

August 26, 2011

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

Dear Ms. Walli:

Re: EB-2011-0257 -Union Gas Limited – M12 and C1 Kirkwall to Parkway Firm Transportation Service

We are counsel to Union Gas Limited (“Union”). Please accept this letter as Union's written argument in the above-noted matter.

By application dated July 8, 2011, Union applied to the Board for approval of a firm M12 and C1 transportation rate from Union's interconnect at Kirkwall to Parkway. Evidence in support of the application was filed at the same time.

As set out in the evidence, this application is being made as a result of changing North American gas supply dynamics, including the decline in gas supplies from the Western Canadian Sedimentary Basin, and significant growth of supply from new sources of supply such as the Marcellus Shale. Union confirmed market interest in Kirkwall to Parkway long term transportation service through a binding open season held in April and May, 2011, which concluded with Union executing two 10-year firm M12 transportation service contracts with TransCanada Pipelines. The two contracts represent a total of approximately 263,249 GJ/d from Kirkwall to Parkway beginning November 1, 2012 and November 1, 2013.

Union is seeking approval by September 30, 2011 to modify its current M12 and C1 Rate Schedules effective January 1, 2012 for service beginning November 1, 2012.

The proposed M12 Kirkwall to Parkway rate consists of the following components:

1. a firm monthly transportation demand charge of \$0.346/GJ applied to daily contracted demand; and
2. monthly fuel ratios in accordance with the M12 Schedule “C”.

The proposed C1 Kirkwall to Parkway rate consists of the following components:

1. a firm monthly transportation demand charge of \$0.346/GJ applied to daily contracted demand; and
2. seasonal fuel ratios consistent with the approved C1 fuel ratio design.

Union respectfully submits that the requested relief is fully supported by the evidence. The service is being introduced in response to market demand, and is supported by transportation contracts. As set out in the evidence, the cost allocation and rate design for the proposed rates are consistent with approach approved by the Board in respect of the Dawn to Dawn-Vector transportation demand charge (EB-2007-0613).

Union received interrogatories in response to its application from Board Staff, the Association of Power Producers of Ontario ("APPRO"), Canadian Manufacturers and Exporters ("CME") and the Federation of Rental-Housing Providers of Ontario ("FRPO"). Union's response to these interrogatories further supports this application.

Union's answers addressed a number of points respecting, among other things, the revenues associated with the contracts, the costs for the proposed service and the allocation of any sufficiency or deficiency. Union confirmed in its answers that it will be reviewing the cost allocation and rate design for the M12-X and C1 transportation services at the time of its 2013 rebasing application. Union confirmed that the revenue requirement used to determine the Kirkwall to Parkway monthly demand charge is consistent with Union's Board-approved cost allocation study, which allocates Dawn Trafalgar transmission costs to rate classes on the basis of commodity kilometres. In addition, in its response to interrogatories, Union confirmed that provision of this service will not materially impact Union's ability to sell the Dawn to Parkway path.

Union respectfully requests that the Board approve the firm transportation rates as filed. Union is seeking approval by September 30, 2011 to modify its approved M12 and C1Rate Schedules effective January 1, 2012 for service beginning November 1, 2012.

If necessary, Union reserves the right to submit reply argument on or before September 9, 2011 as provided for in the Board's July 19, 2011 Procedural Order 1.

Yours truly,



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