue by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

Line No.	Particulars ($000s)	2009 Actual System Sales (a)	2009 Actual ABC-T (b)	2009 Actual ABC Unbundled (c)	2009 Actual Bundled-T (d)	2009 Actual T-Service (e)	2009 Actual Total (f)	2010 Actual System Sales (g)	2010 Actual ABC-T (h)	2010 Actual ABC Unbundled (i)	2010 Actual Bundled-T (j)	2010 Actual T-Service (k)	2010 Actual Total (l)
	General Service												
1	Rate M1 Firm	842,724	72,384	37,524	1,259	-	953,891	742,945	62,690	29,384	893	-	835,912
2	Rate M2 Firm	128,671	17,618	4,270	12,626	-	163,185	112,890	16,660	3,179	11,081	-	143,810
3	Rate 01 Firm	277,483	70,432	-	976	-	348,891	246,293	58,770	-	1,109	-	306,172
4	Rate 10 Firm	52,938	12,608	-	10,040	-	75,586	40,094	11,090	-	10,141	-	61,325
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	1,301,816	173,042	41,794	24,901	-	1,541,553	1,142,221	149,211	32,563	23,223	-	1,347,218
	Wholesale - Utility												
7	Rate M9 Firm	-	-	-	970	-	970	-	-	-	876	-	876
8	Rate M10 Firm	16	5	-	-	-	21	9	3	-	-	-	12
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	-
10	Total Wholesale - Utility	16	5	-	970	-	991	9	3	-	876	-	888
	Contract												
11	Rate M4	7,037	132	-	13,098	-	20,267	3,887	115	-	11,540	-	15,542
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	9,020	-	9,020	-	-	-	6,381	-	6,381
14	Rate 20 Storage	-	-	-	-	1,199	1,199	-	-	-	-	1,376	1,376
15	Rate 20 Transportation	4,699	-	-	7,431	7,514	19,644	3,861	-	-	8,532	7,407	19,801
16	Rate 100 Storage	-	-	-	-	816	816	-	-	-	-	839	839
17	Rate 100 Transportation	-	-	-	-	13,293	13,293	-	-	-	-	12,639	12,639
18	Rate T-1 Storage	-	-	-	-	9,746	9,746	-	-	-	-	9,982	9,982
19	Rate T-1 Transportation	-	-	-	-	45,824	45,824	-	-	-	-	49,548	49,548
20	Rate T-3 Storage	-	-	-	-	1,447	1,447	-	-	-	-	1,392	1,392
21	Rate T-3 Transportation	-	-	-	-	3,803	3,803	-	-	-	-	3,614	3,614
22	Rate M5	477	-	-	8,938	-	9,415	4,765	36	-	8,759	-	13,560
23	Rate 25	19,558	-	-	-	2,797	22,355	11,070	-	-	-	3,536	14,606
24	Rate 30	-	-	-	-	130	130	-	-	-	-	66	66
25	Total Contract	31,771	132	-	38,487	86,569	156,959	23,583	151	-	35,212	90,400	149,345
26	Total Revenue	$ 1,333,603	$ 173,179	$ 41,794	$ 64,358	$ 86,569	$ 1,699,503	$ 1,165,813	$ 149,365	$ 32,563	$ 59,311	$ 90,400	$ 1,497,451

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EB-2011-0038
Exhibit A
Tab 2
Appendix A
Schedule 9

UNION GAS LIMITED
Delivery Revenue by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

2007 Board-Approved

Line No.	Particulars ($000s)	System Sales (a)	ABC-T (b)	ABC Unbundled (c)	Bundled-T (d)	T-Service (e)	Total (f)
	General Service						
1	Rate M1 Firm	-	-	-	-	-	-
2	Rate M2 Firm	253,336	133,485	12,252	11,336	-	410,409
3	Rate 01 Firm	74,884	57,873	-	195	-	132,952
4	Rate 10 Firm	8,156	8,706	-	5,024	-	21,886
5	Rate 16 Interruptible	-	-	-	-	-	-
6	Total General Service	336,376	200,064	12,252	16,555	-	565,247
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	592	-	592
8	Rate M10 Firm	5	-	-	-	-	5
9	Rate 77 Firm	-	-	-	-	28	28
10	Total Wholesale - Utilit	5	-	-	592	28	625
	Contract						
11	Rate M4	739	-	-	13,030	-	13,769
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	6,670	-	6,670
14	Rate 20 Storage	-	-	-	-	56	56
15	Rate 20 Transportation	522	-	-	1,940	4,982	7,444
16	Rate 100 Storage	-	-	-	-	1,767	1,767
17	Rate 100 Transportatior	-	-	-	-	16,153	16,153
18	Rate T-1 Storage	-	-	-	-	8,206	8,206
19	Rate T-1 Transportation	-	-	-	-	46,827	46,827
20	Rate T-3 Storage	-	-	-	-	1,578	1,578
21	Rate T-3 Transportation	-	-	-	-	4,010	4,010
22	Rate M5	-	-	-	8,038	-	8,038
23	Rate 25	908	-	-	-	1,497	2,405
24	Rate 30	-	-	-	-	-	-
25	Total Contract	2,169	-	-	29,678	85,076	116,923
26	Total Revenue	$ 338,550	$ 200,064	$ 12,252	$ 46,825	$ 85,104	$ 682,795

2009 Actual

Line No.	Particulars ($000s)	System Sales (g)	ABC-T (h)	ABC Unbundled (i)	Bundled-T (j)	T-Service (k)	Total (l)
	General Service						
1	Rate M1 Firm	257,563	72,384	37,524	1,259	-	368,730
2	Rate M2 Firm	18,917	17,618	4,270	12,626	-	53,431
3	Rate 01 Firm	87,917	48,306	-	528	-	136,751
4	Rate 10 Firm	7,423	6,056	-	4,101	-	17,580
5	Rate 16 Interruptible	-	-	-	-	-	-
6	Total General Service	371,820	144,364	41,794	18,514	-	576,492
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	970	-	970
8	Rate M10 Firm	1	5	-	-	-	6
9	Rate 77 Firm	-	-	-	-	-	-
10	Total Wholesale - Utilit	1	5	-	970	-	976
	Contract						
11	Rate M4	857	132	-	13,098	-	14,087
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	9,020	-	9,020
14	Rate 20 Storage	-	-	-	-	1,199	1,199
15	Rate 20 Transportation	311	-	-	1,742	7,514	9,567
16	Rate 100 Storage	-	-	-	-	816	816
17	Rate 100 Transportatior	-	-	-	-	13,293	13,293
18	Rate T-1 Storage	-	-	-	-	9,746	9,746
19	Rate T-1 Transportation	-	-	-	-	45,824	45,824
20	Rate T-3 Storage	-	-	-	-	1,447	1,447
21	Rate T-3 Transportation	-	-	-	-	3,803	3,803
22	Rate M5	53	-	-	8,938	-	8,991
23	Rate 25	1,255	-	-	-	2,797	4,052
24	Rate 30	-	-	-	-	130	130
25	Total Contract	2,476	132	-	32,798	86,569	121,975
26	Total Revenue	$ 374,297	$ 144,501	$ 41,794	$ 52,282	$ 86,569	$ 699,443

2010 Actual

Line No.	Particulars ($000s)	System Sales (m)	ABC-T (n)	ABC Unbundled (o)	Bundled-T (p)	T-Service (q)	Total (r)
	General Service						
1	Rate M1 Firm	273,840	62,690	29,384	893	-	366,808
2	Rate M2 Firm	19,839	16,660	3,179	11,081	-	50,759
3	Rate 01 Firm	93,036	39,004	-	548	-	132,588
4	Rate 10 Firm	6,355	4,729	-	3,419	-	14,503
5	Rate 16 Interruptible	-	-	-	-	-	-
6	Total General Service	393,070	123,083	32,563	15,941	-	564,657
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	876	-	876
8	Rate M10 Firm	1	35	-	-	-	36
9	Rate 77 Firm	-	-	-	-	-	-
10	Total Wholesale - Utilit	1	35	-	876	-	912
	Contract						
11	Rate M4	493	115	-	11,540	-	12,148
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	6,381	-	6,381
14	Rate 20 Storage	-	-	-	-	1,376	1,376
15	Rate 20 Transportation	315	-	-	1,680	7,406	9,401
16	Rate 100 Storage	-	-	-	-	839	839
17	Rate 100 Transportatior	-	-	-	-	12,639	12,639
18	Rate T-1 Storage	-	-	-	-	9,982	9,982
19	Rate T-1 Transportation	-	-	-	-	49,548	49,548
20	Rate T-3 Storage	-	-	-	-	1,392	1,392
21	Rate T-3 Transportation	-	-	-	-	3,614	3,614
22	Rate M5	343	4	-	8,759	-	9,105
23	Rate 25	843	-	-	-	3,391	4,234
24	Rate 30	-	-	-	-	66	66
25	Total Contract	1,994	119	-	28,359	90,254	120,727
26	Total Revenue	$ 395,065	$ 123,237	$ 32,563	$ 45,176	$ 90,254	$ 686,295

UNION GAS LIMITED
Total Customers by Service Type and Rate Class
All Customer Rate Classes
Year Ended December 31

2007 Board-Approved

Line No.	Particulars	System Sales (a)	ABC-T (b)	ABC-Unbundled (c)	Bundled T (d)	T-Service (e)	Total (f)
	General Service						
1	Rate M1 Firm	-	-	-	-	-	-
2	Rate M2 Firm	663,740	297,276	34,458	1,690	-	997,164
3	Rate 01 Firm	172,580	125,484	-	166	-	298,230
4	Rate 10 Firm	1,329	1,344	-	300	-	2,973
5	Rate 16 Interruptible	-	-	-		-	-
6	Total General Service	837,649	424,104	34,458	2,156	-	1,298,367
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	2	-	2
8	Rate M10 Firm	4	-	-	-	-	4
9	Rate 77 Firm	-	-	-	-	1	1
10	Total Wholesale - Utility	4	-	-	2	1	7
	Contract						
11	Rate M4	13	-	-	181	-	194
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	8	-	8
14	Rate 20 Storage	-	-	-	-	-	-
15	Rate 20 Transportation	10	-	-	20	35	65
16	Rate 100 Storage	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	19	19
18	Rate T-1 Storage	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	68	68
20	Rate T-3 Storage	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	1	1
22	Rate M5	-	-	-	133	-	133
23	Rate 25	56	-	-	-	67	123
24	Rate 30	-	-	-	-	-	-
25	Total Contract	79	-	-	342	190	611
26	Total Customers	837,732	424,104	34,458	2,500	191	1,298,985

2009 Actual

Line No.	Particulars	Sales (g)	ABC-T (h)	ABC-Unbundled (i)	Bundled T (j)	T-Service (k)	Total (l)
	General Service						
1	Rate M1 Firm	723,093	184,653	102,461	940	-	1,011,147
2	Rate M2 Firm	2,789	2,636	355	786	-	6,566
3	Rate 01 Firm	203,416	100,853	-	314	-	304,583
4	Rate 10 Firm	1,074	893	-	280	-	2,247
5	Rate 16 Interruptible	-	-	-	-	-	-
6	Total General Service	930,372	289,035	102,816	2,320	-	1,324,543
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	2	-	2
8	Rate M10 Firm	1	1	-	-	-	2
9	Rate 77 Firm	-	-	-	-	-	-
10	Total Wholesale - Utility	1	1	-	2	-	4
	Contract						
11	Rate M4	12	3	-	130	-	145
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	6	-	6
14	Rate 20 Storage	-	-	-	-	-	-
15	Rate 20 Transportation	3	-	-	19	30	52
16	Rate 100 Storage	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	16	16
18	Rate T-1 Storage	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	53	53
20	Rate T-3 Storage	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	1	1
22	Rate M5	3	-	-	121	-	124
23	Rate 25	46	-	-	-	52	98
24	Rate 30	-	-	-	-	1	1
25	Total Contract	64	3	-	276	153	496
26	Total Customers	930,437	289,039	102,816	2,598	153	1,325,043

2010 Actual

Line No.	Particulars	System Sales (m)	ABC-T (n)	ABC-Unbundled (o)	Bundled T (p)	T-Service (q)	Total (r)
	General Service						
1	Rate M1 Firm	783,779	161,276	79,713	930	-	1,025,698
2	Rate M2 Firm	3,055	2,517	262	773	-	6,607
3	Rate 01 Firm	223,892	84,611		343	-	308,846
4	Rate 10 Firm	1,110	758		286	-	2,154
5	Rate 16 Interruptible					-	-
6	Total General Service	1,011,836	249,162	79,975	2,332	-	1,343,305
	Wholesale - Utility						
7	Rate M9 Firm	-	-	-	2	-	2
8	Rate M10 Firm	1	1	-	-	-	2
9	Rate 77 Firm	-	-	-	-	-	-
10	Total Wholesale - Utility	1	1	-	2	-	4
	Contract						
11	Rate M4	9	2	-	119	-	130
12	Rate M6	-	-	-	-	-	-
13	Rate M7	-	-	-	6	-	6
14	Rate 20 Storage	-	-	-	-	-	-
15	Rate 20 Transportation	3	-	-	17	31	51
16	Rate 100 Storage	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	16	16
18	Rate T-1 Storage	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	53	53
20	Rate T-3 Storage	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	1	1
22	Rate M5	4	1	-	125	-	130
23	Rate 25	46	-	-	-	53	99
24	Rate 30	-	-	-	-	-	-
25	Total Contract	62	3	-	267	154	486
26	Total Customers	1,011,899	249,166	79,975	2,601	154	1,343,795

* Customer count for storage is included in the transportation customer count.

UNION GAS LIMITED
Revenue from Regulated Transportation of Gas
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
1	M12 Transportation	120,667	137,557	141,875
2	M12 Transportation Overrun/Limited Firm	-	1,124	546
3	C1 Long Term Transportation	2,900	6,642	6,288
4	C1 Short Term Transportation and Exchanges	3,742	29,781	32,555
5	C1 Rebate Program	(2,178)	-	-
6	M13 - Local Production	864	462	386
7	M16	553	609	610
8	Other S&T Revenue	810	1,150	1,072
9	Total S&T Revenue	$ 127,358	$ 177,325	$ 183,331

UNION GAS LIMITED
Other Revenue
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
1	Delayed payment charges	7,231	8,680	5,833
2	Account opening charges	5,858	6,894	6,579
3	Billing revenue	9,041	8,479	7,369
4	Mid market transactions	2,000	2,303	2,244
5	Other operating revenue	304	357	1,479
6	Total other revenue	$ 24,434	$ 26,713	$ 23,504

UNION GAS LIMITED
Operating and Maintenance Expense by Cost Type
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
1	Salaries/Wages	159,896	175,066	183,249
2	Benefits	55,621	52,919	70,861
3	Materials	9,132	10,693	9,631
4	Employee Training	12,798	10,888	11,783
5	Contract Services	50,061	56,107	57,335
6	Consulting	6,447	6,689	7,405
7	General	20,645	19,940	22,769
8	Transportation and Maintenance	7,523	7,645	6,334
9	Company Used Gas	4,911	3,373	2,451
10	Utility Costs	3,269	3,236	3,704
11	Communications	7,969	7,600	6,780
12	Demand Side Management Programs	11,874	14,391	16,438
13	Advertising	2,255	1,569	1,860
14	Insurance	7,004	7,763	8,507
15	Donations	404	501	749
16	Financial	2,884	2,918	1,948
17	Lease	3,202	3,479	3,632
18	Cost Recovery from Third Parties	(2,106)	(5,363)	(4,641)
19	Computers	4,226	4,678	4,922
20	Regulatory Hearing & OEB Cost Assessment	6,000	3,653	3,126
21	Outbound Affiliate Services	(5,741)	(9,312)	(10,182)
22	Inbound Affiliate Services	11,933	7,306	9,462
23	Bad Debt	11,600	8,600	5,204
24	Other	100	739	249
25	Total	391,907	395,078	423,576
26	Indirect Capitalization (OH)	(51,528)	(51,246)	(46,290)
27	Direct Captialization (DCC)	(7,350)	(8,348)	(13,878)
28	Total	333,029	335,484	363,408
29	Non Utility Costs (1)	(7,406)	(14,543)	(14,037)
30	IFRS Costs	-	(2,877)	-
31	Total Net Utility Operating and Maintenance Expen	$ 325,623	$ 318,064	$ 349,371

Notes:
(1) Includes non utility storage, charitable donations.

UNION GAS LIMITED
Calculation of Utility Income Taxes
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
	Determination of Taxable Income			
1	Utility income before interest and income taxes	246,829	308,786	304,867
	Adjustments required to arrive at taxable utility income:			
2	Interest expense	(153,932)	(151,325)	(148,409)
3	Utility permanent differences	1,333	3,081	4,589
4		94,230	160,542	161,047
	Utility timing differences			
5	Capital Cost Allowance	(163,089)	(171,315)	(171,709)
6	Depreciation	173,780	187,173	190,177
7	Depreciation through clearing	1,114	1,150	1,543
8	Other	(38,911)	(50,812)	(49,912)
9	Gas Cost Deferrals and Other (current)	-	174,008	(152,680)
10		(27,106)	140,204	(182,581)
11	Taxable income	67,124	300,746	(21,534)
	Calculation of Utility Income Taxes			
12	Income taxes (line 11 * line 18)	24,245	99,246	(6,676)
13	Deferred tax on Gas Cost Deferrals (tax rate 31%)	-	(53,942)	48,753
14	Deferred tax drawdown	(15,500)	(16,537)	(17,041)
15	Total taxes	8,745	28,767	25,036
	Tax Rates			
16	Federal tax	22.12%	19.00%	18.00%
17	Provincial tax	14.00%	14.00%	13.00%
18	Total tax rate	36.12%	33.00%	31.00%

UNION GAS LIMITED
Calculation of Capital Cost Allowance (CCA)
Year Ended December 31

Line No.	Class	Particulars ($000s)	2007 Board-Approved Depreciable UCC Balance (a)	2007 Board-Approved Rate (%) (b)	2007 Board-Approved CCA (c)	2009 Actual Depreciable UCC Balance (d)	2009 Actual Rate (%) (e)	2009 Actual CCA (f)	2010 Actual Depreciable UCC Balance (g)	2010 Actual Rate (%) (h)	2010 Actual CCA (i)
1	1	Buildings, structures and improvements, services, meters, mains		4%	-	1,478,125	4%	59,125	1,420,545	4%	56,822
2	1	Post Mar 07 Non-residental building		6%	-	33,369	6%	2,002	51,543	6%	3,093
3	2	Mains prior to 1988		6%	-	188,915	6%	11,335	177,580	6%	10,655
4	3	Buildings acquired before 1988		5%	-	5,254	5%	263	4,991	5%	250
5	6	Other buildings		10%	-	263	10%	26	237	10%	24
6	8	Compression assets, office furniture, equipment		20%	-	72,066	20%	14,413	68,651	20%	13,730
7	10	Transportation, computer equipment		30%	-	23,387	30%	7,016	19,506	30%	5,852
8	17	Roads, sidewalk, parking lot or storage areas		8%	-	1,321	8%	106	1,215	8%	97
9	38	Heavy work equipment		30%	-	3,343	30%	1,003	4,726	30%	1,418
10	41	Storage assets		25%	-	7,423	25%	1,856	8,631	25%	2,158
11	13	Leasehold improvements (1)		N/A	-	737	N/A	158	651	N/A	113
12	12	Computer software, small tools		100%	-	10,780	100%	10,780	7,727	100%	7,727
13	45	Computers - Hardware acquired after March 22, 2004		45%	-	2,694	45%	1,212	1,481	45%	666
14	45.1	Computers - Hardware acquired after March 18, 2007		55%	-	5,801	55%	3,191	2,859	55%	1,572
15	7	New compression acquired after February 23, 2005		15%	-	167,328	15%	25,099	149,067	15%	22,360
16	49	Transmission pipeline additions acquired after February 23, 2005		8%	-	199,166	8%	15,933	204,565	8%	16,365
17	51	Distribution Lines		6%	-	214,123	6%	12,847	294,137	6%	17,648
18	52	Computers - Jan 27, 09 - Feb 2011			-	4,950	100%	4,950	11,159	100%	11,159
19		Total	$ 0		$ 0	$ 2,419,045		$ 171,315	$ 2,429,271		$ 171,709

Notes:
(1) The CCA rate depends on the type of the leasehold and the terms of the lease.

UNION GAS LIMITED
Provision for Depreciation,Amortization and Depletion
Year Ended December 31

Line No.	Particulars ($000s)	2007 Board-Approved	2009 Actual	2010 Actual
1	Total provision for depreciation and amortization before adjustments (per page 3)	-	188,323	191,720
2	Adjustments: vehicle depreciation through clearing	-	1,150	1,543
3	Provision for depreciation amortization and depletion	$ -	$ 187,173	$ 190,176

UNION GAS LIMITED
Provision for Depreciation, Amortization and Depletion
Year Ended December 31

Line No.	Particulars ($000s)	2007 Board-Approved Average Plant (1)	Rate (%)	Provision	2009 Actual Average Plant (1)	Rate (%)	Provision	2010 Actual Average Plant (1)	Rate (%)	Provision
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Intangible plant:									
1	Franchises and consents			$	1,712	Amortized	82	$ 1,321	Amortized	63
2	Intangible plant - Other				7,870	Amortized	123	6,370	Amortized	118
3		-		-	9,582		205	7,692		181
	Local Storage Plant									
4	Structures and improvements		3.30%	-	2,558	3.28%	84	2,593	3.30%	86
5	Gas holders - storage		2.68%	-	4,523	2.68%	121	4,574	2.68%	(35)
6	Gas holders - equipment		3.68%	-	8,170	3.68%	301	9,225	3.68%	339
7		-		-	15,251		506	16,392		390
	Storage:									
8	Land rights		2.23%	-	32,037	2.23%	714	32,062	2.23%	715
9	Structures and improvements		2.34%	-	54,419	2.34%	1,273	55,076	2.34%	1,289
10	Wells and lines		2.66%	-	87,031	2.66%	2,315	87,383	2.66%	2,324
11	Compressor equipment		3.19%	-	222,272	3.19%	7,090	218,629	3.19%	6,974
12	Measuring & regulating equipment		4.30%	-	48,293	4.30%	2,077	50,288	4.30%	2,162
13	Other equipment							821	20.00%	27
14		-		-	444,052		13,469	444,259		13,492
	Transmission:									
15	Land rights		2.00%	-	35,960	2.00%	719	37,673	2.00%	753
16	Structures and improvements		2.66%	-	52,662	2.66%	1,401	53,401	2.66%	1,420
17	Mains		2.37%	-	1,017,253	2.37%	24,109	1,038,740	2.37%	24,618
18	Compressor equipment		3.52%	-	297,445	3.52%	10,470	298,410	3.52%	10,504
19	Measuring & regulating equipment		3.61%	-	138,453	3.61%	4,998	141,533	3.61%	5,109
20		-		-	1,541,773		41,697	1,569,758		42,405
	Distribution - Southern Operations:									
21	Land rights		1.67%	-	5,191	1.68%	87	5,414	1.67%	90
22	Structures and improvements		2.91%	-	88,638	2.93%	2,594	101,031	2.93%	2,956
23	Services - metallic		3.69%	-	110,497	3.69%	4,077	109,883	3.69%	4,055
24	Services - plastic		3.18%	-	719,739	3.18%	22,888	734,964	3.18%	23,372
25	Regulators		3.30%	-	69,754	3.30%	2,302	70,793	3.30%	2,336
26	Regulator and meter installations		3.51%	-	62,269	3.51%	2,186	66,954	3.51%	2,350
27	Mains - metallic		2.54%	-	390,954	2.54%	9,930	397,468	2.54%	10,096
28	Mains - plastic		2.34%	-	481,293	2.34%	11,262	497,000	2.34%	11,630
29	Measuring & regulating equipment		4.64%	-	28,270	4.64%	1,312	28,951	4.64%	1,343
30	Meters		3.70%	-	174,333	3.70%	6,450	184,525	3.70%	6,827
31	Other equipment									
32		$ -		$ -	$ 2,130,938		$ 63,088	$ 2,196,982		$ 65,055

UNION GAS LIMITED
Provision for Depreciation, Amortizationa nd Depletion
Year Ended December 31

Line No.	Particulars ($000s)	2007 Board-Approved Average Plant (1)	2007 Board-Approved Rate (%)	2007 Board-Approved Provision	2009 Actual Average Plant (1)	2009 Actual Rate (%)	2009 Actual Provision	2010 Actual Average Plant (1)	2010 Actual Rate (%)	2010 Actual Provision
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Distribution plant - Northern & Eastern Operations:									
1	Land rights		1.68%	-	8,841	1.69%	149	8,951	1.68%	150
2	Structures & improvements		3.13%	-	50,377	3.17%	1,595	60,517	3.17%	1,917
3	Services - metallic		3.58%	-	92,008	3.58%	3,294	92,411	3.58%	3,308
4	Services - plastic		3.19%	-	340,599	3.19%	10,865	349,438	3.19%	11,147
5	Regulators		3.34%	-	24,896	3.34%	832	26,302	3.34%	879
6	Regulator and meter installations		3.50%	-	28,582	3.50%	1,000	28,975	3.50%	1,014
7	Mains - metallic		2.52%	-	342,165	2.52%	8,623	348,326	2.52%	8,778
8	Mains - plastic		2.35%	-	192,097	2.35%	4,514	198,720	2.35%	4,670
9	Compressor equipment		3.34%	-	670	2.99%	20	-		-
10	Measuring & regulating equipment		4.63%	-	98,128	4.63%	4,543	102,821	4.63%	4,761
11	Meters		3.67%	-	50,719	3.67%	1,861	52,213	3.67%	1,916
12	Other distribution equipment			-	-		-	-		-
13		-		-	1,229,082		37,296	1,268,674		38,540
	General:									
14	Structures and improvements		2.13%		41,369	2.26%	933	41,261	2.26%	933
15	Office furniture and equipment		6.67%	-	15,550	6.67%	1,037	12,886	6.67%	859
16	Office equipment - computers		25.00%	-	87,708	25.00%	21,928	84,007	25.00%	21,002
17	Transportation equipment		10.07%	-	42,574	10.07%	4,287	40,898	10.07%	4,118
18	Heavy work equipment		4.55%	-	13,103	4.55%	596	14,071	4.55%	640
19	Tools and other equipment		6.67%	-	33,128	6.67%	2,209	31,858	6.67%	2,124
20	Communications equipment & structures		6.67%	-	16,883	6.35%	1,072	15,938	6.37%	1,015
21	Other equipment			-						
22		-		-	250,315		32,062	240,920		30,691
23	Regulatory Assets							26,810		964
24	Sub-total	-		-	5,620,993		188,323	5,771,486		191,720
24	Total provision for depreciation and amortization			-			$ 188,323			$ 191,720
25	Depreciation through clearing						1,150			1,543
26		$ -		$ -	$ 5,620,993		$ 187,173	$ 5,771,486		$ 190,176

Notes:

(1) A simple average of the opening and closing plant balances was used to calculate the annual depreciation provision.

UNION GAS LIMITED
Capital Expenditure by Function
Includes IDC and Overheads
Year Ended December 31, 2010

Line No.	Particulars ($000's)	Board Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
1	Storage	10,024	3,441	11,931
2	Transmission	139,121	42,716	25,141
3	Distribution	89,565	95,525	101,836
4	General	49,943	22,838	31,697
5	Other	59,312	59,457	48,994
6	Total	$ 347,965	$ 223,977	$ 219,599
7	Rate Base Reduction via ADR	(35,000)		
8		$ 312,965		

UNION GAS LIMITED
Statement of Utility Rate Base
Year Ended December 31

Line No.	Particulars ($000s)	Board-Approved 2007	Actual 2009	Actual 2010
		(a)	(b)	(c)
	Gas Utility Plant			
1	Gross plant at cost	5,170,809	5,696,516	5,839,769
2	Less: accumulated depreciation	2,014,712	2,257,113	2,374,895
3	Net utility plant	3,156,097	3,439,403	3,464,874
	Working Capital and Other Components			
4	Cash working capital	32,672	29,958	30,505
5	Gas in storage and line pack gas	188,792	129,556	167,629
6	Balancing gas	129,618	128,148	94,338
7	ABC receivable (gas in storage)	(53,791)	(72,892)	(46,774)
8	Inventory of stores, spare equipment	28,469	28,734	29,238
9	Prepaid and deferred expenses	2,741	3,470	4,341
10	Customer deposits	(43,902)	(61,710)	(56,816)
11	Customer interest	(300)	(541)	(622)
12	Total working capital and other components	284,299	184,723	221,838
13	Total rate base before deduction of accumulated deferred income taxes	3,440,396	3,624,126	3,686,712
14	Accumulated deferred income taxes	169,502	141,274	116,410
15	Total rate base	$ 3,270,894	$ 3,482,852	$ 3,570,303

APPENDIX B

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ended December 31

Line No.	Particulars ($000s)	2010 (a)	Non-Utility Storage (b)	Adjustments (c)		2010 Utility (d)=(a)-(b)+(c)
	Operating Revenues:					
1	Operating revenue	$ 1,497,451	$ -	$ -		$ 1,497,451
2	Storage & Transportation	307,561	123,904	(326)	i	183,331
3	Other	28,913	-	(5,409)	ii	23,504
4		1,833,925	123,904	(5,735)		1,704,286
	Operating Expenses:					
5	Cost of gas	793,775	726	570	iii	793,619
6	Operating and maintenance expenses	363,410	13,339	(698)	iv	349,373
7	Depreciation	198,821	8,645	-		190,176
8	Other financing	-	-	621	v	621
9	Property and capital taxes	66,791	1,661	-		65,130
10		1,422,797	24,371	493		1,398,919
	Other					
11	Gain / (Loss) on sale of assets	(399)	(400)	-		1
12	Other / HTLP	(1,067)	(1,067)	-		-
13	Gain / (Loss) on foreign exchange	(520)	(19)	-		(501)
14		(1,986)	(1,486)	-		(500)
15	Earning Before Interest and Taxes	$ 409,142	$ 98,047	$ (6,228)		$ 304,867
	Financial Expenses:					
16	Long-term debt					147,336
17	Unfunded short-term debt					1,073
18						148,409
19	Utility income before income taxes					156,458
20	Income taxes					25,036
21	Preferred dividend requirements					2,670
22	Utility earnings					128,751
23	Long term storage premium subsidy (after tax)					3,692
24	Short term storage premium subsidy (after tax)					7,765
25						11,457
26	Earnings subject to sharing					$ 140,209
27	Common equity					1,285,309
28	Return on equity (line 26 / line 27)					10.91%
29	Benchmark return on equity					10.54%
30	50% Earnings sharing % (line 28 - line 29, maximum 1%)					0.37%
31	90% Earnings sharing to ratepayer % (if line 30 = 1% then line 28 - line 29 - line 30)					0.00%
32	50% Earnings sharing $ (line 27 x line 30 x 50%)					2,369
33	90% Earnings sharing to ratepayer $ (line 27 x line 31 x 90%)					-
34	Total earnings sharing $ (line 32 + line 33)					2,369
35	Pre-tax earnings sharing (line 34 / (1 minus tax rate))					$ 3,433

Notes:

i)	St. Clair Line activity	
ii)	Shared Savings Mechanism	(4,659)
	Market Transformation Incentive	(500)
	CDM / HPNC	(250)
		(5,409)
iii)	St. Clair Line activity	(342)
	Accounting adjustment	912
		570
iv)	Donations	
v)	Customer deposit interest	

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2010

Line No.	Particulars ($000's)	OEB No.	Balance Dec. 31/09	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/10	Adjustments	Adjusted Utility Balance
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	Unregulated Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	1,260	204			204		1,464		1,464
2	Land rights	451	21,909	(203)			(203)		21,706		21,706
3	Structures and improvements	452	18,758	81			81		18,839		18,839
4	Wells	453/4/5	85,331	486			486		85,817		85,817
5	Compressor equipment	456	134,730	379			379	(2,632)	132,477		132,477
6	Measuring & regulating equipment	457	21,502	905	7		912		22,414		22,414
7	Base pressure gas	458	19,996	2,932			2,932		22,928		22,928
8	Other equipment	459	0				0		0		0
9			303,486	4,784	7	0	4,791	(2,632)	305,645		305,645
	General plant:										
10	Land	480	19				0		19		19
11	Structures & improvements	482	1,237	7			7		1,244		1,244
12	Office furniture & equipment	483	450	8			8	(134)	324		324
13	Office equipment - computers	483	2,540	506			506	(532)	2,514		2,514
14	Transportation equipment	484	1,846	266			266	(103)	2,009		2,009
15	Heavy work equipment	485	581	182			182	(18)	745		745
16	Tools & work equipment	486	990	53			53	(116)	927		927
17	Communication equipment	488	396	20			20	(16)	400		400
18	Communication structures		78				0		78		78
19	Other general equipment	489	0				0		0		0
20			8,137	1,042	0	0	1,042	(919)	8,260	0	8,260
21	Total gas plant in service	100	311,623	5,826	7	0	5,833	(3,551)	313,905	0	313,905
22	Gas plant under construction	115	680	7,415			7,415		8,095		8,095
23	Total unregulated property plant and equipment		$ 312,303	$ 13,241	$ 7	$ 0	$ 13,248	$ (3,551)	$ 322,000	$ 0	$ 322,000

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2010

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/09	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/10
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Unregulated Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	5,815		434			6,249
2	Structures & improvements	452	4,751		718	(3)		5,466
3	Wells and lines	453/4/5	17,961		2,094			20,055
4	Compressor equipment	456	27,543		3,935	(2,226)		29,252
5	Measuring & regulating equipment	457	8,156	4	474	(3)		8,631
6			64,226	4	7,655	(2,232)	0	69,653
	General plant:							
7	Structures & improvements	482	537		28			565
8	Office furniture & equipment		274		26	(134)		166
9	Office equipment - computers		1,337		631	(532)		1,436
10	Transportation equipment	484	419		194	(103)	9	519
11	Heavy work equipment	485	34		30	(18)		46
12	Tools and other equipment	486/89/79	513		64	(116)		461
13	Communication structures		57		4		(2)	59
14	Communication equipment	488	188		27	(16)		199
15			3,359	0	1,004	(919)	7	3,451
16	Total unregulated gas plant in service		$ 67,585	$ 4	$ 8,659	$ (3,151)	$ 7	$ 73,104

UNION GAS LIMITED
Provision for Depreciation,
Amortization and Depletion
Calendar Year Ending December 31, 2010

Line No.	Particulars ($000's)		
1	Total unregulated provision for depreciation and amortization before adjustments (per page 3)		8,659
2	Adjustments: vehicle depreciation through clearing		(14)
3	Unregulated provision for depreciation amortization and depletion	$	8,645

UNION GAS LIMITED
Provision for Depreciation,
Amortization and Depletion
Calendar Year Ending December 31, 2010

Line No.	Particulars	Average Plant (1) ($000's) (a)	Rate (%) (b)	Total Provision ($000's) (c)
	Storage:			
1	Land rights	21,808	2.23%	434
2	Structures and improvements	18,799	2.22%	718
3	Wells and lines	85,574	2.13%	2,094
4	Compressor equipment	133,604	2.87%	3,935
5	Measuring & regulating equipment	21,958	3.87%	474
6	Other equipment			
7		281,742		7,655
	General:			
8	Structures & improvements	1,241	Allocation	28
9	Office furniture and equipment	387	Allocation	26
10	Office equipment - computers	2,527	Allocation	631
11	Transportation equipment	1,928	Allocation	194
12	Heavy work equipment	663	Allocation	30
13	Tools and other equipment	959	Allocation	64
14	Communications structures	398	Allocation	4
15	Communications equipment	78	Allocation	27
16	Other equipment			
17		8,180		1,004
18	Sub-total	289,921		8,659
19	Total unregulated provision for depreciation and amortization before adjustments			8,659
20	Vehicle depreciation through clearing			(14)
21	Unregulated provision for depreciation amortization and depletion	$ 289,921		$ 8,645

Notes:

(1) Average of the opening and closing plant balances (excluding fully depreciated assets) was used to calculate the annual depreciation provision.

UNION GAS LIMITED

Continuity of Storage Additions

Year ended December 31, 2010

($000s)

Description	CWIP - Dec. 31/09		2010 Cap Ex		Overheads		CWIP - Dec. 31/10		Adjustments		2010 Additions	
	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated	Regulated	Unregulated
Maintenance Capital	2,018	281	6,847	1,095	122	0	-2,057	-327	-26	-14	6,904	1,034
Major Maintenance - Dawn J	1,376	313	4,207	4,637	1,160	0	-6,743	-4,950	0	0	0	0
Storage Support	166	0	897	306	9	0	-498	-90	27	-27	602	189
Other (Note 1)	52	1	42	0	-16	0	-36	0	4,813	2,931	4,854	2,933
Expansion												
2008 Storage Enhancement Project	0	0	0	8	0	0	0	0	0	0	0	8
2009 Storage Enhancement Project	0	0	0	142	0	0	0	0	0	0	0	142
Heritage Pool	0	0	0	203	0	0	0	0	0	0	0	203
Dawn High Deliverability Project	0	0	0	216	0	0	0	0	0	0	0	216
Sarnia Airport	0	0	-63	61	0	0	0	0	2	-2	-61	59
Jacob Storage Pool	0	81	0	2,666	0	0	0	-2,753	0	6	0	0
Tribute Storage Pool	0	3	0	-28	0	0	0	25	0	0	0	0
Annual Total - Union Gas Limited	3,611	680	11,931	9,305	1,275	0	-9,334	-8,095	4,815	2,894	12,299	4,784

Note 1 - Base pressure gas for Sombra pool transferred from inventory (Regulated - $4,854; Unregulated - $2,933)

Tab 3

ALLOCATION AND DISPOSITION OF 2010 DEFERRAL ACCOUNT BALANCES, MARKET TRANSFORMATION INCENTIVE, 2010 FEDERAL & PROVINCIAL TAX CHANGES AND 2010 EARNINGS SHARING AMOUNTS

The purpose of this evidence is to address the allocation and disposition of 2010 deferral account balances, market transformation incentive, and 2010 federal & provincial tax changes identified at Exhibit A, Tab 1, Schedule 1 and 2010 earnings sharing amounts identified at Exhibit A, Tab 2, Appendix B, Schedule 1.

The allocation of 2010 deferral account balances, market transformation incentive and the 2010 Federal & Provincial tax change amounts to rate classes appears at Tab 3, Schedule 1, Page 1. The allocation of 2010 earnings sharing amounts to rate classes appears at Tab 3, Schedule 1, Page 2. Tab 3, Schedule 2 provides the unit disposition rates for Union's in-franchise rate classes and summarizes the balances to be disposed of for Union's ex-franchise rate classes. Tab 3, Schedule 3 provides the impact of the proposed disposition for general service customers in the Southern Operations area and Northern and Eastern Operations area.

UNABSORBED DEMAND COST VARIANCE ACCOUNT

Union proposes that the portion of the balance in the Unabsorbed Demand Cost ("UDC") Variance Account (179-108) related to the Northern and Eastern Operations area be allocated to the firm Rate 01, Rate 10 and Rate 20 customers in proportion to 2007 excess peak over annual average.

This allocation is consistent with the allocation of UDC in approved 2007 rates (EB-2005-0520, Rate Order Working Papers, Schedule 25, page 3).

The UDC associated with the Southern Operations area is applicable to sales service customers only. Accordingly, Union proposes that the portion of the balance in the Unabsorbed Demand Cost ("UDC") Variance Account (179-108) related to the Southern Operations area be allocated to sales service customers only.

2010 NON- GAS SUPPLY RELATED DEFERRAL ACCOUNTS

Non-gas supply related deferral accounts can be divided into two groups: storage-related deferral accounts and other deferral accounts.

STORAGE-RELATED DEFERRAL ACCOUNTS

The storage- related deferral accounts are:

i) Account No. 179-70 Short-Term Storage and Other Balancing Services;

ii) Account No. 179-72 Long-Term Peak Storage Services.

Account No. 179-70 Short-Term Storage and Other Balancing Services

Union proposes to allocate the Short-Term Storage and Other Balancing Services Deferral Account balance related to in-franchise customers in the Southern Operations area among rate classes in proportion to EB-2005-0520 design (peak) day demand. Union proposes to allocate the balance to in-franchise customers in the Northern and Eastern Operations area (by virtue of their use of storage in the Southern Operations area) among rate classes in proportion to the allocation of 2007 storage demand costs as approved in EB-2005-0520.

Account No. 179-72 Long-Term Peak Storage Services

Union proposes to allocate the balance in the Long-Term Peak Storage Services Deferral Account (179-72) to in-franchise rate classes in the Southern Operations area in proportion to EB-2005-0520 design (peak) day demand and in-franchise rate classes in the Northern and Eastern Operations area (by virtue of their use of storage in the Southern Operations area) in proportion to the allocation of 2007 storage demand costs as approved in EB-2005-0520.

OTHER DEFERRAL ACCOUNTS

There is no balance in the Deferred Customer Rebates/Charges Deferral Account (179-26) at December 31, 2010.

Union proposes to allocate the balance in the Lost Revenue Adjustment Mechanism Deferral Account (179-75) to rate classes in proportion to the margin reduction attributable to demand side management activities appearing at Exhibit A, Tab 1, Schedule 2, Page 1 of 3.

There is no balance in the Unbundled Services Unauthorized Storage Overrun Deferral Account

(179-103) at December 31, 2010.

Union proposes to allocate the balance in the Demand Side Management ("DSM") Variance Account (179-111) to rate classes in proportion to the actual DSM spending by rate class in 2010. This allocation is the same as that used and approved by the Board in past deferral dispositions.

There is no balance in the Gas Distribution Access Rule ("GDAR") Costs Deferral Account (179-112) at December 31, 2010.

Union proposes to allocate the balance in the Late Payment Penalty Litigation Deferral Account (179-113) to rate classes in proportion to the allocation of the 2007 late payment revenue.

Union proposes to allocate the balance in the Shared Savings Mechanism Variance Account (179-115) to rate classes in proportion to the net TRC benefits attributable to the respective rate classes appearing at Exhibit A, Tab 1, Schedule 4. This is consistent with the Board-approved Settlement Agreement (Exhibit K1.1, Tab 1 which is the agreement between Union and most of the intervenors) in EB-2006-0021, the Board's Generic DSM Proceeding and past deferral disposition proceedings.

There is no balance in the Carbon Dioxide Offset Credits Deferral Account (179-117) at December 31, 2010.

Union proposes to allocate the balance in the Average Use Per Customer Account (179-118) to General Service rate classes in proportion to the margin variances by rate class resulting from the difference between the actual rate of decline in use-per-customer and the forecast rate of decline included in approved rates by rate class.

Union proposes to allocate the balance in the IFRS Conversion Costs Account (179-120) to rate classes in proportion to 2007 Board-approved EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Administrative & General O&M Expense, updated for the EB-2005-0520 Board Decision.

As indicated at Exhibit A, Tab 1, there is no balance in the Cumulative Under-Recovery - St. Clair Transmission Line Deferral Account (179-121) and the Impact of Removing St. Clair Transmission Line from Rates Deferral Account (179-122) at December 31, 2010.

There is no balance in the Conservation Demand Management Deferral Account (179-123) at December 31, 2010.

Union proposes to allocate the balances in the Harmonized Sales Tax Deferral Account (179-124) by component using 2007 Board-Approved allocators as follows:

i) Capital savings using rate base (EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Rate Base, Updated for EB-2005-0520 Board Decision);

ii) Operations & Maintenance savings using O&M expenses excluding cost of gas (EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Rate Base, Updated for EB-2005-0520 Board Decision);

iii) Compressor fuel costs using the allocation of Compressor Fuel less Customer Supplied Fuel (EB-2005-0520, Decision Cost Study, Operating Expenses, C. Underground Storage & D. Transmission, Compressor Fuel, pages 13-16).

MARKET TRANSFORMATION INCENTIVE

Union proposes to allocate the market transformation incentive to the M1 and Rate 01 rate classes. As indicated at Exhibit A, Tab 1, the market transformation incentive relates to the drain water heat recovery program directed at general service residential customers during 2010.

2010 FEDERAL AND PROVINCIAL TAX CHANGES

Union proposes to allocate the amount related to the 2010 Federal and Provincial Tax Changes Account to rate classes in proportion to the 2007 Board-approved allocation of rate base (EB-2005-0520, Exhibit G3, Tab 2, Schedule 2, Rate Base, Updated for EB-2005-0520 Board Decision). This approach is consistent with how tax changes are allocated in approved rates.

2010 EARNINGS SHARING

Union is proposing to allocate the 2010 earnings sharing of $3.433 million to all rate classes based on the allocation of the 2007 Board-approved return on equity.[1] The allocation of 2007 Board-approved return on equity underpins 2010 approved rates. The allocation of 2010 earnings sharing appears at Tab 3, Schedule 1, Page 2. Union's proposal to use the allocation of return on equity approved for 2007 to allocate earnings sharing related to 2010 is consistent with how Union allocated the 2009 earnings sharing.

DISPOSITION OF 2010 DEFERRAL ACCOUNT BALANCES, MARKET TRANSFORMATION INCENTIVE, 2010 FEDERAL & PROVINCIAL TAX CHANGES AND 2010 EARNINGS SHARING

For general service M1, M2, Rate 01 and Rate 10 customers Union proposes to dispose of 2010 deferral account balances, market transformation incentive, 2010 Federal & Provincial tax changes, and 2010 earnings sharing amounts prospectively, over the October 1, 2011 to March 31, 2012 time period. The prospective refund / recovery approach proposed for M1, M2, Rate 01 and Rate 10 customers is consistent with how Union refunded / recovered 2009 deferral account and earnings sharing balances in EB-2010-0039.

---

1 Using return on equity ("ROE") as the allocator has the same effect as using rate base. ROE is allocated to rate classes in proportion to rate base.

For in-franchise contract and ex-franchise rate classes, Union is proposing to dispose of net 2010 delivery-related deferral account and 2010 earnings sharing balances as a one-time adjustment with October 2011 bills customers receive in November 2011. This approach is consistent with the methodology used for the disposition of 2009 deferral account and earnings sharing balances in EB-2010-0039.

GENERAL SERVICE BILL IMPACTS

General Service customer impacts are presented at Tab 3, Schedule 3. For a residential customer with annual consumption of 2,600 m^3, the charge for the period October 1, 2011 to March 31, 2012 is $5.34 in the Southern Operations area. This $5.34 charge consists of a delivery-related charge of $5.24 (line 9, column (c)) and a commodity-related charge of $0.10 (line 10, column (c)).

For a residential customer with annual consumption of 2,600 m^3, the credit for the period October 1, 2011 to March 31, 2012 is $16.35 in the Northern and Eastern Operations area. This $16.35 credit consists of a delivery-related credit of $6.39 (line 1, column (c)) and a gas transportation-related credit of $9.96 (line 3, column (c)).

Schedules

UNION GAS LIMITED
Allocation of 2010 Deferral Account Balances, Market Transformation Incentive, Federal & Provincial
Tax Changes, and 2010 Earnings Sharing Amounts to Rate Classes

			Northern and Eastern Operations Area						Southern Operations Area													
Line No.	Particulars	Acct No.	Rate 01 ($000's)	Rate 10 ($000's)	Rate 20 ($000's)	Rate 77 ($000's)	Rate 100 ($000's)	Rate 25 ($000's)	M1 ($000's)	M2 ($000's)	M4 ($000's)	M5A ($000's)	M7 ($000's)	M9 ($000's)	M10 ($000's)	T1 ($000's)	T3 ($000's)	M12 ($000's)	M13 ($000's)	C1 ($000's)	M16 ($000's)	Total (1) ($000's)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)
	Gas Supply Related Deferrals:																					
1	Unabsorbed Demand Cost (UDC) Variance Account	179-108	(3,470)	(1,111)	(134)	-	-	-	82	17	1	0	-	-	0	-	-	-	-	-	-	(4,615)
	Storage Related Deferrals:																					
2	Short-Term Storage and Other Balancing Services	179-70	(86)	(27)	(3)	-	(4)	-	(234)	(77)	(26)	(2)	(19)	(2)	(0)	(155)	(22)	-	-	-	-	(657)
3	Long-Term Peak Storage Services	179-72	(1,147)	(367)	(44)	-	(60)	-	(3,069)	(1,004)	(346)	(24)	(244)	(25)	(1)	(2,029)	(292)	-	-	-	-	(8,652)
4	Total Gas Supply & Storage Related Deferrals		(4,702)	(1,505)	(182)	-	(65)	-	(3,221)	(1,064)	(372)	(26)	(263)	(26)	(1)	(2,183)	(314)	-	-	-	-	(13,924)
	Delivery Related Deferrals:																					
5	Deferred Customer Rebates/Charges	179-26	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Lost Revenue Adjustment Mechanism	179-75	302	402	28	-	66	-	733	593	58	149	17	-	-	35	-	-	-	-	-	2,384
7	Unbundled Services Unauthorized Storage Overrun	179-103	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Demand Side Management Variance Account	179-111	(528)	(1,446)	(822)	-	541	-	3,108	(1,585)	(1,886)	632	(46)	-	-	1,012	-	-	-	-	-	(1,020)
9	Gas Distribution Access Rule (GDAR) Costs	179-112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Late Payment Penalty Litigation	179-113	417	4	0	0	0	0	1,381	10	0	0	0	0	0	0	0	-	-	-	-	1,812
11	Shared Savings Mechanism	179-115	194	88	368	-	1,296	-	943	483	475	354	527	-	-	1,257	-	-	-	-	-	5,985
12	Carbon Dioxide Offset Credits	179-117	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Average Use Per Customer	179-118	(1,078)	(3,405)	-	-	-	-	3,715	1,379	-	-	-	-	-	-	-	-	-	-	-	611
14	IFRS Conversion Costs	179-120	22	2	1	0	2	0	65	6	3	1	1	0	0	7	1	9	0	3	0	124
15	Cumulative Under-recovery - St. Clair Transmission Line	179-121	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Impact of Removing St. Clair Transmission Line from Rates	179-122	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Conservation Demand Management	179-123	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Harmonized Sales Tax	179-124	2	3	(2)	(0)	18	(1)	(53)	29	8	7	5	1	(0)	(15)	(2)	(43)	(0)	(9)	1	(51)
19	Total Delivery-Related Deferrals		(669)	(4,352)	(426)	(0)	1,923	(1)	9,892	915	(1,342)	1,144	504	1	(0)	2,296	(1)	(34)	(0)	(6)	1	9,845
20	Total 2010 Deferral Account Disposition (Line 4 + Line 19)		(5,371)	(5,857)	(608)	(0)	1,859	(1)	6,671	(149)	(1,714)	1,118	241	(26)	(1)	113	(315)	(34)	(0)	(6)	1	(4,079)
	Other Items:																					
21	2010 Market Transformation Incentive		88	-	-	-	-	-	412	-	-	-	-	-	-	-	-	-	-	-	-	500
22	2010 Federal & Provincial Tax Changes		178	33	17	0	22	8	415	63	17	10	10	1	0	51	6	201	0	35	0	1,068
23	Total 2010 Deferrals plus Other Items (Line 20 + Line 21 + Line 22)		(5,106)	(5,824)	(591)	0	1,881	7	7,498	(86)	(1,697)	1,129	252	(25)	(1)	164	(309)	167	0	29	1	(2,511)
24	2010 Earnings Sharing (2)		(589)	(109)	(56)	(0)	(75)	(25)	(1,378)	(209)	(56)	(34)	(35)	(3)	(0)	(170)	(20)	(669)	(1)	(2)	(1)	(3,433)
25	Grand Total (Line 23 + Line 24)		(5,696)	(5,933)	(647)	-	1,807	(18)	6,121	(295)	(1,753)	1,094	217	(28)	(1)	(6)	(330)	(502)	(0)	26	0	(5,944)

Notes:
(1) EB-2011-0038, Exhibit A, Tab 1, Schedule 1.
(2) EB-2011-0038, Exhibit A, Tab 3, Schedule 1, page 2.

UNION GAS LIMITED
Allocation of 2010 Earnings Sharing Amounts to Rate Classes

Line No.	Particulars	Rate Class	C2007 Return on Equity Allocation (1) ($000's)	2010 Earnings Sharing ($000's)	
			(a)	(b)	
	Northern & Eastern Operations Area				
1	Small Volume General Firm Service	01	44,549	(589)	
2	Large Volume General Firm Service	10	8,234	(109)	
3	Medium Volume Firm Service	20	4,263	(56)	
4	Large Volume High Load Factor Firm Service	100	5,641	(75)	
5	Large Volume Interruptible Service	25	1,913	(25)	
6	Wholesale Transportation Service	77	8	(0)	
7	Total Northern & Eastern Operations Area		64,608	(855)	
	Southern Operations Area				
8	Small Volume General Service Rate	M1	104,130	(1,378)	
9	Large Volume General Service Rate	M2	15,828	(209)	
10	Firm Industrial and Commercial Contract Rate	M4	4,220	(56)	
11	Interruptible Industrial & Commercial Contract Rate	M5A	2,587	(34)	
12	Special Large Volume Industrial & Commercial Contract Rate	M7	2,617	(35)	
13	Large Wholesale Service Rate	M9	219	(3)	
14	Small Wholesale Service Rate	M10	10	(0)	
15	S & T Rates for Contract Carriage Customers	T1	12,835	(170)	
16	S & T Rates for Contract Carriage Customers	T3	1,546	(20)	
	Storage and Transportation				
17	Cross Franchise Transportation Rates	C1	186	(2)	
18	Storage & Transportation Rates	M12	50,557	(669)	
19	Transportation of Locally Produced Gas	M13	39	(1)	
20	Storage & Transportation Services - Transportation Charges	M16	55	(1)	
21	Total Southern Operations Area		194,830	(2,578)	
22	Total		259,438	(3,433)	(2)

Notes:
(1) Allocated costs per 2007 Decision in EB-2005-0520.
(2) EB-2011-0038, Exhibit A, Tab 2, Appendix B, Schedule 1, column (d), line 35.

UNION GAS LIMITED
General Service Unit Rates for Prospective Recovery/(Refund) - Delivery
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars	Rate Class	2010 Deferral Balances ($000's)	2010 Market Transformation Incentive ($000's)	2010 Federal & Provincial Tax Changes ($000's)	2010 Earnings Sharing Mechanism ($000's)	Balance for Disposition ($000's)	Forecast Volume (10^3m^3) (1)	Unit Rate for Prospective Recovery/(Refund) (cents/m^3)
			(a)	(b)	(c)	(d)	(e) = (a+b+c+d)	(f)	(g) = (e/f)*100
1	Small Volume General Service	01	(1,901)	88	178	(589)	(2,225)	713,301	(0.3120)
2	Large Volume General Service	10	(4,746)	-	33	(109)	(4,822)	247,127	(1.9512)
3	Small Volume General Service	M1	6,589	412	415	(1,378)	6,039	2,288,226	0.2639
4	Large Volume General Service	M2	(166)	-	63	(209)	(312)	810,912	(0.0385)

Notes:
(1) Forecast volume for the period October 1, 2011 to March 31, 2012.

UNION GAS LIMITED
General Service Unit Rates for Prospective Recovery/(Refund) - Gas Supply Transportation
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars	Rate Class	2010 Deferral Balances ($000's)	2010 Market Transformation Incentive ($000's)	2010 Federal & Provincial Tax Changes ($000's)	2010 Earnings Sharing Mechanism ($000's)	Balance for Disposition ($000's)	Forecast Volume (10^3m^3) (1)	Unit Rate for Prospective Recovery/(Refund) (cents/m^3)
			(a)	(b)	(c)	(d)	(e) = (a+b+c+d)	(f)	(g) = (e/f)*100
1	Small Volume General Service	01	(3,470)	-	-	-	(3,470)	713,301	(0.4865)
2	Large Volume General Service	10	(1,111)	-	-	-	(1,111)	246,592	(0.4504)

Notes:
(1) Forecast volume for the period October 1, 2011 to March 31, 2012.

UNION GAS LIMITED
Unit Rates for Prospective Recovery/(Refund) - Gas Supply Commodity
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars	2010 Deferral Balances ($000's)	2010 Market Transformation Incentive ($000's)	2010 Federal & Provincial Tax Changes ($000's)	2010 Earnings Sharing Mechanism ($000's)	Balance for Disposition ($000's)	Forecast Volume (10^3m^3) (1)	Unit Rate for Prospective Recovery/(Refund) (cents/m^3)
		(a)	(b)	(c)	(d)	(e) = (a+b+c+d)	(f)	(g) = (e/f)*100
1	North Sales Service	-	-	-	-	-	598,474	-
2	South Sales Service	100	-	-	-	100	1,995,324	0.0050

Notes:
(1) Forecast volume for the period October 1, 2011 to March 31, 2012.

UNION GAS LIMITED
Contract Unit Rates for One-Time Adjustment - Delivery
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars	Rate Class	2010 Deferral Balances ($000's)	2010 Market Transformation Incentive ($000's)	2010 Federal & Provincial Tax Changes ($000's)	2010 Earnings Sharing ($000's)	Total Balance ($000's)	2010 Actual Volume (10^3m^3)	Unit Rate (cents/m^3)
			(a)	(b)	(c)	(d)	(e) = (a+b+c+d)	(f)	(g) = (e/f)*100
	Northern and Eastern Operations Area:								
1	Medium Volume Firm Service (1)	20	(21)	-	4	(13)	(30)	122,507	(0.0242)
2	Medium Volume Firm Service (2)	20T	(330)	-	13	(44)	(361)	423,267	(0.0853)
3	Large Volume High Load Factor (2)	100T	1,923	-	22	(75)	1,871	1,882,972	0.0994
4	Wholesale Service	77	(0)	-	0	(0)	-	-	
5	Large Volume Interruptible	25	(1)	-	8	(25)	(18)	220,386	(0.0083)
	Southern Operations Area:								
6	Firm Com/Ind Contract	M4	(1,714)	-	17	(56)	(1,753)	439,257	(0.3992)
7	Interruptible Com/Ind Contract	M5	1,118	-	10	(34)	1,094	523,763	0.2089
8	Special Large Volume Contract	M7	241	-	10	(35)	217	313,484	0.0692
9	Large Wholesale	M9	(26)	-	1	(3)	(28)	59,770	(0.0464)
10	Small Wholesale	M10	(1)	-	0	(0)	(1)	165	(0.8419)
11	Contract Carriage Service	T1	113	-	51	(170)	(6)	4,057,920	(0.0001)
12	Contract Carriage- Wholesale	T3	(315)	-	6	(20)	(330)	253,595	(0.1300)

Notes:
(1) Sales and Bundled-T customers only.
(2) T-service customers only.

UNION GAS LIMITED
Contract Unit Rates for One-Time Adjustment - Gas Supply Transportation and Bundled Storage
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars	Rate Class	Billing Units	2010 Deferral Balances ($000's) (a)	2010 Market Transformation Incentive ($000's) (b)	2010 Federal & Provincial Tax Changes ($000's) (c)	2010 Earnings Sharing ($000's) (d)	Total Balance ($000's) (e) = (a+b+c+d)	2010 Actual Volume/ Demand (f)	Unit Volumetric/ Demand Rate (g) = (e/f)*100
	Gas Supply Transportation (cents/m^3)									
1	Medium Volume Firm Service	20	10^3m^3	(134)	-	-	-	(134)	6,711	(1.9964)
	Bundled (T- Service) Storage ($/GJ)									
2	Medium Volume Firm Service	20T	GJ	(122)	-	-	-	(122)	106,324	(1.151)
3	Large Volume High Load Factor	100T	GJ	(65)	-	-	-	(65)	56,080	(1.151)

UNION GAS LIMITED
Storage and Transportation Service Amounts for Disposition
2010 Deferral Account Disposition, Market Transformation, Federal & Provincial Tax Changes, and 2010 Earnings Sharing Mechanism

Line No.	Particulars ($000's) (1)	Rate Class	2010 Deferral Balances ($000's)	2010 Market Transformation Incentive ($000's)	2010 Federal & Provincial Tax Changes ($000's)	2010 Earnings Sharing ($000's)	Total Balance ($000's)
			(a)	(b)	(c)	(d)	(e) = (a+b+c+d)
1	Storage and Transportation	M12	(34)	-	201	(669)	(502)
2	Local Production	M13	(0)	-	0	(1)	(0)
3	Short-Term Cross Franchise	C1	(6)	-	35	(2)	26
4	Storage Transportation Service	M16	1	-	0	(1)	0

Notes:
(1) Exfranchise M12, M13, M16 and C1 customer specific amounts determined using approved deferral account allocation methodologies

UNION GAS LIMITED
General Service Bill Impacts

Line No.	Particulars	Rate Component	Unit Rate for Prospective Recovery/(Refund) (cents/m^3) (1)	Volume (m^3) (2)	Bill Impact ($)
			(a)	(b)	(c) = (a x b) / 100
1	Rate 01	Delivery	(0.3120)	2,048	(6.39)
2		Commodity	-	2,048	-
3		Transportation	(0.4865)	2,048	(9.96)
4			(0.7985)		(16.35)
5	Rate 10	Delivery	(1.9512)	66,961	(1,306.53)
6		Commodity	-	66,961	-
7		Transportation	(0.4504)	66,961	(301.59)
8			(2.4016)		(1,608.12)
9	Rate M1	Delivery	0.2639	1,984	5.24
10		Commodity	0.0050	1,984	0.10
11			0.2689		5.34
12	Rate M2	Delivery	(0.0385)	55,772	(21.47)
13		Commodity	0.0050	55,772	2.79
14			(0.0335)		(18.68)

Notes:
(1) EB-2011-0038, Exhibit A, Tab 3, Schedule 2, Pages 1-3.
(2) Average consumption, per customer, for the period October 1, 2011 to March 31, 2012.

Tab 4

ALLOCATION OF COSTS BETWEEN UNION'S REGULATED AND UNREGULATED STORAGE OPERATIONS

At Tab 4 of Union's 2009 deferral disposition and earnings sharing application (EB-2010-0039), Union submitted evidence for the allocation of costs between Union's regulated and unregulated storage operations. As part of the EB-2010-0039 Settlement Agreement (July 30, 2010, para. 20), the parties agreed that:

> *" upon approval of this Agreement by the Board, Union will commission an independent study ("the Study") of its cost allocation methodology for allocation of costs between its regulated and unregulated storage operations. The Study will also examine the attribution of revenues to deferral accounts 179-70 and 179-72 and provide a volumetric reconciliation between physical space and space sold "short term" and "long term". Union will solicit a person, group or organization to conduct the study ("Study Staff") by way of a request for proposals ("RFP"). Union will provide an opportunity to the other parties to comment on a draft version of the RFP and to suggest changes. Final drafting of the RFP and selection of Study Staff will be at the sole discretion of Union.*
>
> *Union will take steps to ensure that, at or near the outset of the Study, the other parties will be provided an opportunity to present Study Staff with their concerns, questions, and/or opinions on the subject matters of the Study.*
>
> *The Study will be filed by Union in connection with its application to dispose of 2010 deferral account balances with sufficient time to permit full discovery and review of the Study as part of the application.*
>
> *Any changes that Study Staff may recommend to Union's cost allocation methodology will not be implemented until after receiving approval from the Board. Any findings or recommendations made by Study Staff will be adopted, if at all, on a prospective basis, and will have no impact on balances disposed of prior to 2010.*
> *This Agreement is without prejudice to any party's right to disagree with, or challenge any of the findings of Study Staff".*

Union issued a Request for Proposal ("RFP") to four consultants and Union received three responses. Union awarded the contract to Mr. Russ Feingold and Mr. Michael Ballaban of Black and Veatch ("B&V").

In accordance with the Settlement Agreement, Union invited all parties involved in the EB-2010-0039 proceeding to meet with B&V. B&V met with representatives from the Federation of Rental-housing Providers of Ontario, the Canadian Manufacturers and Exporters and the City of Kitchener, on December 1, 2010 who provided their input into the subject matter of the Study.

On March 31, 2011, B&V provided the Final Report to Union. B&V's report is included at Attachment A. B&V made the following recommendations:

1. Establish more robust documentation that readily allows the reader to clearly trace how Union's regulated and unregulated storage costs and storage deferral accounts are developed, which should include providing clear references for the historical cost allocation methods or other historical precedents used in the calculation of the costs of Union's unregulated storage operations and its final storage deferral account balances. Black & Veatch believes that certain of the Schedules presented in this report should be incorporated into Union's future evidentiary presentations before the Board when addressing the topics contained in this report.

2. In support of Recommendation No.1, whenever possible, the work papers submitted by Union should include more detailed data references that guide the reader through the development of all supporting calculations on a step-by-step basis. Also, where data is hard coded into spreadsheets, references should be included that indicate the source of the information and describe how the data in the work sheet was calculated.
3. Black & Veatch recommends that Union consider deriving a revised allocation factor for the allocation of Union's vehicles and heavy equipment used in its Dawn Storage and Transmission Operation to its unregulated storage operations. This change would also require Union to reassign a small portion of its unregulated general plant assets to its regulated storage operations.
4. A small under-allocation of storage-related assets to Union's unregulated business for one asset addition and a small over-allocation of storage-related assets to Union unregulated business for another asset addition were identified during Black & Veatch's review process. These two misallocations create the need for storage asset adjustments to Union's unregulated storage asset balances equal to $16,259 and ($77,645), respectively. Union has indicated that it will make these two required adjustments in 2011. Black & Veatch recommends that these changes be made at a convenient point in time during 2011.

Union included an additional schedule related to the Short-Term and Long-Term Storage deferral accounts at Tab 1, Schedule 6 in response to recommendations 1 and 2. Union made the adjustments noted in recommendations 3 and 4.

Other than the recommendations above, B&V concluded that “the conceptual underpinnings and resulting methodologies upon which Union’s cost allocation process is based are well-conceived, thorough and reasonable in their treatment of storage-related plant and expenses”.

Union’s approach to the separation of the financial information related to the unregulated storage operations from the financial information for the utility operations is consistent with the cost allocation methodology approved by the Board in the 2007 cost allocation study. Union’s approach is also consistent with the Board’s conclusion in the NGEIR Decision that the cost allocation study is adequate for the purposes of separating regulated costs and revenues for ratemaking purposes.

Union requests the Board’s approval of the allocation methods used by Union to separate the costs associated with its unregulated storage operations from its utility operations for use in future proceedings.

EB-2011-0038
Filed: 2011-04-18
Exhibit A
Tab 4
Attachment 1

BUILDING A WORLD OF DIFFERENCE®





Union Gas Limited

Independent Review of the Accounting and Cost Allocation for Unregulated and Regulated Storage Operations

Final Report

March 2011

BLACK & VEATCH
Building a world of difference.

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1.0 INTRODUCTION AND SUMMARY

In the Natural Gas Electricity Interface Review ("NGEIR") Decision in EB-2005-0551[1], the Ontario Energy Board (the "Board") determined that the market for Union's ex-franchise storage services was a competitive market and that Union Gas Limited ("Union" or the "Company") would no longer be subject to rate regulation for those services. The Board stated that it would cease regulating the prices charged for the following storage services:

- All storage services offered by Union and Enbridge to customers outside their franchise areas;
- New storage services offered by Union and Enbridge to their in-franchise customers; and
- All storage services offered by other storage operators, including storage operators affiliated with Union and Enbridge.[2]

This decision established an unregulated storage operation within Union. In response to this decision, Union implemented a comprehensive accounting and cost allocation process to identify and separate costs between regulated and un-regulated storage operations. Separating the revenues and costs of Union's unregulated storage operations from its regulated utility operations was necessary to properly account for the unregulated operations and to identify regulated storage costs for the purpose of setting Union's regulated utility rates. In addition, the identification and compilation of the revenues and costs of Union's unregulated storage operations are required to determine standalone utility financial results for earnings sharing purposes. Finally, the costs of Union's unregulated storage operations are used in the computation of storage margins subject to deferral in its two storage deferral accounts – Account No. 179-70 Short-Term Storage and Other Balancing Services and Account No. 179-72 Long-Term Peak Storage Services.

A key element of the Board's decision was that it did not require Union to functionally separate its regulated and unregulated storage operations. At page 73 of its Decision in EB-2005-0551, it was stated that:

> "The Board finds that functional separation is not necessary. The evidence before the Board is that it would be costly and difficult to establish a functional separation of utility and non-utility storage, and there was no evidence to suggest that there would be significant benefits from such a separation. To the extent there may be concerns regarding the integrated operations, these will be addressed through the reporting requirements set out in section 5.4. We also conclude that Union's current cost allocation study is adequate for the purposes of separating the regulated and unregulated costs and revenues for ratemaking purposes. The Board agrees with the Board Hearing Team that it is important to ensure that there is no cross-subsidization between regulated and unregulated storage. However, the Board is content that with its findings on the treatment of the premium on short-term storage services (Chapter 7) Union will have little incentive to use the cost allocation for purposes of cross-subsidy."

[1] EB-2005-0551 Decision With Reasons issued on November 7, 2006
[2] EB-2005-0551 Decision With Reasons, Page 3.

Union's then current cost allocation study was its Board-approved 2007 cost allocation study. This cost allocation study was utilized by Union to separate the costs of its regulated and unregulated storage operations since the issuance of the NGEIR Decision in late 2006.

In view of the complexities of the process, its level of detail, and its impact upon rate levels, the allocation of costs between Union's regulated and unregulated storage operations has been an issue in its regulatory proceedings before the Board. Most recently in EB-2010-0039, Union applied for the approval of its regulated and unregulated cost allocation methodology for its storage lines of business to address the concerns raised by intervenors and Board Staff in certain of its prior regulatory proceedings. In that proceeding, Union filed a Settlement Agreement which the Board approved. One of the provisions of the Settlement was to address the allocation of costs between Union's regulated and unregulated storage operations. Specifically, Part 20 of the Agreement stated that:

> "The parties agree that, upon approval of this Agreement by the Board, Union will commission an independent study ("the Study") of its cost allocation methodology for allocation of costs between its regulated and unregulated storage operations. The Study will also examine the attribution of revenues to deferral accounts 179-70 and 179-72 and provide a volumetric reconciliation between physical space and space sold "short term" and "long term". Union will solicit a person, group or organization to conduct the study ("Study Staff") by way of a request for proposals ("RFP"). Union will provide an opportunity to the other parties to comment on a draft version of the RFP and to suggest changes. Final drafting of the RFP and selection of Study Staff will be at the sole discretion of Union.
>
> Union will take steps to ensure that, at or near the outset of the Study, the other parties will be provided an opportunity to present Study Staff with their concerns, questions, and/or opinions on the subject matters of the Study.
>
> The Study will be filed by Union in connection with its application to dispose of 2010 deferral account balances with sufficient time to permit full discovery and review of the Study as part of the application.
>
> Any changes that Study Staff may recommend to Union's cost allocation methodology will not be implemented until after receiving approval from the Board. Any findings or recommendations made by Study Staff will be adopted, if at all, on a prospective basis, and will have no impact on balances disposed of prior to 2010.
>
> This Agreement is without prejudice to any party's right to disagree with, or challenge any of the findings of Study Staff."[3]

Based on its review of the proposals submitted in response to its RFP, Union retained Black & Veatch Corporation ("Black & Veatch") to conduct the required study.

[3] EB-2010-0039, Decision and Order – Appendix A - Settlement Agreement, Page 9.

The purpose of this report is to present the results of Black & Veatch's review and evaluation of Union's cost allocation process and accounting for its regulated and unregulated storage operations.

1.1 Scope of the Review

Black & Veatch understands that Union required a review of the cost allocation and accounting for its unregulated and regulated underground storage operations. In addition, Union requested that Black & Veatch review the revenue and cost allocations between, and the underlying assumptions used in the calculation of, two deferral accounts used to track short and long-term storage contracts, and to reconcile the storage sold to the physical storage owned by Union.

Based on these requirements, Black & Veatch structured its review to include the following work tasks:

1. Review and evaluate Union's current cost allocation and accounting processes for its unregulated and regulated underground storage operations and make recommendations on any changes to the underlying assumptions and/or methodologies.
2. Review and evaluate Union's revenue and cost allocations between its two deferral accounts used to track short and long-term storage contracts and make recommendations on any changes to the underlying assumptions and/or calculations, and reconcile the storage sold by Union to the physical storage space owned by Union.
3. Prepare a written report which sets forth in detail the findings and recommendations of the review with respect to all material issues and methodologies, and which is structured in an appropriate format for submission to the Board and Union's external stakeholders.

1.2 Guiding Considerations and Areas of Concentration

In conducting our review of Union's cost allocation and accounting processes for its unregulated and regulated storage operations, we were guided by the following considerations:

1. The fundamental and underlying philosophy applicable to every utility cost of service study pertains to the concept of cost causation for purposes of allocating costs to customer groups or service types.
2. Cost causation (or cost causality) addresses the question – *Which customer or groups of customers cause the utility to incur particular types of costs?* To answer this question, it is necessary to establish a linkage between a utility's customers and the particular costs incurred by the utility in serving those customers.
3. *A Key Consideration* – the ability to establish operating relationships between customer service requirements and the costs incurred by the utility in meeting those requirements (e.g., satisfying a customer's peak demand requirements through the incurrence of capacity-related costs to provide the required level of gas delivery service).
4. The three broad steps most often followed to perform utility cost of service studies: (1) cost functionalization; (2) cost classification; and (3) cost allocation will be utilized for this review as a framework for evaluating the various steps involved in Union's current cost allocation process.

5. A utility's cost allocations should stand on their own objective merits (i.e., costs should be assigned to the classes or categories of service based on the design and operational considerations of the utility's system rather than on achieving results that support a desired outcome for the allocation of revenues to classes and/or rate design).
6. Consistency of structure, methodology, and computational details between Union's cost allocation process used for separating its storage-related assets and expenses and the cost allocation study it utilizes to evaluate the costs of serving its in-franchise customers and service offerings.

We saw our primary roles and responsibilities in this project as follows:

- To solicit from Union's external stakeholders during the project kickoff meeting any concerns or comments on the subject matter of this review;
- To understand the system planning, operation, and utilization of Union's underground storage facilities to confirm that cost causation is properly reflected in its cost allocation and accounting processes;
- To understand the differences between the accounting for Union's unregulated and regulated storage operations;
- To understand the revenue and cost transactions that comprise Union's unregulated and regulated storage operations, including the allocation of costs of its current integrated storage system and its incremental storage facilities;
- To reconcile the storage space sold by Union to in-franchise and ex-franchise customers compared to the total physical space owned by Union; and
- To provide sufficient commentary on our recommendations and supporting information pertaining to alternative cost allocation and accounting processes and the related treatment of costs so that Union can adequately evaluate our findings and decide whether or not to propose changes in its subsequent rate and regulatory filings with the OEB.

These above-described elements defined the focus areas in which Black & Veatch concentrated its review and evaluation in this project. In our review of Union's cost allocation process and accounting for its storage lines of business, Black & Veatch conducted its work in a manner so that it could determine:

- If Union's cost allocation methodology for the allocation of costs between its regulated and unregulated storage operations had a conceptual basis that was grounded in sound and acceptable utility costing principles and the operational realities of its gas utility system.

- If there were certain regulatory precedents established by the Board that Union recognized and incorporated into its cost allocation and accounting methods.

- If Union's cost allocation and accounting methods provided analytical and computational transparency (i.e., did it create a sufficient and verifiable audit trail - identification of input data sources, traceable information flows, identification of each computational step).

1.3 Overall Assessment

Based on the results of our review, Black & Veatch's overall assessment consists of the following observations:

> *The conceptual underpinnings and resulting methodologies upon which Union's cost allocation process is based are well-conceived, thorough, and reasonable in their treatment of storage-related plant and expenses. However, the presentation of Union's separation of costs between its regulated and unregulated storage operations fails to demonstrate these attributes by not providing a sufficient level of detail and explanation to allow an outside party to understand, trace, and verify the cost allocation methodology's underlying assumptions, computational processes, and independently confirm the results.*
>
> *The computational basis for determining the net deferral balances for Account Nos. 179-70 and 179-72 appears sound and accurately follows regulatory precedents. However, the transparency of the documentation submitted to the Board by Union is lacking for third parties not entirely familiar with the historical genesis of the currently approved practices reflected in Union's submissions. Thus, Union's deferral account filings do not allow third parties to readily understand and trace the deferral account development and verify underlying assumptions, computational processes, and independently confirm the results.*

1.4 Recommendations

Black & Veatch's recommendations resulting from this evaluation are summarized below. The specific findings and recommendations are presented and discussed in the subsequent sections of this report.

Black & Veatch recommends the following near-term enhancements to Union's computational process and evidentiary presentation:

1. Establish more robust documentation that readily allows the reader to clearly trace how Union's regulated and unregulated storage costs and storage deferral accounts are developed, which should include providing clear references for the historical cost allocation methods or other historical precedents used in the calculation of the costs of Union's unregulated storage operations and its final storage deferral account balances. Black & Veatch believes that certain of the Schedules presented in this report should be incorporated into Union's future evidentiary presentations before the Board when addressing the topics contained in this report.

2. In support of Recommendation No.1, whenever possible, the work papers submitted by Union should include more detailed data references that guide the reader through the development of all supporting calculations on a step-by-step basis. Also, where data is hard coded into spreadsheets, references should be included that indicate the source of the information and describe how the data in the work sheet was calculated.

3. Black & Veatch recommends that Union consider deriving a revised allocation factor for the allocation of Union's vehicles and heavy equipment used in its Dawn Storage and Transmission Operation to its unregulated storage operations. This change would also require Union to reassign a small portion of its unregulated general plant assets to its regulated storage operations.

4. A small under-allocation of storage-related assets to Union's unregulated business for one asset addition and a small over-allocation of storage-related assets to Union unregulated business for another asset addition were identified during Black & Veatch's review process. These two misallocations create the need for storage asset adjustments to Union's unregulated storage asset balances equal to $16,259 and ($77,645), respectively. Union has indicated that it will make these two required adjustments in 2011. Black & Veatch recommends that these changes be made at a convenient point in time during 2011.

2.0 BACKGROUND PERSPECTIVES

As a backdrop and to provide sufficient context to our subsequent detailed review of Union's costing and accounting methods for its storage lines of business, Black & Veatch initiated its work effort with a review of the operational characteristics and service offerings of Union's storage facilities. Specifically, our review addressed the following activities:

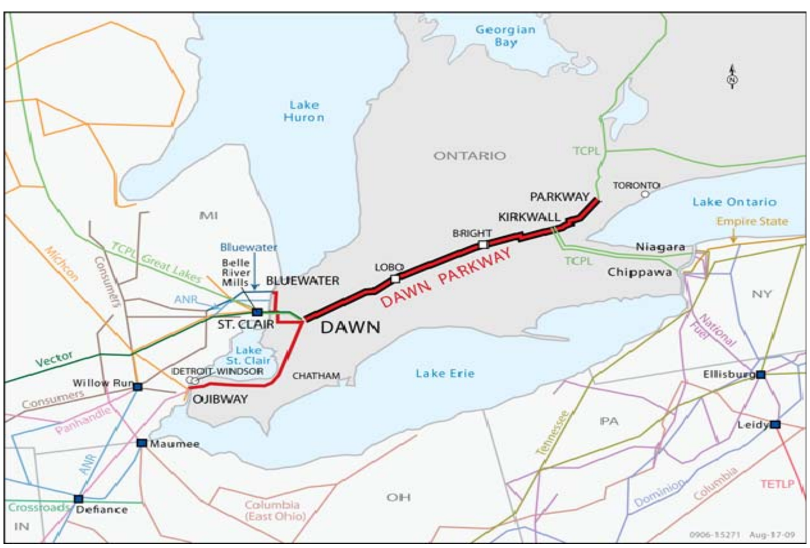
- The physical attributes and operations of the Dawn Hub storage facilities
- The nature and level of storage services available to Union's ex-franchise customers.

In addition, we reviewed the relevant regulatory, ratemaking, and accounting aspects of Union's regulated and unregulated storage operations to better understand the evolution of the issues, regulatory decisions, and implementation processes required to allocate costs to these activities and to account for them in Union's financial statements and ratemaking filings before the Board.

2.1 Operational

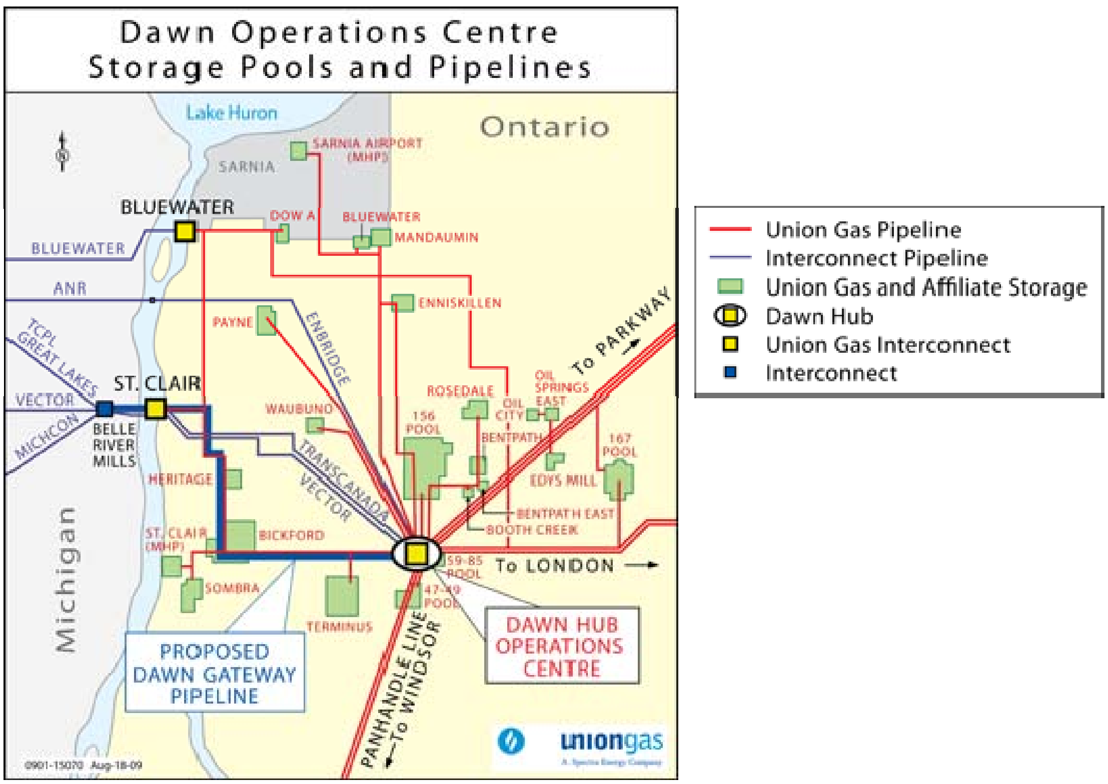
Union's underground storage facilities are an integral part of what is commonly known as the Dawn Hub - an important market center in North America for the trading, transfer, and storage of natural gas. Union's storage operations include 23 depleted gas fields with a working gas capacity of approximately 166 Bcf and a peak deliverability of approximately 2.3 Bcf per day. Union's Dawn-Trafalgar transmission system consists of parallel, large diameter pipelines and compressors which transport natural gas across its franchise area and serves as a primary west to east gas transport link. The Dawn-Trafalgar system currently has a capacity of approximately 6.4 PJ per day. Union's storage and transportation system is depicted in Figure 1.

Figure 1
Union's Gas Storage and Transportation System



Union's storage pools connect with the Vector, Great Lakes, CMS Panhandle, Michigan Consolidated Gas, and Bluewater transmission pipelines from Michigan to the west, and (via Union's Dawn-Parkway pipeline) the TransCanada pipeline and Enbridge's gas distribution system to the east. Figure 2 shows these pipeline interconnections with the Dawn storage operations.

Figure 2
Dawn Storage Pools and Interconnected Pipelines



Regarding Union's storage operations, its various storage pools are operated as an integrated system with each pool affecting the operation of the other pools throughput the injection and withdrawal seasons.

2.2 Storage Service Characteristics

Union's ex-franchise market consists of Canadian and U.S. local distribution companies ("LDCs"), transmission service providers (e.g. TransCanada Pipelines) and marketers. Storage services for these customers have been priced at market rates endorsed by the Board since 1989 in E.B.R.O. 456. Ex-franchise storage services are fully unbundled from transportation and other services, and ex-franchise customers can select among unbundled services for their requirements. Further, there is no requirement that ex-franchise customer's contract for transmission service or any other service provided by Union when they contract with Union for storage service.

Union offers to its ex-franchise customers various types of storage-related services at market-based rates. Union's long-term storage services are offered to ex-franchise customers through the storage capacity in excess of the amount made available to its in-franchise customers at cost-based rates. Union's short-term storage services are offered to ex-franchise customers through the unused regulated utility storage assets that are considered surplus to its current in-franchise needs.

Long-Term Storage Services (Account No. 179-72)

1. Long Term Peak Storage – offered for a period of two years or more.

2. T1 Deliverability (incremental to cost based T1 Deliverability) – allows Shippers to contract for injections and withdrawals greater than the maximum level of deliverability available at cost based rates.

3. Upstream Balancing – allows Shippers to balance rateable (evenly) flows arriving at Dawn (includes purchased gas supplies, withdrawals from storage, or gas arriving from upstream pipelines) with non-rateable downstream consumption requirements.

4. Downstream Balancing - a balancing service designed for Shippers who have very short notice delivery requirements (15 minutes notice) at Parkway/Kirkwall.

5. Dehydration Service – provided to third party storage providers directly connected to Union's system who request the service.

6. Storage Compression – an elective compression service for third party storage operators.

7. High deliverability Storage - allows Shippers to hold a minimum amount of inventory but withdraw or inject gas in high daily quantities on a firm basis.

Short-Term Storage Services (Account No. 179-70)

1. C1 Off-Peak Storage/Balancing/Loan Services – offers customers the flexibility to balance their supplies to meet short-term market demands or to capitalize on existing or unexpected market conditions using off peak storage, loans or balancing.

2. Enbridge Load Balancing Agreement.

3. C1 Short Term Firm Peak Storage – usually offered for a period of one year or less.

4. C1 Firm Short Term Deliverability.

The actual storage service levels and revenues for Union's ex-franchise customers in 2008 and 2009 are presented in Table 1 below.

Table 1
Union's Actual Storage Service Levels in 2008 and 2009

	2008		**2009**	
Service Type	**Service Level (10^3m^3)**	**Amount ($000)**	**Service Level (10^3m^3)**	**Amount ($000)**
Long-Term Peak Storage	4,950,347	$81,540	4,378,235	$85,230
T1 Deliverability and Up. Bal.			84	$797
Downstream Balancing			48	$634
Dehydration Service				$1,199
Storage Compression				$347
High Deliverability Storage	208,613	$5,553	1,051,450	$18,166
Total Long-Term Storage	**5,158,960**	**$87,093**	**5,429,817**	**$106,372**
C1 Off-Peak Storage	1,351,590	$2,040	1,145,504	$4,344
Supplemental Balancing Services	1,511,426	$3,122	695,632	$2,903
Gas Loans	647,556	$2,177	1,335,987	$3,922
Enbridge Load Bal. Agreement		$211		
C1 ST Firm Peak Storage	1,239,871	$15,777	744,717	$17,746
C1 Firm ST Deliverability				
Total Short-Term Storage	**4,750,443**	**$23,327**	**3,921,839**	**$28,914**

2.3 Regulatory and Ratemaking

Since the issuance of the NGEIR Decision by the Board in late 2006, Union has addressed the cost allocation and accounting issues associated with the separation of its storage lines of business in a number of regulatory proceedings. Schedule 1 presents a regulatory chronology of these proceedings which served as another point of reference for Black & Veatch's review. This Schedule also identifies the key issues addressed in the Board's Decisions and Orders which have become the basis for the regulatory precedents that apply to the topics addressed in this report.

2.4 Accounting

To implement a separation model for Union's regulated and unregulated storage operations, as required by the NGEIR Decision, there were three options available to Union: (1) a functional separation; (2) an accounting separation; or (3) an asset divestiture. As pointed our earlier, the Board found that functional separation of Union's storage assets was not necessary, nor was an asset divestiture a desired alternative in light of Union's integrated storage operations. Therefore, implementation of an accounting separation process was the only viable alternative to consider. The adoption of that approach, however, created the need for a comprehensive set of cost allocation methods to be applied to Union's storage assets, direct expenses, and other indirect costs. Union proposed that its then most recent cost allocation study (filed in EB-2005-0520) could be utilized to allocate costs between its regulated and unregulated storage operations. The Board agreed with that proposal and approved its implementation. In light of the detailed and complex nature of Union's cost allocation study and supporting methodology, it was to be expected that an added level of scrutiny by interested parties would be created by the accounting separation of its storage-related costs and operation of its two storage deferral accounts.

In addition, while the NGEIR Decision required Union to make certain accounting changes for its regulated and unregulated storage operations compared to its methods of the past, it is recognized that Union has been accounting for its short-term and long-term storage revenues and costs (i.e., margins) and sharing such margins between in-franchise customers and the utility for a number of years. At the time of the NGEIR Decision, Union's method was to forecast the amount of short-term and long-term storage margins for the particular rate year as part of its rates case. Of the Board approved forecast amount, 90% was included as a credit against distribution rates for the year. To the extent that actual margins varied from the forecast built into rates, Union booked the difference in deferral accounts (Account No.179-70 for short-term transactions and Account No. 179-72 for long-term transactions). When cleared, these deferral account balances were shared 75% to Union's distribution ratepayers and 25% to Union's shareholders.

3.0 COST ALLOCATION FOR UNION'S STORAGE OPERATIONS

The purpose of this section is to detail the findings and recommendations of Black & Veatch's review and evaluation of Union's cost allocation methods for its regulated and unregulated storage operations. With a basic operational foundation established, a review of Union's cost allocation process structure and framework was conducted. The following areas were reviewed in detail:

- Phases or steps included in the cost allocation process.
- Organizational layout of and interrelationship between filed information and schedules which present Union's cost allocation results.
- Flow of data and sequencing of steps within the cost allocation process.
- Degree to which the cost allocation process is presented on a "self-contained" basis (i.e., analyses and supporting data are an integral part of Union's evidentiary presentation).
- Basis for the total storage cost of service reflected in the cost allocation results.
- The interrelationship and methodological consistency between Union's cost allocation process for its storage operations and its Board-approved 2007 cost allocation study to derive the cost of service for its in-franchise (rate regulated) customers.

3.1 Purpose

As discussed earlier, Union's cost allocation process for its storage operations is used for the following purposes:

1. To separate the costs of Union's unregulated storage operations from its regulated utility operations to properly account for the unregulated operations and to identify regulated storage costs for the purpose of setting Union's regulated utility rates.
2. To identify and compile the revenues and costs of Union's unregulated storage operations to determine standalone utility financial results for earnings sharing purposes.
3. The costs of Union's unregulated storage operations are required in the computation of storage margins subject to deferral in its two storage deferral accounts – Account No. 179-70 Short-Term Storage and Other Balancing Services and Account No. 179-72 Long-Term Peak Storage Services.

The results of Union's cost allocation process for its storage operations are presented each year in its annual deferral account proceeding (e.g., EB-2010-0039) and it is expected that the results will also be submitted in its 2013 rates application, where Union will re-compute the underlying costs of its in-franchise customers to rebase its regulated delivery rates under incentive regulation.

3.2 Structure

In many respects, the structure of Union's cost allocation process for its storage operations is very similar to the structure and framework of the cost allocation study it utilizes to derive the costs of serving its in-franchise customers. Before the NGEIR Decision which created Union's unregulated storage operations, its cost allocation study contained a class of service entitled, Bundled Storage Space and Interruptible Deliverability - Rate C1. This class contained Union's ex-franchise customers who received various types of storage services provided by Union. Before the NGEIR Decision, these services were offered by Union on a regulated basis under Rate C1 priced at market-based rates. Currently, these services are offered by Union on an unregulated basis under its Market Price Service Schedule - MPSS.

Page 1 of Schedule 2 depicts Union's treatment of storage-related costs in its most recently completed cost allocation study and the three-phase process it followed to derive those costs by class of service. After Union's total storage cost of service is established through the functionalization process, it then classifies those costs into the following cost categories: (1) Demand; (2) Commodity; (3) Space; and (4) System Integrity. Finally, Union allocates the functionalized and classified costs of storage to its classes of service using various direct assignment and cost allocation methods. For purposes of deriving the storage costs for its regulated and unregulated storage operations, Union utilized its 2007 Board-approved cost allocation study filed in EB-2005-0520. This cost study was the most recently completed Board approved cost allocation study at the time of the NGEIR Decision. In addition, this cost study was the last cost allocation study conducted by Union that addressed storage costs for both its in-franchise and ex-franchise storage services. As will be discussed in more detail below, the primary purpose of Union's cost allocation study was to separate its storage assets existing at the time of the NGEIR Decision - with this step representing a one-time transfer of assets to Union's unregulated storage operations.

Pages 2-4 of Schedule 2 provide a comparative mapping of Union's Board-approved cost allocation study and supporting methodology approved in EB-2005-0520, and the methodology utilized by Union to allocate costs to its unregulated storage operations. This comparison clearly shows that the vast majority of allocation methods used by Union, and approved by the Board, in its most recently completed cost allocation study have been carried forward and applied to the cost allocation process Union now uses to separate its storage cost of service between the regulated and unregulated storage operations.

Schedule 3 presents a high-level view of the overall functional process Union follows to separate its regulated and unregulated storage costs. Union's overall cost allocation process addresses nine (9) separate cost elements related to its underground storage operations, including:

1. Existing storage assets at December 31, 2006;
2. Existing general plant at December 31, 2006;
3. New storage assets;
4. New general plant;
5. Depreciation expense;

6. Cost of gas;
7. Operating & maintenance expenses
8. Property and capital tax; and
9. Cost of unutilized in-franchise storage capacity.

Each of these elements requires Union to identify and compile the required input cost data, to select the direct assignment and/or cost allocation methods that are to be applied to the relevant costs, and to derive the costs associated with Union's unregulated storage operations. As will be discussed in the next section, certain of these cost elements were allocated to Union's unregulated storage operations on a one-time basis while others are allocated to that business line on an annual basis using allocation factors that are updated each year.

3.3 Data Sources and the Timing of Union's Cost Allocation Process

Union's on-going allocation of costs to its unregulated storage operations is premised upon, for the most part, the same sources of data that it utilizes to derive its total cost of service for regulated operations that is reflected in its cost allocation study. The one exception is for Union's existing storage assets that were assigned at the time of the NGEIR Decision as a one-time transfer to Union's unregulated storage operations. Based upon recommendations from KPMG LLP, Union implemented various accounting and process changes to its existing financial and management reporting. This was done because accounting for unregulated storage operations is required to follow Canadian Generally Accepted Accounting Principles ("GAAP"). For Property, Plant, and Equipment ("PP&E") assigned to its unregulated storage operation, Union established two new asset categories: Underground Storage and General Plant in its SAP business accounting and management software system. The associated plant accounts currently reflect the one-time transfer of Union's storage-related assets that existed at December 31, 2006 and the ongoing asset additions and retirements that have occurred since that time.

The timing of Union's cost allocation process is presented in Schedule 4. There are three categories reflected in this Schedule, with costs allocated on: (1) a one-time basis; (2) an annual basis; and (3) a periodic basis. Schedule 4 presents the particular cost elements that comprise Union's unregulated storage cost of service grouped according to these three categories. Details of the timing associated with Union's cost allocation process are discussed in subsequent sections of this report.

3.4 Assignment of Storage Space to Union's Unregulated Storage Operations

In the Board's NGEIR Decision, it was determined that Union should reserve 100 PJ of storage space (i.e., storage capacity) at cost-based rates to accommodate in-franchise growth.[4] At that time, Union's total storage capacity was equal to approximately 162.1 PJ, which meant that approximately 62.1 PJ of storage space was assigned to Union's unregulated storage operations. These storage space levels served as the primary basis for Union's allocation of the direct and indirect costs of storage space to its regulated and unregulated storage operations in its 2007 Board-approved cost allocation study.

[4] EB-2005-0551, Decision with Reasons, Page 83.

In addition, the Board stated that Union should continue to charge its in-franchise customers based only on the amount of storage space required in any year. In other words, if Union's in-franchise customers required less than 100 PJ in any one year, its cost-based rates for in-franchise customers should be based on that amount. Under this approach, Union's unregulated storage operations would be assigned an additional amount of storage space based on the difference between the 100 PJ and the lower level required by its in-franchise customers. This additional amount of storage space could then be sold by Union on an un-regulated basis as short-term storage services. At the time of the NGEIR Decision, Union's in-franchise customers required approximately 92.1 PJ of storage space. Therefore, the levels of Union's regulated rates were designed to reflect this lower level of storage space by assigning to its unregulated storage operations the additional costs of 7.9 PJ of storage space. Through this cost assignment, the current rates of Union's in-franchise customers actually reflect an amount of storage space equal to 92.1 PJ rather than the 100 PJ level stated in the Board's NGEIR Decision.

3.5 Storage-Related Assets

This section describes the treatment of Union's existing storage and general plant assets at December 31, 2006, new asset additions, and asset retirements within its cost allocation process for storage operations.

3.5.1 Existing Storage Assets at December 31, 2006

After issuance of the Board's NGEIR Decision, Union completed a comprehensive review of all its existing underground storage assets to determine which assets needed to be removed from its regulated utility rate base and allocated to its unregulated storage operations. The first step was for Union to functionalize it existing storage assets as of December 31, 2006. Union determined that its storage assets could be functionalized into the following three categories:

- Storage assets that are directly attributable to providing storage services only;
- Storage assets that are directly attributable to providing transmission services only; and
- Storage assets that are utilized to provide both storage and transmission services.

These categories are the same ones that Union uses in its costs allocation study to functionalize its storage-related assets for purposes of setting regulated rates for its in-franchise customers. As can be seen on pages 2-4 of Schedule 2, there are certain assets booked to Union's storage plant accounts that it re-functionalized from storage to transmission based on their specific functional composition and operational characteristics. To complete the functionalization step, Union either directly assigned or derived an allocation factor for each of its storage assets to quantify the level of storage assets required to provide the storage services offered by Union.

The second step in the process was to either directly assign or derive an allocation factor for each storage asset (or portion of a storage asset) functionalized as storage to determine the level of storage assets required to support Union's unregulated storage operations. To facilitate the completion of this step, Union further grouped its storage assets into four specific categories: (1) Storage Dehydration; (2) Storage - All Other; (3) Storage Compression; and (4) Storage Measuring &

Regulating ("M&R"). Page 1 of Schedule 5 presents the results of completing these two steps, and Page 2 of Schedule 5 presents the assignment of Union's unregulated storage assets by OEB Account as of December 31, 2007 (the point in time when Union's asset transfer was completed). Schedule 6 presents details of how the various storage allocation factors were derived by Union to first functionalize storage-related assets and then assign the appropriate amounts to Union's unregulated storage operations.

Finally, it should be noted that the above-described process required the allocation of individual assets in order for Union to create and maintain on a going forward basis the proper plant accounting records at the individual asset level for its unregulated storage operations.

3.5.1.1 *Existing Storage Assets Providing Storage Services*

Examples of storage assets that Union uses solely to provide storage services include: storage lines, storage wells, outboard storage compression, and dehydration assets. Since these storage assets provide storage services only, the first step in the allocation process was to directly assign 100% of these assets to the storage function. The second step in the allocation process was to determine allocation factors to separate these assets between Union's regulated and unregulated storage operations.

To determine the allocation factor to apply to its storage lines, storage wells, and outboard storage compression assets, Union utilized the storage space and deliverability allocators from its Board-approved 2007 cost allocation study, adjusted to recognize the requirement to reserve 100 PJ for regulated utility operations based on the Board's NGEIR decision.

In the Board-approved 2007 cost study, Union's ex-franchise storage operations were allocated 45.3% of Union's storage space and 39.2% of Union's storage deliverability. Adjusting the Board-approved 2007 cost allocation study for the NGEIR Decision resulted in Union's unregulated storage operations being allocated 40.2% of Union's storage space and 35.1% of Union's storage deliverability. The average of these adjusted storage space and deliverability allocation factors resulted in a weighted allocation factor of 37.7% for Union's unregulated storage operations. This method reflects the fact that storage serves the dual purpose of providing capacity (space) and daily deliverability. The result of applying this allocation factor to storage lines, storage wells and outboard storage compression assets is that 37.7% of these storage assets are allocated to Union's unregulated storage operations. Page 1 of Schedule 6 presents the resulting allocation factor and the basis for its derivation.

To determine the unregulated allocation factor for dehydration assets, Union utilized a dehydration demand allocator from its Board-approved 2007 cost allocation study, adjusted for the NGEIR Decision. In the Board-approved 2007 cost allocation study, Union's ex-franchise storage operations were allocated 24.8% of Union's total dehydration demand. Adjusting the Board-approved 2007 cost allocation study for the NGEIR Decision resulted in an allocation factor for dehydration assets of 22.2%. The result of applying this allocation factor to dehydration assets is that 22.2% of these assets are allocated to Union's unregulated storage operations. Page 1 of Schedule 6 presents the resulting allocation factor and the basis for its derivation.

3.5.1.2 *Existing Storage Assets Providing Transmission Services*

Union's system of accounts identifies all Dawn facility assets as underground storage assets. Certain Dawn facility assets, however, are only used in providing regulated transmission services even though they are classified as underground storage assets in the plant accounting records. In Union's Board-approved 2007 cost allocation study, Union directly assigns these assets to the transmission function. The directly assigned assets included in the Board-approved 2007 cost allocation study are:

- *The Dawn-Trafalgar meter runs* - represents an investment in measuring and regulated equipment (26", 34', and 42" meter runs) installed at Dawn to measure Dawn-Trafalgar transportation volumes.
- *Tecumseh measurement facilities* - represents an investment in measuring and regulating equipment installed at Dawn to measure Dawn-Trafalgar transportation volumes.
- *TCPL measurement facilities* - represents an investment in structures and improvements, compressor station equipment, and measuring and regulating equipment installed to accept the delivery of transportation volumes at Dawn.
- *Oil Springs East measurement* - represents an investment in structures and improvements and measuring and regulating equipment to provide custody transfer metering for volumes flowing between the Oil Springs East Pool and the Dawn-Trafalgar transmission facilities.
- *The Great Lakes Header* - represents an investment in compressor equipment installed to accept the delivery of transportation volumes at Dawn.

In addition, as a result of Union's comprehensive review of its storage assets, the Plant E compressor at Dawn was also directly assigned to the transmission function since it is dedicated to providing only regulated transmission services. Therefore, no storage assets providing only transmission services are allocated to Union's unregulated storage operations.

3.5.1.3 *Existing Storage Assets Providing Storage and Transmission Services*

The remaining compression and measuring and regulating assets at Union's Dawn facility are used to provide both storage and transmission services. To determine the portion of these assets to allocate to Union's unregulated storage operations, it first derived allocation factors to functionalize these assets between its storage and transmission functions.

For Dawn compression assets, Union used the Board-approved horsepower allocation method as the basis for determining the allocation factor. The horsepower allocation is used to separate costs between Union's storage and transmission functions based on the amount of compression horsepower required to provide storage and transmission services on a design day. The compression horsepower required to bring the pressure up to 4,926 kPa (700 psig) on a design day is deemed to be storage-related. The compression horsepower required to bring the pressure from 4,926 to 6,270 kPa (700 to 895 psig) on a design day is deemed to be transmission-related. This operational alignment results from Union's receipt of gas from TCPL at Dawn at 700 psig and its operation of the Dawn-Trafalgar transmission system at 895 psig.

The Board-approved 2007 cost allocation study allocated 44.4% of Dawn compression related costs to Union's storage function and 56.6% of Dawn compression-related costs to its transmission function. The 2007 Board-approved horsepower allocation was then adjusted to recognize the compression that is directly allocated to storage or transmission services. This resulted in an adjusted Board-approved horsepower factor of 52.7% applied to Union's compression assets providing both storage and transmission services at Dawn to determine the storage allocation. To determine an unregulated factor for storage compression assets at the Dawn facility, Union used the average of the NGEIR-adjusted storage space and deliverability allocators of 37.7 % as described above. The result of applying the storage and unregulated factors to compression assets at the Dawn facility is that 19.9% of the assets are allocated to the unregulated storage operations. Page 2 of Schedule 6 presents the resulting allocation factors and the basis for their derivation.

To determine the allocation factor for measuring and regulating assets at the Dawn facility, Union used the allocation factor in the Board-approved 2007 cost allocation study based on the forecasted storage and transmission activity at Dawn. In that cost study, Union's measuring and regulating assets were functionalized as 26.3% storage-related and 73.7% as transmission-related. Union utilized that allocation factor to assign measuring and regulating assets to the storage function. The Board's NGEIR Decision did not impact this allocation factor for measuring and regulating equipment. To determine an allocation factor for the portion of the measuring and regulating assets at the Dawn facility attributable to its unregulated storage operations, Union utilized the average of the NGEIR Decision-adjusted storage space and storage deliverability allocator of 37.7% described above.

The result of applying these allocation factors to measuring and regulating assets at the Dawn facility is that 9.9% of the assets are allocated to the unregulated storage operations. Page 2 of Schedule 6 presents the resulting allocation factors and the basis for their derivation.

3.5.2 Existing General Plant at December 31, 2006

Union's general plant assets are not directly attributable to either the regulated or unregulated storage operations because of the support nature of a utility's general plant facilities. Therefore, it was necessary for Union to allocate these assets to its unregulated storage operations through allocation factors that recognize their support nature. In Union's Board-approved 2007 cost allocation study, general plant assets were assigned to the storage function in proportion to net plant and O&M and classified in the same manner. The resulting costs were then allocated to ex-franchise storage services based on the space, deliverability, commodity and system integrity allocators. Union generally followed this approach when allocating general plant assets to its unregulated storage operations by utilizing two separate allocation factors – one factor that is specific to vehicles and heavy equipment and one factor applicable to all other categories of general plant.

First, Union created a functional allocation factor based on the vehicles and heavy equipment used its storage and transmission operations. This allocation factor (11.9%)[5] was derived based on the value of vehicles and heavy equipment used in its storage and transmission operations as a percent of the total value of vehicles and heavy equipment for Union's entire operations. Union then determined the portion of these assets that supported its unregulated storage operations by applying the previously derived storage space and deliverability allocator of 37.7% to the 11.9%, which resulted in a composite allocation factor of 4.5%.

Union then created a second allocation factor based on Union's storage assets and O&M expenses. This allocation factor applied to all other categories of general plant. The asset portion of the allocation factor (3.32%)[6] was derived based on the value of unregulated storage plant (excluding construction work in progress, asset retirement obligations, and general plant) as a percent of the value of Union's total plant in service. The O&M expense portion of the allocation factor (2.52%)[7] was derived based on the portion of O&M expenses allocated to Union's unregulated storage operations as a percent of total O&M expenses. The resulting allocation factor based on an equal weighting of these two allocators is 2.92%.

Page 1 of Schedule 7 presents the results of completing this allocation process, and Page 2 of Schedule 7 presents the allocation of Union's general plant assets to its unregulated business by OEB Account as of December 31, 2007 (the point in time when Union's asset transfer was completed). Schedule 8 presents the resulting allocation factors and the basis for their derivation.

3.5.3 Application of Allocation Factors to Union's Existing Storage Assets

The cost allocators determined through the cost allocation approach described above for storage assets and general plant were applied to individual asset records to separate unregulated storage assets and calculate the Gross Book Value and Accumulated Depreciation at an individual asset level. In order to maintain separate accounting records for the unregulated storage assets, Union established separate plant records in its asset sub-ledger in 2008. The assets allocated to the unregulated storage operation are excluded from the calculation of Union's regulated utility rate base. Plant continuity schedules for 2008 and 2009 for the unregulated storage and associated general plant assets were provided by Union in its evidence filed in EB-2010-0039, and they are provided with this report in Schedule 9.

3.5.4 New Storage Assets

Any new storage assets constructed after the NGEIR Decision will be directly assigned to Union's unregulated storage operations. For any new storage projects that only replace Union's existing storage assets, the cost of those projects will be allocated to Union's unregulated storage operations

[5] Total value of vehicles and heavy equipment related to Union's Dawn Storage and Transmission Operations of $5,829,466 divided by the total value of Union's vehicles and heavy equipment of $48,839,315

[6] Union's total unregulated storage plant at December 31, 2007 (excluding CWIP, Asset Retirement Obligations, and General Plant) of $172,571,936 divided by Union's total plant at December 31, 2007 (excluding CWIP, Asset Retirement Obligations, and General Plant) of $5,198,765,878.

[7] Union's O&M storage support expenses for 2007/2008 (details of how the allocation factor was derived were not made available to Black & Veatch)

on the same basis as the original assets. Finally, for any new storage projects that replace and serve to improve operational efficiency and/or provide growth opportunities for Union's unregulated business, Union will directly assign to its unregulated storage operations that portion of costs associated with the increased efficiency and/or growth of that storage operation. Schedule 9 provides the additions and retirements to Union's unregulated storage assets for 2008 and 2009. Schedule 10 presents a listing of Union's new storage projects (including those that replaced existing storage assets) that commenced since the NGEIR Decision and were placed into service between 2007 and 2009.

In the course of our review in this area, Black & Veatch had some difficulties in recreating the process followed by Union, and its resulting plant balances, to confirm that Union properly applied to its new storage assets (primarily replacement assets) the allocation factors it had established when it allocated the original storage assets to its unregulated storage operations. Part of the difficulty was caused by the recognition that there are intermediary steps that Union follows to adjust its actual project expenditures for each new storage project to an asset addition basis to capitalize each new asset for plant accounting purposes. These steps involve the categorization of assets into their proper in-service year(s), the recognition of salvage spend (i.e., funds expended to remove existing facilities) and its accounting treatment as either accumulated depreciation or expense, the recognition of general assets (e.g., tools, computer and work equipment) and their accounting treatment as general plant, not storage plant, the addition of capitalized overheads, and the inclusion of project pre-spends prior to 2007.

To verify that these steps were properly executed and accounted for by Union, Black & Veatch reviewed the basis used by Union to determine the level of capital additions assigned to its unregulated storage assets in 2008 and 2009, as presented in Schedule 9. This Schedule shows that Union made capital additions to its unregulated storage operations in 2008 and 2009 equal to $47.419 million and $82.462 million, respectively. Schedule 11 details the manner in which these amounts were derived by Union. Page 1 of Schedule 11 summarizes the actual storage additions made by Union, various adjustments to those projects, capitalized overheads, and project pre-spends during the 2007-2009 time period.

Page 2 of Schedule 11 presents the actual storage additions associated with Union's storage maintenance and Dawn Dehydration replacement projects during the 2007-2009 timeframe and the basis upon which each group of assets was assigned to Union's unregulated storage operations. The information contained in the Unregulated Allocation Factor column confirms that for any new storage project that only replaced Union's existing storage assets, the cost of that project was allocated to Union's unregulated storage operations on the same basis as the original assets (see the allocation factors presented on pages 1 and 2 of Schedule 6 that were utilized to complete the one-time separation of Union's direct storage assets between its regulated and unregulated storage operations).

Page 3 of Schedule 11 presents the various adjustments and capitalized overheads for Union's unregulated storage additions presented on page 2. It should be noted that during this review process, a small under-allocation of storage-related assets to Union's unregulated storage operations for one asset addition and a small over-allocation of storage-related assets to Union unregulated storage operations for one asset addition were discovered. These two misallocations create the need for storage asset adjustments equal to $16,259 and ($77,645), respectively[8]. Union has indicated that it will make these two required adjustments in 2011.

Page 4 of Schedule 11 presents the actual storage additions associated with Union's storage expansion projects during the 2005-2009 timeframe. These storage additions were directly assigned (100%) to Union's unregulated storage operations. The Pre-2007 Project Spend amounts on page 1 of Schedule 11 are derived on Page 4 based on the Expansion Actual amounts for 2005 and 2006. Page 5 presents the various adjustments and capitalized overheads for Union's unregulated storage additions presented on Page 4.

3.5.5 New General Plant

Union allocates new general plant (and retirements) to its unregulated storage operations using the derived allocation factors for its existing general plant applicable to vehicles and heavy equipment (4.5%) and to all other categories of general plant (2.92%). Schedule 9 provides the additions and retirements to Union's unregulated general plant for 2008 and 2009.

3.6 Storage-Related Expenses

Union derives storage-related expenses for its unregulated storage operations on an annual basis to reflect the latest activity supporting that business line. The starting point is Union's total cost of service by cost element, with a set of detailed allocation factors applied to each expense element to determine the portion attributable to Union's unregulated storage operations. Each of Union's cost elements that support (either directly or indirectly) its unregulated storage operations, and the associated allocation methods, is described below.

3.6.1 Cost of Gas

The total cost of gas allocated to Union's unregulated storage operations consists of Unaccounted for Gas ("UFG"), storage compressor fuel, net of the amount of gas in kind supplied by customers providing their own fuel, and the cost of storage space purchased from others. The method for allocating these gas costs to Union's unregulated storage operations is consistent with the allocation method used in the Board-approved 2007 cost allocation study.

To calculate the UFG associated with Union's unregulated storage operations, Union first determined the ratio of actual unregulated storage volumes (302,561,555 10^3 m^3) to Union's total actual storage and transportation volumes (2,245,003,295 10^3 m^3). This ratio (13.48%) was then applied to Union's total actual UFG incurred in 2009 of $54.085 million to derive the unregulated storage-related UFG of $7.289 million.

Total storage compressor fuel assigned to Union's unregulated storage activity is also based on a volumetric allocation determined by using the ratio of actual unregulated storage activity to the

[8] See page 3 of Schedule 11

actual total storage activity. This allocation is applied to total storage compressor fuel incurred. In 2009, the result is $5.023 million of compressor fuel allocated to the unregulated storage activity. Total UFG and compressor fuel allocated to Union's unregulated storage activity was $12.312 million. Of this amount, $6.173 million was supplied in kind by customers who have contracted for unregulated storage services, resulting in a net cost of $6.139 million.

Finally, Union's Board-approved 2007 cost allocation study includes an allocation of $0.179 million of costs associated with the purchase of the third party storage space (Enbridge - Black Creek) to its unregulated storage operations. In total, the cost of gas allocated to Union's unregulated storage operations in 2009 was $6.318 million.

Schedule 12 describes these allocation factors and the basis for their derivation.

3.6.2 Operating & Maintenance Expenses

The Operating and Maintenance ("O&M") Expenses assigned to Union's unregulated storage operations are allocated based on the underlying activities within each expense category. This process began after the NGEIR Decision was issued with Union undertaking a comprehensive review of its existing internal work orders and classifying them according to their operational function. Each internal order was classified into one of the O&M categories presented in Table 2 below.

Table 2
Union's O&M Expense Classification Categories

O&M Classification	Description
Storage General	Activity primarily related to storage operations
Storage Shared	Activity supporting transmission and storage operations
Storage Unregulated	Activity primarily related to unregulated storage operations
Storage Regulated	Activity primarily related to regulated storage operations
Storage Support	Activity supports storage operations and all other operations

Since the majority of Union's O&M expenses are associated with the operating and maintenance of Union's existing assets, the expenses categorized as Storage-General and Storage-Shared were further classified into the following plant-related categories: supervision, wells, lines, compressors, measuring and regulating, dehydration, rents, and other.

Costs related to operating and maintaining Union's storage-related assets are allocated in the same manner in which the underlying asset is allocated. Storage support costs such as general operating and engineering O&M are allocated based on the activities conducted by Union's departments related to storage operations. Administrative & general expenses are allocated in proportion to Union's storage O&M expenses. Finally, benefits are allocated in proportion to storage-related labor. These allocation methods are consistent with Union's treatment of these costs in its Board-approved 2007 cost allocation study.

Schedule 13 presents the resulting allocation factors for the Storage-General, Storage-Shared, and Storage-Support classification categories for the years 2007 and 2011. The resulting allocation factors (percentages) are reviewed and updated annually by Union for areas directly involved in storage operations as well as for those supporting storage activities that reflect the operation and maintenance of storage assets, the supporting corporate services, and the development of new storage capacity.

The 2007 allocation factors were used by Union to assign O&M expenses during the first year in which its unregulated storage operations was in existence. As a point of contrast, Schedule 12 also presents the allocation factors to be used by Union in 2011 to show that all of the allocation factors have increased since 2007 in recognition of the major additions made to Union's unregulated storage assets since the original asset transfer which occurred in 2007.

3.6.2.1 *Storage Operations*

The cost of storage operations are separated between Union's unregulated and utility storage operations based on the underlying asset that the expenditure supports. This is determined by Union reviewing how the costs relate to the storage assets with its engineers residing in the Storage Transmission Operations ("STO") department and with budget contacts in each group that support the maintenance of Union's existing storage assets. For example, the operating costs related to individual storage pools is separated between Union's unregulated and regulated storage in the same manner in which the storage pool assets are allocated.

3.6.2.2 *Business Development*

O&M expenses related to the development of new storage assets are assigned to Union's unregulated storage operations based on an estimate of time spent annually on the development of its unregulated storage projects. These allocations are reviewed by Union with its key contacts in the Business Development group, and updated annually as part of the forecast process. Adjustments are made during the year if the actual activity levels vary significantly from the expected levels.

3.6.2.3 *Regulatory*

O&M expenses related to the regulatory activities associated with the development of new storage projects are assigned to Union's unregulated storage operations based on an estimate of the time spent annually on the development of its unregulated storage projects. These allocations are reviewed by Union with its key contacts in the Regulatory group, and updated annually as part of the forecast process.

3.6.2.4 *Other O&M Expenses*

O&M expenses related to Union's human resources, information technology, and administrative & general areas are assigned to its unregulated storage operations based on Union's previously assigned storage-related O&M expenses, with benefits expenses assigned based on Union's previously assigned storage-related labor expenses.

Schedule 14 describes these allocation factors and the basis for their derivation.

3.6.3 Depreciation Expense

Annual depreciation rates for Union's underground storage assets were approved by the Board in EB-2003-0063. In order to comply with Canadian GAAP, the negative salvage component of the Board-approved rate was removed when calculating annual depreciation rates for the unregulated storage assets. Table 3 below presents the determination of the annual depreciation rates for Union's unregulated underground storage operations.

Depreciation expense is calculated at the individual asset level using the annual rate that is applicable to the entire asset class. Union's depreciation expense is posted to a separate general ledger account within SAP. The 2009 depreciation expense for Union's unregulated storage assets was $7.312 million.

Depreciation expense for Union's general plant is allocated to its unregulated storage operations using the same allocators used to allocate general plant. This general plant depreciation allocation is added to the underground storage depreciation expense to determine the total unregulated storage depreciation expense.

Table 3
Union's Annual Depreciation Rates for Unregulated Storage Assets

Storage Asset Class	Approved Annual Depreciation Rate	Salvage Value Rate	Unregulated Annual Depreciation Rate
Land	0.00%		0.00%
Land Rights	2.23%		2.23%
Structures and Improvements	2.34%	5.00%	2.22%
Storage Wells	2.66%	20.00%	2.13%
Field Lines	2.66%	20.00%	2.13%
Compressor Equipment	3.19%	10.00%	2.87%
Measuring and Regulating Equipment	4.30%	10.00%	3.87%

3.6.4 Property and Capital Tax

Union's actual property tax related to the assets at Dawn is allocated to its unregulated storage operations in proportion to the level of its unregulated gross storage plant to its total gross storage plant (excluding general plant). The 2009 property and capital tax charges for Union's unregulated storage assets was $1.754 million.

Schedule 15 describes these resulting allocation factors and the basis for their derivation.

3.6.5 Cost of Unutilized In-Franchise Storage Capacity

Union accounts for the costs associated with the portion of its storage capacity not utilized by its in-franchise customers by assigning these costs to its unregulated storage operations. This method ensures that the regulated rates for Union's in-franchise customers will continue to recover no more than the costs of the in-franchise storage space requirements of 92.1 PJ. Since in-franchise customers currently require less than 100 PJ of storage capacity, Union sells the difference between the space needed and the reserve amount, equal to 7.9 PJ, on a short-term basis.

The revenue requirement (excluding UFG and compressor fuel) for the unutilized 7.9 PJ of storage space was derived by comparing Union's Board-approved 2007 cost allocation study to the same cost study adjusted to reflect an assumed in-franchise storage space requirement of 100 PJ. The O&M costs, depreciation expense, taxes, and regulated return on equity for 7.9 PJ of underground storage services (i.e., space, deliverability, commodity and dehydration) is $2.261 million per year[9]. This amount has been charged to Union's unregulated storage operations annually for 2007, 2008, and 2009. This same amount will continue to be charged to Union's unregulated storage operations for 2010 through 2012 because this amount reflects the most recent cost basis for this resource. The costs of UFG and compressor fuel associated with this unutilized level of storage space was already derived and reflected in Union's storage deferral accounts (i.e., attributed to Union's unregulated storage operations) because the actual storage volumes used in the derivation of the allocation factor for UFG and compressor fuel costs includes the unregulated storage activity associated with the 7.9 PJ of storage space.

In Union's 2013 cost of service proceeding, it is expected that Union will file a new forecast of its in-franchise storage space requirements, with the resulting amount of storage space to be sold by Union as short-term storage services and the corresponding revenue requirement to be charged to its unregulated storage operations.

3.7 Reconciliation of Union's Storage Utilization and Available Capacity

As part of the cost allocation review, Black & Veatch conducted a reconciliation of the storage space sold by Union to its in-franchise and ex-franchise customers with the total physical space owned by Union. To undertake this task, Black & Veatch reviewed the utilization by customers of Union's storage space during a recent time period for its short-term and long-term storage services and the level of storage space required to support such services. The objective of this process was to confirm that: (1) the level of Union's storage space not utilized by its in-franchise customers was, in fact, utilized by Union to support the short-term storage services offered by its unregulated operations; (2) the available storage space above the 100 PJ level set aside for Union's in-franchise customers was utilized to support the long-term storage services offered by its unregulated storage operations; and (3) the level of Union's unregulated storage services was consistent with, and supported by, the total physical storage space owned by Union.

[9] O&M expense of $0.743 million, depreciation expense of $0.498 million, property and capital tax of $0.102 million, interest of $0.537 million, income taxes of $0.126 million, deferred tax drawdown of ($0.113) million, preferred dividend requirement of $0.017 million, and regulated return of $0.351 million.

As a backdrop for this analysis, it would be useful to explain how the storage space available to Union's unregulated storage operations is utilized by its ex-franchise customers. For short-term storage services, Union provides a wide range of short-term storage services that enable customers to meet their varying gas load requirements on a seasonal, daily, and intraday basis. At the same time, these customers (who are typically more active in the gas market) have the ability to utilize Union's storage services to create supply optimization opportunities premised upon the prevailing natural gas prices. To utilize Union's storage resources in this manner, we understand that it is not uncommon for some of Union's short-term storage service customers to cycle their storage inventory 2-3 times in one year (which results in storage transactional volumes equal to 4-6 times the physical storage space).[10] With such high cycling rates (i.e., high inventory turnover ratios), it is not unusual for Union to experience volumetric activity levels for these customers that are much higher than the level of the underlying contracted storage space. In contrast, Union's ex-franchise customers who contract for long-term storage services sometimes cycle their storage space less than once in a particular year.

The starting point for this analysis was Union's actual storage service (or activity) levels in calendar 2009 presented in Table 1. The physical storage space owned by Union that was available to support the short-term storage services it provided during 2009 was equal to the difference between the storage space required to serve Union's in-franchise customers (which was 90.5 PJ from Union's Integrated Supply Plan) and 100 PJ, or 9.5 PJ. This unused level of storage space was utilized by Union to provide the following short-term storage services to its ex-franchise customers: C1 Short Term Firm Peak Storage, C1 Off-Peak Storage/Balancing/Loan Services, C1 Firm Short-Term Deliverability, and Enbridge Load Balancing Agreement. Page 1 of Schedule 16 provides a summary of the storage space and storage activity by customer associated with Union's short-term storage services at October 31, 2009 that was supported by the 9.5 PJ of available storage space. Consistent with the above discussion, the storage turn-over rates for Union's short-term storage services range between 1.0 and 4.9 times, with an average of about 2.6 times. The activity level for Union's short-term peak storage services of 744,717 10^3 m^3, presented at page 1 of Schedule 15, reconciles with the service level in 2009 for the C1 ST Firm Peak Storage category as shown in Table 1.

The physical storage space owned by Union that was available to support the long-term storage services it provided during 2009 was equal to 76.3 PJ[11]. This level of storage space was enhanced through Union's ongoing resource optimization activities (e.g., gas loans and space encroachment) which increased its available storage space for long-term transactions to 91.1 PJ. Page 2 of Schedule 16 provides a summary of Union's long-term storage space at October 31, 2009 categorized by Long-Term Peak Storage and High Deliverability Storage. Once again, consistent with the above discussion, the storage turn-over rates for Union's long-term storage services are 1.9

[10] A customer that contracts for 10 PJ of storage space would be expected to have about 20 PJ of activity to complete one full storage cycle (10 PJ of injections to fill the contracted storage space and 10 PJ of withdrawals to empty the space).
[11] Union's available storage capacity of 76.3 PJ for long-term transactions includes third-party storage capacity in the amount of 9.8 PJ, which equates to a storage capacity level of 66.5 PJ held by Union at December 31, 2009 for its owned unregulated storage operations.

times for Long-Term Storage and 7.8 times for High Deliverability Storage, with an average of about 2.2 times. The activity level for Union's long-term peak storage services of 5,429,685 10^3 m^3, presented at page 2 of Schedule 16, reconciles with the service level in 2009 for the Long-Term Peak Storage and High Deliverability Storage categories as shown in Table 1.

3.8 Findings and Recommendations

Based upon Black & Veatch's review of Union's storage allocation process, methodology, and results, the conceptual underpinnings and resulting methodologies upon which Union's cost allocation process is based are well-conceived, thorough, and reasonable in their treatment of storage-related plant and expenses. However, the presentation of Union's separation of costs between its regulated and unregulated storage operations fails to demonstrate these attributes by not providing a sufficient level of detail and explanation to allow an outside party to understand, trace, and verify the cost allocation methodology's underlying assumptions, computational processes, and independently confirm the results.

As a result of these findings, Black & Veatch recommends the following near-term enhancements to Union's computational process and evidentiary presentation:

1. Establish more robust documentation that readily allows the reader to clearly trace how Union's regulated and unregulated storage costs are developed, which should include providing clear references for the historical cost allocation methods or other historical precedents used in the calculation of the costs of Union's unregulated storage operations. Black & Veatch believes that certain of the Schedules presented in this report should be incorporated into Union's future evidentiary presentations before the Board on this subject.

2. In support of Recommendation No.1, whenever possible, the work papers submitted by Union should include more detailed data references that guide the reader through the development of all supporting calculations on a step-by-step basis. Also, where data is hard coded into spreadsheets, references should be included that indicate the source of the information and describe how the data in the work sheet was calculated.

Our specific findings and recommendations are discussed in more detail below:

- ***Structure of Union's Cost Allocation Process***
  1. Union implemented a comprehensive accounting separation model to comply with the Board's NGEIR Decision issued in November 2006
  2. For purposes of deriving the storage costs for its regulated and unregulated storage operations, Union's accounting separation model relied upon its then most recent Board-approved cost allocation study (filed in EB-2005-0520).
  3. The primary purpose of Union's cost allocation study was to separate its storage assets existing at the time of the NGEIR Decision - with this step representing a one-time transfer of assets to Union's unregulated storage operations.

4. Union appears to have recognized and incorporated into its cost allocation process the regulatory precedents established by the Board (see Schedule 1) pertaining to the separation of storage assets and expenses between its regulated and unregulated storage operations.
5. The vast majority of allocation methods used by Union, and approved by the Board, in its most recently completed cost allocation study have been carried forward and applied to the cost allocation process Union now uses to separate its storage cost of service between the regulated and unregulated storage operations (see Schedule 2).
6. While the structure of Union's cost allocation process properly includes each of the assets and expenses relevant to its integrated storage operations (see Schedule 3), Union should provide more complete explanations of the methods used to functionalize, classify, and allocate each component of cost to its unregulated storage operations, and provide sufficient numerical details to support the results.

- ***Data Sources and the Timing of Union's Cost Allocation Process***
  1. Union's on-going allocation of costs to its unregulated storage operations is premised upon, for the most part, the same sources of data that it utilizes to derive its total cost of service for regulated operations that is reflected in its cost allocation study. The one exception is for Union's existing storage assets that were assigned at the time of the NGEIR Decision as a one-time transfer to Union's unregulated storage operations.
  2. It was necessary and appropriate for Union to allocate certain of the cost elements supporting its unregulated storage operations on a one-time basis while others were allocated to that business line on an annual basis using allocation factors that are updated each year (see Schedule 4).

- ***Assignment of Storage Space to Union's Unregulated Storage Operations***
  1. Union has reserved 100 PJ of storage space (i.e., storage capacity) at cost-based rates, in compliance with the NGEIR Decision, to accommodate in-franchise growth - which meant that approximately 62.1 PJ of storage space was assigned to Union's unregulated storage operations.
  2. The current rates of Union's in-franchise customers actually reflect an amount of storage space equal to 92.1 PJ rather than the 100 PJ level stated in the Board's NGEIR Decision in recognition of the actual amount of storage space required by Union's in-franchise customers in any year.

- ***Treatment of Union's Existing Storage Assets***
  1. Union properly completed a comprehensive review of all its existing underground storage assets to determine which assets needed to be removed from its regulated utility rate base and allocated to its unregulated storage operations.
  2. Union properly conducted a detailed cost functionalization process of its existing storage assets at December 31, 2006 to determine whether those assets: (1) were directly attributable to providing storage services only; (2) were directly attributable to providing

transmission services only; or (3) were utilized to provide both storage and transmission services.

3. For purposes of either directly assigning or deriving an allocation factor for each storage asset (or portion of a storage asset) functionalized as storage, Union further grouped its storage assets into four specific categories: (1) Storage Dehydration; (2) Storage - All Other; (3) Storage Compression; and (4) Storage Measuring & Regulating. This process is consistent with the process followed by Union in its Board-approved cost allocation study and properly reflects the operational functions and design characteristics of these assets.
4. Union's process and the results of functionalizing and allocating its existing storage assets to determine which assets needed to be removed from its regulated rate base and allocated to its unregulated storage operations were verified by Black & Veatch, as summarized in Schedule 5.
5. The allocation methods chosen by Union to directly assign or allocate its existing storage assets to its unregulated storage operations are reasonable and consistent with the operational functions and design characteristics of these assets, and the derivation of Union's resulting allocation factors are appropriate and verified (see Schedule 6).

- ***Treatment of Union's Existing General Plant***
  1. Union's general plant assets are not directly attributable to either the regulated or unregulated storage operations because of the support nature of a utility's general plant facilities. Therefore, it was necessary for Union to allocate these assets to its unregulated storage operations through allocation factors that recognize their support nature.
  2. Union's process and the results of allocating its existing general plant to determine which assets needed to be removed from its regulated rate base and allocated to its unregulated storage operations were verified by Black & Veatch, as summarized in Schedule 7.
  3. The allocation methods chosen by Union to allocate its existing general plant to its unregulated storage operations are reasonable and consistent with the operational functions and design characteristics of these assets.
  4. The derivation of Union's resulting general plant allocation factors are appropriate and verified (see Schedule 8), except for the allocation factor pertaining to Union's vehicles and heavy equipment used in its Dawn Storage and Transmission Operation. This allocation factor was derived based on the relative asset value of vehicles and heavy equipment used in its storage and transmission operations. Black & Veatch believes that this allocation factor is overstated because Union should have first split these assets between the storage and transmission functions before allocating a portion of them to its unregulated storage operation. The 37.7% unregulated factor (see page 1 of Schedule 5) is used by Union to allocate only storage-related assets between its regulated and unregulated storage operations, and should not be applied to assets that support both its storage and transmission functions. While this finding does not result in a material over-allocation of general plant assets to Union's unregulated storage operation, Black & Veatch does recommend that Union consider deriving a revised allocation factor that first

functionalizes vehicles and heavy equipment to storage[12], and then allocates the storage portion to its unregulated storage operations using the 37.7% unregulated factor. This change would also require Union to reassign a small portion of its unregulated general plant assets to its regulated storage operations.

- ***Treatment of Union's New Storage Assets***
  1. Union properly treated any new storage assets constructed after the NGEIR Decision by directly assigned them to its unregulated storage operations.
  2. Union properly treated any new storage projects that only replace its existing storage assets by allocating the cost of those projects to its unregulated storage operations on the same basis as the original assets.
  3. Black & Veatch had some difficulties in recreating the process followed by Union, and its resulting plant balances, to confirm that Union properly applied to its new storage assets (primarily replacement assets) the allocation factors it had established when it allocated the original storage assets to its unregulated storage operations.
  4. A small under-allocation of storage-related assets to Union's unregulated business for one asset addition and a small over-allocation of storage-related assets to Union unregulated business for another asset addition were identified during Black & Veatch's review process. These two misallocations create the need for storage asset adjustments to Union's unregulated storage asset balances equal to $16,259 and ($77,645), respectively[13]. Union has indicated that it will make these two required adjustments in 2011. Black & Veatch recommends that these changes be made at a convenient point in time during 2011.
  5. Aside from the issues addressed above, Black & Veatch did verify that Union's treatment of its new storage assets was properly reflected in the storage asset balances for 2008 and 2009 (see Schedules 9-11).

- ***Treatment of Union's New General Plant Assets***
  1. Union properly allocated new general plant (and retirements) to its unregulated storage operations using the derived allocation factors for its existing general plant applicable to vehicles and heavy equipment (4.5%) and to all other categories of general plant (2.92%).
  2. It is recommended that the vehicles and heavy equipment allocation factor be revised for the same reasons presented in the *Treatment of Union's Existing General Plant* section above.

- ***Treatment of Union's Storage-Related Expenses***
  1. Union derives storage-related expenses for its unregulated storage operations on an annual basis to reflect the latest activity supporting that business line.

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[12] In Union's Board-approved 2007 cost allocation study, it functionalizes the Transportation Equipment portion of General Plant using the INDIRECT_I&II functionalization factor (derived on a combination of the previously functionalized rate base and O&M expenses). Approximately 7.3% of this general plant item is assigned to the storage function, which would result in a revised Vehicle Allocation Factor of 2.8% (7.3% times 37.7%).

[13] See page 3 of Schedule 11

2. The total cost of gas allocated to Union's unregulated storage operations consists of Unaccounted for Gas ("UFG"), storage compressor fuel, net of the amount of gas in kind supplied by customers providing their own fuel, and the cost of storage space purchased from others. The method for allocating these gas costs to Union's unregulated storage operations is consistent with the allocation method used in the Board-approved 2007 cost allocation study (see Schedule 12).
3. The Operating and Maintenance ("O&M") Expenses assigned to Union's unregulated storage operations are allocated based on the underlying activities within each expense category.
4. Since the majority of Union's O&M expenses are associated with the operating and maintenance of Union's existing assets, it was appropriate to classify the expenses categorized as Storage-General and Storage-Shared into the following plant-related categories: supervision, wells, lines, compressors, measuring and regulating, dehydration, rents, and other (see Schedule 13).
5. Union's O&M expenses for Storage Operations were properly allocated to its unregulated storage operations based on its derived allocation factors applied to the corresponding expense levels in 2007.
6. The allocation factors for Storage Operations to be used by Union in 2011 (see Schedule 13) have all increased since 2007 in recognition of the major additions made to Union's unregulated storage assets since the original asset transfer which occurred in 2007.
7. The allocation methods and associated allocation factors for Union's other storage-related O&M expenses: Business Development, Regulatory, Human Resources, Information Technology, and Administrative & General are reasonable and properly reflect the underlying activities and costs in support of Union's unregulated storage operation (see Schedule 14).
8. The allocation methods and associated allocation factors for Union's other storage-related expenses: Depreciation Expense, Property Taxes, and Capital Taxes are reasonable and properly reflect the underlying activities and costs in support of Union's unregulated storage operation (see Schedule 15).

- ***Cost of Union's Unutilized In-Franchise Storage Capacity***
  1. Union accounts for the costs associated with the portion of its storage capacity not utilized by its in-franchise customers by assigning these costs to its unregulated storage operations. This method properly ensures that the regulated rates for Union's in-franchise customers will continue to recover no more than the costs of the in-franchise storage space requirements of 92.1 PJ.
  2. Since in-franchise customers currently require less than 100 PJ of storage capacity, Union sells the difference between the space needed and the reserve amount, equal to 7.9 PJ, on a short-term basis.
  3. Union's revenue requirement (excluding UFG and compressor fuel) for the unutilized 7.9 PJ of storage space was derived by comparing its Board-approved 2007 cost allocation study to the same cost study adjusted to reflect an assumed in-franchise storage space requirement of 100 PJ.

4. Union properly computed the total costs (i.e., revenue requirement) of its unutilized storage capacity of $2.261 million per year using the above-described method of comparing its two cost allocation studies under different storage space assumptions for its in-franchise customers.
5. It is appropriate that this amount has been charged to Union's unregulated storage operations annually for 2007, 2008, and 2009, and that this same amount will continue to be charged to Union's unregulated storage operations for 2010 through 2012 because this amount reflects the most recent cost basis for this resource.
6. In Union's 2013 cost of service proceeding, it is expected that Union will file a new forecast of its in-franchise storage space requirements, with the resulting amount of storage space to be sold by Union as short-term storage services and the corresponding revenue requirement to be charged to its unregulated storage operations.

- ***Reconciliation of Union's Storage Utilization and Available Capacity***
  1. It was confirmed that: (1) the level of Union's storage space not utilized by its in-franchise customers was, in fact, utilized by Union to support the short-term storage services offered by its unregulated storage operations; (2) the available storage space above the 100 PJ level set aside for Union's in-franchise customers was utilized to support the long-term storage services offered by its unregulated storage operations; and (3) the level of Union's unregulated storage services was consistent with, and supported by, the total physical storage space owned by Union (see Schedule 16).

4.0 ACCOUNTING FOR UNION'S STORAGE OPERATIONS

The purpose of this section is to detail the findings and recommendations of Black & Veatch's review and evaluation of the accounting for Union's storage operations. As outlined in the NGEIR Decision, the costs of Union's unregulated storage operations are used in the computation of storage margins subject to deferral in its two storage deferral accounts – Account No. 179-70 Short-Term Storage and Other Balancing Services and Account No. 179-72 Long-Term Peak Storage Services. During Union's annual rate proceedings, year-end annual deferral account balances are submitted to the Board for review and approval.

4.1 Deferral Account Definition

As prescribed under the Ontario Energy Board Act, Account Nos. 179-70 and 179-72 are defined as follows[14]:

> *Account No. 179-70*
> *Other Deferred Charges-Short-term Storage and Other Balancing Services*
>
> To record, as a debit (credit) in Deferral Account 179-70 the difference between actual net revenues for Short-term Storage and Other Balancing Services….and the net revenue forecast for these services as approved by the Board for ratemaking purposes
>
> *Account No. 179-72*
> *Other Deferred Charges-Long-term Peak Storage Services*
>
> To record, as a debit (credit) in Deferral Account 179-72 .the difference between actual net revenues for Long-term Peak Storage Services….and the net revenue forecast for these services as approved by the Board for ratemaking purposes

Net revenues in Account Nos. 179-70 and 179-72 are defined to be the revenues net of the costs associated with Union's unregulated short-term and long-term storage transactions, respectively. For purposes of this report, net revenue will henceforth be referred to as net margin.

4.2 Deferral Account Structure and Operation

In order to determine the balances in Account Nos. 179-70 and 179-72, as a first step actual net margins are determined using actual calendar year data. Next, these resultant totals are compared with forecasted net margins incorporated into Union's distribution rates as approved by the Board in EB-2007-0606. If the actual margin exceeds the level built into rates, the result is a net deferral credit. Conversely, if the actual net margin is less than the amount assumed in rates, the result is a deferral debit. Finally, the deferral credit or debit is adjusted based on a sharing formula specified in the NGEIR Decision to yield final net credit and/or debit balances that are refunded or surcharged to Union's distribution ratepayers.

[14] EB-2005-0520 Decision and Order, Appendix F

The Board determined in the NGEIR Decision that Union should reserve 100 PJ of storage space for in-franchise customers. The balance of storage capacity, 62.1 PJ, is assigned to long term unregulated storage operations. Revenues and costs associated with unregulated long term storage operations are cleared through Account No. 179-72. Further, the Board noted that since distribution customers currently require less than 100 PJ of storage capacity, Union sells the difference between the space needed and the total amount reserved on a short term basis. Revenues and costs associated with unregulated short-term storage operations are cleared through Account No. 179-70.

The short-term and long-term storage revenues from Union's ex-franchise customers are recorded based on the services provided. Union's unregulated storage revenues are recorded as billed to customers in separate storage revenue accounts. The short-term and long-term storage revenues subject to deferral are discussed in Section 2.2 and shown in Schedule 17.

Union employs for the most part the Board approved 2007 cost allocation methodology, as depicted in Schedule 2, to allocate costs to its unregulated storage operations. Total unregulated storage costs are then assigned to Union's short-term and long-term storage accounts in order to calculate the actual net margins.

For purposes of this review, the 2009 data submitted by Union in its deferral account application filed with the Board in April of 2010, and approved in June of 2010, was used to undertake this review[17]. Presented below in Table 3 are Union's total actual 2009 unregulated storage revenue and costs as in its application in EB-2010-0039 which was approved by the Board. Further, the methodology used to determine how each line item is assigned to either the short-term or long-term account is also identified.

Table 4 below presents the actual 2009 net margins determined for Account Nos. 179-70 and 179-72, based on the total 2009 unregulated storage costs and the assignment methodologies identified in Schedule 17.

After the actual net margin is computed, the next step is to compare Union's actual calendar year data to its forecasted net margins incorporated into distribution rates as approved by the Board. For 2009, net margin included in rates was established in EB-2007-0606. Finally, the resulting balances are shared between Union and its ratepayers.

[17] EB-2010-0039 Decision and Order

Table 4
Determination of 2009 Net Margin
for Account Nos. 179-70 and 179-72

Item	2009 Actual Amount ($000) Total Unregulated Storage Costs[15]	2009 Actual Amount ($000) Account No. 179-70 Unregulated S-T Storage Costs	2009 Actual Amount ($000) Account No. 179-72 Unregulated L-T Storage Costs
Revenue			
	$135,286	$28,914	$106,372
Total Revenue (A)	**$135,286**	**$28,914**	**$106,372**
Commodity Costs			
UFG	$7,289	$2,352	$4,937
Compressor Fuel	$5,023	$1,512	$3,511
Customer Supplied Fuel	-$6,173	N/A	($6,173)
Third Party Storage	$179	N/A	$179
Total Commodity(B)	**$6,318**	**$3,864**	**$2,454**
Demand Costs			
O&M	$10,636		$10,636
Depreciation	$7,312		$7,312
Property & Capital Tax	$1,754		$1,754
Interest Expense	$11,507		$11,507
Return	$14,220		$14,220
Income Tax on Return	$7,510		$7,510
Revenue Requirement on 7.9 PJs of excess in-franchise storage capacity	$2,261	$2,261	
Total Demand Costs (C)	**$55,200**	**$2,261**	**$52,939**
Net Margin			
Net Margin = (A)-(B)-(C)	**$73,768**	**$22,789**	**$50,980**

[15] See Schedule 17

According to the NGEIR Decision and further summarized at pages 4 and 5 of the Board's Decision in EB-2005-0520, net margin on Account No. 179-70 short-term transactions:

> "Will be shared by Union and ratepayers in proportion to the allocation of rate base between utility and non-utility assets. The allocation is currently 79% utility and 21% non utility. Union will receive 10% of the margin deemed to be earned from utility assets and 100% of the margin deemed to be earned from non-utility assets"

Also stated in the NGEIR Decision and further summarized at page 5 of the Board's Decision in EB-2005-0520, net margin on Account No. 179-72 long-term transactions:

> "The phase-out of the sharing of margins on Union's long-term storage transactions will take place over four years. After 2007, Union's share of long-term margins will be as follows: 2008-25%, 2009-50%, 2010-75%, and thereafter-100%"

Based on this sharing formula, the 2009 net deferral balances in Account Nos. 179-70 and 179-72 are shown in Table 5 below.

Table 5
Determination of 2009 Deferral Balances
for Account Nos. 179-70 and 179-72

Item	2009 Actual Amount ($000) Account No. 179-70	2009 Actual Amount ($000) Account No. 179-72
Actual Net Margin (A)	**$22,789**	**$50,980**
Board Approved Net Margin[16] (B)	**$15,829**	**$21,405**
Excess (Deficiency) (C)=(A)-(B)	**$6,960**	**$29,575**
Utility Allocation % (D)	**79%**	**N/A**
Unadjusted Net Deferral Credit (Debit) (E)=(C) * (D)	**$5,498**	**$29,575**
Rate Payer Share % (F)	**90%**	**50%**
Final Net Deferral Credit (Debit) (G)=(E) * (F)	**$4,949**	**$14,788**

[16] EB-2007-0606 Decision With Reasons

4.3 Findings and Recommendations

Based upon Black & Veatch's review of Union's storage deferral account activity, accounting, and results for 2009, the computational basis for determining the net deferral balances for Account Nos. 179-70 and 179-72 appears sound and accurately follows regulatory precedents established in the NGEIR Decision, EB-2005-0520, EB-2007-0606, and subsequent Board orders regarding Union's storage deferral account filings made after 2006. However, the transparency of the documentation submitted to the Board by Union, while sufficient to demonstrate compliance with approved methodologies and relevant regulatory precedents is lacking for third parties not entirely familiar with the historical genesis of the currently approved practices reflected in Union's submissions. Thus, Union's deferral account filings do not allow third parties to readily understand and trace the deferral account development and verify underlying assumptions, computational processes, and independently confirm the results.

Black & Veatch recommends the following near-term enhancements to Union's computational process and evidentiary presentation:

3. Establish more robust documentation that readily allows the reader to clearly trace how Union's storage deferral accounts are developed, which should include providing clear references for historical cost allocation methods or other historical precedents used in the calculation of the final balances.

4. In support of recommendation 1, whenever possible, the work papers submitted by Union should include more detailed data references that guide the reader through the development of all supporting calculations on a step-by-step basis. Also, where data is hard coded into spreadsheets, references should be included that indicate the source of the information and describe how the data in the work sheet was calculated.

It is important to keep in mind that much of Union's currently approved approach for development of its storage deferral account balances is based on an accumulation of background concepts and facts, of previously presented and explained computational methodologies, and a progression of regulatory decisions over an extended period of time that may not be readily apparent to the casual reader. While the addition of more robust documentation will not impact the actual calculations, these added details should allow third parties to more easily understand and verify Union's results and, thus, lead to a more open and acceptable review process in the future.

SCHEDULES

UNION GAS LIMITED
Accounting and Cost Allocation for Unregulated and Regulated Storage Operations
Regulatory Chronology of Relevant OEB Proceedings

OEB Proceeding	Key Issues	OEB Decision and Order	Issue Date
EB-2005-0520	• Rates application by Union filed with the OEB on December 15, 2005	• Approval of Union's delivery, storage, and transportation rate changes to be implemented January 1, 2007	December 19, 2006
EB-2005-0551 Natural Gas Electricity Interface Review (the "NGEIR Decision") - Notice of Proceeding issued by the OEB on December 29, 2005	• Rates and services for gas-fired generators • Storage regulation	• The OEB will cease regulating the prices charged for: (1) all storage services offered by Union to customers outside of its franchise area; (2) new storage services offered by Union to its in-franchise customers; and (3) all storage services offered by other storage operators, including storage operators affiliated with Union • Rates for storage services provided to Union's distribution customers will continue to be regulated by the OEB on a cost of service basis • The OEB concluded that the sharing of profits from Union's short-term storage services will continue, with 100% accrual to ratepayers for short-term storage	November 7, 2006

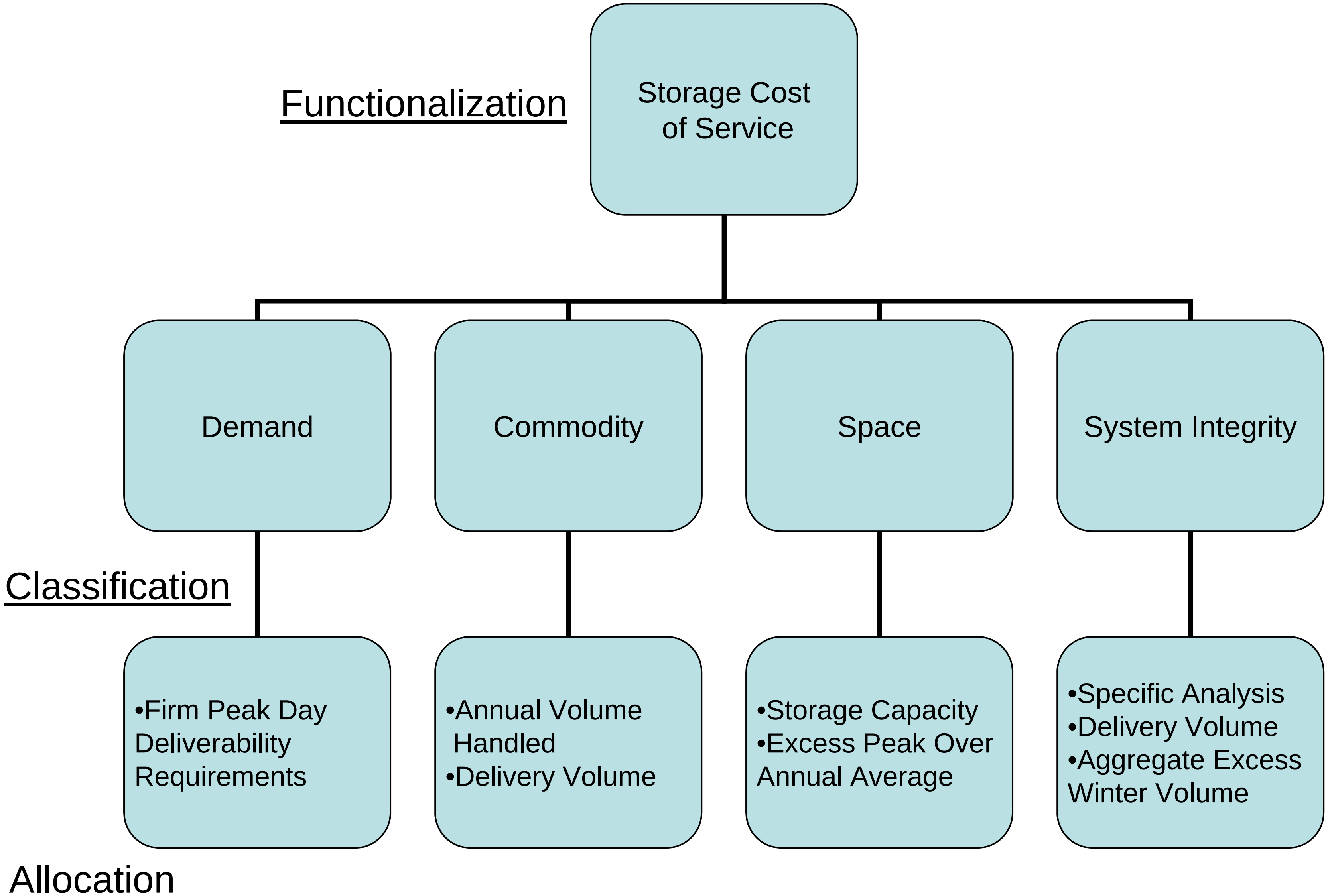
OEB Proceeding	Key Issues	OEB Decision and Order	Issue Date
		transactions that are underpinned by "utility asset" storage space • The OEB found that profits from new long-term storage transactions should accrue entirely to Union, not to ratepayers • The OEB ordered that after 2007, Union's share of long-term margins will be 25% in 2008, 50% in 2009, 75% in 2010, and 100% in 2010 and thereafter • Functional separation of Union's unregulated storage operations was not necessary • Union's current cost allocation study (filed and approved in EB-2005-0520) was adequate for the purposes of separating its regulated and unregulated costs and revenues for ratemaking purposes	
EB-2007-0598 (the "2006 Deferral Account Proceeding")	• Union sought approval for the final disposition and recovery of certain 2006 year-end deferral account balances and the 2006 year-end earnings sharing amount (application filed by Union on April 27, 2007)	• Union's 2006 actual year end Gas Supply, Storage, and Transportation, and Other deferral account balances were approved • The balance in Union's Long-Term Peak Storage Services Account (Account No. 179-72) was revised to a credit of $3.015 to ratepayers to reflect the elimination of any	August 17, 2007

OEB Proceeding	Key Issues	OEB Decision and Order	Issue Date
		deferred income tax expense from this account	
EB-2007-0606	• Union sought approval of a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission, and storage of natural gas (application filed by Union on May 11, 2007)	• The OEB approved the proposed rate order effective January 1, 2008 and implemented April 1, 2008, reflecting its EB-2007-0606 Decision dated January 17, 2008	March 4, 2008
EB-2007-0725 Natural Gas Storage Allocation Policies - Notice of Proceeding issued by the OEB on August 28, 2007	• Methodology used by Union to allocate storage to its distribution customers at cost-based rates	• The OEB found that storage space and deliverability should be allocated to Union's T1 and T3 customers in a manner that is consistent with the storage that underpins Union's services to bundled customers • The OEB concluded that the maximum level of deliverability available to a T1 or T3 customer at cost-based rates should equal the greater of DCQ and CD-DCQ • The OEB found that the proposed revisions to Union's A/E Method were appropriate and should be implemented to determine cost-based storage space allocations	April 29, 2008
EB-2008-0034 (the "2007 Deferral Account Proceeding")	• Union sought approval for the final disposition and recovery of certain 2007 year-end deferral account balances including	• Union's 2007 actual year end Long-Term Peak Storage Services deferral account balance was approved	June 3, 2008

OEB Proceeding	Key Issues	OEB Decision and Order	Issue Date
	approval and disposition of the market transformation incentive and capital tax deferral amounts (application by Union filed on March 3, 2008)	• The OEB ordered Union to recalculate its 2007 balance in Account No. 179-72 to equal 75% of the excess of (i) actual net revenues on all long-term storage transactions less (ii) the OEB-approved forecast net revenue of $21.405 million, for disposition at a later time	
EB-2008-0154	• Motion to review Union's 2006 and 2007 deferral account disposition and earnings sharing (motion by Union filed on June 23, 2008)	• The OEB dismissed Union's motion for review	October 13, 2008
EB-2009-0052 (the "2008 Deferral Account Proceeding")	• Union sought approval for the final disposition and recovery of certain 2008 year-end deferral account balances including approval and disposition of the market transformation incentive (application filed by Union on March 31, 2009)	• Union's 2007 actual year end Short-Term Storage and Balancing Services and Long-Term Peak Storage Services deferral account balances were approved	August 6, 2009
EB-2010-0039 (the "2009 Deferral Account Proceeding")	• Union sought approval of amendments to the rates charged to customers as of October 1, 2010 in connection with the sharing of 2009 earnings under the incentive rate mechanism • Union sought approval for the	• The OEB approved a Settlement Agreement on all of the issues raised in Union's Application • The Settlement Agreement accepted Union's proposed disposition of the Short-Term Storage and Other Balancing	August 10, 2010

OEB Proceeding	Key Issues	OEB Decision and Order	Issue Date
	final disposition and recovery of 2009 year-end deferral account balances • Union sought approval of a cost allocation methodology used to allocate costs between Union's regulated and unregulated businesses (application filed by Union on April 22, 2010)	Services and Long-Term Peak Storage Services deferral account balances • The Settlement Agreement specified that Union will commission an independent study of its cost allocation methodology for allocation of costs between its regulated and unregulated storage operations	

Union Gas Limited
Cost Allocation Study
Treatment of Storage-Related Costs



Union Gas Limited
Cost Allocation Study
Treatment of Storage-Related Costs

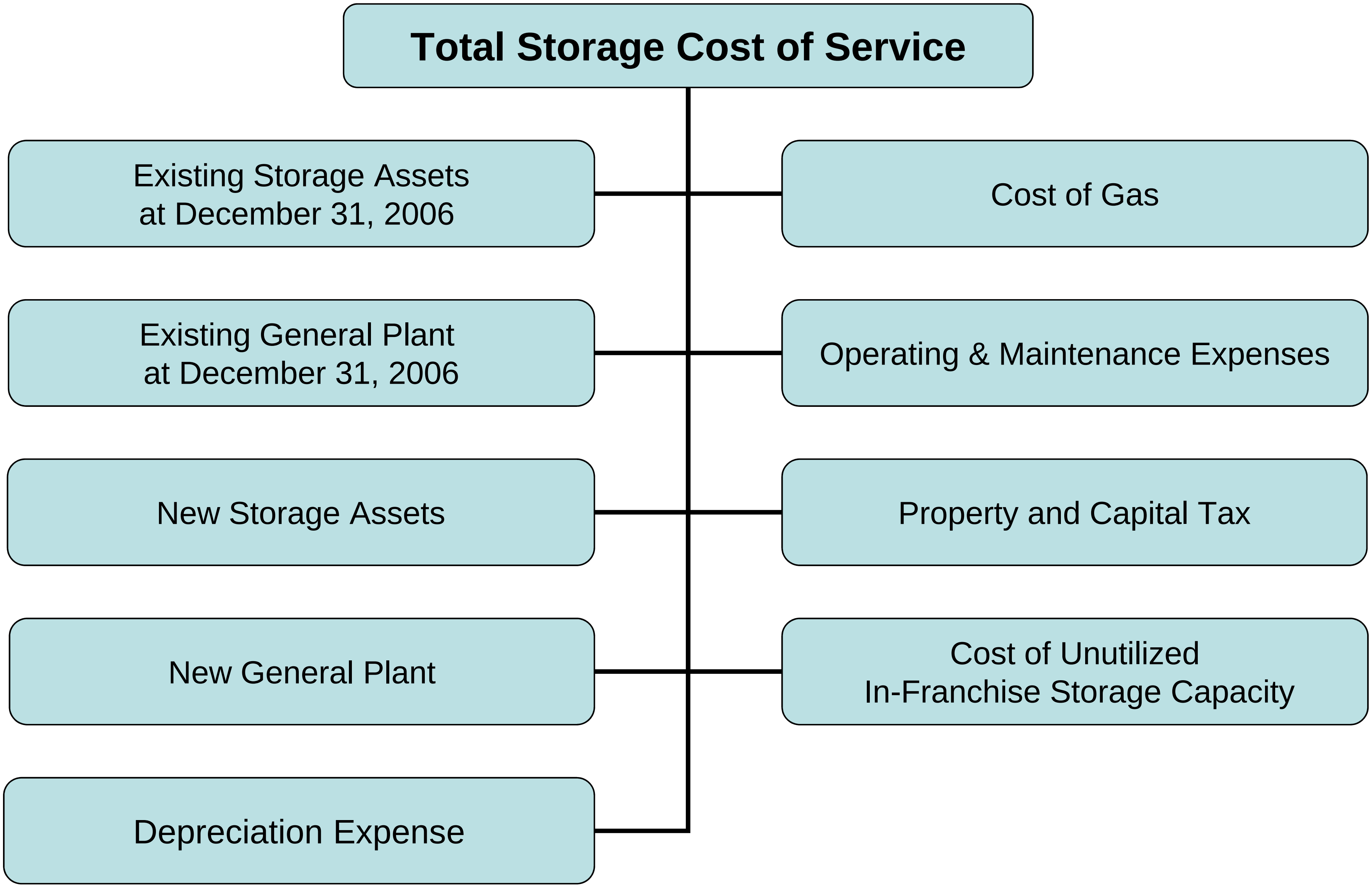
Board-Approved Cost Allocation Methodology (EB-2005-0520)	**Methodology Used to Allocate Costs to Union's Unregulated Storage Operations**
Existing Underground Storage Assets	**Existing Underground Storage Assets**
• Certain assets (specific structures, measuring and regulating, and compression assets) in the Dawn Station yard are installed solely for transmission purposes and are directly assigned to the transmission function. These assets include the meter runs into the Dawn-Trafalgar system, metering at Tecumseh, Oil Springs and TCPL, and the Great Lakes header. The Dawn Plant E compressor is not directly assigned to transmission in Union's Board-approved cost allocation study. • Union's Board-approved 2007 cost allocation study allocated 44.4% of Dawn compression related costs to the storage function and 55.6% of Dawn compression-related costs to the transmission function. These factors were applied to total compression-related costs. • Measuring and regulating equipment assets that are not directly assigned to transmission provide both storage and transmission services at Dawn and are allocated between storage (26%) and transmission (74%) based on the forecasted activity into and out of Dawn. The storage costs are classified as deliverability. • Storage deliverability costs are allocated to rate classes based on design day demands from storage (the NETFROMSTOR allocator), which	• Consistent with the Board-approved 2007 cost allocation methodology, the meter runs into the Dawn-Trafalgar system, metering at Tecumseh, Oil Springs and TCPL, and the Great Lakes header are directly assigned to the transmission function. • In addition, the Dawn Plant E compressor, which was installed to provide transmission compression from Dow-Moore into the Dawn-Trafalgar system, is directly assigned to transmission. • Compression-related assets are allocated at the individual asset level. Outboard storage compressors located at Union's storage pools are directly assigned to storage. As noted above, the Dawn Plant E compressor is directly assigned to transmission. Compression-related costs of assets that are used to provide storage and transmission services were split between storage and transmission based on a horsepower allocation that excluded the outboard storage compressors and the Dawn Plant E compressor. • This resulted in an adjusted Board-approved horsepower allocation that allocates 52.7% of Dawn compression-related costs to the storage function and 47.3% of Dawn compression-related costs to the transmission function. • For measuring and regulating equipment assets that are not directly assigned

Board-Approved Cost Allocation Methodology (EB-2005-0520)	Methodology Used to Allocate Costs to Union's Unregulated Storage Operations
allocated 39.2% of these storage costs to ex-franchise storage services. The result is that 10.2% of allocated M&R costs are allocated to ex-franchise storage services. • Storage land, land rights, buildings, wells and lines and base pressure gas are classified between space, deliverability and system integrity, and are allocated to ex-franchise storage services based on space, deliverability and system integrity allocators.	Union used the 2007 Board-approved split of assets between storage and transmission and allocated the storage assets to unregulated storage using an average storage space and deliverability allocator of 37.7%. The result is an allocator for measuring and regulating equipment of 9.9% for unregulated operations. • Storage assets are allocated to unregulated storage using an average storage space and deliverability allocator of 37.7%.
<u>General Plant</u>	**<u>General Plant</u>**
• In Union's Board-approved 2007 cost allocation study, general plant assets are assigned to the storage function in proportion to net plant and O&M and classified in the same manner. Costs are allocated to ex-franchise storage services based on the space, deliverability, commodity and system integrity allocators.	• General plant is separated into two categories to determine the allocation factor for the unregulated storage operations. • Vehicle assets to be removed from Union's regulated utility rate base and allocated to Union's unregulated storage operations were allocated using the average space and deliverability factor used for other storage assets. • The second category of general plant includes all other categories of general plant which are allocated to unregulated storage using the methodology for allocating general plant within the Board-approved cost allocation study.
<u>Cost of Gas</u>	**<u>Cost of Gas</u>**
• The compressor fuel budget is allocated to storage and transmission in proportion to forecast volume. Storage fuel is allocated to ex-franchise storage services in proportion to forecast volume. • Unaccounted for gas (UFG) costs are allocated to storage and transmission in proportion to forecast volume. Storage	• Actual fuel used at Dawn is allocated to unregulated storage based on actual unregulated storage activity levels. • Unaccounted for gas costs are allocated to unregulated storage in proportion to actual unregulated storage activity levels.

Board-Approved Cost Allocation Methodology (EB-2005-0520)	Methodology Used to Allocate Costs to Union's Unregulated Storage Operations
UFG is allocated to ex-franchise storage services in proportion to forecast volume.	
<u>Operating & Maintenance Expenses</u>	**<u>Operating & Maintenance Expenses</u>**
• O&M is allocated based on an analysis of activities or in the same manner as the underlying assets. Costs are allocated to ex-franchise storage services based on the space, deliverability, commodity and system integrity allocators.	• Actual O&M related to the operation of the storage facilities was allocated to the unregulated storage operation using the same allocators applied to the assets for that facility. • O&M related to the support of the storage operations was allocated to unregulated storage operations using factors provided by management based an analysis of activities as part of the forecast process.

Union Gas Limited
Separation of Regulated and Unregulated Storage Costs
Functional Process Flowchart

Schedule 3

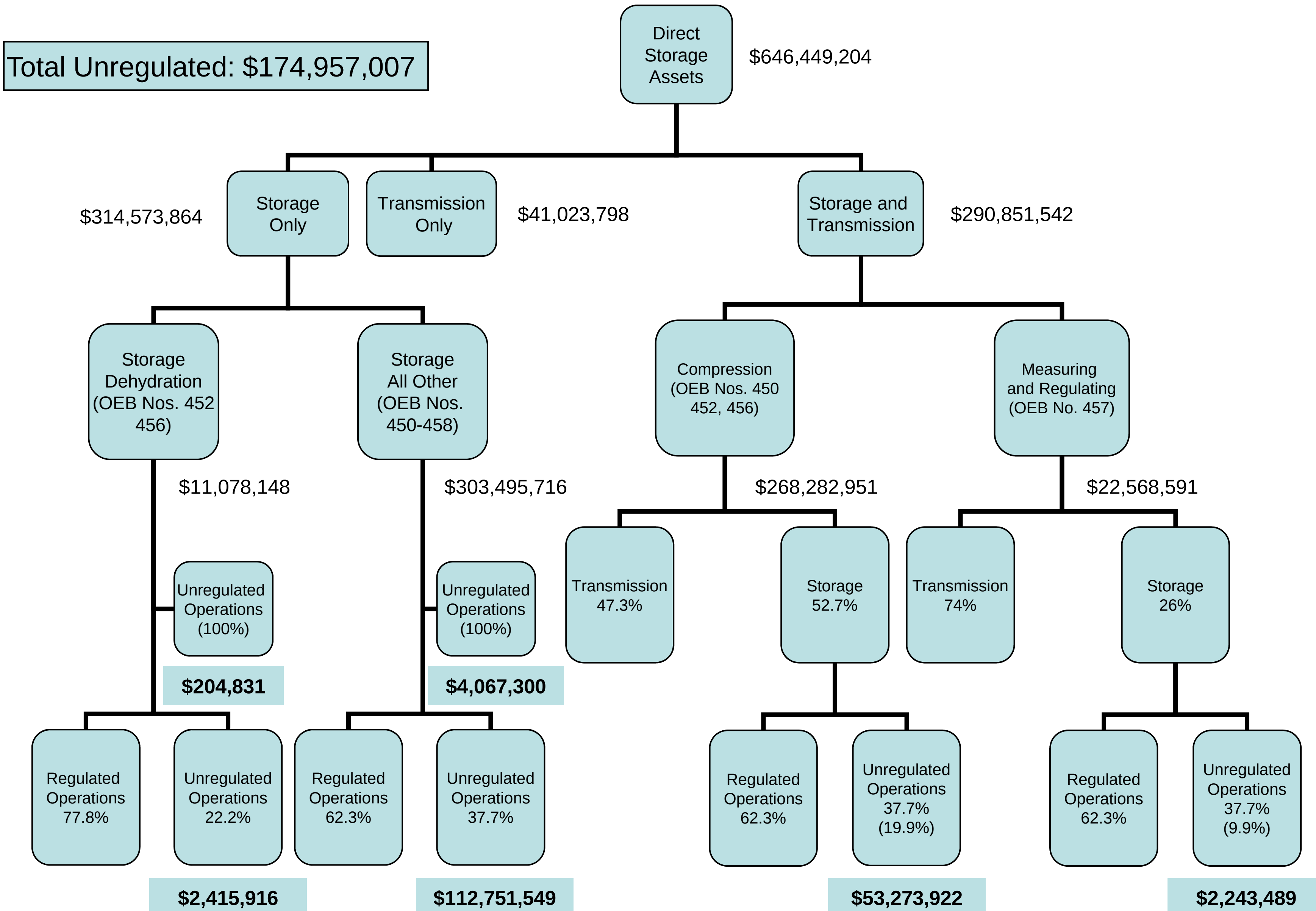


Schedule 4

Union Gas Limited
Separation of Regulated and Unregulated Storage Costs
Timing of the Cost Allocation Process

One-Time	Annual	Periodic
•Storage Assets Existing at December 31, 2006 –Direct Assignments –Allocations	•Storage Asset Additions and Retirements –Direct Assignments –Allocations	•New Cost Allocation Study for Union's In-Franchise Customers –Updates allocation factors to apply to future additions and retirements of General Plant –Revalues the cost of in-franchise storage capacity available for short-term unregulated storage transactions •New depreciation rates
•General Plant Existing at December 31, 2006 –Allocations	•General Plant Additions and Retirements –Allocations	
•Cost of Unutilized In-Franchise Storage Capacity (7.9 PJ) –Change in costs between Union's cost allocation studies	•Gas Costs –UFG –Compressor Fuel –Allocations	
	•O&M Expenses –Allocations	
	•Property and Capital Tax –Allocations	

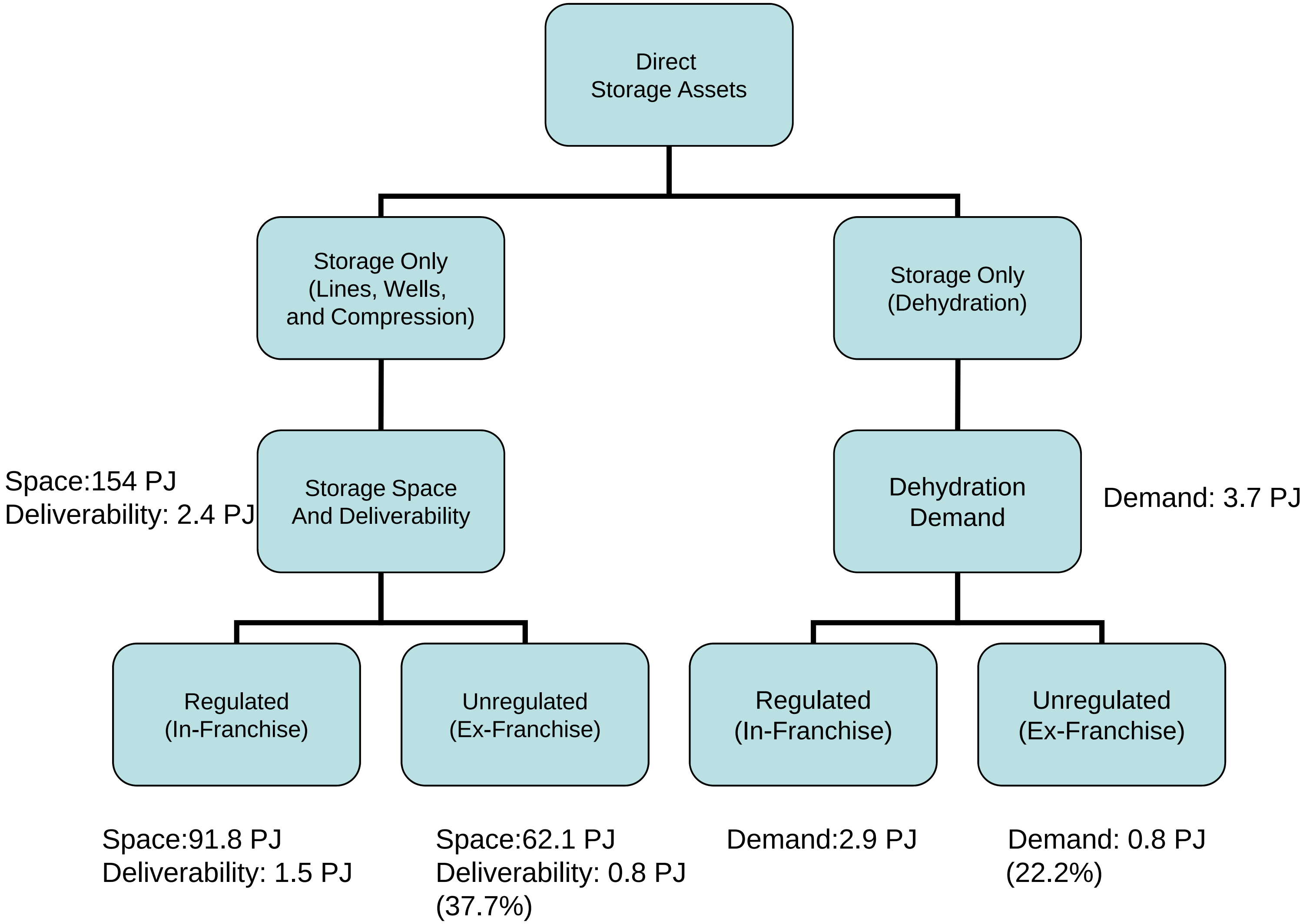
Union Gas Limited
One-Time Separation of Direct Storage Assets - Unregulated
As of December 31, 2007



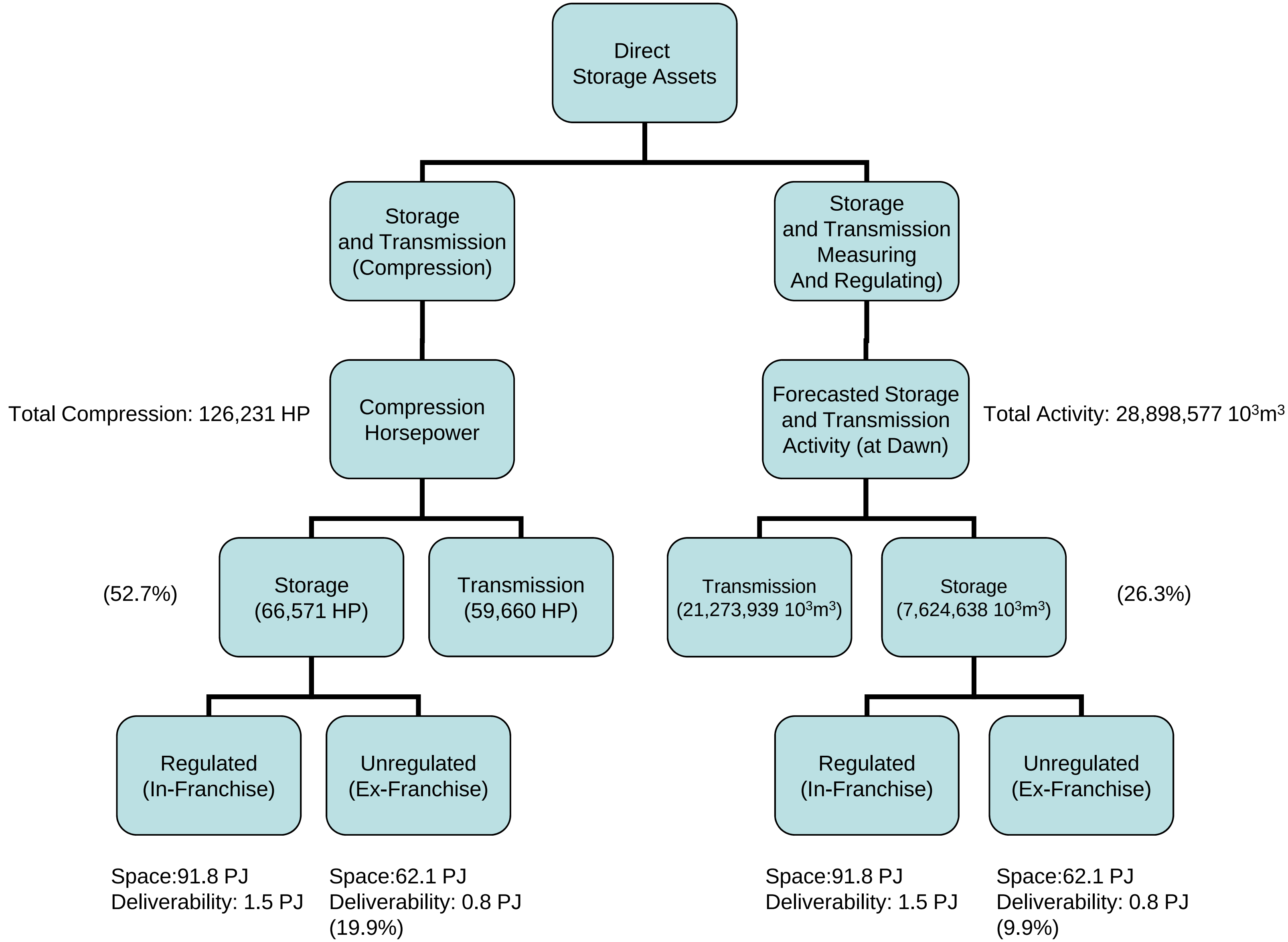
UNION GAS LIMITED
Direct Storage Assets-Unregulated
By OEB Account
As of December 31, 2007

Underground Storage Plant in Service	OEB No.	Storage Dehydration	Storage All Other	Storage Compression	Storage M&R	Total
Land	450		$488,839	$742,544		$1,231,383
Land Rights	451		$19,319,679			$19,319,679
Structures and Improvements	452	$457,920	$1,482,773	$9,618,344		$11,559,037
Wells	453-455		$51,843,688			$51,843,688
Compressor Equipment	456	$2,162,827	$14,076,742	$42,913,034		$59,152,603
Measuring & Regulating Equipment	457		$11,271,332		$2,243,489	$13,514,821
Base Pressure Gas	458		$18,335,796			$18,335,796
Other Equipment	459					
Total		$2,620,747	$116,818,849	$53,273,922	$2,243,489	$174,957,007

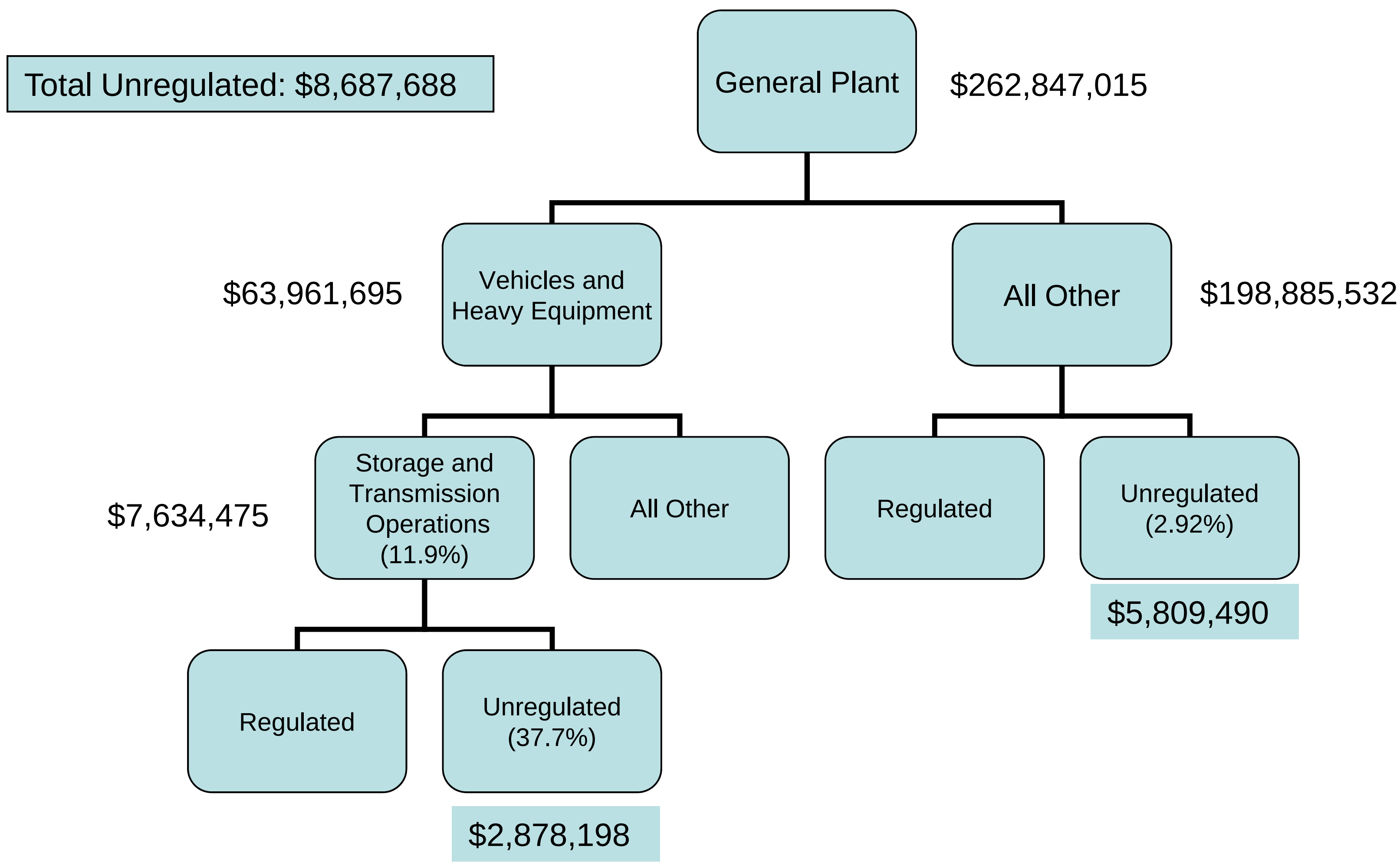
Union Gas Limited
One-Time Separation of Direct Storage Assets - Unregulated
Derivation of Storage Allocation Factors



Union Gas Limited
One-Time Separation of Direct Storage Assets - Unregulated
Derivation of Storage Allocation Factors



Union Gas Limited
One-Time Separation of General Plant - Unregulated
As of December 31, 2007

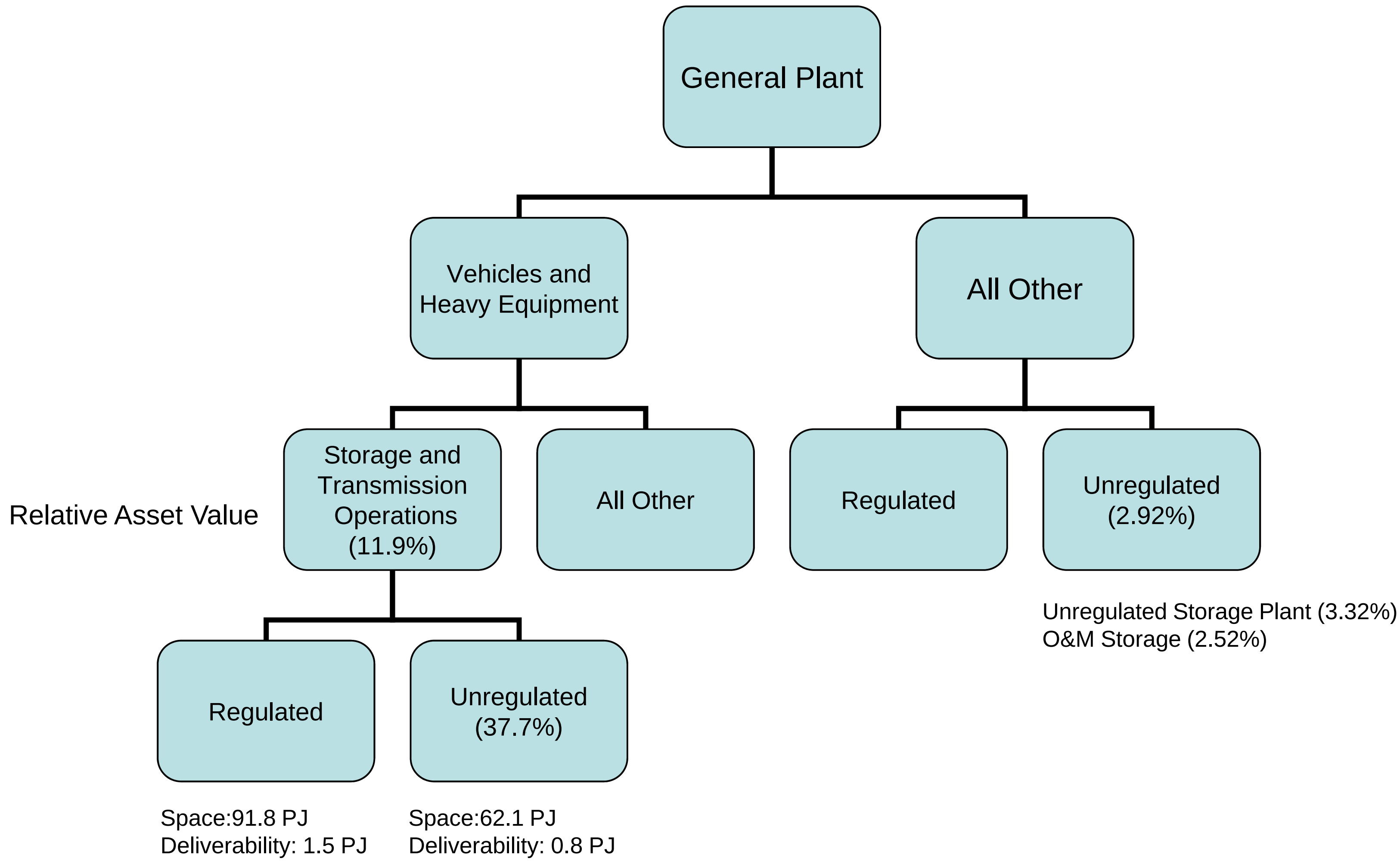


UNION GAS LIMITED
General Plant-Unregulated
By OEB Account
As of December 31, 2007

General Plant in Service	OEB No.	Total Union Gas	Allocation Factor	Storage Unregulated
Land	480	$639,517	2.92%	$18,672
Structures and Improvements	482	$41,476,054	2.92%	$1,210,993
Leasehold Improvements	482	$956,163	2.92%	$27,917
Office Equipment - Furniture & Equipment	483	$16,777,717	2.92%	$489,866
Office Equipment - Computer Hardware	483	$25,102,410	2.92%	$732,925
Office Equipment - Computer Software	483	$59,290,638	2.92%	$1,731,132
Transportation - Vans and Pickups	484	$49,666,179	4.50%	$2,234,917
Transportation - Heavy Work Equipment	485	$14,295,516	4.50%	$643,281
Tools and Work Equipment	486	$33,349,694	2.92%	$973,724
Communication Structures	488	$3,273,021	2.92%	$98,121
Communication Equipment	488	$18,020,107	2.92%	$526,140
Total		$262,847,015		$8,687,688

Schedule 8

Union Gas Limited
One-Time Separation of General Plant - Unregulated
Derivation of Allocation Factors



UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07	Additions: Capital Additions	Transfers	Net Salvage	Net Additions	Retirements	Balance Dec. 31/08	Adjustments	Adjusted Utility Balance
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(f)	(g)
	Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	1,231	-	0		0		1,231		1,231
2	Land rights	451	19,320	268	0		268		19,588		19,588
3	Structures and improvements	452	11,559	550	0		550		12,109		12,109
4	Wells	453/4/5	51,844	28,015	0		28,015	-384	79,475		79,475
5	Compressor equipment	456	59,153	11,465	0		11,465	-186	70,432		70,432
6	Measuring & regulating equipment	457	13,515	7,122	0		7,122		20,636		20,636
7	Base pressure gas	458	18,336	-	0		0	0	18,336		18,336
8	Other equipment	459	0				0		0		0
9			174,957	47,419	0	0	47,419	-569	221,807		$ 221,807
	General plant:										
10	Land	480	19	0			0	0	19		$ 19
11	Structures & improvements	482	1,239	0	12		12	0	1,251		1,251
12	Office furniture & equipment	483	490	0	-5		-5	0	485		485
13	Office equipment - computers	483	2,464	0	272		272	0	2,736		2,736
14	Transportation equipment	484	2,235	0	-68		-68	0	2,166		2,166
15	Heavy work equipment	485	643	0	11		11	0	654		654
16	Tools & work equipment	486	974	0	29		29	0	1,003		1,003
17	Communication equipment	488	526	0	-86		-86	0	440		440
18	Communication structures		98	0	-3		-3	0	96		96
19	Other general equipment	489	0	0			0		0		0
20			8,688	-	162	0	162	0	8,849	0	$ 8,849
21	Total gas plant in service	100	183,645	47,419	162	0	47,581	-569	230,656	0	$ 230,656
22	Gas plant under construction	115	23,677	42,908			42,908		66,585		66,585
23	Total property plant and equipment		207,322	90,327	162	0	90,489	-569	297,241	0	$ 297,241

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2008

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/07 (a)	Transfers (b)	Provisions (c)	Retirements (d)	Net Salvage /(Costs) (e)	Balance Dec. 31/08 (f)
	Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	4,918		434			5,352
2	Structures & improvements	452	4,221		234			4,456
3	Wells and lines	453/4/5	15,108		1,398	-287		16,219
4	Compressor equipment	456	23,308		1,831	-81		25,058
5	Measuring & regulating equipment	457	6,831		599			7,430
6			54,387	0	4,496	-368	0	58,515
	General plant:							
7	Structures & improvements	482	516		8			524
8	Office furniture & equipment		308		-6	0		302
9	Office equipment - computers		1,019		304	0		1,322
10	Transportation equipment	484	468		154	0		622
11	Heavy work equipment	485	81		41	0		122
12	Tools and other equipment	486/89/79	494		27	0		521
13	Communication structures		66		5	0		70
14	Communication equipment	488	280		-62	0		218
15			3,232	0	470	0	0	3,702
16	Total gas plant in service		57,618	0	4,966	-368	0	62,217

UNION GAS LIMITED
Continuity of Property, Plant and Equipment
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Additions: Capital Additions	Additions: Transfers	Additions: Net Salvage	Additions: Net Additions	Retirements	Balance Dec. 31/09	Adjustments	Adjusted Utility Balance
			(a)	(b)	(c)	(g)	(h)	(d)	(e)	(f)	(g)
	Gas Plant in Service:										
	Underground storage plant:										
1	Land	450	1,231	28	0		28		1,260		1,260
2	Land rights	451	19,588	2,321	0		2,321		21,909		21,909
3	Structures and improvements	452	12,109	6,691	14		6,704	-56	18,758		18,758
4	Wells	453/4/5	79,475	5,891	0		5,891	-34	85,332		85,332
5	Compressor equipment	456	70,432	65,005	0		65,005	-707	134,730		134,730
6	Measuring & regulating equipment	457	20,636	866	0		866		21,502		21,502
7	Base pressure gas	458	18,336	1,660	0		1,660		19,996		19,996
8	Other equipment	459	0				0		0		0
9			221,807	82,462	14	0	82,475	-797	303,486		$ 303,486
	General plant:										
10	Land	480	19				0		19		$ 19
11	Structures & improvements	482	1,251	2			2	-15	1,238		1,238
12	Office furniture & equipment	483	485	25			25	-59	451		451
13	Office equipment - computers	483	2,736	458			458	-655	2,540		2,540
14	Transportation equipment	484	2,166	87	-2		85	-406	1,846		1,846
15	Heavy work equipment	485	654	42	2		44	-117	581		581
16	Tools & work equipment	486	1,003	54			54	-67	990		990
17	Communication equipment	488	440	14			14	-57	397		397
18	Communication structures		96				0	-17	78		78
19	Other general equipment	489	0				0		0		0
20			8,849	682	0	0	682	-1,394	8,137	0	$ 8,137
21	Total gas plant in service	100	230,656	83,143	14	0	83,157	-2,190	311,623	0	$ 311,623
22	Gas plant under construction	115	66,585	-65,905			-65,905		680		680
23	Total property plant and equipment		297,241	17,238	14	0	17,252	-2,190	312,303	0	$ 312,303

UNION GAS LIMITED
Continuity of Accumulated Depreciation
Calendar Year Ending December 31, 2009

Line No.	Particulars ($000's)	O.E.B. No.	Balance Dec. 31/08	Transfers	Provisions	Retirements	Net Salvage /(Costs)	Balance Dec. 31/09
			(a)	(b)	(c)	(d)	(e)	(f)
	Gas Plant in Service:							
	Underground storage plant:							
1	Land rights	451	5,352		463			5,815
2	Structures & improvements	452	4,456	6	313	-24		4,751
3	Wells and lines	453/4/5	16,219		1,755	-14		17,961
4	Compressor equipment	456	25,058		3,008	-523		27,544
5	Measuring & regulating equipment	457	7,430		726			8,156
6			58,515	6	6,265	-560	0	64,226
	General plant:							
7	Structures & improvements	482	524		28	-15		537
8	Office furniture & equipment		302		31	-59		274
9	Office equipment - computers		1,322		660	-655	9	1,337
10	Transportation equipment	484	622	-0	202	-406	1	419
11	Heavy work equipment	485	122	0	28	-117	0	33
12	Tools and other equipment	486/89/79	521		66	-67	-7	513
13	Communication structures		70		4	-17		57
14	Communication equipment	488	218		28	-57		188
15			3,702	0	1,047	-1,394	4	3,359
16	Total gas plant in service		62,217	6	7,312	-1,954	4	67,585

Union Gas Limited
New Underground Storage Projects
2007-2009

Project Description	Storage Additions 2007	Storage Additions 2008	Storage Additions 2009	Regulated	Unregulated
Maintenance Capital	$1,719,288	$5,330,096	$1,959,909	$4,673,063	$1,692,537
Dawn Dehydration	$4,275,438	$1,524,102	$128,987		$5,928,527
2008 Storage Enhancement Project	$2,135,629	$3,390,508	($81,709)		$5,444,428
2009 Storage Enhancement Project		$133,589	$1,303,836		$13,102,724
Heritage Pool	$1,826,272	$2,066,483	$9209,968		$1,440,425
Dawn High Deliverability Project	$21,342,372	$84,315,119	$5,785,322		$111,442,812
Subtotal	$31,298,999	$96,759,897	$18,309,313	$4,673,063	$139,051,453
Tipperary Pool (Union Gas' Share)	$13,240,580	$16,565,950	$4,221,279		$34,027,809
Total	$44,539,579	$113,325,847	$22,530,592	$4,673,063	$173,079,262

UNION GAS LIMITED
Reconciliation of New Storage Assets to Storage Plant Additions - Summary
2007-2009

Description	Storage Actuals 2007	Storage Actuals 2008	Storage Actuals 2009	Unregulated	Adjustment to Projects	Capitalized Overheads	Pre-2007 Project Spend	Adjusted Project	2008 Asset Additions	2009 Asset Additions	Total Additions	Variance
Maintenance Capital (1) (2)	1,719,288	5,330,096	1,959,909	$1,692,537	($445,187)	$6,522		$1,253,872	$716,152	$597,919	$1,314,071	($60,199)
Dawn Dehydration (1) (2)	4,275,438	1,524,102	128,987	$5,928,527	($4,481,445)	$2,182		$1,449,264	$1,319,930	$129,334	$1,449,264	$0
Expansion (3) (4)												
2008 Storage Enhancement Project	2,135,629	3,390,508	(81,709)	$5,444,428	($312,770)	$7,405	$213,019	$5,352,082	$5,381,101	($29,020)	$5,352,081	$1
2009 Storage Enhancement Project	$0	133,589	1,306,836	$1,440,425	$0	$3,873		$1,444,298	$0	$1,444,299	$1,444,299	-$1
Heritage Pool	1,826,272	2,066,483	9,209,968	$13,102,723	($1,545)	$24,532		$13,125,710	$0	$13,125,711	$13,125,711	-$1
Dawn High Deliverability Project	21,342,372	84,315,119	5,785,322	$111,442,813	($6,466,172)	$232,453	$36,547	$105,245,641	$38,473,482	$66,772,159	$105,245,641	$0
Annual Storage Asset Additions Total	31,298,999	96,759,897	18,309,313	$139,051,453	($11,707,119)	$276,967	$249,566	$127,870,867	$45,890,665	$82,040,402	$127,931,067	($60,200)
Asset Additions - Storage Support									$1,528,606	$421,113	$1,949,719	
Annual Total									**$47,419,271**	**$82,461,515**	$129,880,786	

Notes:
(1) See page 2 for details of Storage Actuals and Unregulated Allocation Basis
(2) See page 3 for details of Adjustments and Capitalized Overheads
(3) See page 4 for details of Unregulated Storage Actuals
(4) See page 5 for details of Adjustments and Capitalized Overheads

UNION GAS LIMITED
New Storage Additions - Maintenance and Dawn Dehydration Replacement
Storage Actuals and Unregulated Allocation Basis
2007-2009

Description	Storage Actuals 2007	Storage Actuals 2008	Storage Actuals 2009		Regulated	Unregulated	Unregulated Allocation Factor
MAINTENANCE PROJECTS							
Storage and Transmission Compression			$459,000		$367,843	$91,157	19.9%
REPLACEMENT PROJECTS							
Regulated Only	$78,123	$27,411			$105,534	$0	0.0%
Storage Lines, Wells, and Compression	$1,052,217	$934,944	$445,153		$1,518,836	$913,478	37.7%
Storage and Transmission Compression	$588,948	$2,791,797	($132,422)		$2,603,205	$645,116	19.9%
Other - Post Period Adjustment			$120,431		$77,645	$42,786	Direct Assignment
Construction Work in Progress		$1,575,944	$1,067,747				
Total	$1,719,288	$5,330,096	$1,959,909		$4,673,063	$1,692,537	
DAWN DEHYDRATION							
Unregulated Only	$4,275,438	$1,524,102	$128,987		$0	$5,928,527	100.0%
Total	$4,275,438	$1,524,102	$128,987		$0	$5,928,527	

UNION GAS LIMITED
New Storage Additions - Maintenance and Dawn Dehydration Replacement
Storage Actuals and Unregulated Allocation Basis
2007-2009

Description	Unregulated	Adjustments	Capitalized Overheads	Total Capitalized Unregulated	2008 Additions	2009 Additions	Total Additions	Variance	Adjustment Explanation
MAINTENANCE PROJECTS									
Storage and Transmission Compression	$91,157		$245	$91,403	$0	$91,403	$91,403		
REPLACEMENT PROJECTS									
Storage Lines, Wells, and Compression	$913,478	($403,896)	$881	$510,463	$356,393	$137,811	$494,204	$16,259	Asset incorrectly settled 100% to regulated assets - settlement to be adjusted in 2011
Storage and Transmission Compression	$645,116	($41,291)	$5,072	$608,897	$359,759	$247,950	$607,709	$1,188	Negative assets not permitted - excess allocated against overheads, and salvage included in project total - not capitalized; offset by amount posted directly to the unregulated category that should have been allocated to that category
Other - Post Period Adjustment	$42,786		$324	$43,110	$0	$120,755	$120,755	($77,645)	Asset incorrectly settled 100% to unregulated assets - settlement to be adjusted in 2011
Total	$1,692,537	($445,187)	$6,522	$1,253,873	$716,152	$597,919	$1,314,071	($60,198)	
DAWN DEHYDRATION									
Unregulated Only	$5,928,527	($4,481,445)	$2,182	$1,449,264	$1,319,930	$129,334	$1,449,264		

UNION GAS LIMITED
New Storage Additions - Expansion Projects
2005-2009

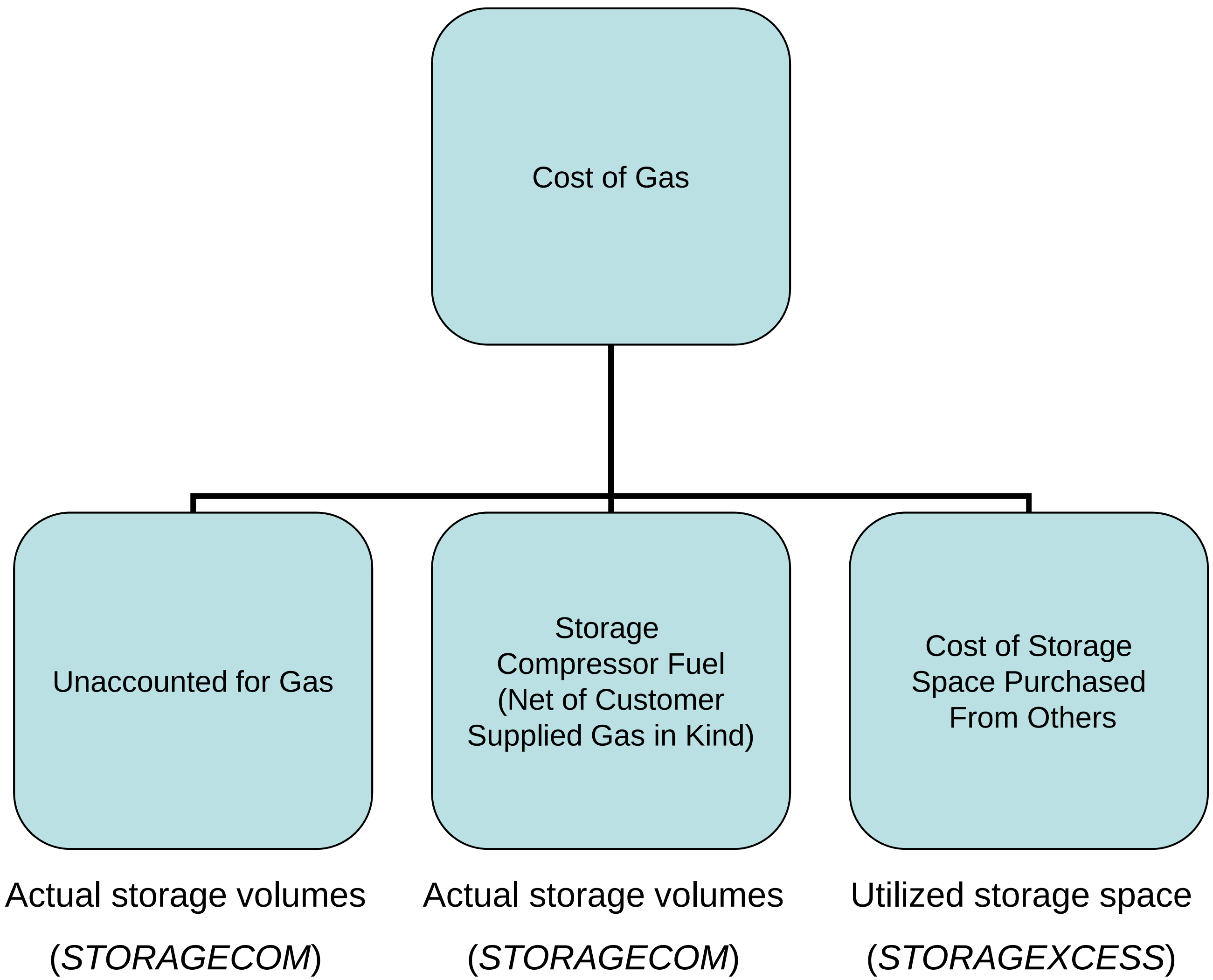
Description	Expansion Actuals 2005	Expansion Actuals 2006	Expansion Actuals 2007	Expansion Actuals 2008	Expansion Actuals 2009	Expansion Total
2008 Storage Enhancement Project	$163,955	$49,064	$2,135,629	$3,390,508	($81,709)	$5,657,447
2009 Storage Enhancement Project	$0	$0	$0	$133,589	$1,306,836	$1,440,425
Heritage Pool	$0	$0	$1,826,272	$2,066,483	$9,209,968	$13,102,723
Dawn High Deliverability Project	$0	$36,547	$21,342,372	$84,315,119	$5,785,322	$111,479,360
Total	$163,955	$85,611	$25,304,273	$89,905,699	$16,220,417	$131,679,955

UNION GAS LIMITED
New Storage Additions - Expansion Projects
Adjustments and Capitalized Overheads
2005-2009

Description	Expansion Total		Adjustments	Capitalized Overheads	Total Capitalized Unregulated	2008 Additions	2009 Additions	Total Additions	Adjustment Explanation
2008 Storage Enhancement Project	$5,657,447		($312,770)	$7,405	$5,352,081	$5,381,101	($29,020)	$5,352,081	Salvage included in project total - not capitalized
2009 Storage Enhancement Project	$1,440,425		$0	$3,873	$1,444,299	$0	$1,444,299	$1,444,299	
Heritage Pool	$13,102,724		($1,545)	$24,532	$13,125,711	$0	$13,125,711	$13,125,711	Computer Equipment represents a general asset addition, not storage
Dawn High Deliverability Project	$111,479,360		($6,466,172)	$232,453	$105,245,641	$38,473,482	$66,772,159	$105,245,641	Salvage included in project total - not capitalized; and tools/computer equipment represent a general asset addition, not storage

Union Gas Limited
Separation of Regulated and Unregulated Storage Costs
Cost of Gas Components

Schedule 12



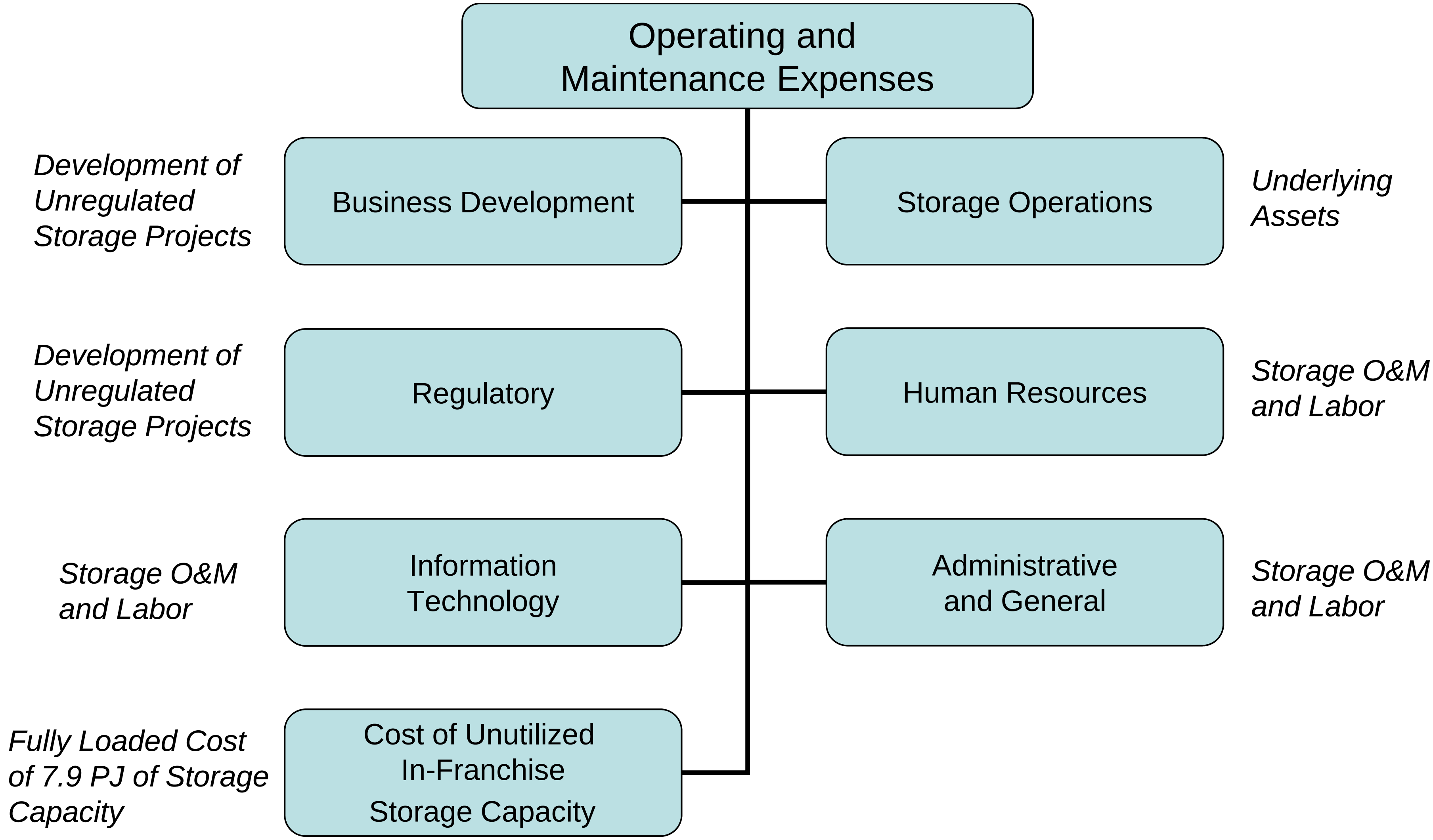
Schedule 13

Union Gas Limited
Operating and Maintenance Expense Allocation Factors

O&M Classification	O&M Sub-Category	Allocation Factor Description	Allocation Factor	2007 Allocation %	2011 Allocation %
Storage General (internal orders are 100% storage)	Supervision	Asset based	Total weighted average asset allocator for unregulated storage	38.3%	58.4%
	Wells	Asset based	Unregulated allocator for Wells	37.7%	63.9%
	Lines	Asset based	Unregulated allocator for Lines	37.7%	60.0%
	Compressors	Asset based	Unregulated allocator for Compressors	39.4%	60.6%
	Measuring & Regulating	Asset based	Unregulated allocator for M&R	37.7%	59.9%
	Dehydration	Cost Study based	2007 Cost Allocation Study (Dehy Demand)	24.8%	69.0%
	Rents	Asset based	Total weighted average allocator for unregulated storage	38.3%	58.4%
	Other	Asset based	Total weighted average allocator for unregulated storage	38.3%	58.4%
Storage Shared (internal orders relate both to storage & transmission)	Supervision	Cost Study based	2007 Cost Allocation Study (C1 storage assets as a % of total storage & dawn-trafalger transmission assets)	9.8%	13.0%
	Wells	Asset based	Calculated unregulated storage allocator Wells	37.7%	50.6%
	Lines	Asset based	Calculated unregulated storage allocator Lines	37.7%	48.3%
	Compressors	Asset based	Calculated unregulated storage allocator Compressor	20.4%	37.7%
	Measuring & Regulating	Asset based	Calculated unregulated storage allocator M&R	22.2%	30.4%
	Dehydration	Cost Study based	2007 Cost Allocation Study (Dehy Demand)	24.8%	69.0%
	Rents	Cost Study based	2007 Cost Allocation Study (C1 storage assets as a % of total storage & dawn-trafalger transmission assets)	9.8%	13.0%
	Other	Cost Study based	2007 Cost Allocation Study (C1 storage assets as a % of total storage & dawn-trafalger transmission assets)	9.8%	13.0%
Storage Support	N/A	Spending based	Unregulated Storage O&M to Total Operational O&M (2010Budget)	2.5%	2.9%

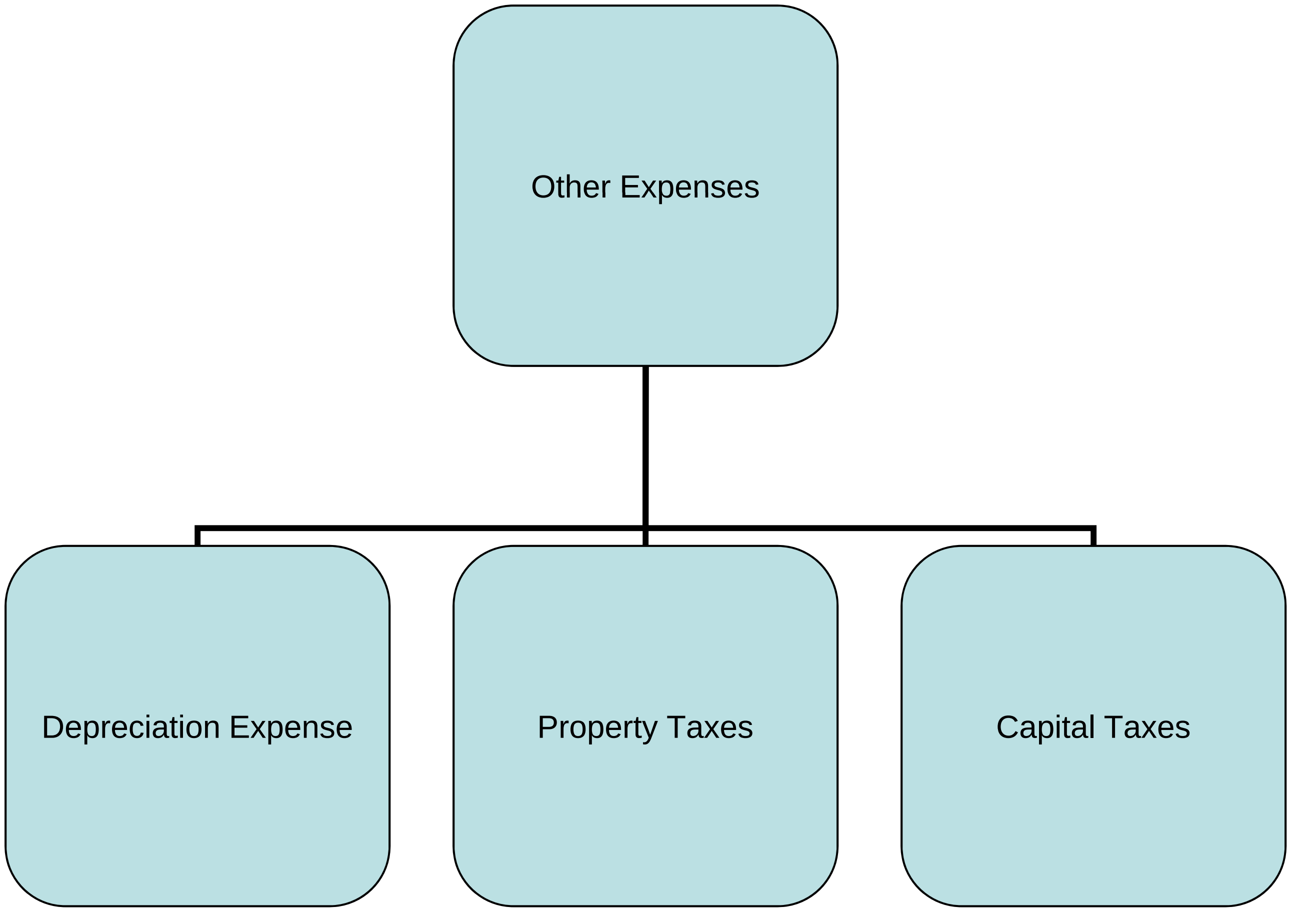
Union Gas Limited
Separation of Regulated and Unregulated Storage Costs
Operating & Maintenance Expenses

Schedule 14



Union Gas Limited
Separation of Regulated and Unregulated Storage Costs
Other Expenses

Schedule 15



- Depreciation rates for Unregulated storage assets
- Depreciation for general plant – allocated on the same basis as general plant

Actual property tax for Dawn assets – allocated between regulated and unregulated based on gross storage plant

Allocated based on the percentage of unregulated storage assets to total assets (excluding general plant)

UNION GAS LIMITED
Reconcilation of Storage Utilization and Available Capacity
Summary of Short-Term Storage
(At October 31, 2009)

Unutilized Storage to 100 PJs from Union's Integrated Supply Plan (ISP)		9.5			
Short Term Peak Storage Sales	Contract	Space (PJs)	Activity (PJs)	Activity (10^3m^3)	Storage Turn-Over Rate
Customer 1	HUB Contract 1	2.1	6.5	172,958	3.1
Customer 2	HUB Contract 2	0.5	2.4	64,937	4.9
Customer 3	HUB Contract 3	0.5	0.6	15,572	1.2
Customer 4	HUB Contract 4	0.5	1.5	38,776	2.9
Customer 5	HUB Contract 5	1.1	4.6	122,236	4.2
Customer 6	HUB Contract 6	0.5	1.4	35,833	2.7
Customer 7	HUB Contract 7	1.1	3.4	91,040	3.1
Customer 8	HUB Contract 8	1.1	1.2	32,934	1.1
Customer 9	HUB Contract 9	0.5	1.1	30,130	2.3
Customer 10	HUB Contract 10	0.5	0.8	22,404	1.7
Customer 11	HUB Contract 11	1.1	1.1	27,975	1.0
Customer 12	HUB Contract 12	0.0	0.0	530	1.0
Customer 13	HUB Contract 13	0.0	-	-	
Subtotal		9.6	24.7	655,325	2.6
Customer 14	Expired Prior to October 31, 2009		1.1	27,862	
Customer 15	Expired Prior to October 31, 2009		0.9	24,755	
Customer 16	Expired Prior to October 31, 2009		0.6	17,060	
Customer 17	Expired Prior to October 31, 2009		0.2	5,200	
Customer 18	Expired Prior to October 31, 2009		0.5	14,514	
Total Short Term Peak Storage Sales		9.6	28.1	744,717	
Excess/(Shortfall)		(0.1)			

UNION GAS LIMITED
Reconcilation of Storage Utilization and Available Capacity
Summary of Long-Term Storage
(October 31, 2009)

	Space (PJs)	Activity (10^3m^3)	Activity (PJs)	Storage Turn-Over Rate
Capacity				
Total Official Working Capacity (1)	163.7			
Less: Reserved for In-Franchise Customers	(100.0)			
Available for Ex-Franchise Customers	63.7			
Add: Additional Union Capacity	2.8			
Add: 3rd Party Storage Capacity	9.8			
Available Capacity for Long-Term Storage	76.3			
Add: Resource Optimization (2)	14.8			
Total Available Storage Capacity	91.1			
Sales				
Long Term Peak Storage	86.0	4,378,235	165.1	1.9
High Deliverability Storage	5.1	1,051,450	39.7	7.8
Total Long-Term Storage Sales	91.1	5,429,685	204.8	2.2

Notes:

(1) As per Union's Integrated Supply Plan (ISP)

(2) Combination of resource gas loans and space encroachment.

UNION GAS LIMITED
Assignment of Union's 2009 Unregulated Storage Costs
to its Short-Term and Long-Term Accounts

Item	2009 Actual Amount ($000)	Assignment Basis to 179-70 (Short Term) and 179-72 (Long Term)
Revenue		
	$135,286	Based on services provided (see Table 1 for a completing listing of 2009 actual long-term and short-term transactions by category)
Total Revenue (A)	**$135,286**	
Commodity Costs		
UFG	$7,289	Ratio of actual unregulated short and long term volume to total actual unregulated volumes S-T= 4.35%/(4.35%+9.13%)=32.3% L-T=9.13%/(4.35%+9.13%)=67.7%
Compressor Fuel	$5,023	Ratio of actual unregulated short and long term storage activity to actual total storage activity S-T varies monthly, annual average=30.1% L-T varies monthly, annual average=69.9%
Customer Supplied Fuel	-$6,173	Direct to Long-Term Storage
Third Party Storage	$179	Direct to Long-Term Storage as per Union's 2007 approved cost allocation study
Total Commodity(B)	**$6,318**	
Demand Costs		
O&M	$10,636	Direct to Long-Term Storage Total unregulated O&M assigned using Union's Board approved 2007 cost allocation methodology
Depreciation	$7,312	Direct to Long-Term Storage

Item	2009 Actual Amount ($000)	Assignment Basis to 179-70 (Short Term) and 179-72 (Long Term)
		Total unregulated depreciation assigned using Union's Board approved 2007 cost allocation methodology
Property & Capital Tax	$1,754	Direct to Long-Term Storage Total unregulated property & capital tax allocated using Union's Board approved 2007 cost allocation methodology
Interest Expense	$11,507	Direct to Long-Term Storage Weighted average interest rate of 4.95% times the total 2009 unregulated rate base assigned using Union's Board approved 2007 cost allocation methodology
Return	$14,220	Direct to Long-Term Storage Board approved 2007 weighted average return rate of 3.07% times the total 2009 unregulated rate base[1] assigned using Union's Board approved 2007 cost allocation methodology, plus Incremental Return on 2009 unregulated rate base[2], plus Return on purchased assets[3]
Income Tax on Return	$7,510	Direct to Long Term Storage Income tax required on return assuming a tax rate of 34.56%
Revenue Requirement on 7.9 PJs of excess in-franchise storage capacity	$2,261	Direct to Short Term Storage O&M, depreciation, taxes and regulated retune on equity of 7.9 PJs of storage services. Amount has been charges to unregulated business each year 2007 through 2009.
Total Demand Costs (C)	**$55,200**	
Net Margin (D)= (A)-(B)-(C)		
Net Margin	**$73,768**	

[1] Rate base is defined as the 12 mos. average of gross plant plus capital expenditures net of accumulated depreciation, transfers, salvage and retirements.
[2] (Weighted average equity internal threshold of 5.18% less the Board approved weighted average rate of return 3.07%) times (2009 unregulated rate base less 2007 Board Approved unregulated rate base established in EB-2007-0606)
[3] 5.18% required return on third party purchased space. At year end 2009, there were four contracts: Washington 10, Huron Tipperary, MHP/St. Clair Pool, and Sarnia Airport.

Tab 5

INCREMENTAL TRANSPORTATION CONTRACTING ANALYSIS

Introduction

Pursuant to Union's EB-2005-0520 Settlement Agreement (pg 13, Subsection 3.1, paragraph 2; and, Appendix B – Incremental Transportation Contracting Analysis), the purpose of this evidence is to provide the analysis used by Union to support its decision to enter into firm transportation capacity on the four following contracts:

1. ANR Pipeline Company-Great Lakes Gas Transmission-TransCanada PipeLines;
2. ANR Pipeline Company-Michigan Consolidated Gas Company;
3. Panhandle Eastern Pipeline Company LP ("PEPL");
4. Vector Pipeline Limited Partnership ("Vector").

ANR PIPELINE COMPANY –GREAT LAKES GAS TRANSMISSION-TRANSCANADA PIPELINES LIMITED TRANSPORTATION CONTRACTS

Capacity

This capacity will serve sales service customers in Union's Southern Operations Area. The demand rate for the entire transportation path is $0.3135 US/MMbtu.

Union delivers to Dawn 10,000 MMbtu/d (10,551 GJ/d) of firm supply via the transportation path originating on ANR South East at Shelbyville on ANR Pipeline Company (ANR) travelling to the Great Lakes Gas Transmission ("GLGT") interconnect at Farwell, then on GLGT to the St. Clair interconnect at which point it then moves on to TransCanada PipeLines Limited ("TCPL") to Dawn. The one-year contract term on upstream pipelines is from November 1, 2010 to October 31, 2011.

The ANR transportation capacity allows for alternative receipt points at Fayetteville Express Interconnect and Burdette for an incremental variable charge of $0.02/MMbtu.

The transportation contracts were negotiated with upstream pipeline suppliers. This transportation path is not allocated to customers migrating from sales service to direct purchase using the vertical slice methodology because the combination of the administrative burden of the multiple pipe path along with the short duration of the contract (one year) was determined to outweigh the benefits.

Rationale for Transportation Capacity

Union's 2010/2011 Gas Supply Plan supports the new ANR-GLGT-TCPL capacity in order for Union to meet forecasted demand within the Southern sales service customer base.

The benefits of this capacity are:

1. The landed cost of gas flowing to Union along this route is competitive with supply flowing on alternative upstream pipelines;

2. The one-year term supports Union's objective of structuring a portfolio with a diversity of contract terms and supply basins;
3. It maintains and supports the acquisition of secure supply from the Rockies, a new gas basin, increasing Union's supply diversity;
4. Secondary receipt points improve supply diversity by providing the options of the Fayetteville shale supply**,** which is a new supply basin for Union;
5. The transportation path introduces further transportation portfolio diversity by including two new pipeline suppliers, ANR and GLGT;
6. Bringing supply into Ontario via the St. Clair interconnect is anticipated to allow for additional operational flexibility in the Sarnia Industrial market;
7. It has a low Unabsorbed Demand Charge ("UDC") exposure relative to alternative upstream pipeline routes due to the low demand charge on this route;
8. Both ANR and GLGT are able to provide a fixed-rate toll for the contract term providing some toll certainty on this supply; and
9. The incremental TCPL short-haul capacity serves to benefit Ontario rate-payers by increasing revenue on TransCanada PipeLines.

Contract Parameters

Transportation provider: ANR Pipeline Company

- Service: FTS-1 (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 10,100 MMbtu/day

- Rate: $0.1495 US/MMbtu at 100% Load Factor
- Primary Receipt Point: REX Shelbyville
- Secondary Receipt Points at an additional rate of $0.02 US/MMbtu: Fayetteville Express Interconnect and Burdette
- Delivery Point: Farwell (Great Lakes Gas Transmission)

Transportation provider: Great Lakes Gas Transmission

- Service: FT (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 10,000 MMbtu/day
- Rate: $0.12464 US/MMbtu at 100% Load Factor
- Receipt Point: Farwell (ANR SE)
- Delivery Point: St. Clair (TransCanada PipeLine)

Transportation provider: TransCanada PipeLines Limited

- Service: FT (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 10,551 GJ/day (10,000 MMbtu/day)
- Rate: $1.13571 CDN GJ/month at 100% Load Factor
- Receipt Point: St. Clair (Great Lakes Gas Transmission)
- Delivery Point: Union SWDA (Union Gas Limited)

Incremental Contracting Analysis Form

Schedule 1 shows a comparison of landed costs for the ANR/GLGT/TCPL transportation path contracts relative to the alternatives reviewed by Union in the format agreed upon in the EB-2005-0520 Settlement Agreement.

ANR PIPELINE COMPANY-MICHIGAN CONSOLIDATED GAS COMPANY TRANSPORTATION CONTRACTS

Capacity

This capacity will serve sales service customers in Union's Southern Operations Area. The combined demand rate for the entire transportation path is $0.2387 US/MMbtu.

Union delivers to Dawn 10,000 MMbtu/d (10,551 GJ/d) of firm supply via the transportation path originating on ANR South East at Shelbyville on ANR Pipeline Company (ANR) travelling to Michigan Consolidated Gas Company ("MichCon") interconnect at Willow Run, then on MichCon to the St. Clair interconnect at which point it then moves on to St. Clair PipeLines to Dawn. The one-year contract term on the upstream pipelines is from November 1, 2010 to October 31, 2011.

The transportation contracts were directly negotiated with upstream pipeline suppliers. This transportation path is not allocated to customers migrating from sales service to direct purchase using the vertical slice methodology because the combination of the administrative burden of the multiple pipe path along with the short duration of the contract (one year) was determined to outweigh the benefits.

Rationale for Transportation Capacity

Union's 2010/2011 Gas Supply Plan supports the new ANR-Michigan Consolidated Gas Company capacity in order for Union to continue to meet demand within the Southern sales service customer base.

The benefits of this capacity are:

1. The landed cost of gas flowing to Union along this route is competitive with supply flowing on alternative upstream pipelines;
2. The one-year term supports Union's objective of structuring a portfolio with a diversity of contract terms and supply basins;
3. It maintains and supports the acquisition of secure supply from the Rockies, a new gas basin, increasing Union's supply diversity;
4. Secondary receipt points improve supply diversity by providing the option of the Fayetteville shale supply, which is a new basin for Union;
5. The transportation path introduces further transportation portfolio diversity by including two new pipeline suppliers, ANR and MichCon;
6. Bringing supply into Ontario via the St. Clair interconnect is anticipated to allow for additional operational flexibility in the Sarnia Industrial market;

7. It has a low UDC exposure relative to alternative upstream pipeline routes due to the low demand charge on this route; and
8. Both ANR and MichCon are able to provide a fixed-rate toll for the contract term providing some toll certainty on this supply.

Contract Parameters

Transportation provider: ANR Pipeline Company

- Service: FTS-1 (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 10,200 MMbtu/day
- Rate: $0.1595 US/MMbtu at 100% Load Factor
- Primary Receipt Point: REX Shelbyville
- Secondary Receipt Points at an additional rate of $0.02/MMbtu: Fayetteville Express Interconnect, Burdette
- Delivery Point: Willow Run (Michigan Consolidated Gas Company)

Transportation provider: Michigan Consolidated Gas Company

- Service: FT (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 10,000 MMbtu/day
- Rate: $0.045 US/MMbtu at 100% Load Factor

- Receipt Point: Willow Run (ANR SE)
- Delivery Point: St. Clair (Union Gas Limited)

Incremental Contracting Analysis Form

Schedule 1 shows a comparison of landed costs for the ANR/MichCon transportation path contracts relative to the alternatives reviewed by Union in the format agreed upon in the EB-2005-0520 Settlement Agreement.

PANHANDLE EASTERN PIPELINE LONG-TERM TRANSPORTATION CONTRACT

As stated in EB-2005-0520 (Exhibit D1, Tab 1), Union held firm transportation on PEPL from the Panhandle Field Zone in Kansas to Union's pipeline system at Ojibway. These volumes were delivered to Parkway by a firm Ojibway-to-Parkway service.

Capacity

This capacity will serve sales service customers in Union's Southern Operations Area. The fixed demand rate for the transportation path is $0.4693 US/MMbtu and is allocated to customers migrating to direct purchase using the vertical slice methodology.

Union held 25,000 MMbtu/d of firm transportation capacity on PEPL from the Panhandle Field Zone to Ojibway for a 5-year term from November 1, 2005 to October 31, 2010.

Prior to the expiry of the contract, Union negotiated the renewal of this contract for a 7-year term (November 1, 2010 to October 31, 2017).

Rationale for Transportation Capacity

Union's 2009/2010 Gas Supply Plan supported the renewal of the expiring PEPL capacity in order for Union to continue to meet forecasted demand within the Southern sales service customer base.

The benefits of renewing this capacity are:

1. The landed cost of gas flowing to Union along this route is competitive with supply flowing on alternative upstream pipelines.
2. The 7 year renewal supports Union's objective of structuring a portfolio with a diversity of contract terms and supply basins.
3. It maintains and supports the acquisition of secure supply from the Panhandle Field Zone gas supply basin, maintaining Union's supply diversity;
4. It provides a supply connection with the Rockies Express (REX) pipeline which provides access the Rockies supply basin.
5. It has a low UDC exposure relative to alternative upstream pipeline routes due to the low demand charge on this route;
6. It provides a fixed-rate toll for the 7-year term providing toll certainty on a portion of Union's supply;

7. It delivers supply into the Windsor market at the Ojibway interconnect providing added security of supply to the demands in that area;
8. It provides Union receipt and delivery flexibility within the US Midwest and Great Lakes area due to the secondary Receipt and Delivery rights as provided by the service.

Contract Parameters

- Transportation provider: Panhandle Eastern Pipe Line Company, LP
- Service: FT (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2017
- Volume: 25,000 MMbtu/day
- Rate: $0.4693 US/MMbtu at 100% Load Factor
- Primary Receipt Point: PEPL FZ (CHYPL)
- Secondary Receipt Points: Scotland Interconnect, ANR Defiance, Crossroads, Jackson Pipeline, Union Ojibway
- Primary Delivery Point: Ojibway
- Secondary Delivery Points: Lebanon Lateral, Columbia Gas – Maumee, Michcon

Incremental Contracting Analysis Form

Schedule 1 shows a comparison of landed costs for the PEPL contract relative to the alternatives reviewed by Union in the format agreed upon in the EB-2005-0520 Settlement Agreement.

VECTOR PIPELINE LONG-TERM TRANSPORTATION CONTRACT

Capacity

This capacity will serve sales service customers in Union's Southern Operations Area. The fixed demand rate for the transportation path is $0.2525 US/MMbtu and is allocated to customers migrating from sales service to direct purchase using the vertical slice methodology.

Union currently holds 85,460 GJ/d of firm transportation capacity on Vector from Chicago to Dawn for a term ending on October 31, 2015 at a fixed toll of $0.25 US/MMbtu.

This new capacity of 15,000 MMbtu/d (15,826 GJ/d) was purchased from the secondary market and was entered into for a one-year term initiating on November 1, 2010 through to October 31, 2011 at a fixed rate of $0.2525 US/MMbtu.

The assignment of US pipeline transportation capacity between shippers is governed by the FERC in accordance with standardized "capacity release" bidding rules. FERC's capacity release process required Union and Shipper releasing the capacity, in this case, BP Canada Energy Company, to place a notice on Vector's website describing the term, volume and rate that Union had bid for the capacity. At the end of a four business day pre-arranged, biddable posting, Union was awarded the capacity under the terms of the original bid.

Rationale for Transportation Capacity

Union's 2010/2011 Gas Supply Plan supports the addition capacity on Vector Pipeline in order for Union to meet forecasted demand within the Southern sales service customer base.

The benefits of this capacity are:

1. The landed cost of gas flowing to Union along this route is competitive with supply flowing on alternative upstream pipelines;
2. The one-year term supports Union's objective of structuring a portfolio with a diversity of contract terms and supply basins;
3. Access to the Chicago market hub receives competing gas supplies from the Western Canada Supply Basin, the U.S. Midwest, Gulf and the expanding Rockies basin which supports Union's objective of diversifying of supply basins;

4. It maintains and supports the acquisition of secure supply from a liquid market hub with many gas suppliers accessing multiple gas basins;
5. It has a low UDC exposure relative to alternative upstream pipeline routes due to the low demand charge on this route;
6. It provides a fixed-rate toll which provides toll certainty on a portion of Union's supply.

Contract Parameters

- Transportation provider: Vector Pipeline Limited Partnership
- Service: FT (Firm Transportation Service)
- Term: November 1, 2010 through October 31, 2011
- Volume: 15,000 MMbtu/day
- Rate: $0.2525 US/MMbtu at 100% Load Factor
- Receipt Point: Joliet (Alliance Pipelines)
- Delivery Point: Dawn (Union Gas Limited)

Incremental Contracting Analysis Form

Schedule 1 shows a comparison of landed costs for the Vector contract relative to the alternatives reviewed by Union in the format agreed upon in the EB-2005-0520 Settlement Agreement.

2010-2011 Transportation Contracting Analysis

Line No	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)
1	Dawn	Dawn	0.251	5.3949	0.0000	0.0000	0.0000	0.0000	$5.39	$ 5.37	Dawn
2	Vector	Chicago	0.015	5.1592	0.2400	0.0019	0.0511	0.2930	$5.45	$ 5.42	Dawn
3	Panhandle Longhaul	Panhandle Field Zone	-0.356	4.7885	0.4251	0.0440	0.2342	0.7033	$5.49	$ 5.46	Dawn
4	Trunkline/Panhandle	Trunkline Field Zone	-0.046	5.0985	0.1900	0.0274	0.2136	0.4310	$5.53	$ 5.50	Dawn
5	Midwestern - Vector	REX Scotland	0.060	5.2044	0.3167	0.0009	0.1048	0.4224	$5.63	$ 5.60	Dawn
6	ANR-Michcon-Union	REX Shelbyville	0.156	5.2999	0.2309	0.0133	0.2043	0.4485	$5.75	$ 5.72	Dawn
7	ANR-GLGT-TCPL	REX Shelbyville	0.156	5.2999	0.3013	0.0143	0.1400	0.4556	$5.76	$ 5.72	Dawn
8	TCPL SWDA	Empress	-0.756	4.3880	1.3154	0.0564	0.1014	1.4732	$5.86	$ 5.83	Dawn
9	Alliance/Vector	Alliance Field Zone	-0.830	4.3142	1.6424	-0.3008	0.2330	1.5746	$5.89	$ 5.86	Dawn

Sources for Assumptions:

Gas Supply Prices (Col D):	Energy & Environmental Analysis; 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
Foreign Exchange (Col K)	$1 US = $1.049 CDN
Energy Conversions (Col K)	1 dth = 1 mmBtu = 1.055056
Union's Analysis Completed:	Jun-10