UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E3, Tab 1, Schedule 1

a) Please recreate Schedule 1 of Exhibit E3/Tab1 using the Board's current approved capital structure.

b) Please explain the negative unfunded short-term debt and the impact on this item if the schedule is recreated using the Board's current approved capital structure.

Response:

a) Attached is a hypothetical Summary of Cost of Capital assuming the Board's current approved capital structure and Union's 2013 forecasted rate base and cost rate percentages. Please see Attachment 1.

b) Please see Exhibit E1, Tab 1, Page 6 of 10, Lines 14 to 19 for an explanation of the negative unfunded short-term debt. Since the Board's current approved capital structure has a lower weighting to unfunded short-term debt than the 2013 proposed weighting the impact on the negative unfunded short-term debt component would be to decrease it. Please note that the application of the 2007 Board-approved structure results in long-term debt and preference share amounts that do not reflect Union's expected balances for these items.

Line No.	Particulars	Utility Capital Structure ($000's)	(%)	Cost Rate %	Requested Return ($000's)
		(a)	(b)	(c)	(d)
1	Long-term debt	2,307,035	61.66	6.50%	149,957
2	Unfunded short-term debt	(33,300)	(0.89)	1.31%	(436)
3	Total debt	2,273,735	60.77		149,521
4	Preference shares	120,852	3.23	3.05%	3,686
5	Common equity	1,346,955	36.00	9.58%	129,038
6	Total rate base	3,741,542	100.00		282,245

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E1, Tab 1, page 8 and E3, Tab1, Schedule 1

Union plans to issue an additional $125 of long-term debt at an effective rate of 3.90% in 2013. Union has also indicated that there are no scheduled redemptions of long-term debt between the date of filing and December 31, 2013.

a) Please explain why Union intends to issue long-term debt when its proposed capital structure shows negative unfunded short-term debt of $115 million.

b) In issuing $125 million of long-term debt Union will pay an effective rate of 3.90%. Would Union have paid a lower effective rate if its equity component was 40%? Please provide a detailed response.

Response:

a) As stated in Exhibit E1, Tab 1, p. 6 the short-term debt included in the utility capital structure differs from the actual short-term borrowings. Items such as construction work in progress and deferred pension costs have a significant impact on the amount of short-term borrowings. In addition, Union's cash position varies significantly due to the seasonal nature of its business which impacts the average balance. Lastly, the timing of the requirement for cash comes before a proposed change in equity. An increase in equity would be naturally offset by debt. Long-term debt changes cannot happen quickly by their very nature. The cash position will slowly return to short-term debt as the long-term debt level adjusts through maturities and reduced issues.

Union issues long-term debt as required to avoid exceeding its credit facility which is at risk of occurring in the fourth quarter of 2012. It is not cost effective to issue debt in small amounts and would be administratively burdensome. Though Union issues debt in larger amounts that may result in low short-term debt levels or even a cash position, Union only obtains long-term debt financing when prudent and tries to take advantage of favourable market conditions.

The Board has previously found this practice to be acceptable as noted in RP-2003-0063 on pp. 112-113 in the Board's Decision with Reasons:

"The Board finds that Union is in compliance with its deemed capital structure. Union's evidence revealed that with respect to long-term debt it had marginally exceeded the 65% debt component of its approved capital structure. This excess

> *was offset by a negative short-term debt balance. Insofar as the variance was marginal, the Board considers this practice to be acceptable. If taken to more significant levels, this approach to the debt side of the capital structure equation could become problematic in certain market conditions. The Board considers that utility management should be in a position where it can conduct the business confidently and conventionally, without fear that the regulator will intrude to second guess decisions which are reasonable at the time they are made. Such divergences as have been highlighted in the evidence with respect to aspects of the capital structure are not of a magnitude so as to require Board intervention."*

In RP-2003-0063 the proposed short-term debt level was projected to be -4.28%. Union has proposed a lower level of -3.08% for 2013.

b) The rating agencies have indicated that their implicit assumption is that Union's allowed equity component will be increased to a level which is consistent with the allowed levels for other utilities, in line with Union's evidence. It is unlikely, however, that going to 40% equity will be sufficient to result in a rating upgrade or significantly impact the expected cost of debt.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E3, Tab 1, Schedule 2

The Schedule providing the effective cost rate of Union's long-term debt shows that the rate has been declining over the years, from 1990 to 2012 (Column H in Schedule 2). Please provide a list of the significant factors that have contributed to lowering the effective long-term debt rate over the years.

Response:

Long-term debt rates have essentially followed the market which has decreased over time. There is an observable deviation from this trend in 2008 when credit markets tightened.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E3, Tab 1, Schedule 2

a) Can Union redeem any of the long term debt issues shown in Schedule 2 before their maturity date? If yes, please identify which issues can be redeemed prior to their maturity date.

b) If the response to part (a) is yes, what is the cost of any penalties or other costs associated with each of the issues that can be redeemed?

c) If the response to part (a) is yes, what is the current estimated cost associated with replacing any issues that could be redeemed prior to their maturity date?

d) If the response to part (a) is yes, has Union done any analysis on the impact on its total debt costs or refinancing some of the debt issues before their maturity date? If yes, please provide a copy of the analysis and any recommendations.

e) Please explain how the reduction from 6.51% for the total company debt to 6.50% for the regulated company debt was determined.

Response:

a) Union has the right to redeem all but the first two long-term debt issuances as listed in Exhibit E3, Tab 1, Schedule 2.

b) Please see Attachment 1. Column (e) represents the indicative market "ask" price as of mid-April which should approximate the minimum price that Union would have to pay to repurchase the debt in a tender offer. Column (h) represents the redemption price that Union would have to pay to force the redemption all or a portion of the debt. The difference between the two prices represents the additional premium that Union would have to pay to utilize the forced redemption provisions and in total is approximately $659 million.

c) The total cost to redeem all of the redeemable debt would be approximately $1.1 billion in excess of the principal or a premium of approximately 55%. As a result, Union would have to issue approximately $3.1 billion of new debt to finance the redemption of the $2.0 billion of existing debt.

d) No, since none of the outstanding long-term debt is currently callable at par, the cost to redeem is not economic, as indicated in the attached analysis.

e) The 6.50 % shown on Exhibit E3, Tab 1, Schedule 2 and carried forward to Exhibit E3, Tab 1, Schedule 1 is the correct value. The 6.51% is a result of using rounded effective cost rates for the schedule instead of the more accurate values used in determining the 6.50%.

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Outstanding ($000's)	Indicative Market Ask Price	Total Market Value ($000's)	Market Value in excess of Principal ($000's)	Redemption Price	Total Redemption Cost ($000's)	Redemption Cost in excess of Principal ($000's)	Redemption Cost in excess of Market Value ($000's)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	08/05/93	8.75	08/03/18	125,000	133.406	166,758	41,758	141.599	176,999	51,999	10,241
2	10/19/93	8.65	10/19/18	75,000	133.406	100,055	25,055	141.601	106,201	31,201	6,146
3	02/24/93	7.90	02/24/14	150,000	111.035	166,553	16,553	113.217	169,826	19,826	3,273
4	11/10/95	8.65	11/10/25	125,000	149.512	186,890	61,890	172.833	216,041	91,041	29,151
5	09/21/05	4.64	06/30/16	200,000	109.614	219,228	19,228	113.617	227,234	27,234	8,006
6	09/11/06	5.46	09/11/36	165,000	122.654	202,379	37,379	178.695	294,847	129,847	92,468
7	11/23/06	4.85	04/25/22	125,000	113.330	141,663	16,663	124.186	155,233	30,233	13,570
8	04/28/08	5.35	04/27/18	200,000	115.769	231,538	31,538	120.199	240,398	40,398	8,860
9	09/02/08	6.05	09/02/38	300,000	134.709	404,127	104,127	189.611	568,833	268,833	164,706
10	07/23/10	5.20	07/23/40	250,000	120.628	301,570	51,570	179.861	449,653	199,653	148,083
11	06/21/11	4.88	06/21/41	300,000	116.417	349,251	49,251	174.541	523,623	223,623	174,372
12	Total			2,015,000		2,470,010	455,010		3,128,886	1,113,886	658,876

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, pages 8-9, Updated & Exhibit E3, Tab 1, Schedule 1

The evidence at pages 8-9 of Exhibit E1, Tab 1 indicates that Union proposes to issue $125 million of long term debt in the last quarter of 2012. Exhibit E3, Tab 1, Schedule 1 shows a negative amount of deemed short term debt of approximately $115 million. Please explain why Union needs to issue the $125 million of long term debt in 2012 when it results in the total of the long term debt, preference shares and equity in excess of rate base.

Response:

Please see the response at Exhibit J.E-1-1-2 a).

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, Updated

If the Board determines that there has been a significant change in the company's business and/or financial risk, does Union agree that in addition to the change in the equity component of the capital structure, the long term debt, short term debt and preference share components of the capital structure should also be reviewed and moved more in line with the electricity distributors? If not, please explain why not.

Response:

No. Union has common and preferred shareholders as well as tangible programs for its short-term and long-term debt. These should be recognized in the determination of capital structure as opposed to a deemed structure which may not recognize the real costs of capital incurred by the utility.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E3, Tab 1, Schedules 2 & 3

a) What is the timing and frequency of payment of the interest (carrying costs) on each of the debt instruments shown in Schedule 2?

b) What is the timing and frequency of the payment of the preference share dividends shown on Schedule 3?

Response:

a) Interest is paid semi-annually consistent with the anniversary of the maturity date found in Exhibit E3, Tab 1, Schedule 2, column (c).

b) Preference share dividends are paid quarterly. Class A shares are paid in March, June, September and December. Class B shares are paid in January, April, July and October.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E3, Tab 1, Schedule 2

a) For the $150 m 25 year MTN (line 1), provide the term sheet as issued in 1990.

b) Has Union considered approaching Bondholders to buy/retire this debt early and replace it as part of a new MTN issue at 3.5-4.00% coupon rate (20-25 years)?

c) Estimate the penalty and the net gain to the utility and its ratepayers from such retirement.

Response:

a) Please see Attachment 1.

b) Union has not considered approaching Bondholders since this bond cannot be redeemed and its current ask price on the market is $129.154 / $100. It is not reasonable to expect the holder to simply tender the debt with a lower rate when the market is asking for a 29% premium on the principal value.

c) The bond cannot be redeemed but if Union were able to buy the entire debt on the market the cost would exceed the face value of the bond by over $4 million. Issue costs for new debt would be on top of this figure.

SUMMARY OF THE OFFERING

Issue: $150,000,000 principal amount of 11.50% Debentures, 1990 Series.

Price: 100 plus accrued interest, if any.

Maturity: August 28, 2015.

Delivery: August 28, 1990.

Interest: 11.50% per annum, payable semi-annually on February 28 and August 28 of each year commencing February 28, 1991.

Redemption: ~~Not redeemable prior to maturity~~.

Purchase for Cancellation: 1990 Debentures may be purchased for cancellation at any time in the market, by tender or by private contract. The Company may not purchase 1990 Debentures at a price in excess of the principal amount thereof together with accrued and unpaid interest and costs of purchase unless an invitation to tender is made to all holders of 1990 Debentures. Pro rata adjustments will be made in the event that all 1990 Debentures tendered are not purchased for cancellation by the Company.

Priority: The 1990 Debentures will be direct unsecured obligations of the Company and will rank pari passu with all other debentures save only as to sinking fund provisions applicable to different series of debentures and other unsecured debt of the Company.

Use of Proceeds: The proceeds of sale of the 1990 Debentures will be used to reduce bank loans and other short-term borrowings incurred to fund working capital requirements and capital expenditures of the Company.

Interest and Asset Coverage: The interest and asset coverages after giving effect to this issue (assuming payment of the Underwriters' fee and expenses of issue) as at June 30, 1990 were as follows:

Interest coverage (pro forma for 12 months ended June 30, 1990) on aggregate long-term debt	2.12 times
Asset coverage (pro forma as at June 30, 1990) on aggregate long-term debt	
— before deduction of deferred income taxes	1.87 times
— after deduction of deferred income taxes	1.58 times

The above information is a summary only and should be read in conjunction with the detailed information provided elsewhere in this short form prospectus.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Ref: E1 T1 pages 7 and 8

Union has a Medium Term Note ("MTN") program under a shelf prospectus that allows it to issue up to $500.0 million of debentures with terms ranging from 1 to 31 years. The MTN program allows Union to issue debt on a frequent basis to meet its financing needs. Debt can be issued with varying terms to manage the maturity profile, such that significant refinancing risk in any one period can be avoided while still prudently securing long-term financing for the long-lived assets of the Company.

The MTN program also provides the flexibility to stagger maturities such that frequent refinancing of Union's long-term debt results in an embedded cost which reflects the average of market interest rates across economic cycles. The current shelf prospectus will expire in October 2012 and Union expects to file a new shelf prospectus, with similar terms, prior to expiration.

a) Please provide a copy of the documentation underpinning the "Medium Term Note Program under a shelf prospectus" that Union has indicated will expire in October 2012.

b) Please summarize the methodology used by Union in connection with the existing shelf prospectus to derive the interest rate for any particular MTN. For example, at Exhibit E1, Tab 1, page 8 lines 6-7 Union indicates that $300.0 million of MTNs with a 30 year term and a coupon rate of 4.88% (4.93% effective cost rate) were issued; how were the coupon and effective cost rates determined? Without limiting the scope of the requested summary we ask that you please indicate to what extent, under the existing shelf prospectus, the coupon and effective rates of any debt issuances are derived either automatically by formula, through negotiation, or both.

c) Please confirm that, in accordance with the evidence at Exhibit E1, Tab 1, page 8 Union is forecasting an additional issuance of $125 million of long term debt in 2012 and is not forecasting any issuance of long term debt in 2013.

Response:

a) Please see Attachment 1.

b) The coupon rate is based on the market. The credit spread is based on market rates for similarly rated paper at the time of issuance, added to the treasury rate. Banks act as agents and call buyers to gauge interest and at what levels (credit spread) and build a book of buyers, typically much larger than the planned issue. The agents then narrow it down to the size of the transaction in an effort to get Union the tightest pricing, while diversifying the list of holders.

The effective rate includes interest expense (based on coupon rate), discount, commissions, legal fees and bond agency costs over the term of the bond issue.

c) Correct, Union is forecasting a debt issue of $125 million in 2012 and no issue in 2013 due to Union's proposal for a 40% equity component. Both of these values may change as a result of any change to the proposed capital structure.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any securities laws, and, may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, of for the account or benefit of a U.S. person (as defined in Regulations S under the 1933 Act), except in certain transactions exempt from, or not subject to, the registration requirements of the 1933 Act. See "Plan of Distribution".

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of the issuer at 50 Keil Drive North, Chatham, ON N7M 5M1 (telephone (519) 436-5417), and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue September 10, 2010

UNION GAS LIMITED
$500,000,000
MEDIUM TERM NOTE DEBENTURES
(UNSECURED)

Union Gas Limited ("Union Gas" or the "Corporation") may from time to time issue medium term note debentures (the "Notes") with maturities of not less than one year from the date of issue at prices and on terms determined at the time of issue, in an aggregate principal amount of up to $500,000,000 (or the equivalent in foreign currencies) during the twenty-five month period that this short form prospectus, including any amendments hereto, remains valid. The Notes may be issuable in global form, in fully registered form or in bearer form in minimum denominations of $1,000 and integral multiples thereof (or such other denominations in other currencies as determined by the Corporation). The Notes may be issued as interest bearing notes at rates of interest determined by the Corporation from time to time, or as non-interest bearing notes issued at a discount. See "Description of Notes".

The specific terms of any offering of Notes, including the aggregate principal amount offered, price to the public (at par, discount or a premium), currency, dates of issue, delivery and maturity, if interest-bearing, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof) and interest payment date(s), redemption provisions (if redeemable), proceeds to the Corporation, the agents' commission and the name of the registrar and paying agent, will be established at the time of the offering and sale of the Notes and set forth in a pricing supplement (a "Pricing Supplement") or other prospectus supplement which will accompany this short form prospectus and any amendment hereto. The Corporation may set forth in a Pricing Supplement or other prospectus supplement specific variable terms of the Notes which are not within the options and parameters set forth in this short form prospectus.

There is no market through which the securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors".

In the opinion of counsel to the Corporation and counsel to the Agents (as defined below), the Notes offered hereby, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) for certain investors as referred to under the heading "Eligibility for Investment".

RATES ON APPLICATION

The Notes will be offered severally by BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc. and TD Securities Inc. or other investment dealers selected from time to time by the Corporation, acting as agents of the Corporation or underwriters retained by the Corporation (individually, an "Agent" and collectively, the "Agents") in Canada, subject to confirmation by the Corporation pursuant to a selling agency agreement referred to under the heading "Plan of Distribution". The Corporation will pay to each Agent through whom any Note is sold a commission, as set forth in the selling agency agreement, unless the Corporation and the Agents otherwise agree. The Notes may also be purchased from time to time by any of the Agents as principal, at such prices and with such commissions as may be agreed between the Corporation and any such Agents, for resale to the public at prices to be negotiated with each purchaser, which prices may vary during the distribution period and as between purchasers. Each Agent's compensation will be increased or decreased by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the aggregate price paid by the Agent, acting as principal, to the Corporation. The Corporation may also offer the Notes directly to purchasers, pursuant to applicable statutory exemptions or discretionary exemptions, in which case no commission will be paid to the Agents. The Corporation and, if applicable, the Agents may reject any order in whole or in part. The Notes will not be listed on any securities exchange.

Under applicable securities legislation in Canada, the Corporation may be considered to be a connected issuer of each of the Agents, as each are directly or indirectly wholly-owned or majority owned subsidiaries of Canadian chartered banks or financial institutions which have extended credit facilities to the Corporation upon which the Corporation may draw from time to time. See "Plan of Distribution".

The offering of Notes under this short form prospectus is directed only to residents of Canada. The Notes have not been registered under the 1933 Act or any state securities laws, and may not be offered, sold or delivered in the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the 1933 Act) unless the Notes are registered under the 1933 Act, or an exemption from the registration requirements of the 1933 Act is available. The Agents and any other agents who participate in the distribution agree or will agree not to buy or offer to buy, to sell or offer to sell or solicit any offer to buy any Note in the United States or to or for the account or benefit of a U.S. person (as defined in Regulation S under the 1933 Act) except pursuant to an exemption from registration under the 1933 Act. See "Plan of Distribution".

The offering of Notes is subject to approval of certain legal matters on behalf of the Corporation by McCarthy Tétrault LLP and on behalf of the Agents by Stikeman Elliott LLP.

The head and registered office of Union Gas is located at 50 Keil Drive North, Chatham, ON N7M 5M1.

All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the securities commission or similar authority in each of the provinces of Canada, are specifically incorporated by reference in, and form an integral part of, this short form prospectus provided that such documents are not incorporated by reference to the extent that their contents are modified or superseded by a statement contained in this short form prospectus or in any other subsequently filed document that is also incorporated by reference in this short form prospectus:

(a) the Annual Information Form of the Corporation dated March 17, 2010 (the "AIF");

(b) the consolidated comparative financial statements of the Corporation as at and for the year ended December 31, 2009 and the auditors' report thereon;

(c) the management's discussion and analysis of the financial condition and results of operations as at and for the year ended December 31, 2009;

(d) the unaudited consolidated comparative interim financial statements of the Corporation as at and for the three and six month periods ended June 30, 2010; and

(e) the management's discussion and analysis of the financial condition and results of operations as at and for the three and six month periods ended June 30, 2010.

Any documents of the type required by National Instrument 44-101 to be incorporated by reference into this short form prospectus, including any comparative annual financial statements and the auditor's report thereon, comparative interim financial statements, related management's discussion and analysis, material change reports (except confidential material change reports), annual information forms, business acquisition reports and any exhibits to interim financial statements which contain updated earnings coverage calculations filed by the Corporation with the various securities commissions or similar authorities in Canada after the date of this short form prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference into this short form prospectus.

Upon a new annual information form and the related annual financial statements and management's discussion and analysis being filed by the Corporation with and, where required, accepted by the applicable securities regulatory authorities during the term of this short form prospectus, the previous annual information form, the previous annual financial statements, all interim financial statements and accompanying management's discussion and analysis, material change reports and business acquisition reports filed by the Corporation prior to the commencement of the financial year of the Corporation in which the new annual information form is filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder. Upon unaudited interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this short form prospectus, all unaudited interim financial statements and the accompanying

management's discussion and analysis filed prior to the new unaudited interim financial statements shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this short form prospectus.

A Pricing Supplement or other prospectus supplement containing the specific terms of an offering of Notes will be delivered to purchasers of such Notes together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of such supplement solely for the purposes of the offering of the Notes offered thereunder.

Updated earnings coverage ratios will be filed quarterly with the applicable securities regulatory authorities, either as exhibits to the Corporation's unaudited interim and audited annual financial statements or as prospectus supplements and will be deemed to be incorporated by reference into this short form prospectus for the purposes of the offering of the Notes.

FORWARD LOOKING STATEMENTS

Forward-looking information, or forward-looking statements, have been included in this short form prospectus and the documents incorporated by reference in this short form prospectus to provide readers with information about the Corporation and its subsidiaries, including management's assessment of the Corporation's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such information is included, among other places, in this short form prospectus under the headings "Use of Proceeds", "Risk Factors" and in the AIF under the headings "General Development of the Business" and "Risk Factors" and in the Management's Discussion and Analysis for the year ended December 31, 2009 and the Management's Discussion and Analysis for the three and six month periods ended June 30, 2010, each of such documents being incorporated by reference in this short form prospectus. Although the Corporation believes that these forward-looking statements are reasonable based on the information available on the date such statements are made and the processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about: the supply and demand for crude oil, natural gas and natural gas liquids; prices of crude oil, storage and natural gas and natural gas liquids; expected foreign exchange ratios; inflation; interest rates; the availability and price of labour and pipeline construction materials; operational reliability; anticipated in-service dates and weather.

The Corporation's forward-looking statements are made subject to risks and uncertainties pertaining to operating performance, regulatory parameters, weather, economic conditions, exchange ratios, interest rates and commodity prices, including but not limited to those risks and uncertainties discussed in this short form prospectus and in documents incorporated by reference into this short form prospectus. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as they are interdependent and the Corporation's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by law, the Corporation assumes no obligation to publicly update or revise any forward-looking statements made in this short form prospectus or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are expressly qualified in their entirety by these cautionary statements.

THE CORPORATION

The Corporation is a major Canadian natural gas storage, transmission and distribution company based in Ontario with nearly 100 years of experience and service to customers. The distribution business serves 1.3 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario. Union Gas' growing storage and transmission business offers premium storage and transportation services to customers at the Dawn Hub (Dawn). Dawn is a storage facility located in Dawn, Ontario just south of Sarnia, Ontario and is the largest underground storage facility in Canada and one of the largest in North America. It offers customers an important link in the movement of natural gas from Western Canadian and U.S. supply basins to markets in central Canada and the northeast U.S.

Union Gas Limited was originally incorporated under the laws of the Province of Ontario by letters patent dated December 19, 1911. The Corporation is an indirect wholly-owned subsidiary of Westcoast Energy Inc. (Westcoast). Westcoast is a wholly-owned subsidiary of Spectra Energy Corp (Spectra Energy), a Delaware corporation that is a public company in the United States. The head and registered office of the Corporation is located at 50 Keil Drive North, Chatham, Ontario N7M 5M1.

USE OF PROCEEDS

The aggregate principal amount of the Notes offered under this short form prospectus shall not exceed $500,000,000 in Canadian currency or the equivalent thereof in one or more foreign currencies at the time of issue. The net proceeds to be received by the Corporation from the sale from time to time of Notes under this short form prospectus will be the issue price thereof less any costs of issue, commissions and expenses paid in connection therewith. The net proceeds cannot be estimated as at the date hereof since the amount thereof will depend on the terms and conditions of the Notes and the extent to which Notes are issued under this short form prospectus. Except as otherwise provided in any prospectus supplement, the net proceeds from the sale of the Notes will be added to the general funds of the Corporation to be used to reduce or replace outstanding indebtedness, to finance capital expenditures and investments of the Corporation and for general corporate purposes. Further details regarding the Corporation's overall corporate strategy and the major strategic initiatives supporting its strategy are summarized in the Corporation's management's discussion and analysis for the year ended December 31, 2009, as modified or superseded by information contained in the Corporation's management's discussion and analysis for the three and six month periods ended June 30, 2010, and subsequent periods, incorporated herein by reference. The Corporation may, from time to time, issue debt instruments and incur additional indebtedness otherwise than through the issue of Notes pursuant to this short form prospectus.

PLAN OF DISTRIBUTION

Pursuant to the terms of a selling agency agreement (the "Agency Agreement") dated September 10, 2010 between the Corporation and the Agents, the Agents are or will be authorized, as agents of the Corporation for this purpose only, to solicit offers to purchase Notes, directly or through other Canadian investment dealers. The terms and conditions of any sale or sales of Notes will be determined by the applicable Agent and the Corporation at the time of such sale or sales and disclosed in the applicable Pricing Supplement. The commission applicable to the sale of any Note will be deducted from the proceeds of sale and will be in an amount as set forth in the Agency Agreement or as determined by the Corporation and the applicable Agent at the time of such sale and will be disclosed in the applicable Pricing Supplement. The Corporation will pay each Agent through whom any Note is sold a commission, as set forth in the Agency Agreement, unless the Corporation and the Agent otherwise agree.

The Agency Agreement also provides that Notes may be purchased from time to time by any of the Agents as underwriter or principal, at a price to be agreed between the Corporation and the Agent, for resale to other dealers or purchasers at prices to be negotiated with each such investment dealer or purchaser. Such resale prices may vary during the distribution period and as between purchasers. Commissions may be paid in connection with such purchases in such amounts as may be agreed between the Corporation and any such Agent. The Agent's compensation will be increased or decreased by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the aggregate price paid by the Agent, acting as underwriter or principal, to the Corporation.

The Corporation may also offer the Notes directly to purchasers, pursuant to applicable statutory exemptions or discretionary exemptions, at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commission will be paid to the Agents.

Additional details with respect to the distribution of a particular offering of Notes will be set forth in the applicable Pricing Supplement.

The Notes have not been and will not be registered under the 1933 Act, or any state securities laws and may not be offered, sold or delivered in the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the 1933 Act) unless the Notes are registered under the 1993 Act or except in certain transactions exempt from the registration requirements of the 1933 Act, including, if contemplated in the applicable Pricing Supplement or other prospectus supplement transactions, under Rule 144A under the 1933 Act. The Agents have severally agreed that they will not offer or sell the Notes in the United States, except pursuant to such an exempt transaction. In addition, until 40 days after the commencement of the offering of any Notes, an offer or sale of any such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an applicable exemption from the registration requirements of the 1933 Act.

In connection with any offering of Notes, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the Notes offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Agents may purchase and sell Notes from time to time in the secondary market but are not obligated to do so. There can be no assurance that there will be a secondary market for the Notes. The offering price and other selling terms for such sales in the secondary market may, from time to time, be varied by the Agents.

The Corporation has agreed to indemnify, among others, the Agents and their directors, officers, agents and employees against certain liabilities arising out of, among other things, any misrepresentation in this short form prospectus, supplements and the documents incorporated by reference herein.

The Corporation and, if applicable, the Agents, reserve the right to reject any offer to purchase Notes in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify the offering of Notes hereunder without notice.

Under applicable securities legislation in Canada, the Corporation may be considered to be a connected issuer of each of the Agents as each are directly or indirectly wholly-owned or majority owned subsidiaries of Canadian chartered banks or financial institutions (collectively, the “Banks”) which have extended a credit facility to the Corporation upon which the Corporation may draw from time to time. The Corporation’s credit facility consists of a $500 million syndicated multi-year credit facility with the Banks (the “Facility”). The Facility is unsecured and the Corporation is, and has been since the establishment of the Facility, in compliance with the terms of the agreements governing the Facility. The Corporation’s financial position has not changed substantially since the Facility was put in place. The principal purpose of the Facility is to support the Corporation’s repayment obligations under its commercial paper program; however, the Corporation may incur indebtedness to the Banks under the Facility and net proceeds received pursuant to this offering may be used, directly or indirectly, to reduce that indebtedness. None of the Banks were involved in the decision to offer the Notes and none will be involved in the determination of the terms of the distribution of the Notes. As a consequence of the sale of the Notes through any Agent from time to time under this prospectus, the Corporation will pay a commission to each Agent through which a Note is sold.

DESCRIPTION OF NOTES

The following description of the Notes is a summary of their material attributes and characteristics and does not purport to be complete. Certain of the capitalized terms used but not defined in this section have the meanings set out in Schedule A hereto. The terms and conditions set forth in this section will apply to each Note unless otherwise specified in the applicable Pricing Supplement or other prospectus supplement. For further particulars of the terms of the Notes, reference should be made to the Trust Indenture (as defined below).

Trust Indenture

The Notes constitute one series of debentures issuable pursuant to a trust indenture dated as of August 1, 1968 between the Corporation and CIBC Mellon Trust Corporation, as trustee (the “Trustee”), as supplemented and amended (the “Trust Indenture”). The aggregate principal amount of Notes that may be issued under the Trust Indenture is unlimited, subject to the restrictions set forth in the Trust Indenture and in other indentures to which the Corporation is a party. See *“Trust Indenture Provisions” and “Restrictions Under Centra Gas Indenture”* below.

Rank

The Notes will be direct obligations of the Corporation ranking *pari passu* except as to redemption and/or sinking fund provisions, with all other unsecured and unsubordinated indebtedness of the Corporation. The Notes will not be secured by any mortgage, pledge or other charge.

Term, Denominations and Currency of Issue

The Notes will have maturities of not less than one year and will be either interest bearing Notes or non-interest bearing Notes issued at a discount. The Notes may be denominated in Canadian dollars or any other currency or units based on or relating to foreign currencies as determined at the time of issue. The Notes are issuable in minimum denominations of $1,000 and integral multiples thereof. The Notes will be issued as and when funds are required by the Corporation.

At the date of this prospectus, the Notes have been authorized for original issue pursuant to this prospectus in an aggregate principal amount not to exceed $500,000,000 (or the equivalent thereof in one or more currencies or currency units other than Canadian dollars at the time of issue). This amount is subject to amendment from time to time as determined by the Corporation.

For Notes denominated in currencies or currency units other than Canadian dollars, potential purchasers should be aware that foreign exchange fluctuations will occur from time to time and that neither the Corporation nor the Agents make any representation with respect to currency values from time to time.

Global Notes

The Notes may be issued as registered debentures or as bearer debentures, or may be issued in the form of fully registered global debentures ("Global Notes") held by CDS Clearing and Depository Services Inc. or a successor (collectively, the "Depositary") for its participants. The Depositary establishes and maintains book-entry accounts for its participants having interests in Global Notes. The interests of participants of the Depositary in Global Notes, and transfers of interests in the Global Notes between participants, will be represented by entries made in the records maintained by the Depositary. The interests of customers of participants in Global Notes will be represented by entries made in the records maintained by the participants. Purchasers of Notes in respect of which Global Notes are issued will not be entitled to receive Notes in definitive form except in certain stated events, including upon the request of holders of not less than 25% of the principal amount of the Notes represented by a Global Note upon the occurrence and during the continuance of an event of default under the Trust Indenture.

The ability of a beneficial owner of an interest in a Note represented by a Global Note to pledge the Note or otherwise take action with respect to such owner's interest in the Note, other than through a participant in the Depositary, may be limited due to the lack of a physical certificate.

Currently, the Depositary only allows depository eligibility for securities denominated in Canadian or United States dollars. Any Notes denominated in a currency other than Canadian or United States dollars will be represented by Notes in definitive form ("Definitive Notes") until such time as the Depositary allows depository eligibility for issues of securities denominated in such currencies.

If the Depositary notifies the Corporation that it is unwilling or unable to continue as depositary in connection with the Global Notes, or if at any time the Depositary ceases to be a clearing agency or otherwise ceases to be eligible to be a depositary and the Corporation is unable to locate a qualified successor, or if the Corporation elects to terminate the book-entry system, beneficial owners of Notes represented by Global Notes will receive Definitive Notes. In addition, if provided in the applicable pricing supplement or other prospectus supplement, Notes may be issued in the form of Definitive Notes.

Payment of Interest and Principal on Global Notes

The Depositary or its nominee, as the registered owner of a Global Note, will be considered the sole owner of such Note for the purposes of receiving payments of interest and principal on the Note and for all other purposes under the Trust Indenture and the Note.

The Corporation understands that the Depositary or its nominee, upon receipt of any payment of interest or principal in respect of a Global Note, will credit participants' accounts, on the date interest or principal is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note, as shown on the records of the Depositary or its nominee. The Corporation also understands that payments of interest and principal by participants to the owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices. The responsibility and liability of the Corporation in respect of Notes represented by a Global Note is limited to making payment of any interest and principal due on such Global Note to the Depositary or its nominee in the currency and in the manner described in the Global Note.

Transfer of Beneficial Interests in Global Notes

Transfers of beneficial ownership of Notes represented by a Global Note will be effected through records maintained by the Depositary or its nominee for such Global Note (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). Beneficial owners who are not participants in the Depositary's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in the Notes represented by a Global Note may do so only through participants in the Depositary's book-entry system.

Transfer of Fully Registered Notes

The registered holder of a Note issued in fully registered form may transfer such Note upon payment of taxes incidental thereto, if any, by executing and delivering a form of transfer together with the Note to the Trustee at its principal corporate trust offices in the City of Toronto, whereupon one or more new Notes will be issued in authorized denominations in the same aggregate principal amount as the fully registered Notes so transferred, registered in the name or names of the transferees. No transfer of a fully registered Note will be registered during the ten business days (a business day for this purpose being a business day in the City of Toronto) immediately preceding any date fixed for payment of interest on such Note.

Specific Variable Terms

The specific variable terms of any offering of the Notes (including the aggregate principal amount of Notes being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption, sinking fund or repurchase provisions, the name of the Agent, the Agent's commission, the method of distribution and the actual proceeds to the Corporation) will be set forth in a pricing supplement which will accompany this prospectus or any amendments to this prospectus. The Corporation reserves the right to set forth in a pricing supplement specific variable terms or amendments to the Notes which are not within the options and parameters set forth in this prospectus.

Purchase for Cancellation

The Corporation will be entitled to purchase the Notes in the market or by private contract at any time and at any price for cancellation.

Redemptions

The Notes will not be redeemable at the option of the Corporation or repayable at the option of the holder prior to maturity, unless otherwise specified in the applicable pricing supplement or other prospectus supplement.

Trust Indenture Provisions

The following is a summary of the material attributes and characteristics of the Notes. This summary does not purport to be complete and for full particulars reference should be made to the Trust Indenture. The Trust Indenture is available online at www.sedar.com.

Covenants

The Trust Indenture, as applicable to the Notes, contains, among others, a covenant substantially to the effect that the Corporation will not create or suffer to exist any mortgage, pledge, charge or other encumbrance (whether fixed or floating) on any of its assets (including, without limitation, oil, natural gas and related hydrocarbons in place or in storage and rights in respect thereof) to secure any obligation unless at the same time it shall, in the opinion of counsel, secure or cause to be secured equally and rateably with such obligation all of the Notes then outstanding by the same instrument or by other instruments in form and substance satisfactory to such counsel; provided that this covenant shall not apply to (a) First Mortgage Bonds; (b) Purchase Money Mortgages; (c) liens not related to the borrowing of money incurred or arising by operation of law in the ordinary course of business; or (d) security given (other than on fixed assets) in the ordinary course of business and for the purpose of carrying on the same, to any bank or other lender to secure any indebtedness other than Funded Obligations; for this purpose natural gas placed in underground storage in excess of the quantity thereof carried on the books of the Corporation as base pressure gas, shall not be deemed to be fixed assets.

The following covenants are applicable to prior series of Notes (including medium term note debentures) issued by the Corporation under the Trust Indenture, but will not be included as terms of Notes issued pursuant to this short form base shelf prospectus, unless otherwise specified in the applicable prospectus supplement. The Corporation has previously covenanted with the Trustee that so long as any medium term note debentures of the Corporation issued between June 8, 1998 and July 20, 2006 are outstanding and remain subject to the provisions of the Trust Indenture, the Corporation will not: (i) issue or become liable for, or permit any Consolidated Subsidiary to issue or become liable for, any additional Funded Obligations; (ii) sell or otherwise dispose of any Funded Obligations of a Consolidated Subsidiary held by the Corporation; (iii) permit any Consolidated Subsidiary to sell or otherwise dispose of, except to the Corporation, any Funded Obligations of the Corporation or of another Consolidated Subsidiary held by it; or (iv) sell or otherwise dispose of, or permit any Consolidated Subsidiary to sell or otherwise dispose of, any shares of a Consolidated Subsidiary, or permit any Consolidated Subsidiary to issue any additional shares, except to the Corporation or to a wholly-owned Consolidated Subsidiary; unless after giving effect to any action referred to in (i) through (iv) of the foregoing paragraph, the amount of Available Earnings for any 12 consecutive calendar months of the 23 calendar months immediately preceding the effective date of such action shall not be less than two times the amount of Consolidated Interest Requirements.

Restrictions on the Corporation Under Centra Gas Indenture

The Corporation is subject to restrictions on the incurrence of additional indebtedness pursuant to a trust indenture between Centra Gas Ontario Inc. and the R-M Trust Company dated October 19, 1993 (the "Centra Gas Indenture"). Under the Centra Gas Indenture, the Corporation has covenanted that it will not, nor will it permit any Subsidiary to, create, assume or otherwise incur any Funded Obligations unless, after giving effect thereto, the amount of Available Earnings for any 12 consecutive calendar months of the 23 calendar months immediately preceding the date of the creation, assumption or incurring shall be at least 2 times the amount of Consolidated Annual Interest Requirements. Without giving effect to the issue of any Notes contemplated by this short form base shelf prospectus, the amount of Available Earnings for any 12 consecutive calendar months of the 23 calendar months immediately preceding the date of this short form prospectus will be at least two times the amount of the Consolidated Annual Interest Requirements.

The Corporation has also covenanted in the Centra Gas Indenture that it will not, nor will it permit any subsidiary to, create, assume, or otherwise incur any Indebtedness for borrowed money if, after giving effect thereto, all such Indebtedness of the Corporation and its Subsidiaries would exceed 75% of the Total Capitalization of the Corporation and its Subsidiaries calculated in accordance with the terms of the relevant indentures. As at June 30, 2010, without giving effect to the issue of any Notes contemplated by this short form base shelf prospectus, the Total Capitalization of the Corporation and its Subsidiaries for purposes of these covenants was $3.77 billion and the Corporation's Indebtedness was $2.25 billion, or 59.8% of such capitalization.

The foregoing covenants under the Centra Gas Indenture may be released by the Trustee upon the request of the Corporation, provided that, among other things, the Corporation has paid out all principal and interest due or to become due on all debentures issued thereunder.

Modifications

The rights of holders of Notes under the Trust Indenture may be modified. For that purpose, among others, the Trust Indenture contains provisions making resolutions passed (i) at meetings of holders of Notes by the affirmative votes of holders of 75% of the outstanding Notes voting thereat, or (ii) by instruments in writing signed by the holders of 75% of the outstanding Notes, binding upon holders of Notes, subject to the provisions of the Trust Indenture. If any modification will especially affect the rights of the holders of Notes of a particular series in a manner or to an extent substantially differing from the effect on other series, that modification also will require separate approval as aforesaid by the holders of Notes of such series.

Trustee

CIBC Mellon Trust Corporation at its principal offices in the city of Toronto is the Trustee for the holders of all Notes issued under the Trust Indenture.

CREDIT RATINGS

The Corporation's senior unsecured indebtedness currently has a rating of "A" by DBRS Limited ("DBRS") and "BBB+" by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies (Canada) Corporation ("S&P") (DBRS and S&P are each a "Rating Agency"). These ratings are subject to change at any time in the sole discretion of the Rating Agencies. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities.

S&P rates obligor debt instruments by rating categories ranging from "AAA" to "D" which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, an obligation rated "BBB+", which is the fourth highest of ten available categories, is characterized as having "adequate protection parameters". However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. Plus (+) or minus (-) modify a rating to show relative standing within the rating categories.

DBRS rates obligor debt instruments by rating categories ranging from "AAA" to "D" which represents the range from highest to lowest quality of such securities rated. According to the DBRS rating system, an obligation rated "A", which is the third highest of ten available categories, is of "satisfactory credit quality". Protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. While a respectable rating, entities in the "A" category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated companies.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the Notes are not a recommendation to purchase, hold or sell the Notes. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgement, circumstances so warrant. The lowering of any rating of the Notes may negatively affect the quoted market price, if any, of the Notes. See "Risk Factors".

EARNINGS COVERAGE

The following earnings coverage ratios have been calculated on a consolidated basis for the respective 12 month periods ended December 31, 2009 and June 30, 2010 and are derived from audited financial information, in the case of December 31, 2009, and unaudited financial information, in the case of June 30, 2010. The following earnings coverage ratios: (i) do not give effect to the issue of any debt securities pursuant to this short form prospectus; (ii) do not purport to be indicative of earnings coverage ratios for any future periods; and (iii) have been calculated based on information prepared in accordance with Canadian generally accepted accounting principles. The following earnings coverage ratios give effect to the issuance of all of the Corporation's currently outstanding debt securities and assume repayment or redemption thereof as of the respective stated maturities of such debt securities.

	December 31, 2009	**June 30, 2010**
Interest coverage on long term debt	2.44 times	2.59 times

ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, as counsel to the Corporation, and of Stikeman Elliott LLP, as counsel to the Agents, the Notes, if issued on the date of this short form base shelf prospectus, would be, as at that date, qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plan, tax-free savings account ("TFSA") and deferred profit sharing plans (other than trusts governed by deferred profit sharing plans for which any employer is the Corporation or a corporation which does not deal at arm's length with the Corporation) within the meaning of the Tax Act. Notwithstanding that the Notes may be a qualified investment for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax on the Notes held in the TFSA if such Notes are a "prohibited investment" for that TFSA. The Notes will generally be a "prohibited investment" if the holder of the TFSA does not deal at arm's length with the Corporation for purposes of the Tax Act or the holder of the TFSA has a "significant interest" (within the meaning of the Tax Act) in the Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm's length for purposes of the Tax Act. Holders are advised to consult their own advisors in this regard.

LEGAL MATTERS

Certain legal matters in connection with the issuance of the Notes will be passed upon on behalf of the Corporation by McCarthy Tétrault LLP and on behalf of the Agents by Stikeman Elliott LLP. The partners and associates of McCarthy Tétrault LLP, as a group, and the partners and associates of Stikeman Elliott LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding securities of each class of the Corporation.

RISK FACTORS

In addition to the risk factors set forth below, additional risk factors are discussed in the AIF and in the Corporation's management's discussion and analysis for the year ended December 31, 2009, which risk factors are incorporated herein by reference. Prospective purchasers of Notes should consider carefully the risk factors set forth below as well as other information contained in and incorporated by reference in this short form prospectus, and in the applicable Pricing Supplement or other prospectus supplement, if any, before purchasing the Notes offered hereby.

The Corporation's earnings are affected by business risks inherent in the natural gas industry and energy marketplace. The earnings level can be negatively affected by general economic conditions, the Corporation's ability to generate forecast revenues, warmer weather, any decline in average use per customer, cost escalation, employee retention and the OEB's decisions with respect to rates.

Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit rating accorded to the Notes are not a recommendation to purchase, hold or sell the Notes, because ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time or that these ratings will not be revised or withdrawn entirely in the future by the relevant rating agency. Real or anticipated changes in the credit ratings on the Notes may affect the market value of the Notes. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can access the debt market.

No Established Trading Market

This short form prospectus qualifies new issues of debt securities for which there is no existing trading market. The Corporation does not intend to list the Notes on any securities exchange or to arrange for any quotation system to quote them. There can be no assurance as to the liquidity of any trading market for the Notes or that a trading market for any of the Notes will develop. Even if a trading market develops in the Notes, those Notes could trade at prices that may be high or lower then their initial offering prices. The market prices for the Notes may be affected by prevailing interest rates, the Corporation's results of operations and financial position, the ratings assigned to the Notes or the Corporation, changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Corporation.

Interest Rate Risks

Prevailing interest rates will affect the market price or value of the Notes. The market price or value of the Notes may decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Foreign Currencies Risk

Notes denominated or payable in foreign currencies may entail significant risk. These risks include, without limitation, the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential liquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable pricing supplement or other prospectus supplement.

Provision for Income Taxes May Not Be Sufficient

The Corporation's operations are complex, and the computation of the provision for income taxes involves tax interpretations, regulations, and legislation that are continually changing. In addition, the Corporation's tax filings are subject to audit by taxation authorities. While the Corporation believes that its tax filings have been made in material compliance with all applicable tax interpretations, regulations, and legislation, it cannot guarantee that it will not have disagreements with taxation authorities with respect to its respective tax filings that could have a material adverse effect on the Corporation.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus, the accompanying prospectus supplement or Pricing Supplement relating to the securities purchased by a purchaser and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus, the accompanying prospectus supplement or Pricing Supplement relating to the securities purchased by a purchaser and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

SCHEDULE A
DEFINITIONS

The Trust Indenture contains definitions substantially to the following effect:

"Available Earnings" for any specified period means the income for such period from all sources of the Corporation and Consolidated Subsidiaries (but excluding from the computation thereof any gains or losses on the sale, disposal or revaluation of capital assets or investments to the extent that the net consolidated gain or loss thereon exceeds $25,000 in any fiscal year of the Corporation) computed on a consolidated basis after charging or making provisions acceptable to the Corporation's auditor for:

(i) depreciation on depreciable properties, plant and equipment and depletion;

(ii) natural gas development costs to the extent actually charged on the books of account against revenue;

(iii) all other expenses of operation and administration; and

(iv) minority interests in the earnings of Consolidated Subsidiaries;

but before charging or making provisions for:

(v) interest on Funded Obligations and on any other indebtedness that since the end of the specified period has been or is about to be refunded by the issue of Funded Obligations;

(vi) amortization of discount and expense in respect of Funded Obligations; and

(vii) taxes on income; all in accordance with generally accepted accounting practice and reported on by the Corporation's auditors without, in their opinion, material adverse qualification.

In determining Available Earnings for any period there shall be taken into account the earnings or losses, as the case may be, for the whole of such period of any corporation which, prior to or concurrently with the proposed action in respect of which such determination is being made, becomes a Consolidated Subsidiary. In addition, if the Corporation or any Consolidated Subsidiary shall, prior to or concurrently with the proposed action in respect of which such determination is being made, have acquired any business by way of acquisition of assets, the earnings or losses, as the case may be, of such business to the extent that such earnings or losses related to the assets so acquired, shall be taken into account for the whole of such period.

"Consolidated Interest Requirements" means an amount equal to one year's interest on all Funded Obligations of the Corporation and Consolidated Subsidiaries to be outstanding immediately after the proposed action in respect of which the computation is being made, determined on a consolidated basis in accordance with generally accepted accounting practice.

In determining the amount of Consolidated Interest Requirements, Funded Obligations which bear or will bear interest at a fluctuating rate of interest shall be deemed to bear interest at an interest rate, selected by the directors or by the officers of the Corporation providing a certificate of the Corporation with respect thereto, which rate of interest shall have been applicable in respect of such Funded Obligations within a period of 90 days prior to the taking of the action in respect of which such determination is made or which would have been applicable in respect of such Funded Obligations if they had been outstanding during such 90 day period.

"Consolidated Subsidiary" means at any time (a) any Subsidiary that is engaged in the business of transmitting, storing and/or distributing natural gas; and (b) any other Subsidiary which the Corporation shall have designated as a Consolidated Subsidiary by certified resolution delivered to the Trustee.

"First Mortgage Bonds" means all first mortgage bonds or other first mortgage obligations of the Corporation, whether heretofore or hereafter issued, secured by a first fixed and specific charge on substantially all the fixed assets of the Corporation, whether or not also secured by a floating charge or by any other security;

"Funded Obligations" means all indebtedness created, assumed or guaranteed which is not payable on demand and which by its terms matures, or is renewable at the option of the debtor to a date, more than 18 months after the date such indebtedness was created, assumed, guaranteed or last renewed; and

“Purchase Money Mortgage” means any mortgage, lien or other encumbrance on property, assumed or given back as part of, or created or arising by operation of law to secure the whole or part of, the purchase price of such property, or affecting any property of a corporation at the time of its amalgamation with the Corporation and any extension, renewal or replacement thereof on the same property if the principal amount of the indebtedness secured thereby is not increased; and

“Subsidiary” means any corporation the majority of the shares of capital stock of which at the time outstanding, have under ordinary circumstances (not dependent upon the happening of a contingency) voting power to elect a majority of directors of such corporation, is owned directly or indirectly by the Corporation or by one or more of its other Subsidiaries or by the Corporation in conjunction with one of its other Subsidiaries.

The Centra Gas Indenture contains definitions substantially to the following effect:

“Available Earnings” for any specified period means the consolidated net income for each period (before extraordinary items but after deducting minority interests in Subsidiaries) of the Corporation and its Subsidiaries plus taxes on income plus interest on all Funded Obligations (including interest on Subordinated Debt which would comprise Funded Obligations as defined were it not for the specific exclusion of Subordinated Debt from the definition of Funded Obligations) and interest on other Indebtedness retired or to be retired by or in anticipation of the Funded Obligations created, proposed to be created, assumed or incurred, or Funded Obligations created, assumed or incurred since the beginning of such specified period plus amortization of debt premium, discount and expense, all in accordance with generally accepted accounting principles and reported on by the Corporation’s auditors without, in their opinion, material adverse qualification, except that in determining the contribution to consolidated net income by a corporation which is not a Subsidiary and which would ordinarily be accounted for on an equity basis of accounting, the corporation shall not be so accounted for and (i) the amount of the contribution to consolidated net income shall be an amount equal to the cash dividends paid to the Corporation and its Subsidiaries (without duplication and after making due allowance for minority interests, if any) during the period by such corporation, and (ii) if the aggregate cash dividends paid by such corporation to the Corporation and its Subsidiaries (without duplication and after making due allowance for minority interests, if any) during the period commencing on the date which is the later of the date on which the Corporation or its Subsidiaries, as applicable, commenced to equity account for such corporation or the date which is three years before the last day of the specified period and ending with the last day of the specified period are in excess of the Corporation’s or its Subsidiaries’ equity in the earnings of such corporation, as applicable, during such period or, at the option of the Corporation, a period of the same duration ending on the last day of the fiscal quarter of the Corporation immediately preceding the fiscal quarter in which the last day of such specified period occurs, the amount of the excess shall be deducted from the cash dividends referred to in subclause (i) above for the specified period;

“Consolidated Annual Interest Requirements” means an amount equal to one year’s interest on all Funded Obligations of the Corporation and its Subsidiaries to be outstanding immediately after the proposed action in respect of which the computation is being made, determined on a consolidated basis in accordance with generally accepted accounting principles and computed for the year immediately following the proposed action in respect of which the computation is being made;

“Indebtedness” means and includes all items of indebtedness which in accordance with generally accepted accounting principles would be included in determining total liabilities as at the date as of which Indebtedness is to be determined, but in any event including, without limitation, (i) obligations secured by any mortgage (including any Purchase Money Mortgage), hypothec, pledge or lien, whether or not the obligations secured thereby shall have been assumed, and (ii) guarantees, endorsements (other than endorsements for collection in the ordinary course of business) and other contingent obligations in respect of, or any obligations to purchase or otherwise acquire or service, obligations of others;

“Funded Obligations” as to any corporation, means all Indebtedness created, assumed or guaranteed by such corporation, or Indebtedness of others upon which such corporation customarily pays interest charges, which is not payable on demand and which matures by its terms, or which such corporation has the right at its option to renew or extend to a date, more than 18 months after the date of its creation, assumption or guarantee by such corporation or the date on which such corporation commenced to pay interest charges thereon, except that in the case of the Corporation, Funded Obligations shall not include Subordinated Debt or Funded Obligations of the Corporation, the proceeds from the sale of which were used prior to July 31, 1989 to purchase Funded Obligations of Centra Gas Manitoba Inc.;

“Purchase Money Mortgage” means any mortgage, lien or other encumbrance on property, incurred to finance, assumed or given back as part of, or created or arising by operation of law to secure the whole or part of, the purchase price of such property or incurred to finance the cost in whole or in part in construction or installation of or improvements to any property, provided that such mortgage, lien or other encumbrance is incurred or assumed within 12 months after the purchase of such property or the completion of such construction, installation or improvements, as the case may be, and includes any extensions, renewal or replacement thereof on the same property if the principal amount of the indebtedness secured thereby at the time of such extension, renewal or replacement is not increased;

"Subordinated Debt" means Indebtedness of the Corporation fully subordinated in right of payment to the $75,000,000 principal amount of 8.65% Senior Debentures of the Corporation due October 19, 2018 as to principal, interest and premium, if any;

"Subsidiary" means any corporation of which Voting Shares carrying more than 50% of the voting rights attached to all outstanding Voting Shares are owned, directly or indirectly, by or for the Corporation and/or by or for any corporation in relation to the Corporation and includes any corporation in like relation to a Subsidiary;

"Total Capitalization of the Corporation and its Subsidiaries" means all Indebtedness for money borrowed of the Corporation and its Subsidiaries at the time outstanding, plus the total capital represented by the capital stock of the Corporation at the time outstanding, based upon the value stated on the books of the Corporation, plus the total amount of (or less the amount of any net deficits in) the contributed surplus and retained earnings (whether or not available for the payment of dividends under the provisions of any indentures or other agreements providing for the payment of dividends under the provisions of any indentures or other agreements providing for the issuance of Indebtedness) of the Corporation and its Subsidiaries as shown on a consolidated balance sheet of the Corporation and its Subsidiaries prepared on a consolidated basis, after due allowance for minority interests, in accordance with generally accepted accounting principles and less the amount, if any, by which the capital account and the retained earnings of the Corporation have at any time been increased as a result of a restatement of the amount at which at assets of the Corporation or a Subsidiary are recorded on its books; and

"Voting Shares" means shares of capital stock of any class of any corporation carrying voting rights under all circumstances.

SCHEDULE B
AUDITORS' CONSENT

We have read the preliminary short form base shelf prospectus of Union Gas Limited (the "Corporation") dated September 10, 2010 qualifying the distribution of an aggregate principal amount of up to $500,000,000 Medium Term Note Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form base shelf prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2009 and 2008, and the consolidated statements of income and comprehensive, retained earnings and cash flows for the years then ended. Our report is dated March 17, 2010.

(signed) "Deloitte & Touche LLP"

Chartered Accountants
Licensed Public Accountants
London, Ontario
September 10, 2010

CERTIFICATE OF UNION GAS LIMITED

Dated: September 10, 2010

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(signed) "Julie A. Dill"
Julie A. Dill
President
(as Chief Executive Officer)

(signed) "J. Patrick Reddy"
J. Patrick Reddy
Chief Financial Officer

On behalf of the Board of Directors:

(signed) "David G. Unruh"
David G. Unruh
Director

(signed) "Bruce E. Pydee"
Bruce E. Pydee
Director

CERTIFICATE OF THE AGENTS

Dated: September 10, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

BMO Nesbitt Burns Inc.

(signed) "David Pennington"
By: David Pennington

CIBC World Markets Inc.

(signed) "Sean Gilbert"
By: Sean Gilbert

Scotia Capital Inc.

(signed) "Murray Neal"
By: Murray Neal

TD Securities Inc.

(signed) "William Perdue"
By. William Perdue

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E1, Tab 1, page 4

Union's evidence indicates that the approved capital structure must allow the company to raise capital in the market when it is needed under reasonable terms and conditions. Union's proposal to increase the common equity component to 40% provides financing capacity for Union's investment growth forecast for 2013.

a) Please indicate all cases in the last 5 years where Union Gas has had to defer or abandon expenditures needed to provide service due to an inability to raise the necessary capital under reasonable terms and conditions. Please provide details.

b) What will be the impact on Union's ability to raise capital if the Board does not approve Union's proposed capital structure?

Response:

a) Union has not had a specific case where the Company has not been able to issue debt to finance capital investment within the last five years. Previously, there have been situations when the Company was limited by the interest coverage test to the timing and the amount of the debt issue.

b) If the Board approves Union's proposal to increase its equity to 40%, it will improve Union's ability to raise capital.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E1, Tab 1, page 4

Please provide a table that shows the actual return, the requested rate of return and the return if the equity component was 40% for the years 2007 through to 2011.

Response:

Please see Attachment 1 that reflects an equity component of 40%.

Note that Line 1, "Actual return" was restated due to higher income tax expense. Since the equity component is increasing from 36% to 40%, the weighting of short-term debt will decrease by a like amount. This lowers the interest expense and results in an increased income tax expense.

Line No.	Particulars ($000's)	2007	2008	2009	2010	2011
		(a)	(b)	(c)	(d)	(e)
1	Actual return	255,498	302,685	294,551	290,863	293,133
2	Rate Base	3,202,714	3,347,767	3,482,852	3,570,303	3,583,258
3	Requested rate of return	8.05%	7.93%	7.75%	7.60%	7.28%
4	Requested return [line 2 x line 3]	257,696	265,357	269,756	271,468	260,685

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit E1, Tab 1, page 9

Union considers it prudent to plan for an “A” debt rating. This rating provides a safety net in the event of a rating downgrade and helps Union achieve the lowest risk adjusted cost of debt.

a) Please indicate what effect an equity weighting of 40% would have on the DBRS and S&P rating.

Response:

a) No change is expected to occur on the DBRS and S&P rating. Please see the response at Exhibit J.E-1-1-2 b).

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, Updated

a) What is the forecasted amount of common share dividends to be paid in 2013 based on a 40% equity component as proposed by Union? What would be the forecasted amount to be paid in 2013 if the common equity component of the capital structure remained at 36%?

b) What is the frequency and timing of the payment of common share dividends? Will this change based on the proposed increase in the equity component?

Response:

a) Union is not forecasting dividends for 2013 as part of achieving a 40% equity structure. Dividends for 2013 would be approximately $105 million if the equity component stayed at 36%.

b) Common dividends are normally paid quarterly in the months March, June, September and December. Dividends will be suspended in the second half of 2012 and 2013 in order to achieve a 40% equity component.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, pages 5-6, Updated

a) With respect to the weather risk, does the adoption of the proposed 20 year declining trend methodology reduce Union's weather risk relative to the current Board approved methodology? If no, please explain why not.

b) Please provide a table that shows the distribution revenue for each rate class broken into fixed revenues (based on monthly charges and demand charges) and variable revenues (based on delivery charges) based on the Board Approved 2007 rates and volumes and the proposed 2013 rates and volumes.

c) With respect to the consumption risk, please provide a historical analysis of the actual large commercial and industrial customers natural gas distribution revenues relative to the 2 year ahead forecast (i.e. comparable to the test year forecast) for the last three years.

d) With respect to the cost escalation risk, is Union proposing any protection through deferral or variance accounts related to bad debt, vehicle fuel costs, company-used gas, unaccounted for gas or any other cost?

e) Please provide a summary of the significant changes in the company's business and/or financial risk that have occurred since the Board approved Union's last cost of capital parameters.

Response:

a) The adoption of the 20-year declining trend weather normal methodology provides a more balanced weather risk relative to the current blended ratio methodology. The current blended methodology used to set the weather normal is biased towards colder weather and does not possess symmetric upside and downside revenue risks. The 20-year declining trend has symmetric revenue risks.

b)

Line No.	Particulars ($ millions)	2007 Board Approved			2013 Forecast		
		Fixed	Variable	Total (1)	Fixed	Variable	Total (1)
	General Service						
1	Rate M1 Firm	-	-	-	254	124	379
2	Rate M2 Firm	190	220	410	7	38	45
3	Rate 01 Firm	57	76	133	77	61	138
4	Rate 10 Firm	2	19	22	2	15	17
5	Total General Service	249	316	565	339	239	578
	Wholesale - Utility						
6	Rate M9 Firm	0	0	1	1	0	1
7	Rate M10 Firm	-	0	0	-	0	0
8	Rate 77 Firm	0	-	0	-	-	-
9	Total Wholesale - Utility	0	0	1	1	0	1
	Contract						
10	Rate M4	10	4	14	7	4	11
11	Rate M7	6	1	7	4	0	4
12	Rate 20	6	1	7	8	2	10
13	Rate 100	11	5	16	9	4	13
14	Rate T-1	37	18	55	44	14	58
15	Rate T-3	4	1	6	4	1	5
16	Rate M5	2	6	8	1	8	9
17	Rate 25	0	2	2	0	2	2
18	Rate 30	-	-	-	-	-	-
19	Total Contract	76	39	115	76	35	111
20	Total Revenue	325	356	681	416	274	689

Note: (1) EB-2011-0210 Exhibit C1 Summary Schedule 4 c)

Forecast to Actual Revenue Comparison ($ Millions)

Line No.	Market		2007	2008	2009	2010	2011
1	Power	Forecast	26.0	25.6	31.1	29.9	30.2
2		Actuals	26.8	26.3	29.0	32.2	32.7
3		*Variance*	*0.8*	*0.7*	*-2.1*	*2.3*	*2.5*
4	Steel/Chem/Ref	Forecast	38.9	38.6	41.9	37.4	36.4
5		Actuals	38.5	37.7	37.0	36.7	38.4
6		*Variance*	*-0.4*	*-0.9*	*-4.9*	*-0.7*	*2.0*
7	LCI/Key	Forecast	45.9	43.8	42.8	37.2	35.3
8		Actuals	45.1	43.9	39.5	36.8	36.4
9		*Variance*	*-0.8*	*0.1*	*-3.3*	*-0.4*	*1.1*
10	Greenhouse	Forecast	4.2	3.9	6.0	5.6	5.2
11		Actuals	3.9	5.2	4.9	5.8	6.3
12		*Variance*	*-0.3*	*1.3*	*-1.1*	*0.2*	*1.1*
13	Wholesale	Forecast	6.1	6.3	6.3	6.0	5.6
14		Actuals	5.5	5.7	5.8	5.7	5.5
15		*Variance*	*-0.6*	*-0.6*	*-0.5*	*-0.2*	*0.0*
16	Grand Total	Forecast	121.1	118.3	128.0	116.1	112.7
17		Actuals	119.8	118.8	116.2	117.2	119.3
18		*Variance*	*-1.3*	*0.5*	*-11.8*	*1.2*	*6.7*

d) Union is not proposing any new deferral accounts in this proceeding.

e) Union has not performed an analysis of its financial or business risk because Union's proposal to increase its equity level to 40% is not based on changes in risk.

Union's proposal to increase its equity level from 36% to 40% is based on a comparison of other utilities with similar risk profiles as Union. As noted at Exhibit J.E-2-3-6, Union's equity level is the lowest in the comparator group even though the business risks of the utilities are comparable. A 40% equity level for Union properly reflects Union's business risks when viewed in conjunction with the Board's revised return on equity formula (EB-2009-0082).

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, page 4, Updated

a) Has Union had any problems raising capital in the markets under reasonable terms and conditions in the last five years? If yes, please provide details.

b) Is Union planning to raise any capital to finance investment growth in the 2013 test year?

Response:

a) Please see the response at Exhibit J.E-2-1-1.

b) No, Union is financing investment growth by suspending dividends for the second half of 2012 and all of 2013 in order to achieve a 40% equity component.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E3, Tab 1, Schedule 2

Has Union done any analysis, or aware of any analysis by other parties, of the impact on Union's financial and/or business risk on its cost of debt or return on equity of its unregulated business relative to its regulated business? If yes, please provide details.

Response:

Union has not performed an analysis of its risk as it pertains to the unregulated business relative to its regulated business.

Please refer to the DBRS and S&P reports in Exhibit A3, Tab 6.

Union is not aware of any other third party reports on this matter.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit E1, Tab 1, Updated

In the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, the Board indicated that its current policy with regard to capital structure for all regulated utilities continues to be appropriate and that the capital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals. Please provide an exhaustive list of the significant changes in financial, business or corporate fundamentals that is driving the proposed change in the equity component of rate base.

Response:

Please see the response at Exhibit J.E-2-2-2 e).

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E1, Tab 1, Table 2 &
Exhibit A3, Tab 2

The Company is required by Undertakings to the Lieutenant Governor in Council of Ontario to maintain sufficient common equity at the level approved by the OEB. The quarterly dividend payment is determined to allow the Company to maintain the common equity component at the level approved by the OEB. (interim Financial Statements A3, Tab 2 page 23)

a) Does Union agree that, as stated on page 23, the 36% deemed equity is the OEB –approved *minimum* Common Equity.

b) Why is Union proposing to increase its Equity to 40% to meet capital requirements when it already has debt financing available, including a short term debt facility of 500m which will reduce to 400m in 2013 and a shelf prospectus for 500m of long-term debt with terms of from 1-31 years?

c) Does Union agree that these capital components have a lower cost of capital to ratepayers than equity?

d) Please provide a comparison table the shows the actual and proposed deemed Capital Structures for Union Gas based on the Interim Financial statements and provide the historical perspective comparison 2007-2011.

e) Summarize the dividend policy for Union/Spectra.

f) Please provide the dividend history 2007-2011 and the post dividend debt/equity ratios.

g) Compare the dividends to be paid in 2013 based on a 40% equity component relative to 36%.

Response:

a) Union agrees the Company must maintain a common equity level of at least 36%. The 2011 Financial Statements found at Exhibit A3, Tab, page 12 state:

“In order to maintain the common equity component of the capital structure at a level no greater than that approved by the OEB, we typically pay a quarterly dividend to our parent company.”

This line is conveying that since the Company does not earn a return on a level above that approved by the Board, it pays a dividend to bring the equity level as close to the Board approved level as possible.

b) Union proposes to increase its equity component to be comparable with its peers with similar risk profiles. Please refer to Exhibit E1, Tab 1 and the response at Exhibit J.E-2-2-2 e).

c) In the current market conditions the debt components have a lower cost of capital than the proposed return on equity.

d) Please see Attachment 1.

e) Union normally pays a quarterly dividend and on an annual basis compares the deemed equity component based on rate base to the actual equity level to determine if there is an excess. Union then pays dividends at an amount less than the excess to ensure equity does not go below the approved level as set by the Board. Union is planning on suspending dividends beginning in 2013 in order to achieve its proposed common equity component for 2013.

f) Please see Attachment 1 for the debt/equity ratios. Past dividends are as follows:

2007	$36 million
2008	$115 million
2009	$165 million
2010	$190 million
2011	$145 million

g) Please see the response at Exhibit J.E-2-2-1a).

Line No.	Particulars	2007 BA ($Millions)	2007 BA (%)	2007 ($Millions)	2007 (%)	2008 ($Millions)	2008 (%)	2009 ($Millions)	2009 (%)	2010 ($Millions)	2010 (%)	2011 ($Millions)	2011 (%)	2012 ($Millions)	2012 (%)	2013 ($Millions)	2013 (%)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
	Actual per Financial Statements																
1	Long-term debt			1,840	51.77	2,229	56.09	2,201	59.94	2,228	55.30	2,277	54.80				
2	Short-term debt			350	9.85	321	8.08	39	1.06	355	8.81	378	9.10				
3	Total indebtedness			2,190	61.62	2,550	64.17	2,240	61.00	2,583	64.11	2,655	63.90				
4	Preference shares			109	3.07	109	2.74	109	2.97	109	2.71	109	2.62				
5	Common equity			1,255	35.31	1,315	33.09	1,323	36.03	1,337	33.18	1,391	33.48				
6	Total Capitalization			3,554	100.00	3,974	100.00	3,672	100.00	4,029	100.00	4,155	100.00				
	Deemed Structure																
7	Long-term debt	2,017	61.66	2,039	63.68	1,945	58.10	2,089	59.97	2,085	58.39	2,109	58.86	2,172	58.97	2,258	60.35
8	Unfunded short-term debt	(29)	(0.89)	(95)	(2.97)	93	2.77	38	1.09	97	2.73	81	2.27	83	2.24	(115)	(3.08)
9	Total debt	1,988	60.77	1,944	60.71	2,038	60.87	2,127	61.06	2,182	61.12	2,191	61.13	2,254	61.22	2,143	57.27
10	Preference shares	106	3.23	106	3.29	105	3.13	103	2.94	103	2.88	103	2.87	103	2.78	102	2.73
11	Common equity	1,178	36.00	1,153	36.00	1,205	36.00	1,254	36.00	1,285	36.00	1,290	36.00	1,326	36.00	1,497	40.00
12	Total rate base	3,271	100.00	3,203	100.00	3,348	100.00	3,483	100.00	3,570	100.00	3,583	100.00	3,683	100.00	3,742	100.00

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E1, Tab 1, Page 5 &
OEB Cost of Capital Report Page 50

For electricity transmitters, generators, and gas utilities, the deemed capital structure is determined on a case-by-case basis. The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and that a full reassessment of a gas utility's capital structure will only be undertaken *in the event of significant changes in the company's business and/or financial risk.* [emphasis added] (OEB COC Report Page 50)

a) Has Union listed all the factors that Union and its consultants are using to justify a change in circumstances to which the Board refers? If not, provide any additional factors.

b) Please provide the quantitative evidence on changes to financial risk in the form of recent financial performance including financial ratios.

c) Delineate clearly how financial risk for 2013 will be affected by application of the Board's new ROE-Setting formula.

Response:

a) Please see the response at Exhibit J.E-2-2-2 e).

b) Please see a) above.

c) Please see a) above.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E2, Page 12 &
Exhibit A3, Tab 6

Similarly, in January 2011, DBRS published its views on the importance of regulatory support: "[T]he Company operates in a stable, supportive regulatory environment that allows it to recover prudently incurred operating expenses and capital expenditures in a timely manner and earn a reasonable return on its investments."[reference 7 DBRS Research: "Union Gas Limited," January 31, 2011.]

a) Please provide a comparison of Ratings for (all) securities of Union Gas from DBRS and S&P.

b) Please provide the DBRS Comparable ratings for the S&P Peer group A3, Tab3 [S&P Report] page 6-See below.

c) Discuss the differences in terms of Union's current financial risk from an investor perspective.

Response:

a)

	DBRS	S&P
Commercial Paper	R-1 (low)	A-1 (low)
Unsecured Debentures/Medium-Term Note Debentures (all)	A	BBB+
Cumulative Redeemable Preferred Shares	Pfd-2	P-2 (low)

b) DBRS ratings are as follows:

	Terasen Gas Inc (FortisBC Energy Inc)	Westcoast Energy Inc.	Gaz Metro Inc.
Commercial paper	R-1 (low)	R-1 (low)	R-1 (low)
Unsecured Debentures	A	A (low)	A
Preferred Shares	N/A	Pfd-2 (low)	N/A

c) DBRS ratings are comparable though Westcoast Energy Inc. is slightly more risky with an A (low) rating vs Union's A. From an S&P perspective the unsecured debentures have a higher risk for Union at BBB+ compared to Terasen Gas Inc. and Gaz Metro Inc. who have ratings of A and A- respectively. Terasen Gas Inc. and Gaz Metro Inc. appear to be safer investments.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E2, Pages 15, 16, 20 &
Exhibit A3, Tab 6, DBRS and S&P Reports

Most important in this case, as discussed below, the S&P matrix clearly illustrates that Union Gas' current equity thickness of 36% stands far below S&P's guidelines for the utility sector, which covers a range from 55 to 65%.(Page 15/16) and such a low equity component certainly influences the rating agencies and debt and equity investors.(page 20)

a) Please provide the comparable statement(s) from DBRS.

b) If there are none, provide your view of why this may be the case.

c) Based on your response to interrogatories above, please confirm or amend this referenced statement as it applies to regulated Canadian Gas utilities.

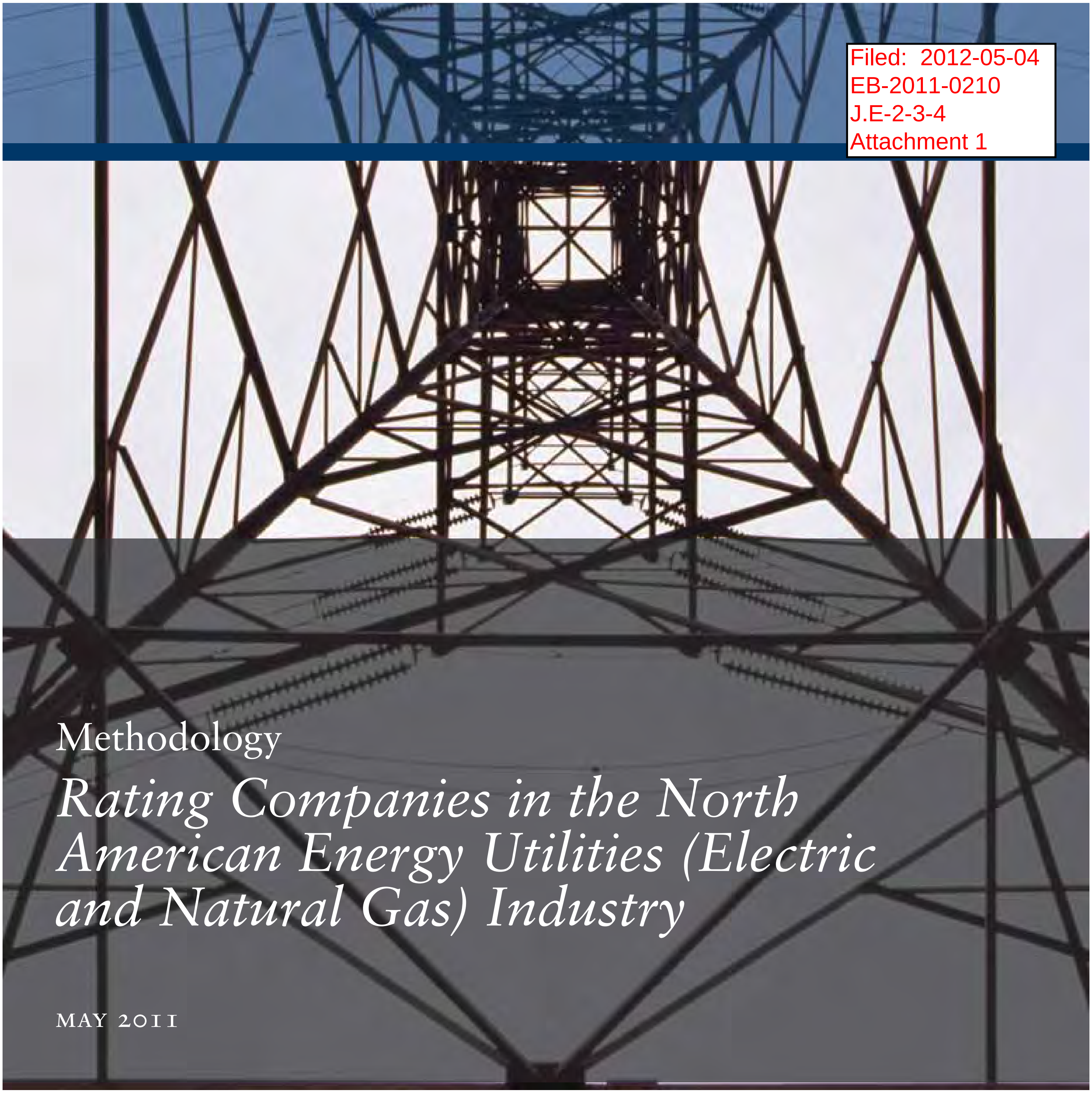
Response:

a) DBRS has published a credit metrics matrix for North American Energy Utilities that indicates general debt-to-capital ranges as follows: AA: <55%; A: 55% to 65%; BBB: 65% to 75%; BB: >75%. DBRS notes that these ranges incorporate **general** business risk for the North American Energy sector. Conversely, S&P utilizes a **company-specific** business risk assessment within its matrix. Based upon DBRS' current rating of Union Gas at the middle of the 'A' category, Mr. Fetter believes that the agency would be looking for a debt-to-capital credit metric of approximately 60% (equity thickness of 40%), the middle of DBRS' published range. (See DBRS research, "Methodology: Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry," May 2011 – Attachment 1.)

b) Not applicable.

c) Regulated Canadian gas utilities with equity thicknesses of 36% stand far below S&P's guidelines for the utility sector, which covers a range from 55 to 65%.(Page 15/16) and such a low equity component certainly influences the rating agencies and debt and equity investors.(page 20). For 'A'-rated Canadian gas utilities, DBRS' published North American Energy Utilities credit metric range would call for an equity thickness within a range of 35% to 45%.

Filed: 2012-05-04
EB-2011-0210
J.E-2-3-4
Attachment 1



Methodology

Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry

MAY 2011

DBRS

Insight beyond the rating.

CONTACT INFORMATION

Michael J. Caranci
Managing Director, Energy
+1 416 597 7304
mcaranci@dbrs.com

Kent Wideman
Chief Credit Officer
+1 416 597 7535
kwideman@dbrs.com

DBRS is a full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any financial institution, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

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Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry

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Introduction to DBRS Methodologies

- In general terms, DBRS ratings are opinions that reflect the creditworthiness of an issuer, a security or an obligation. They are opinions based on an analysis of historic trends and forward-looking measurements that assess an issuer's ability and willingness to make timely payments on outstanding obligations (whether principal, interest, dividend or distributions) with respect to the terms of an obligation.
- DBRS rating methodologies include consideration of general business and financial risk factors applicable to most industries in the corporate sector as well as industry-specific issues and more subjective factors, nuances and intangible considerations. Our approach is not based solely on statistical analysis but includes a combination of both quantitative and qualitative considerations.
- The considerations outlined in DBRS methodologies are not intended to be exhaustive. In certain cases, a major strength can compensate for a weakness and, conversely, there are cases where one weakness is so critical that it overrides the fact that the company may be strong in most other areas.
- DBRS rating methodologies are underpinned by a stable rating philosophy, which means that in order to minimize the rating changes due primarily to economic changes, DBRS strives to factor the impact of a cyclical economic environment into its rating as applicable. Rating revisions do occur, however, when it is clear that a structural change, either positive or negative, has transpired or appears likely to transpire in the near future.
- As a framework, DBRS rating methodologies consist of several components that together form the basis of the ultimate ratings assigned to individual securities. Assessments typically include the industry's business risk profile, the company's general business risk profile, the company's financial risk profile and considerations related to the specific security.
- To some extent, the business risk and financial risk profiles are interrelated. The financial risk for a company must be considered along with the business risks that it faces. In most cases, an entity's business risk will carry more weight in the final issuer rating than will its financial risk.

Business and Financial Risk Overview

- On a high-level macro basis, DBRS has a consistent approach to determining the issuer rating of an entity that is common across many industries. (See the appendix for the definition of "issuer rating.") Our high-level approach can be broken into three stages, as shown on the opposite page.
- Where applicable, DBRS uses the concept of business risk ratings (BRRs) as a tool in assessing the business strength of both industries and individual companies within many methodologies across the corporate finance area. DBRS typically assesses five areas to establish the overall BRR for an industry:
  - Profitability and cash flow.
  - Competitive landscape.
  - Stability.
  - Regulation.
  - Other inherent industry considerations.
- Although there is an overlap in some instances (to some degree, in the long term, all five factors tend to relate to profitability and stability), DBRS has found that considering these five measures in a separate fashion is a useful way of approaching this analysis.
- Using the same factors across different industries provides a common base with which to compare the business risks of various industries, even when they are distinctly different. In all cases, DBRS uses historic performance and our experience to determine an opinion on the future, which is the primary focus. For additional discussion on industry BRRs, please refer to the Industry Business Risk Ratings and Industry Business Risk Rating Definitions sections in the appendix.

- It is important to note that the ratings for company-specific business and financial risks as provided under Stage 2 of this document should not be taken as final issuer ratings. For example, an individual company may fit into the "A" range with respect to the analysis of its business risk, but its financial metrics could be more in the BB category. It would be incorrect to believe that the final issuer rating in this case would be either "A" or BB. In determining the final issuer rating, both of these two major areas must be considered. For additional discussion on this topic, please refer to the Interrelationship between Business and Financial Risk section in the appendix.

Three Stages of DBRS Rating Analysis

Stage 1: Industry Business Risk Rating
Consider the overall business risk rating (BRR) for the industry.

Industry Business Risk Rating

Stage 2: Issuer Rating
Consider the strength of the individual issuer:
(a) First assessing how the company's BRR compares with the industry BRR.
(b) Then assessing the company's financial risk.
Taken together, these factors will determine the company's issuer rating.

Company Business Risk + Company Financial Risk = Issuer Rating

The long-term rating puts more emphasis on business risk than the short-term rating does.

The short-term rating stresses financial risk as well as business risk, but places more emphasis on financial risk and liquidity than the long-term rating does.

Stage 3: Rating the Security
Consider covenant and ranking issues that exist for specific securities, using the issuer rating to determine specific security ratings.

Rating on the Security

Level of collateral and ranking of collateral and recovery methodology

Holding company debt versus operating company debt and notching principles

Stage 1: Industry Business Risk Rating for the North American Energy Utilities (Electric and Natural Gas) Industry

- This methodology applies to North American companies with significant regulated energy utility operations (i.e., electric generation, distribution or transmission, and/or natural gas distribution) that may also have non-regulated operations in other segments of the energy industry (e.g., non-regulated electricity generation, energy marketing and trading). DBRS evaluates each of these business segments individually, as well as in the context of the business risk of the diversified company. This methodology does not apply to pipeline or diversified energy companies (covered under the *Rating North American Pipeline and Diversified Energy Companies* methodology), or entities that generate primarily non-regulated power or power generation projects, which are covered in the *Rating Companies in the Non-Regulated Electric Generation Industry* and *Rating Project Finance* methodologies, respectively.
- For the North American energy utilities (electric and natural gas) industry, DBRS views the BRR as being "A", noting that this range applies to entities that primarily have regulated utility businesses. The single most important factor that drives this strong rating range is the stability provided by regulation. Based on the five major categories used by DBRS in assessing industry BRRs, the rationale for this assessment is as follows.

INDUSTRY PROFITABILITY AND CASH FLOW

- The level of profitability and cash flow remains moderately below average versus other industries, a trade-off for the stability provided by regulation. The profitability of most utilities is largely constrained by the regulatory model under which rates are set (typically either traditional cost of service or some form of performance-based rates).
- While regulated utilities often do not exactly earn their "regulatory-approved" return on equity (ROE), deviations from approved levels are generally small. However, approved ROE levels are quite modest (currently in the range of 8% to 10%), due to the linkage between government bond yields and approved ROEs in many regulatory jurisdictions.

INDUSTRY COMPETITIVE LANDSCAPE

- The competitive landscape is below the average of other industries. A fully-regulated energy utility generally competes only against other sources of energy, not other utilities. Rather, the regulator is the "competition"; that is, a regulated energy utility is afforded an opportunity to recover its costs and earn a return on capital, with no direct competition, in exchange for regulatory oversight and a general ceiling on profitability.
- Additionally, significant barriers to entry exist, typically through some combination of the monopoly franchise areas and the highly capital-intensive nature of the businesses.

INDUSTRY STABILITY

- The existence of regulatory business models (and possibly contractual support) results in a level of stability that is well above that found in most other industries, affording significant levels of protection against variability that would otherwise be caused by wider economic considerations. While energy utilities are not immune to the negative impacts of a struggling broader economy, the variability in an energy utility's operating and financial results are generally much less volatile than in most other industries.

INDUSTRY REGULATION

- The industry is highly regulated (and/or contracted) on an economic basis, which is the major positive factor in the overall BRR. The industry is also subject to various levels of operational regulation. The trade-off for little or no direct competition (except from alternative sources of energy) and monopoly franchise areas is that the rates utilities can charge customers are generally set by regulators.
- While this can place an effective ceiling on the level of profitability, it affords the utility tremendous stability and protection for fluctuations in both revenues and costs.

OTHER INHERENT INDUSTRY CONSIDERATIONS

- Overall, risks are below average for most energy utilities. The basic processes of producing, transmitting and distributing electricity, and distributing natural gas, are reasonably stable and have not changed significantly over time. The risk of environmental regulation is evolving, particularly for the electric industry; however, for a regulated energy utility, future cost increases attributable to environmental regulation would be expected to be recovered from ratepayers.

Stage 2: Issuer Rating

To move from the generic industry BRR toward the issuer rating for a specific company, two tasks must be performed. Specifically, we must determine the business risk and the financial risk for the individual company.

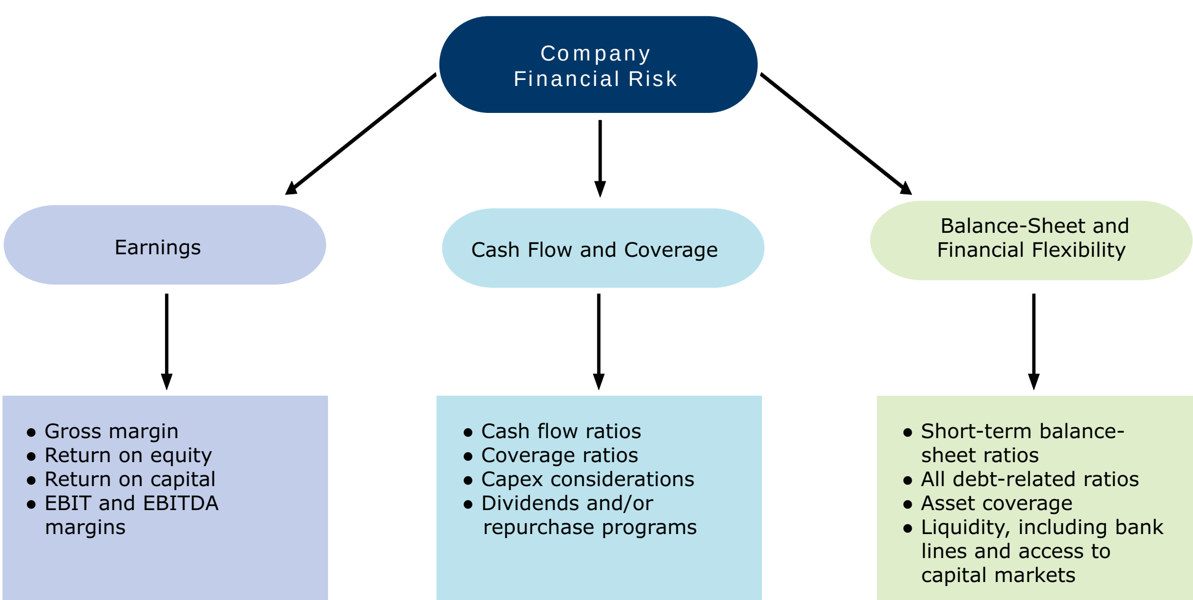
BUSINESS RISK PROFILE

- The business risk profile of the issuer may be better or worse than the industry average due to the presence of unique attributes or challenges that exist at the issuing entity. While not exhaustive, the list of critical factors outlined in the previous section could result in a specific issuer rating being different from the industry BRR.
- This methodology also provides some guidance on which factors are considered the most critical for the industry in question. Issuers may also have meaningful business lines in addition to the base business that extend beyond their most prominent industry, which could add significant attributes or challenges.

FINANCIAL RISK PROFILE

- The graphic below is a visual display of the key financial risk profile considerations that are discussed in the Company-Specific Financial Risk Factors section of this methodology, although even the detail provided there is not meant to be exhaustive.
- The discussion will note that DBRS often makes calculation adjustments in key ratios for risks related to a variety of areas. In some cases, a relationship with a parent or associated company will also be important.

Key Financial Risk Metrics



Company-Specific Business Risk Factors

- We now consider if an individual company in the North American energy utilities (electric and natural gas) industry would be better, worse or the same as the industry BRR. Our focus here is on the critical business risk factors that relate to this industry in particular. The five critical factors used to determine the industry BRR are applied by DBRS to compare numerous industries and are thus more general in nature.
- By analyzing these key drivers (which will vary on an industry-by-industry basis), the essential strengths and challenges of each industry are captured in an accurate fashion, and transparency is provided. The analysis below is connected to the industry BRR in that the industry BRR establishes where an average company would be considered to score on the matrix. For example, an industry with a BRR of BBB would mean that the following matrix describes the scoring of an average company within the BBB column.

Company-Specific Business Risks – Critical Factors

Rating Business Strength	AA Exceptional	A Superior	BBB Adequate	BB Weak
Regulatory / Contractual	• Exclusively regulated operations, no volume or fuel risk, insignificant regulatory lag, highly supportive regulator.	• Predominantly regulated operations, minimal volume or fuel risk, minimal regulatory lag, consistently supportive regulator.	• Largely regulated operations, some volume or fuel risk, some regulatory lag, supportive regulator.	• Some regulated operations, meaningful volume or fuel risk, meaningful regulatory lag, poor regulatory support.
Business Mix and Diversification	• Entirely regulated operations or contracted long-term. • Largely “wires” with modest (if any) power generation. • Primarily electric transmission and/or distribution.	• Large majority of operations are regulated or contracted long-term; small non-regulated operations with lower-risk business profiles (e.g., contracted, integrated). • “Wires” or gas distribution, or an integrated utility with very timely and certain fuel recovery.	• Mix of regulated/ contracted and non-regulated activities; non-regulated operations expected to have moderate risk with contracts and/or some value chain integration. • Integrated utility with some fuel cost recovery lag or significant power generator with moderate risk profile.	• Majority higher-risk, non-regulated activities. Minimal diversification, with concentration in higher-risk generation (i.e., minimal contracts or integration).
Franchise Area	• Strong and consistent levels of load growth. • Economically vibrant service territory. • Customer mix primarily residential and commercial.	• Reasonable load growth generally tracking the broader economy. • Economically strong service territory. • Customer mix heavily weighted toward residential and commercial.	• Minimal load growth. • Economically stagnant service territory. • Customer mix a balance of residential, commercial and industrial.	• Consistent load declines. • Economically weak service territory. • Customer mix weighted toward cyclical industrials.
Competitive Environment	• Competition only from other forms of energy, with the utility maintaining a significant competitive cost advantage.	• Competition only from other forms of energy, with the utility maintaining a competitive cost advantage.	• Competition only from other forms of energy; however, the utility maintains only a marginal cost advantage.	• Competition only from other forms of energy; however, utility is at a cost disadvantage.

- Energy utilities are typically characterized by very low business risk and aggressive but relatively stable financial metrics based on supportive regulatory frameworks and/or contractual arrangements. Competitive forces are typically low relative to other industries.
- Given their monopoly position within a franchise area, the size of a utility plays less of a role in determining its creditworthiness than for other industries. Smaller utilities can be disadvantaged, however, in terms of more limited access to capital. Furthermore, unlike many other industries, the prospect for future growth is not as significant a factor in the creditworthiness of an energy utility if a "steady state" is maintained; that is, capital expenditures result in a stable rate base and a stable capital structure is maintained.
- As a result of the stability that can be provided by the regulated and/or contractual frameworks, energy utilities typically have a much higher degree of financial leverage and lower interest coverage ratios than similarly-rated industrial companies. However, higher ratings for energy utilities are typically justified by the low variability inherent in their business risk, capital structure, and earnings and cash flow generating ability.
- A company with regulated energy utility operations (i.e., electric generation, distribution or transmission, and natural gas distribution) may also have non-regulated operations in other segments of the energy industry (e.g., non-regulated electricity generation) and DBRS evaluates these business segments individually, as well as in the context of the business risk of the diversified company.
- Utility earnings and cash flows are generally considered much more stable and predictable than cash flows from non-regulated activities.

PRIMARY FACTORS

Regulatory/Contractual

- Regulatory and contractual factors are a key consideration in determining the creditworthiness of an energy utility. Provincial/state regulators typically have jurisdiction over utilities that operate in a single province/state. Federal regulators typically have jurisdiction over utilities where operations cross provincial/state boundaries.
- Energy utilities typically operate under a methodology in which the regulator determines an appropriate capital structure for the regulated utility and defines the allowed ROE; these are two of the variables (along with depreciation expense, operating and maintenance costs, interest expense, taxes, etc.) that go into building up a utilities revenue requirement through a "bottom-up" approach.
  - Variations of this method can provide the regulated utility with the opportunity to earn and retain some portion of "excess" returns based on performance-based regulation (PBR) or some other incentivized model.
  - Alternatively, operations could be governed by long-term contracts (e.g., for power generation) that reduce or eliminate volume and/or price risk for a fixed but potentially long period of time.
- The extent of volume variance and fuel-price flow-through protection are also key factors in regulatory analysis. The existence of a mismatch between revenues and fuel and/or purchase power costs (i.e., selling fixed and buying floating) can have a major impact on the stability of a utility. DBRS also considers whether the regulatory framework is flexible and responsive to changing industry conditions (e.g., timeliness of commodity price pass-through decisions where applicable, or changing ROE requirements).
- However, being a utility does not ensure income stability. There are many examples of regulatory lag, which can slow cost recovery and negatively affect a firm's performance, particularly in the areas of fuel cost recovery and multi-year capital expenditure programs.
- Furthermore, the support provided by individual regulatory bodies varies by jurisdiction. DBRS generally views Canadian regulation as more supportive than that of the United States. However, approved levels of ROE and equity thickness are generally higher in the United States than in Canada.

Business Mix and Diversification

- For the electric-related utilities, there are three broad business areas: generation, transmission and distribution. Some utilities are fully integrated and participate in all three, while others may be involved in one or two segments.
- Generally, DBRS views transmission as the area with the least business risk, followed very closely by distribution, followed by generation. Within the electric generation segment, the type of generation (nuclear, coal, natural gas, hydroelectric, wind, etc.) also factors into the determination of business risk; for example, nuclear generation is viewed as having the highest level of operating risk, with hydroelectric the lowest.
- The extent of non-utility operations is critical, as these business lines typically entail accepting additional business risk for higher potential financial returns.
  - Non-utility operations often include non-regulated electricity generation, energy marketing and trading, and energy retailing.
  - Non-regulated activities must be evaluated on their own merits, involving an examination of the competitive factors in each segment and assessing how each individual segment contributes to the operations of the entire company.
  - For example, a company with its own infrastructure (e.g., electricity generation) would be in a much better position to derive value (and mitigate risk) along the entire energy value chain than would a company with stand-alone non-regulated operations in any one area. In addition, given the higher business risk inherent in non-regulated activities, companies with larger exposures to non-regulated activities would be expected to maintain lower financial risk (i.e., lower balance sheet leverage and higher coverage ratios) as a compensating factor in order to have a comparable credit rating.

Franchise Area

- Given the significant penetration rates for utilities (with electric being virtually 100%) and the close tie between energy consumption and economic growth (North American electricity demand generally tracks the level of economic growth/contraction), the economic state of the franchise area can significantly affect a utility both in the short and long term. Generally, utilities with a higher proportion of residential and commercial customers in their customer composition possess the ability to better weather economic downturns and demonstrate more stable operating performances than utilities with a greater exposure to industrial customers.
- For example, although load growth may be achieved through increased demand by industrial customers, the cyclicality to which this segment of a utility's customer base is subject to may render such growth inconsistent vis-à-vis load growth via residential or commercial customers.

Competitive Environment

- Historically, Canadian energy utilities have operated as monopolies within their service areas. In order to mitigate market power concerns, pricing decisions are determined in conjunction with the appropriate regulator, with input also received from interested parties (e.g., customer groups). Competitive pressures tended to come from alternative sources of energy rather than from alternative suppliers. The deregulation movement, embraced in some fashion by approximately half of the U.S. states, and a few Canadian provinces, has come firmly to a standstill after considerable activity in the late 1990s to early 2000s.
- Critical scale can provide competitive advantages in areas such as cost and operational efficiency, supply discounts, market profile and customer perception. A large equity base can provide additional comfort from one-time earnings hits, and larger firms often have more funding options in times of financial stress.

ADDITIONAL FACTORS

Capital Spending

- Energy utilities are capital-intensive businesses. An energy utility might undertake large capital projects in order to either meet growing demand in a high-growth franchise area or significantly refurbish aging assets. This could potentially lead to cost overruns and weaker financial metrics, at least during the growth phase.

- All things being equal, a large multi-year growth project would likely entail more execution risk and credit metric deterioration than a small project with a shorter construction period. For larger multi-year projects, credit metric deterioration is largely attributable to the fact that while debt would typically be used to (at least partially) fund expenditures, cash earnings are generally not realized until the assets are placed in service.
- Therefore, the existing asset base must produce the cash required to service the incremental debt associated with the new assets until those assets are placed in service. If construction-related interest expense is capitalized, this can understate an entity's cash interest expense on the income statement as the capitalized portion is removed to arrive at the net interest expense.
- Other key aspects of capital spending analysis include the cash flow adequacy to finance ongoing necessary maintenance requirements, and a company's flexibility in altering the timing of projects. Capital spending analysis provides an understanding of a company's operating strategies, growth plans and areas under active investment and divestment.
- For utilities undergoing very significant multi-year capital expansion programs, capital spending may be considered a Primary Rating factor. This would be particularly relevant for significant nuclear generation development.

Supply/Demand Considerations
- The provision of energy utility services depends on the presence of adequate supplies of energy (e.g., natural gas and electricity) to meet end-user demand. For electric utilities, generation of sufficient electricity to meet demand is paramount. In Canada, the limited degree of interconnection between provinces results in a limited role for purchased power. This is less of an issue in the United States.

Customers/Shippers
- With respect to the distribution of electricity and natural gas, customer mix can have implications, influencing the entity's volume exposure caused by weather (residential and commercial customers) and economy-related (largely industrial customers) risks.
- Electric generation not subject to regulation operates on a commercial basis as either merchant (i.e., full price and volume risk), or enters into some type of contractual off-take or hedging arrangement. Similar to the pipelines, counterparty risk is critical for those with contractual or hedging arrangements.

Ownership
- An energy utility's ownership can be an issue, particularly in the United States, where regulatory protection tends to be weaker than in Canada. An energy utility owner that is experiencing financial difficulties in its other operations might be tempted to use regulated assets to shore up its other operations, thereby weakening the financial position of the regulated energy utility.
- The existence of a highly rated parent typically does not result in a "lift" to a stand-alone utility's rating. However, DBRS may impute some level of support in a utilities rating if it is owned by a highly-rated city, despite no explicit guarantee being in place, given the potential unique circumstances of the city/utility relationship.

Environmental Issues
- DBRS assesses the extent to which energy utilities face government laws and regulations that can have an impact on a company's business and prospects. Regulated utilities may either be a direct source of greenhouse gas emissions (e.g., thermal power producer) or may transport energy derived from sources that produce emissions (e.g., a wires utility moving third-party power through its lines).
- In light of the global push toward lower emissions, DBRS views this risk and its associated cost as growing over time, although likely to be passed on to the end-customer. While not viewed as a significant rating factor for a fully regulated utility, significant environmental compliance costs could increase liquidity needs through recovery lags, and could increase rates for end-users.
- There are a number of alternative solutions that could be put in place, including cap and trade, carbon taxation, direct emissions limits, or, in the electric generation sector, renewable energy portfolio standards.

Retail Exposure

- Participants in the retail sector of the electricity industry who do not own generating assets can, depending on commercial arrangements, be exposed to significant market risk; key areas of analysis therefore include hedging policies, counterparty risk and the size of the operation.

Political Risk

- Energy utilities are essential service providers that have an impact on the general economy and society as a whole. As such, while it does not typically occur on a frequent basis, there is always the risk of political interference (which is different from regulatory risk). Political interference has been seen in the past pertaining to such areas as overall market structures, environmental considerations and energy costs. Future environmental regulation (discussed above) will also be politically driven.
- Politics, as well as constituent buy-in, can also play a major factor (positive or negative) in practical matters such as permitting, particularly in the siting of new electric transmission infrastructure.

COMMON BUSINESS CONSIDERATIONS

- There are two major considerations that were not included with the prior analysis but can have a meaningful impact on an individual company in any industry: country risk and corporate governance (which includes management). These areas tend to be regarded more as potential negative issues that could result in a lower rating than otherwise would be the case, although DBRS would certainly consider exceptional strength in corporate governance as a rating attribute.
- In most cases, our focus on the two areas is to ensure that the company in question does not have any meaningful challenges that are not readily identifiable when reviewing the other business risk considerations and financial metrics outlined in this methodology.

Country Risk

- Governments often intervene in their economies and occasionally make substantial changes that can significantly affect a company's ability to meet its financial obligations; therefore, considerations include the company's main location or country of operation, the extent of government intervention and support and the degree of economic and political stability.
- As such, the sovereign rating itself may in some cases become a limiting factor in an entity's rating, particularly when the sovereign has a lower rating and the entity does not have meaningful diversification outside its domestic economy.

Corporate Governance

- Effective corporate governance requires a healthy tension between management, the board of directors and the public. There is no single approach that will be optimal for all companies.
- A good board will have a profound impact on a company, particularly when there are significant changes, challenges or major decisions facing the company. DBRS will typically assess factors such as the appropriateness of board composition and structure, opportunities for management self-interest, the extent of financial and non-financial disclosure and the strength or weakness of control functions. For more detail on this subject, please refer to the DBRS criteria *Evaluating Corporate Governance*.
- With respect to the pivotal area of management, an objective profile can be obtained by assessing the following: the appropriateness of core strategies; the rigour of key policies, processes and practices; management's reaction to problem situations; the integrity of company business and regulatory dealings; the entity's appetite for growth, either organically by adding new segments or through acquisition; its ability to smoothly integrate acquisitions without business disruption; and its track record in achieving financial results. Retention strategies and succession planning for senior roles can also be considerations.

Company-Specific Financial Risk Factors

KEY METRICS

- Recognizing that any analysis of financial metrics may be prone to misplaced precision, we have limited our key metrics to a small universe of critical ratios. For each of these ratios, DBRS provides a range within which the issuer's financial strength would be considered as supportive for the same level of business risk as the North American energy utilities (electric and natural gas) industry. For example, a company where the outlook for both business risk and financial risk metrics falls within the BBB category would, all else being equal, be expected to have an issuer rating in the BBB range.
- To be clear, the ratings in the matrix below should not be understood as the final rating for an entity with matching metrics. This would only be the case to the extent that the business risk of the company and a wide range of other financial metrics were also supportive. The final rating is a blend of both the business risk and financial risk considerations in their entirety.
- The following table represents financial metrics generally related to an entity with significant regulated energy utility operations (i.e., electric generation, distribution or transmission, and/or natural gas distribution), with minimal exposure to non-regulated energy operations (i.e., non-regulated electricity generation, energy market and trading). Significant exposure to non-regulated operations would result in increasingly stringent financial metric criteria at the various rating levels.

North American Energy Utilities (Electric and Natural Gas) Industry Financial Metrics

Key Ratio	AA	A	BBB	BB
Cash flow-to-debt	> 17.5%	12.5% to 17.5%	10% to 12.5%	< 10%
Debt-to-capital	< 55%	55% to 65%	65% to 75%	> 75%
EBIT-to-interest	> 2.8x	1.8x to 2.8x	1.5 to 1.8x	< 1.5x

DBRS notes that utilities rated below investment grade are typically rated as such due to heightened business risk levels rather than for credit metric reasons.

- While the data in the above table are recognized as key factors, they should not be expected to be fully adequate to provide a final financial risk rating for any company. The nature of credit analysis is such that it must incorporate a broad range of financial considerations, and this cannot be limited to a finite number of metrics, regardless of how critical these may be.
- DBRS ratings are based heavily on future performance expectations, so while past metrics are important, any final rating will incorporate DBRS's opinion on future metrics, a subjective but critical consideration.
- It is also not uncommon for a company's key ratios to move in and out of the ranges noted in the ratio matrix above, particularly for cyclical industries. In the application of this matrix, however, DBRS is typically focusing on multi-year ratio averages.
- Notwithstanding these potential limitations, the key ratios are very useful in providing a good starting point in assessing a company's financial risk.
- It is important to note that actual financial ratios for an entity can and will be influenced by both accounting and accounting choices. In Canada, this will include the shift to International Financial Reporting Standards (IFRS). DBRS acknowledges that IFRS and other accounting choices will have an impact on the financial metrics of the companies that it covers. The financial risk factors include ratios based on data from company financial statements that are based on Canadian Generally Accepted Accounting Principles (GAAP) and U.S. GAAP, for the most part. When company financial statements are based on GAAP in other countries, including IFRS, the ratios and ranges may need to be redefined.
- Recognizing that the metrics in the table above do not represent the entire universe of considerations that DBRS examines when evaluating the financial risk profile of a company, the following provides a general overview that encompasses a broader range of metrics and considerations that could be meaningful in some cases.

Overall Considerations in Evaluating a Company's Financial Risk Profile

In addition to the information already provided with respect to key financial metrics, the following financial considerations and ratios are typically part of the analysis for the North American energy utilities (electric and natural gas) industry. As it is not possible to completely separate business and financial risks, note that many of the following ratios will relate to both areas.

EARNINGS

- DBRS earnings analysis focuses on core earnings or earnings before non-recurring items and in doing so considers issues such as the sources, mix and quality of revenue; the volatility or stability of revenue; the underlying cost base (e.g., the company is a low-cost producer); optimal product pricing; and potential growth opportunities. Accordingly, earnings as presented in the financial statements are often adjusted for non-recurring items or items not considered part of ongoing operations.
- DBRS generally reviews company budgets and forecasts for future periods. Segmented breakdowns by division are also typically part of DBRS analysis. Notwithstanding the focus on core earnings, note that actual net earnings is also a consideration in our analysis given the direct impact that this has on the capital structure.

Typical Earnings Ratios

- EBIT or operating margin.
- Profit margin.
- Return on common equity.

CASH FLOW AND COVERAGE

- DBRS cash flow analysis focuses on the core ability of the company to generate cash flow to service current debt obligations and other cash requirements as well as on the future direction of cash flow. From a credit analysis perspective, insufficient cash sources can create financial flexibility problems, even though net income metrics may be favourable.
- DBRS evaluates the sustainability and quality of a company's core cash flow by focusing on cash flow from operations and free cash flow before and after working capital changes. Using core or normalized earnings as a base, DBRS adjusts cash flow from operations for as many non-recurring items as relevant. As with earnings, the impact that non-core factors have on cash flow may also be an important reality.
- In terms of outlook, DBRS focuses on the projected direction of free cash flow, the liquidity and coverage ratios and the company's ability to internally versus externally fund debt reduction, future capital expenditures and dividend and/or stock repurchase programs, as applicable.

Typical Cash Flow and Coverage Ratios

- EBIT interest coverage (times).
- EBITDA interest coverage (times).
- Cash flow-to-total debt.
- Cash flow-to-capital expenditures.
- Dividend/distribution payout ratio.

BALANCE-SHEET AND FINANCIAL FLEXIBILITY CONSIDERATIONS

- As part of determining the overall financial risk profile, DBRS evaluates various other factors to measure the strength and quality of the company's assets and its financial flexibility. From a balance-sheet perspective, DBRS focuses on the quality and composition of assets, including goodwill and other intangibles; off-balance-sheet risk; and capital considerations such as the quality of capital, appropriateness of leverage to asset quality and the ability to raise new capital.
- DBRS also reviews the company's strategies for growth, including capital expenditures and plans for maintenance or expansion, and the expected source of funding for these requirements, including bank lines and related covenants. Where the numbers are considered significant and the adjustments would meaningfully affect the credit analysis, DBRS adjusts certain ratios for items such as operating leases, derivatives, securitizations, hybrid issues, off-balance-sheet liabilities and various other accounting issues.

Typical Balance-Sheet Ratios

- Current ratio.
- Total debt in capital structure.

Stage 3: Rating the Security

With respect to Stage 3, the following comments describe how the issuer rating is used to determine ratings on individual securities:

- DBRS uses a hierarchy in rating long-term debt that affects issuers that have classes of debt that do not rank equally. In most cases, lower-ranking classes would receive a lower DBRS rating. For more detail on this subject, please refer to DBRS rating policy entitled "Underlying Principles."
- In some cases, issued debt is secured by collateral. This is more typical in the non-investment-grade spectrum. For more detail on this subject, please refer to *DBRS Rating Methodology for Leveraged Finance*.
- The existence of holding companies can have a meaningful impact on individual security ratings. For more detail on this subject, please refer to the criteria *Rating Parent/Holding Companies and Their Subsidiaries*.

Appendix

INDUSTRY BUSINESS RISK RATINGS

- DBRS uses the concept of business risk ratings (BRRs) as a tool in assessing the business strength of both industries and individual companies within many methodologies across the corporate finance area. (DBRS does not typically use this approach for most financial, government and public finance sectors, where the industry is more challenging to define and this approach is not as useful.)
- The BRR is assessed independently of financial risk, although in some cases there are subtle but important links. As an example, the very low business risk profile of many regulated utilities has historically allowed this sector to operate with debt levels that would not be acceptable for most other industry sectors. Given this reality, it is difficult to consider the utility industry's BRR without acknowledging to some degree that the industry operates with sizable debt levels. This type of relationship exists with many industries, although typically to a much lesser degree.
- When a BRR is applied to an industry, there is an acknowledgment that this is a general assessment and there may in fact be a wide disbursement in the business strength of individual entities within the industry. Nonetheless, this assessment is beneficial to enabling DBRS to clearly delineate our industry opinion and is a useful tool when comparing different industries. An industry BRR is defined as being representative of those entities that the market would consider as "established," meaning that the group of companies being considered would have at least reasonable critical mass and track records. As such, the BRR for an industry does not consider very small players, start-up operations or entities that have unusual strengths or weaknesses relative to the base industry.
- DBRS methodologies note whether they apply to global industries or more specific countries or regions. When analyzing individual credits, DBRS considers the degree to which regional considerations may differ from the geographic area applicable within the industry methodology. Many entities have business units that transcend industries and in these cases, more than one BRR would be considered, including the possible benefits or challenges that may exist when all businesses are analyzed as part of a combined group.
- The BRR is a tool that provides additional clarity regarding the business risk of the industry overall, but it should be viewed as just one aspect in the complex analysis of setting ratings and should by no means be seen as either a floor or ceiling for issuers within a given industry. Although DBRS does not anticipate volatility in an industry's BRR, changes are possible over time if there are meaningful structural developments in the industry. When such a change does occur, DBRS will make this clear and note any impact on related individual ratings within the industry as applicable.
- DBRS assesses five areas to establish the overall BRR for an industry. Although there is an overlap in some instances (to some degree, in the long term, all five factors tend to relate to profitability and stability), DBRS has found that considering these five measures in a separate fashion is a useful way of approaching its analysis. In all cases, DBRS uses historic performance and our experience to determine an opinion on the future, which is the primary focus.

Industry Profitability and Cash Flow

- When ratios such as return on equity, return on capital and a variety of cash flow metrics are considered, some industries are simply more profitable than others. While standard economics would suggest a reversion to the mean through new competitors, this often occurs at a very slow pace over a long time horizon and in some cases may not occur at all because of barriers to entry.
- The benefits from above-average profits and/or cash flow are substantial and include internal capital growth, easier access to external capital and an additional buffer to unexpected adversity from both liquidity and capital perspectives.
- Some industries and their participants have challenges or strengths in areas such as research and development (R&D), brand recognition, marketing, distribution, cost levels and a potentially wide variety of other tangibles and intangibles that affect their ability in the area of profitability.

Industry Competitive Landscape

- The competitive landscape provides information regarding future profitability for the industry and thus somewhat crosses over into the profitability and cash flow assessment, but competition is deemed worthy of separate consideration because of its critical nature.
- Participants in industries that lack discipline, produce commodity-like products or services, have low barriers to entry and exhibit ongoing pricing war strategies generally have difficulty attaining high profitability levels in the longer term. Certain industries benefit from a monopoly or oligopoly situation, which may relate to regulation.

Industry Stability

- This factor relates primarily to the degree of stability in cash flow and earnings, measuring the degree to which the industry and its participants are affected by economic or industry cycles. Stability is considered critical as industries with high peaks and troughs have to deal with higher risk at the bottom of a cycle. As such, to some degree, industries with lower but stable profitability are considered more highly than industries with higher average profitability that is more cyclical.
- Some of the key factors in considering stability include the nature of the cost structure (fixed or variable), diversification that provides counter-cyclicality and the degree to which the industry interrelates with the overall economy. Depending on the industry, economic factors could include inflation or deflation, supply and demand, interest rates, currency swings and future demographics.

Industry Regulation

- Where applicable, regulation can provide support through stability and a barrier to entry, but it can also cause challenges and change the risk profile of an industry and its participants in a negative way, including the reality of additional costs and complications in enacting new strategies or other changes.
- As part of its analysis of regulation, DBRS also considers the likelihood of deregulation for a regulated industry, noting the many examples where this transition has proven to be a major challenge in the past.

Other Inherent Industry Considerations

- Each industry has its own set of unique potential risks that, even if managed well, cannot be totally eliminated. Specific risks, the ability to manage them and the range of potential outcomes vary industry by industry. Two of the most common risks are changing technology and operational risks.
- Some of the other more common risks are in the areas of legal, product tampering, weather, natural disasters, labour relations, currency, energy prices, emerging markets and pensions.

INDUSTRY BUSINESS RISK RATING DEFINITIONS

DBRS specifies the BRR for an industry in terms of our Long-Term Obligations rating scale. When discussing industry BRRs for an industry, DBRS typically provides either one specific rating or a limited range (such as BBB (high)/BBB). Using a range recognizes the fact that, by their nature, industry BRRs are less precise than a specific corporate or security rating as they represent an overall industry. In addition to relating to the industry level, these definitions also apply to the business risk of individual companies, which will fall more often in the very high and low categories (AA/AAA and B) than would be the case for an entire industry.

Industry Business Risk Ratings (BRRs)

Rating	Business Strength	Comment
AA/AAA	Exceptional	An industry BRR of AA/AAA is considered unusually strong, with no meaningful weakness in any individual area. It may include pure monopolies that are deemed essential (the primary case being regulated utilities, where the risk of deregulation is believed to be very low). Common attributes include product differentiation, high barriers to entry and meaningful cost advantages over other industries or entities. These and other strengths provide exceptional stability and high profitability. It would be quite rare for an industry to have a BRR in this category.
A	Superior	Industry BRRs at the “A” level are considered well above average in terms of stability and profitability and typically have some barriers to entry related to capital, technology or scale. Industries that have, by their nature, inherent challenges in terms of cyclicality, a high degree of competition and technology risks would be unlikely to attain this rating category.
BBB	Adequate	Industry BRRs at the BBB level include many cyclical industries where other positive considerations are somewhat offset by challenges related to areas such as commodity products, labour issues, low barriers to entry, high fixed costs and exposure to energy costs. This rating category is considered average and many industries fall within it, with key considerations such as overall profitability and stability typically considered as neither above or below average.
BB	Weak	An industry at the BB level has some meaningful challenges. In addition to high cyclicality, challenges could include the existence of high technology or other risks. Long-standing industries that may have lost their key strengths through factors such as new competition, obsolescence or the inability to meet changing purchaser demands may fit here. The culmination of such factors results in an industry that does not generally score well in terms of stability and profitability. For an entire industry, this is typically the lowest BRR level.
B	Poor	While not common, there are cases where an industry can have a BRR of B. Such industries would typically be characterized by below-average strength in all or virtually all major areas.

INTERRELATIONSHIP BETWEEN FINANCIAL AND BUSINESS RISK

Having in mind the prior discussion on the typical importance that DBRS places on certain financial metrics and business strengths for the North American energy utilities (electric and natural gas) industry, we provide some guiding principles pertaining to the application of DBRS methodologies, the first one being that, in most cases, an entity's business risk will carry more weight in the final rating than its financial risk.

Based on this underlying concept, we provide the additional guidance for individual companies with varying business risks:

- **For an Entity with a Business Risk of AA (Exceptional):** A company with a business risk of AA will almost always be able to obtain an investment-grade issuer rating. When financial metrics are in the BBB range, an entity with a business risk of AA would typically be able to attain an "A"-range issuer rating.
- **For an Entity with a Business Risk of "A" (Superior):** Unless financial strength fails to exceed the B range, superior business strength will typically allow the final issuer rating to be investment grade. Very conservative financial risk may in some cases allow the final issuer rating to be within the AA range, but this should not be considered the norm.
- **For an Entity with a Business Risk of BBB (Adequate):** At this average level of business risk, the level of financial risk typically has the ability to result in a final issuer rating from as high as "A" to as low as B.
- **For an Entity with a Business Risk of BB (Weak):** At this weak level of business risk, conservative financial risk can, in some cases, take the final issuer rating into the BBB investment-grade range.
- **For an Entity with a Business Risk of B (Poor):** It is not typically possible for a company with a business risk of B to achieve a final investment-grade issuer rating.

DEFINITION OF ISSUER RATING

- DBRS Corporate rating analysis begins with an evaluation of the fundamental creditworthiness of the issuer, which is reflected in an "issuer rating". Issuer ratings address the overall credit strength of the issuer. Unlike ratings on individual securities or classes of securities, issuer ratings are based on the entity itself and do not include consideration for security or ranking. Ratings that apply to actual securities (secured or unsecured) may be higher, lower or equal to the issuer rating for a given entity.
- Given the lack of impact from security or ranking considerations, issuer ratings generally provide an opinion of default risk for all industry sectors. As such, issuer ratings in the banking sector relate to the final credit opinion on a bank that incorporates both the intrinsic rating and support considerations, if any.
- DBRS typically assigns issuer ratings on a long-term basis using its Long Term Obligations Rating Scale; however, on occasion, DBRS may assign a "short-term issuer rating" using its Commercial Paper and Short Term Debt Rating Scale to reflect the issuer's overall creditworthiness over a short-term time horizon.

SHORT-TERM AND LONG-TERM RATINGS

- For a discussion on the relationship between short- and long-term ratings and more detail on liquidity factors, please refer to the DBRS policy entitled "Short-Term and Long-Term Rating Relationships" and the criteria *DBRS Commercial Paper Liquidity Support Criteria for Corporate Non-Bank Issuers*.

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www.dbrs.com

Corporate Headquarters

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
TEL +1 416 593 5577

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E2, Page16, Tables 1 and 2

a) Please provide a summary Peer comparison table of capital structure and financial risk based on financial ratios (per evidence page 16 but including interest coverage and return on capital) *using S&Ps data from the above reference* Tables 1 and 2.

b) Please provide your conclusions on current financial risk from this comparison.

c) Has Financial risk for Union changed materially since S&P's report in 2011? If so, please provide details of those changes.

Response:

a) Union is not able to provide the data requested as the work required to research this data is onerous.

b) Please see the response to a) above.

c) Union has not evaluated its financial risk since S&P's report in 2011.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit E2, Page 16 &
Exhibit F2, Page 28, Table 3

a) Please provide all available *Canadian* Comparables (at a minimum Enbridge Gas Distribution) showing Equity Thickness DBRS and S&P Ratings and Financial Risk indicators.

b) Where possible include financial ratios, especially Interest Coverage.

Response:

a) Please see Attachment 1.

b) Union is not able to provide the Financial ratios and interest coverages for the comparables as the work required to research this data is onerous.

Line No	Company	Deemed Equity Ratio	S&P	DBRS
		(a)	(b)	(c)
1	Terasen (Fortis BC)	40%	A-	A (low)
2	Pacific Northern Gas	40% - 45%		
3	ATCO Electric Disco	39%	A	A (low)
4	Enmax Disco	41%	BBB+	A (low)
5	Epcor Disco	41%	BBB+	A (low)
6	ATCO Gas	39%	A	A (low)
7	Fortis Alberta	41%	A-	A (low)
8	Alta Gas	43%	BBB	BBB
9	Gaz Metro	39%	A-	A
10	Gazifere	40%		
11	Nova Scotia Power	40%	BBB+	A (low)
12	Heritage Gas Ltd.	45%		
13	Enbridge Gas Distribution	36%	A-	A
14	Union Gas	36%	BBB+	A

Ratings were not found for Pacific Northern Gas, Gazifere, and Hertiage Gas Ltd.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1

Preamble: With reference to Union's business risk and capital structure.

a) In EB-2005-0520 Union requested an increase in its common equity ratio from 35% to 40% and justified this by filing evidence on business risk provided by Dr. Paul Carpenter of the Brattle group (Testimony dated January 6, 2006). Why is there is no similar business risk expert testimony filed to support the current requested increase in the common equity ratio?

Response:

Please see the response at Exhibit J.E-2-2-2 e).

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, Schedule 1, page 13

Preamble: With reference to changes in North American gas supply dynamics

a) In the context of the Mainline's throughput study filed by TransCanada PipeLines Limited ("TCPL") in the current TCPL Mainline hearing (Part C, Appendix C1), and the Wood Mackenzie natural gas market assessment provided to the National Energy Board ("NEB") to support a BC LNG Export license (March 2011), please provide Union's view on WCSB supply for the period 2013 to 2020, and 2020 and beyond.

b) Please indicate what the impact on Union would be if the NEB approves the Mainline's $130M expansion project discussed on page 13 of Exhibit A2, Tab 1, Schedule 1.

Response:

a) Union does not have an official forward view on WCSB supply. Union does not dispute the consultant's views that the potential increase in production from Western Canadian shale plays (primarily Horn River and Montney) may help offset the decline in conventional WCSB production over the long term. However as noted by Wood Mackenzie in their market assessment and in the White Paper prepared by Bruce Henning of ICF ("Natural Gas Market Conditions and Impact on Union Gas Limited"), increased domestic requirements in Alberta in the form of oil sands development, the potential for LNG exports from British Columbia, power generation and modest growth from the residential, commercial and industrial sectors are all potential factors that may contribute to lower volumes of gas available for export out of Western Canada to markets in the east.

   Reference Union Exhibit A2, Tab 1, Schedule 4 – page 10, Figure 6 (Alberta and British Columbia Balance).

b) Consistent with Union's guiding principles of reliability, security and diversity of supply for its utility customers, alleviating the constraint between Parkway and Maple will allow greater access to economical supplies for Union's Northern and Eastern franchise customers. It will provide the same beneficial impact for other customers in eastern Ontario, Quebec and U.S. North East.

   In addition to TCPL's current Eastern Mainline expansion application, both Union and TCPL have recently announced open seasons to determine market support for services that would further open up the constrained Parkway to Maple path. The results of these binding open seasons should provide an accurate assessment of the demands for this path and the capital requirements to meet the demand.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, Schedule 1, page 13

Preamble: With reference to changes in TCPL Mainline toll design

a) Is TCPL seeking to increase its thickness in the TCPL Mainline toll design proceeding?

b) Please summarize the position being advocated by Union and others in the TCPL Mainline proceeding and the rationale for that position.

Response:

a) TransCanada ("TCPL") has requested an overall return equal to an ATWACC of 7.0%, adjusted for the difference between the market cost of debt and the embedded cost of Mainline debt. TCPL's application can be found in RH-003-2011, Part D: Fair Return, Section 11.0: Fair Return for 2012-2013.

b) Union, as part of the Market Area Shippers group (MAS), is advocating for just and reasonable tolls that are not unduly discriminatory. MAS believes TCPL's Restructuring Proposal does not address the fundamental issue of excess costs on the Mainline and inappropriately shifts costs from one segment to another and shifts recovery of costs well into the future. Further detail regarding MAS' critique of TCPL's proposal can be found at:

https://www.neb-one.gc.ca/ll-eng/livelink.exe/fetch/2000/90465/92833/92843/665035/711778/718167/734772/797406/C56-8-2_-_Market_Area_Shippers_Evidence_-_A2Q9G2_.pdf?nodeid=797407&vernum=0

MAS has provided an Alternative Proposal, which more appropriately addresses the Mainline cost structure directly, proposes new competitive services and/or enhancements to existing services and retains elements such as current tolling methodology that are working well. Further details of MAS' proposal are outlined at pp.3-4 of its evidence available at:

https://www.neb-one.gc.ca/ll-eng/livelink.exe/fetch/2000/90465/92833/92843/665035/711778/718167/734772/797406/C56-8-3_-_MAS_Alternative_Proposal_-_A2Q9G3.pdf?nodeid=796881&vernum=0

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, page 16-17

Preamble: With reference to in franchise demand revenues and natural gas consumption risk

a) Please indicate the relevant cost comparison of natural gas against the most competitive fuel source for each of Union's major rate groups and the amount of margin attached to each class at the time of EB2005-0520 and currently.

b) Please indicate the measures Union has taken to track customers leaving the system due to energy price differentials and the numbers involved and lost margin for each year since 2000 both in absolute terms and as proportion of each rate class.

c) Please provide the breakdown of net distribution revenues for each of the following customer classes: industrial, commercial and residential for each year since 2000 for Union and for Enbridge Gas Distribution Inc. ("EGDI"), Terasen (BC Gas) Gas, ATCO Gas and GMI.

d) Please indicate the net income and net rate base attributable to its pipeline and distribution network for each year since 2000.

Response:

a) Union prepared the forecast for EB-2005-0520 in 2005. A comparison of relevant competitive fuels is shown at Attachment 1.

b) Union does not track the number of customers leaving the system due to energy price differentials.

c) Please see the response at Exhibit J.E-2-12-11 c).

d) The information requested is not available. Net income and net rate base are functionalized to customers for cost of service. Net income and net rate base are not functionalized for historical actual reporting.

	General Service				
Canadian $/GJ	Natural Gas - delivered	Oil - HFO 1% Sulfur NY Harbour	Ontario Heating Oil	Ontario Propane	Ontario Electricity RPP
2005	$ 13.92	$ 7.50	$ 20.09		$ 26.51
2006	$ 9.18	$ 7.87	$ 19.05	$ 20.49	$ 28.68
2007	$ 8.56	$ 8.63	$ 23.23	$ 25.43	$ 27.10
2008	$ 13.13	$ 12.05	$ 22.83	$ 26.36	$ 26.94
2009	$ 5.50	$ 9.47	$ 21.12	$ 23.54	$ 28.16
2010	$ 6.02	$ 11.21	$ 23.46	$ 26.25	$ 30.26
2011	$ 5.52	$ 14.72	$ 27.54	$ 31.18	$ 32.85
	Contract Rate Customers				
Canadian $/GJ	Gas at Dawn	Oil - HFO 1% Sulfur NY Harbour	Oil #2 Furnace - London	Propane - Sarnia - Spot	Ontario Electricity - Weighted Avg Generated Cost
2005	$ 9.99	$ 7.50	$ 16.12	$ 12.12	$ 19.19
2006	$ 7.35	$ 7.87	$ 16.51	$ 12.64	$ 12.60
2007	$ 7.26	$ 8.63	$ 17.44	$ 13.81	$ 13.04
2008	$ 9.10	$ 12.05	$ 24.07	$ 16.06	$ 13.41
2009	$ 4.61	$ 9.47	$ 15.21	$ 11.08	$ 8.18
2010	$ 4.64	$ 11.21	$ 17.08	$ 13.40	$ 10.52
2011	$ 4.09	$ 14.72	$ 22.17	$ 15.31	$ 8.78
Sources:					
General Service					
Natural Gas - delivered				Union Gas	
Oil - HFO 1% Sulfur NY Harbour				Oil Daily	
Ontario Heating Oil				Bloomberg	
Ontario Propane				Bloomberg to 2010 ; DOE-EIA 2011	
Ontario Electricity RPP				Ontario Energy Board Rate Orders for MEUs	
Contract Rate Customers					
Gas at Dawn				Platt's Gas Daily	
Oil - HFO 1% Sulfur NY Harbour				Oil Daily	
Oil #2 Furnace - London				Bloomberg	
Propane - Sarnia - Spot				Bloomberg to 2010 ; DOE-EIA 2011	
Ontario Electricity - Weighted Avg Generated Cost				IESO website - http://www.ieso.ca	

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, page 18.

Preamble: With reference to Union's comments on demand side management, weather and other factors

a) To the extent that DSM programs generate a predictable decline in use that is reflected in Union's forecasts and revenues, please explain how this affects Union's risk.

b) In terms of weather is it Union's view that it requires a risk premium for bearing weather risk? Has Union asked its business risk experts in EB2005-0520 (either Dr. Carpenter or Vilbert) whether this risk justifies a premium ROE?

c) Has Union at any time requested a weather normalization account similar to those used by ATCO Gas, Gaz Metro or FortisEnergy BC (Terasen Gas)? If not, why has Union not requested such a deferral account?

d) Please indicate whether slowdowns and expansions occurred during the time when Union had a 29% common equity ratio. For each year that Union had a 29% allowed common equity ratio please provide a table of the allowed and weather normalised allowed ROE.

Response:

a) DSM programs do not generate a predictable decline in use. There is forecast risk related to the actual impact Union's DSM programs have on throughput. There is also forecast risk related to the actual impacts of customer initiated conservation measures. The decrease in average consumption driven by both Union and customer initiated conservation continues to reduce Union's throughput and revenues. The impact that lost throughput/revenue and program costs will have on future rates for service is uncertain, as is customer reaction to the higher resulting prices.

b) Weather risk forms part of the risk for a gas utility and is likely part of the risk premium in the Board's approved formula. Dr. Carpenter and Vilbert were not consulted as part of this proceeding.

c) Union has not requested a weather normalization account. However, Union would consider such a request should weather risk continue to be asymmetrical as a result of the Board's decision in this proceeding.

d) Union's common equity ratio was at 29% in 1996 and prior. The information for years prior to 1990 is not available. Information on expansion and slowdown in this time period is not available. Below are the return on equity amounts for 1990 to 1996.

	Union Gas Limited		Centra Gas Ontario Inc.	
	Approved %	Based on Normal Weather %	Approved %	Based on Normal Weather %
Fiscal 1990	13.75	13.80	13.50	14.15
Fiscal 1991	13.50	13.40	13.75	12.06
Fiscal 1992	13.50	12.50	13.50	15.55
Fiscal 1993	13.00	13.70	12.50	13.07
Fiscal 1994	12.50	14.30	11.85	12.37
Fiscal 1995	11.75	12.14	12.13	12.40
Calendar 1995	11.75	12.12		
Fiscal 1996	11.75	12.52	12.13	10.37

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, page 28.

Preamble**:** With reference to Union's comments on pension and other benefits and its cost escalation risk.

a) Please confirm that the sensitivity of the pension surplus/liability is determined by Union's funding strategy. Is it correct to say that if Union Immunized its portfolio then there would be no sensitivity?

b) Please provide the expected return assumptions used by Union's actuary in determining the plan's surplus or deficit and the assumed asset allocation. Specifically what rate of return is the actuary assuming for:

   a. Canadian equities
   b. US and foreign equities
   c. Canadian fixed income
   d. Canadian cash equivalents
   e. Other assets
   f. What is the overall rate of return target?

c) Please indicate the impact on Union's pension plan surplus/deficit if the plan's expected rate of return were equal to the requested ROE of 9.58%.

Response:

a) Union funds its defined benefit plans in accordance with the Ontario Pension Benefits Act and Regulations. It is not correct to say that an immunized portfolio would result in no sensitivity in the funded status of the plans. Immunization can decrease the sensitivity to interest rate risk; however, it does not completely eliminate it. In addition, there are a number of other risk which are not capable of immunization (e.g., longevity risk, retirement risk, inflation risk, etc.)

b) The expected rate of return on plan assets is Union's best estimate of the expected long term rate of return to be earned on the pension plans' assets, determined in accordance with US GAAP. The expected rate of return takes into account the allocation of assets between investment classes and the investment policy of the plans. In determining the expected rate of return Union relies upon various capital market forecasts including Towers Watson's Capital Markets Model.

Towers Watson's Capital Markets Model revealed the following central range of long-term returns for each asset class:

a. Canadian equities: 6.30% - 8.00%
b. US and foreign equities: 6.65% - 8.35%
c. Canadian fixed income (long bonds): 3.65% - 5.35%
d. Cash: N/A
e. Other assets: N/A
f. What is the overall rate of return target? 6.75% for 2012 and 6.50% for 2013

c) The primary purpose of prudent pension funding is to accumulate a pool of assets separate and apart from other assets of the plan sponsor. As detailed above, Union's pension fund assets are invested in a broad range of public market equities and bonds, and the expected return is based on expected public capital market returns. It would be inappropriate to use an expected rate of return for the pension funds based on Union's requested return on equity.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence A2 Tab 1, Schedule 4, Figure 3.

Preamble: With reference to the ICF supply forecast.

a) Has shale gas increased the remaining resource potential of the WCSB by 236%, that is, by 508.8 Tcf from 215.6 Tcf (724.4-508.8)?

b) Please confirm that the increased remaining resource potential of the WCSB is similar in magnitude to that of onshore Gulf and only dwarfed by eastern interior (Marcellus etc), that is that shale gas has had a very significant impact on the remaining WCSB resource base.

c) Please confirm that there is little difference in the underlying economics of Horn and Montney versus US shale gas plays except pipeline costs, that is, the cost of getting the gas to markets.

d) Please indicate why the WCSB supply graph on page 9 does not include shale gas. Please provide a similar graph with WCSB shale gas.

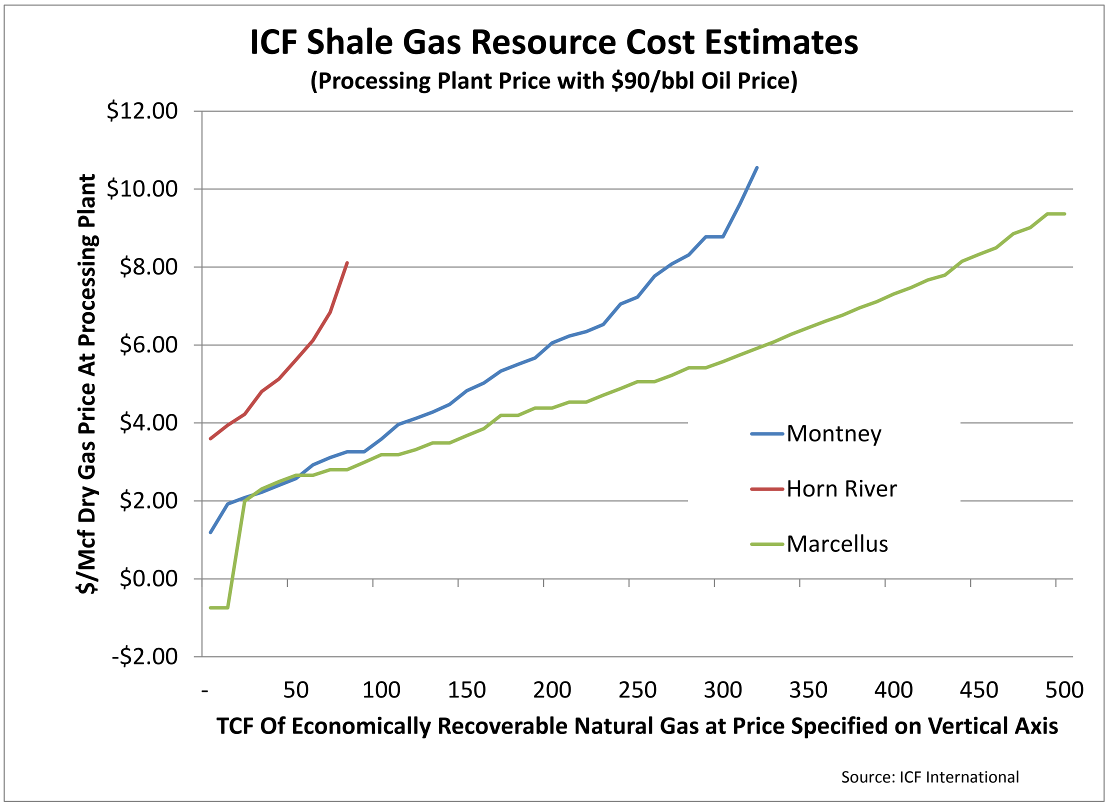
Response:

a) Based on the ICF resource assessment referenced in Mr. Henning's White Paper, shale gas resources accounted for 70.2% of the total remaining economically recoverable resource base estimated exist in the WCSB by ICF at the time of the referenced ICF supply forecast.

b) The remaining economically recoverable resource base estimated by ICF for the WCSB is similar in magnitude to the ICF estimate of economically recoverable resource base for the onshore Gulf. The remaining economically recoverable resource base estimated by ICF for the WCSB is about 52% of the magnitude of the ICF estimate of economically recoverable resource base for the eastern interior (Marcellus etc.), and is significantly greater than the ICF estimate of economically recoverable resource base for any of the other resource plays addressed in the ICF study. Shale gas has had a very significant impact on the remaining WCSB resource base.

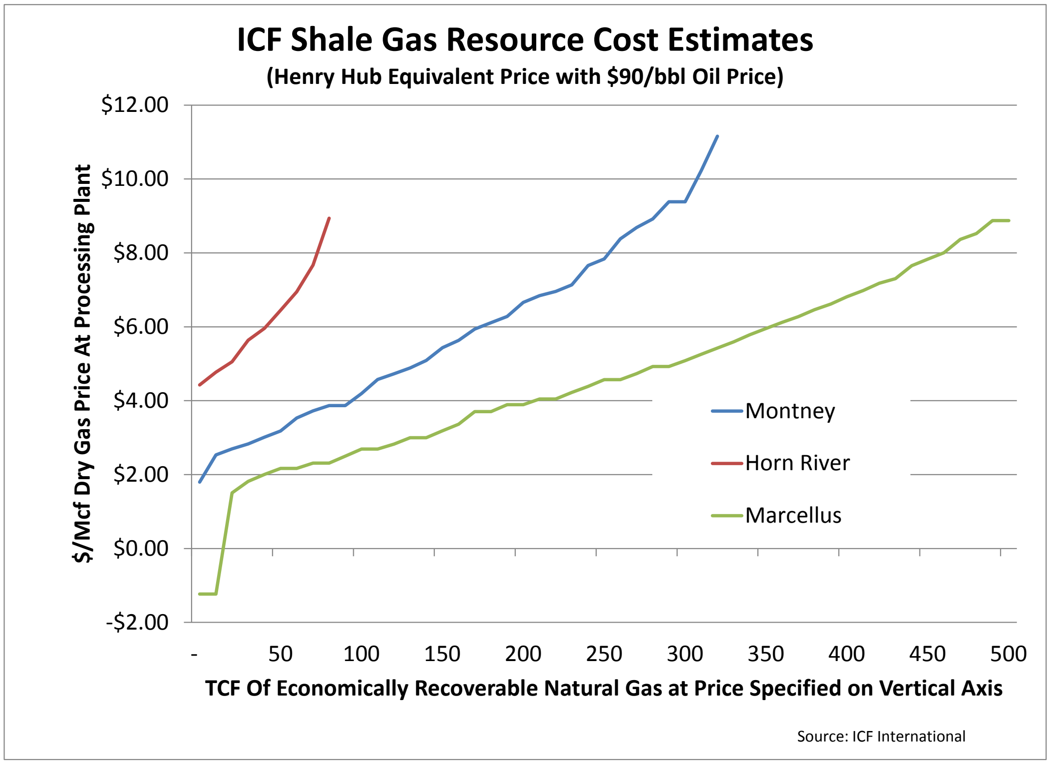
c) The underlying economics of different shale gas plays vary widely based on a variety of factors, including location within the specific play, quality of gas produced, amount of liquids produced in association with the natural gas, the specific geology of the different shale plays, and the remoteness of the drilling sites. In the case of the WCSB shales, Horn River shale production tends to include a significant amount of CO_2, increasing the costs of producing pipeline quality gas. In addition, Horn River shale tends to be very dry, producing limited amounts of natural gas liquids. Montney shale production includes less CO_2 and more natural gas liquids, which currently have a higher value per BTU than pipeline quality gas, than Horn River. As a result, the Montney tends to be the more economic play of the two even before consideration of pipeline transportation costs.

The figure shown below shows ICF's estimate of the difference in resource costs after gas processing, but prior to transportation for the Marcellus, Montney, and Horn River shale plays.[1]



Comparison of resource costs at the processing plant obscures the true resource economics of the individual plays, which is determined by the value of the gas to the market, including transportation costs, in addition to the resource development costs. The comparative resource economics for the three natural gas plays where the value of the gas is adjusted to reflect the value of the gas at Henry Hub is shown in the chart below.

[1] The values in this chart reflect a more recent analysis than included in the ICF supply forecast.



d) The WCSB supply graph on page 9 shows the trends in conventional production in the WCSB. It is not possible to understand the changes in the overall WCSB supply picture without examining both the growing importance of shale gas, and the trends in conventional production. The ICF report addresses both of these critical issues.

The requested data showing total natural gas production in the WCSB is included in Table 6 on page 10 of the ICF supply forecast.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E1, 2, 3 testimony of Mr. Broeders.

Preamble**:** With respect to Mr. Broeders' evidence

a) Please provide a table showing the regulated common equity ratio for Union Gas since 1980 and the DBRS bond rating for each year.

b) Please indicate any financial problems experienced by Union Gas during the period of the settlement, such problems might be a failed bond issue, refusal of investors to roll over short term debt etc

c) Please provide the monthly yield since January 2002 on a representative Union Gas long term bond issue as well as that for an equivalent maturity long Canada bond, the Scotia Capital (Dex) generic "A" long bond and the representative utility bond used by the OEB in its ROE formula.

d) Please indicate whether the spreads in c) above indicate any significant change for the Union Gas bond yield relative to the generic A bond or the Bloomberg utility bond yield since 2002

e) Please indicate the full range of deferral accounts available to Union Gas and whether they are roughly comparable to those allowed EGDI.

Response:

a) Information prior to 1990 is not readily available. Ratings were only available for DBRS for 1997 and later while S&P was only available for 2001 and later.

Year	Common Equity Ration	DBRS rating	S&P rating
1990	29%	n/a	n/a
1991	29%	n/a	n/a
1992	29%	n/a	n/a
1993	29%	n/a	n/a
1994	29%	n/a	n/a
1995	29%	n/a	n/a
1996	29%	n/a	n/a
1997	34%	A	n/a
1998	34%	A	n/a
1999	35%	A	n/a
2000	35%	A	n/a
2001	35%	A	A-/Watch Pos
2002	35%	A	A
2003	35%	A	BBB+
2004	35%	A	BBB
2005	35%	A	BBB
2006	35%	A	BBB
2007	36%	A	BBB+
2008	36%	A	BBB+
2009	36%	A	BBB+
2010	36%	A	BBB+
2011	36%	A	BBB+

b) Please see the response at Exhibit J.E-2-1-1 a).

c) Attachment 1 shows Union Gas bond issues during the time period of March 2002 to December 2011 against the monthly Long-term Government of Canada benchmark bond yield (V122544 – monthly equivalent of V39056) and the monthly A-Rated 30 year Canada Utility Bond index (C29530Y). Union does not have access to the Scotia Capital (DEX) generic "A" long bond information. Please see Attachment 2 for the full table of monthly values.

d) The Union bond issues generally follow the Utility Bond index with two notable exceptions. The 5.19% bond issued in May 2002 and the 4.64% bond issued in September 2005. These bonds had 5 and 10 year terms, respectively, and have durations significantly shorter than the Long-term Canada and Utility bonds represented in the above indices. These shorter durations will attract lower interest rates.

e) Attachment 3 details the comparability of Union's 2013 deferral accounts to those proposed by EGDI for 2013. Union's deferral accounts that are roughly comparable to deferral accounts at EGDI are shown side-by-side. Deferral accounts that are not roughly comparable are shown under the respective company without a comparable deferral account in the other company.


8
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Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
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Jul-06
Jan-07
Jul-07
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Jan-09
Jul-09
Jan-10
Jul-10
Jan-11
Jul-11
Utility Bond
Long-term Canada
Union Gas

Line No		Union Gas	Long-term Canada	Utility Bond
		(a)	(b)	(c)
1	Jan-02			
2	Feb-02			
3	Mar-02			7.2000
4	Apr-02		5.920	7.1100
5	May-02	5.310	5.780	6.9800
6	Jun-02		5.740	7.0000
7	Jul-02		5.730	6.9900
8	Aug-02		5.580	6.8210
9	Sep-02		5.430	6.7935
10	Oct-02		5.630	6.9122
11	Nov-02		5.580	6.8542
12	Dec-02		5.420	6.6207
13	Jan-03		5.490	6.6510
14	Feb-03		5.460	6.6760
15	Mar-03		5.580	6.6701
16	Apr-03		5.410	6.4770
17	May-03		5.120	6.0889
18	Jun-03		5.030	6.1065
19	Jul-03		5.400	6.3408
20	Aug-03		5.440	6.3068
21	Sep-03		5.230	6.1106
22	Oct-03		5.380	6.2209
23	Nov-03		5.290	6.1360
24	Dec-03		5.200	5.9900
25	Jan-04		5.230	5.9712
26	Feb-04		5.090	5.8625
27	Mar-04		5.040	5.9005
28	Apr-04		5.310	6.1675
29	May-04		5.320	6.2402
30	Jun-04		5.330	6.2643
31	Jul-04		5.290	6.2299
32	Aug-04		5.150	6.0780
33	Sep-04		5.040	6.0445
34	Oct-04		5.000	5.9470
35	Nov-04		4.900	5.9516
36	Dec-04		4.920	5.7346
37	Jan-05		4.740	5.6764
38	Feb-05		4.760	5.6946
39	Mar-05		4.770	5.6508
40	Apr-05		4.590	5.5479
41	May-05		4.460	5.3095
42	Jun-05		4.290	5.1286

43	Jul-05		4.310	5.1267
44	Aug-05		4.120	4.9276
45	Sep-05	4.700	4.210	5.0241
46	Oct-05		4.370	5.1905
47	Nov-05		4.180	5.0440
48	Dec-05		4.020	4.9253
49	Jan-06		4.200	5.1236
50	Feb-06		4.150	5.0367
51	Mar-06		4.230	5.1752
52	Apr-06		4.570	5.4299
53	May-06		4.500	5.3740
54	Jun-06		4.670	5.5348
55	Jul-06		4.450	5.3133
56	Aug-06		4.200	5.1470
57	Sep-06	5.510	4.070	5.0358
58	Oct-06		4.240	4.9814
59	Nov-06	4.910	4.020	4.8962
60	Dec-06		4.100	5.0349
61	Jan-07		4.220	5.1161
62	Feb-07		4.090	5.0014
63	Mar-07		4.210	5.1264
64	Apr-07		4.200	5.1311
65	May-07		4.390	5.3281
66	Jun-07		4.560	5.4506
67	Jul-07		4.490	5.4747
68	Aug-07		4.440	5.5321
69	Sep-07		4.500	5.5980
70	Oct-07		4.380	5.4451
71	Nov-07		4.230	5.4038
72	Dec-07		4.180	5.3122
73	Jan-08		4.190	5.4755
74	Feb-08		4.180	5.4315
75	Mar-08		3.960	5.3426
76	Apr-08	5.420	4.080	5.5136
77	May-08		4.120	5.5465
78	Jun-08		4.050	5.5714
79	Jul-08		4.160	5.5807
80	Aug-08		4.010	5.6659
81	Sep-08	6.100	4.130	6.1770
82	Oct-08		4.270	6.7630
83	Nov-08		3.940	6.7460
84	Dec-08		3.450	6.4707
85	Jan-09		3.720	6.7358
86	Feb-09		3.690	6.6715
87	Mar-09		3.740	6.4289
88	Apr-09		3.820	6.4759
89	May-09		4.190	6.1550

90	Jun-09		3.910	5.6119
91	Jul-09		4.050	5.5571
92	Aug-09		3.900	5.3096
93	Sep-09		3.840	5.2793
94	Oct-09		3.960	5.3529
95	Nov-09		3.850	5.3144
96	Dec-09		4.070	5.5944
97	Jan-10		3.960	5.3372
98	Feb-10		4.050	5.3914
99	Mar-10		4.070	5.3666
100	Apr-10		4.040	5.2854
101	May-10		3.680	5.3581
102	Jun-10		3.650	5.1842
103	Jul-10	5.270	3.770	5.1900
104	Aug-10		3.470	4.9826
105	Sep-10		3.330	4.8610
106	Oct-10		3.500	4.9330
107	Nov-10		3.650	4.9516
108	Dec-10		3.540	4.9608
109	Jan-11		3.750	5.1252
110	Feb-11		3.750	5.0307
111	Mar-11		3.720	5.1580
112	Apr-11		3.740	5.1163
113	May-11		3.500	4.9354
114	Jun-11	4.930	3.530	4.9919
115	Jul-11		3.350	4.7028
116	Aug-11		3.100	4.6886
117	Sep-11		2.830	4.4140
118	Oct-11		3.020	4.5063
119	Nov-11		2.690	4.2938
120	Dec-11		2.500	4.0519

Union Gas Limited		Enbridge Gas Distribution Inc.	
Gas Cost Deferral Accounts			
179-100	TCPL Tolls and Fuel – Northern & Eastern Operations Area	PGVA	Purchased Gas Variance Account
179-105	North Purchase Gas Variance Account		
179-106	South Purchase Gas Variance Account		
179-109	Inventory Revaluation Account		
179-107	Spot Gas Variance Account		
179-108	Unabsorbed Demand Cost Variance Account	DDCTDA	Design Day Criteria Transportation Deferral Account
	(1)	UAFVA	Unaccounted for Gas Variance Account
Storage and Transportation Deferral Accounts			
179-70	Short-term Storage and Other Balancing Services (2)	TSDA	Transactional Services Deferral Account
		S&TDA	Storage and Transportation Deferral Account
Demand Side Management Accounts			
179-75	Lost Revenue Adjustment Mechanism	LRAM	Lost Revenue Adjustment Mechanism Variance Account
179-111	Demand Side Management Variance Account	DSMVA	Demand-Side Management Variance Account
179-126	Demand Side Management Incentive Account	DSMIDA	Demand Side Management Incentive Deferral Account
Other Accounts			
179-103	Unbundled Services Unauthorized Storage Overrun		
179-112	Gas Distribution Access Rule (“GDAR”) Costs	GDARCDA	Gas Distribution Access Rule Costs Deferral Account
179-117	Carbon Dioxide Offset Credits	CDOCDA	Carbon Dioxide Offset Credits Deferral Account
179-118	Average User Per Customer	AUTUVA	Average Use True Up Variance Account
179-120	CGAAP to IFRS Conversion Cost		
179-123	Conservation Demand Management	EPEDSA	Electric Program Earnings Sharing Deferral Account
179-127	Pension Charge on Transition to USGAAP	TIACDA	Transition Impact of Accounting Changes Deferral Account
	(3)	DRA	Deferred Rebate Account
	(4)	CCCISRSDA	Customer Care CIS Rate Smoothing Deferral Account
	(4)	MGPDA	Manufactured Gas Plan Deferral Account
	(1)	OHCVA	Ontario Hearing Costs Variance Account
	(4)	OBRVA	Open Bill Revenue Variance Account
	(4)	EFTPBDSDA	Ex-Franchise Third Party Billing Services Deferral Account

(1) These costs are incurred by Union however, Union does not have a deferral account to capture variances.
(2) The deferral account activities by Union within 179-70 are captured within the two deferral accounts at EGDI.
(3) Union closed its comparable deferral account effective January 1, 2012.
(4) Union does not have similar costs to warrant a comparable deferral account

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E1, 2, 3, testimony of Mr. Broeders.

Preamble: With respect to Mr. Broeders' evidence

a) Mr. Broeders indicates that risk is the probability that the return the company earns is less than what was expected. Please provide the actual, allowed and weather normalized return on common equity (ROE) earned since 1980.

b) Please discuss in detail the reason for any material shortfall in the weather normalized ROE as compared to that allowed since 2000. Please define what the company regards as material.

c) Please indicate whether Union's ability to earn its allowed ROE is different at the current 36% common equity ratio as compared to the time when it had a 29% common equity ratio.

d) Please provide a table showing the starting regulated book value of common equity and the subsequent net income for each year since 1980.

e) Please indicate the current interest coverage ratio at the current allowed settlement and actual ROE. In the company's judgment is a change of 0.01 to 0.03 material in terms of its interest coverage ratio. If so please justify.

f) Please indicate any interest coverage or debt ratio restrictions in the MTN prospectus.

g) Please indicate why the company is reducing the size of its credit facility from $500 to $400 million.

h) Please indicate the company's free cash flow for each of the years it was under settlement and for the test years, where FCF is defined as net income, plus non-cash charges, plus changes in working capital minus capital expenditures.

Response:

a) Information back to 1980 is not available. Please see Attachment 1 for ROE data from 1990 to 2011.

b) There have been no years where the weather normalized ROE was below allowed.

c) No. Regulated utilities with rates set with a lower equity thickness, all other factors being equal, are more susceptible to unforeseen negative financial or operational occurrences affecting the utility's ability to achieve its authorized ROE.

d) Deemed regulated common equity and income subject to earnings sharing are shown below. Values prior to 2007 are not available due to the resources required and available information for those time periods.

Line No.		2007 (a)	2008 (b)	2009 (c)	2010 (d)	2011 (e)
1	Deemed equity	1,152,977	1,205,196	1,253,827	1,285,309	1,289,973
2	Income before earnings sharing	115,203	160,886	140,740	140,209	149,296
3	Income after earnings sharing	115,203	138,163	136,008	137,840	137,348

e) Union's current interest coverage ratio is 2.74 with a regulated ROE for earnings sharing purposes estimated at 11.57%.

At current interest rates, which results in a high interest coverage ratio, a change of 0.01 or 0.03 is not considered material. As interest rates climb and interest expense increases the interest coverage ratio will decrease and these values may become material.

f) The MTN prospectus references a trust indenture dated as of August 1, 1968. Per Section 6.04 the interest coverage ratio cannot be below 2.0.

g) The credit facility is a backstop to our commercial paper program, which at Union is primarily to support working capital needs (gas purchases). Since forward gas prices are projected to be much lower than when the facility was last renewed, there wasn't a need for as large a facility.

h) Calculation of Free Cash Flow

($millions)		2007	2008	2009	2010	2011	2012	2013
Operating Cash Flow	(a)	299	162	642	174	354	369	272
Capital Expenditures	(b)	373	404	247	232	290	296	405
Free Cash Flow	(c)=(a)-(b)	-74	-242	395	-58	64	73	-133

Return on Equity (Regulated)

					Actual		Based on Normal Weather		CGO		
Line No (a)	Year (b)	Common Equity % (c)	Board Approved (in rates) (d)	Benchmark (used for Earnings Sharing) (e)	After Earnings Sharing (f)	Before Earnings Sharing (g)	After Earnings Sharing (h)	Before Earnings Sharing (i)	Board Approved (in rates) (j)	Actual After Earnings Sharing (k)	Based on Normal Weather (l)
1	1990	29.0	13.75		13.30		13.80		13.50	12.28	14.15
2	1991	29.0	13.50		10.70		13.40		13.75	10.73	12.06
3	1992	29.0	13.50		11.50		12.50		13.50	15.72	15.55
4	1993	29.0	13.00		14.00		13.70		12.50	14.13	13.07
5	1994	29.0	12.50		15.30		14.30		11.85	12.14	12.37
6	1995	29.0	11.75		10.95		12.14		12.13	13.00	12.40
7	Cal 1995	29.0	11.75		12.17		12.12				
8	1996	29.0	11.75		13.47		12.52		12.13	11.53	10.37
9	1997	34.0	11.00		12.19		12.26		11.25	13.92	13.41
10	1998	34.0	10.44		8.03		11.14				
11	1999	35.0	9.61		8.76		10.10				
12	2000	35.0	9.95		10.62		10.11				
13	2001	35.0	9.95	9.66	9.30	9.30	11.45				
14	2002	35.0	9.95	9.62	10.75	10.75	12.36				
15	2003	35.0	9.95	9.37	11.98	12.75	12.08				
16	2004	35.0	9.62	9.62	11.37	11.37	11.50				
17	2005	35.0	9.62	9.63	10.80	11.50	10.99				
18	2006	35.0	9.62	8.89	8.48	9.24	10.26				
19	2007	36.0	8.54	8.54	9.99	9.99	10.43	10.43			
20	2008	36.0	8.54	8.81	11.46	13.35	11.43	12.97			
21	2009	36.0	8.54	8.47	10.85	11.22	10.64	11.02			
22	2010	36.0	8.54	8.54	10.72	10.91	11.21	11.59			
23	2011	36.0	8.54	8.10	10.65	11.57	10.67	11.77			

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble: With respect to Mr. Fetter's experience on pages 1-5.

a) Please indicate whether Mr. Fetter has previously participated in the rating of any of the following Canadian utilities: Union Gas, Enbridge Gas Distribution Inc, Gaz Metropolitain, Terasen Gas Inc (BC Gas) Canadian Utilities, Fortis or Emera.

b) If Mr. Fetter has in the past participated in the rating of any of the utilities in b) above, please provide copies of the last ratings report that he was involved with.

c) If Mr. Fetter has participated in the rating of any Canadian utility, please provide the last such rating that discusses the Canadian regulatory environment and any such comparison with the US.

d) What is Mr. Fetter's understanding of the differences between the US and Canadian regulation of utilities?

e) Please provide a current list of all Fitch utility ratings for US gas and electric companies.

f) Does Mr. Fetter agree with the views of both Moodys and S&P that there is greater regulatory protection in Canada and that this support justifies higher credit ratings even in the face of lower quantitative criteria. If not, please indicate why he disagrees with those views.

Response:

a) Mr. Fetter does not recall that Fitch maintained ratings on those Canadian utilities during his tenure from 1993 to 2002.

b) Not applicable.

c) While Mr. Fetter does not recall participating on the rating of a Canadian utility while at Fitch, he did serve on a Fitch team that provided strategic advice to Ontario Hydro relating to its credit rating profile prior to the utility's restructuring in 1999.

d) Generally, Mr. Fetter believes that, over the past 20 years, utilities in the United States have been operating under a greater array of regulatory frameworks (from market-based "competitive" to some degree to traditional cost-based) that vary from state to state than do

Canadian utilities operating under various provincial regulatory structures.

e) Fitch credit ratings can be accessed at www.fitchratings.com (with a free registration).

It appears that Fitch's Global Power Group rates 602 issuers within North America (with only one of those in Canada: Brookfield Asset Management, Inc. at 'BBB' with a Stable outlook), and that Fitch's Global Infrastructure & Project Finance Group rates 244 issuers within North America (with only one of those in Canada: Express Pipeline LLC / Express Pipeline LP at 'A' – (secured) and 'BBB' – (subordinated), both with Stable outlooks).

The work required to create a list of the 846 ratings (with apparently only 2 in Canada) is very onerous, not relevant to Union, and accessible by alternative means.

f) Generally, yes, but Mr. Fetter notes that each regulatory body must be assessed on a case-by-case basis.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble: With respect to Mr. Fetter's comments that ratings are important especially for a utility like Union with a large customer base that includes manufacturing companies.

a) In making this comparison, what Canadian companies did Mr. Fetter have in mind as comparables?

b) Please indicate the customer base for Union and also for the following companies Natural Resource Gas, (mentioned on page 17) EGDI, Gaz Metro, Atco Gas, Fortis Energy BC (Terasen Gas).

c) Please indicate the revenue breakdown for each of the utilities in c) above in terms of residential, commercial and industrial revenues for each year since 2000.

d) How does Mr. Fetter rank Union, EGDI and Gaz Metro in terms of their riskiness?

Response:

a) Mr. Fetter's comment related to the potential supply and financial volatility Union Gas would face due to the presence of manufacturing companies within its customer base – which would be true for any utility providing natural gas or electricity to large energy users.

b) Please see Attachment 1. The information in the attachment was prepared by Union Gas.

c) Please see Attachment 2. The information in the attachment was prepared by Union Gas.

d) Mr. Fetter has not done such a ranking, because his testimony comments upon trends in awarded ROEs across Canada, an assessment he carried out with regard to U.S. utilities while serving as a utility regulator in Michigan. During his tenure as a utility regulator, he found the ROE levels that investors could access in other states relevant in determining the levels necessary for Michigan's regulated utilities to maintain reasonable access to the capital markets.

Union Gas (EB-2011-0210, Exhibit C1, Summary Schedule 2 – Year-End Totals)

Customer Class	No. of Customers 2012 Forecast	No. of Customers 2011 Outlook	No. of Customers 2010 Actual
M1 – Firm	1,052,271	1,038,570	1,025,698
M2 – Firm	6,721	6,664	6,607
R01 – Firm	317,756	313,295	308,846
R10 – Firm	2,047	2,086	2,154
Sub-Total - General Service:	1,378,795	1,360,615	1,343,305
M9 – Firm	3	3	2
M10 – Firm	2	2	2
R77 – Firm	0	0	0
Sub-Total – Wholesale Utility	5	5	4
M4	122	130	130
M7	4	4	6
R20 – Storage	0	0	0
R20 – Transportation	61	60	51
Rate 100 – Storage	0	0	0
Rate 100 – Transportation	18	17	16
T1 – Storage	0	0	0
T1 – Transportation	64	63	53
T3 – Storage	0	0	0
T3 – Transportation	1	1	1
M5	143	141	130
R25	91	83	99
R30	0	0	0
Sub-Total – Contract:	504	499	486
Total:	1,379,304	1,361,119	1,343,795

Natural Resource Gas (EB-2010-0018, Exhibit C7-T2-S2 and C8-T2-S2)

Customer Class	No. of Customers 2011 Test Year	No. of Customers 2010 Bridge Year	No. of Customers 2009 Actual
R1 – Residential	6,599	6,462	6,331
R1 - Commercial	414	412	408
R1 - Industrial	26	26	25
R2 – Seasonal	73	73	73
R3 - Special Large Volume Contract Rate	4	4	4
R4 - General Service Peaking	23	23	23
R5 - Interruptible Peaking Contract Rate	5	5	5
R6 - IGPC	1	1	1
Total:	7,145	7,006	6,870

Enbridge Gas Distribution (per EB-2011-0354 Exhibits C4-T2-S1 and C5-T2-S1)

Customer Class	2012 Estimated Average No. of Customers	2011 Actual Average No. of Customers
Rate 1 – Residential	1,826,796	1,799,928
Rate 6 – General Service	157,500	157,340
Rate 9 – Container Service	9	11
Sub-Total – General Service sales and T-Service	1,984,305	1,957,279
Rate 100 – Firm Contract Service	0	10
Rate 110 – Large Volume Load Factor Service	201	205
Rate 115 – Large Volume Load Factor Service	30	30
Rate 125 – Extra Large Firm Distribution Service	5	4
Rate 135 – Seasonal Firm Service	38	38
Rate 145 – Interruptible Service	108	120
Rate 170 – Large Interruptible Service	38	38
Rate 200 – Wholesale Service	1	1
Rate 300 – Firm or Interruptible Distribution Service	8	8
Rate 315 – Gas Storage Service	0	0
Sub-Total – Contract Sales and T-Service	429	454
Total Ave. No. of Customers:	1,984,734	1,957,733

Gaz Métro – Distribution Service (per Gaz Métro's 2011 Annual Report)

Customer Class	No. of Customers
Tariff D_1	183,302
Tariff D_M and D_3	1,588
Tariff D_4	76
Sub-Total:	184,966
Tariff D_5 – Interruptible	144
Make-Up Gas Service	22
Total:	185,132

D_1 = general distribution rate
D_3 and D_4 = stable load rates
D_5 = interruptible rate
D_M = Modular rate (discontinued in October 2011)
Make-Up Gas Service:

- "Competitive Make-up Gas" service to temporarily withdraw a greater volume of gas;
- "Seasonal Make-up Gas" service to reduce the number of days of interruption anticipated at its sub-rate; when offered by the distributor, this service may come from the interruptible service provided to another customer who makes it available;
- "Make-up Gas to Avoid an Interruption" service.

ATCO Gas **(2011-2012 General Rate Application – December 2010)**

Customer Class	Year-End No. of Customers 2012 GRA	Year-End No. of Customers 2011 GRA	Year-End No. of Customers 2010 Forecast	Year-End No. of Customers 2009 Actual
Residential	500,091	489,960	479,829	471,488
Commercial	52,566	51,683	50,800	50,070
Industrial	162	162	162	162
Sub-Total: North	552,819	541,805	530,791	521,720
Residential	506,375	496,446	486,517	477,985
Commercial	39,472	38,779	38,086	37,491
Industrial	189	189	189	189
Irrigation	27	27	27	27
Sub-Total: South	546,063	535,441	524,819	515,692
Total:	1,098,882	1,077,246	1,055,610	1,037,412

FortisBC Energy Utilities Inc. **(per March 22, 2012 and March 31, 2011 Annual Information Forms)**

Customer Class	Year-End No. of Customers 2011	Year-End No. of Customers 2010	Year-End No. of Customers 2009	Year-End No. of Customers 2008
Residential	767,508	762,496	755,660	750,838
Commercial	81,783	81,366	81,274	81,012
Industrial	253	261	282	317
Total	849,544	844,123	837,216	832,167

Union Gas **(EB-2011-0210, Exhibit C1, Summary Schedule 4)**

Customer Class	Delivery Revenue 2012 Forecast (millions)	Delivery Revenue 2011 Outlook (millions)	Delivery Revenue 2010 Actual (millions)
M1 – Firm	$380	$380	$367
M2 – Firm	$46	$47	$51
R01 – Firm	$140	$140	$133
R10 – Firm	$17	$17	$15
Sub-Total - General Service:	$584	$585	$565
M9 – Firm	$1	$1	$1
M10 – Firm	$0	$0	$0
R77 – Firm	$0	$0	$0
Sub-Total – Wholesale Utility	$1	$1	$1
M4	$12	$12	$12
M7	$4	$6	$6
R20 – Storage	$0	$0	$0
R20 – Transportation	$9	$9	$9
Rate 100 – Storage	$0	$0	$0
Rate 100 – Transportation	$13	$12	$13
T1 – Storage	$7	$6	$10
T1 – Transportation	$52	$52	$50
T3 – Storage	$1	$1	$1
T3 – Transportation	$3	$4	$4
M5	$9	$9	$9
R25	$2	$3	$4
R30	$0	$0	$0
Sub-Total – Contract:	$112	$113	$118
R20 – Storage (North) *	$0	$2	$1
R100 – Storage (North) *	$0	$0	$1
R30 – Storage (North) *	$0	$0	$0
Sub-Total – North Storage *	$0	$2	$2
Total:	$697	$700	$686

* As of 2012, the North Storage component for Rate classes 20, 30, and 100 are part of the Gas Supply Revenue instead of Delivery Revenue. For comparative purposes, amounts for the Rate 20 Storage, Rate 100 Storage, and Rate 30 have been reported separately.

Natural Resource Gas (per 2011 Rate Order - EB-2010-0018)

Customer Class	Revenue
R1 – Residential	$1,985,644
R1 - Commercial	$511,655
R1 - Industrial	$67,437
R2 – Seasonal	$57,940
R3 - Special Large Volume Contract Rate	$152,259
R4 - General Service Peaking	$57,189
R5 - Interruptible Peaking Contract Rate	$54,971
R6 - IGPC	$1,484,901
Sub-Total:	$4,371,997
Monthly Customer Charges:	$1,171,859
Total Revenue:	$5,543,857

Enbridge Gas Distribution (per EB-2011-0354 Exhibits C4-T2-S1 and C5-T2-S1)

Customer Class	2012 Estimated Revenue (million$)	2011 Actual Revenue (million$)
Rate 1 – Residential	$1,501.1	$1,438.0
Rate 6 – General Service	$915.8	$843.4
Rate 9 – Container Service	$0.3	$0.2
Sub-Total – General Service sales and T-Service	$2,417.2	$2,281.6
Rate 100 – Firm Contract Service	$0.0	$0.9
Rate 110 – Large Volume Load Factor Service	$28.9	$27.3
Rate 115 – Large Volume Load Factor Service	$7.1	$8.1
Rate 125 – Extra Large Firm Distribution Service	$9.7	$8.8
Rate 135 – Seasonal Firm	$1.7	$2.3
Rate 145 – Interruptible Service	$8.1	$10.3
Rate 170 – Large Interruptible	$8.6	$15.3
Rate 200 – Wholesale Service	$28.5	$27.0
Rate 300 – Firm or Interruptible Distribution Service	$0.4	$0.3
Rate 315 – Gas Storage Service	$0.0	$0.0
Sub-Total – Contract Sales and T-Service	$93.0	$100.3
Total Revenue:	$2,510.2	$2,381.9

Gaz Métro – Distribution Service (per Gaz Métro's 2011 Annual Report)

Customer Class	Revenue ($000)
Tariff D_1	$361,171
Tariff D_M and D_3	$67,379
Tariff D_4	$56,996
Sub-Total:	$485,545
Tariff D_5 – Interruptible	$26,738
Make-Up Gas Service	$20,570
Other	$951
Total:	$533,804

D_1 = general distribution rate
D_3 and D_4 = stable load rates
D_5 = interruptible rate
D_M = Modular rate (discontinued in October 2011)
Make-Up Gas Service:

- "Competitive Make-up Gas" service to temporarily withdraw a greater volume of gas;
- "Seasonal Make-up Gas" service to reduce the number of days of interruption anticipated at its sub-rate; when offered by the distributor, this service may come from the interruptible service provided to another customer who makes it available;
- "Make-up Gas to Avoid an Interruption" service.

ATCO Gas (per 2011-2012 General Rate Application – December 2010)

Customer Class	Revenue at Existing Rates 2012 GRA (millions)	Revenue at Existing Rates 2011 GRA (millions)	Revenue at Existing Rates 2010 Forecast (millions)	Revenue at Existing Rates 2009 Actual (millions)
Residential	$215.1	$211.2	$222.8	$169.1
Commercial	$90.7	$89.0	$93.4	$70.0
Industrial	$3.9	$3.9	$4.6	$3.5
Sub-Total: North	$309.7	$304.1	$320.8	$242.6
Residential	$180.6	$177.2	$183.0	$153.0
Commercial	$55.4	$54.4	$58.9	$48.6
Industrial	$5.1	$5.1	$6.1	$5.3
Irrigation	$0.7	$0.7	$0.4	$0.5
Sub-Total: South	$241.8	$237.4	$248.4	$207.4
Total:	$551.5	$541.5	$569.2	$450.0

FortisBC Energy Utilities Inc. **(per March 22, 2012 and March 31, 2011 Annual Information Forms)**

Customer Class	Revenue 2011 (millions)	Revenue 2010 (million)	Revenue 2009 (millions)	Revenue 2008 (millions)
Residential	$799.1	$809.6	$863.5	$1,014.1
Commercial	$415.4	$421.4	$455.5	$525.0
Industrial	$22.2	$23.9	$29.4	$34.4
Total	$1,236.7	$1,254.9	$1,348.4	$1,573.5

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble**:** With respect to Mr. Fetter's comments on the recent financial crisis and its impact on utilities on page 9.

a) Are the comments of Mr. Fetter and the Wall Street Journal comment (page 9) referring to Canadian or US utilities?

b) If the foregoing comments relate to Canadian utilities, then please provide any instances of which Mr. Fetter is aware that indicate any significant financial problems faced by a Canadian utility during the financial crisis. Such an incident could be, for example, a failed bond issue, a dividend cut or a bond downgrade.

c) At the height of the financial crisis in 2009, Pat Daniel, CEO of Enbridge Inc., (owner of EGDI), stated that "I think that speaks to the low risk, steady predictable nature of our business, ….People don't really realize it until you get into tough times like this." (Shaun Polczer, **"Pipeline companies weather darkest hour; Executives say crisis worst in oil patch history" Calgary Herald, December 9, 2008) Does Mr. Fetter agree or disagree with Mr. Daniel's assessment that the gas distribution utility business is low risk, steady, and predictable?**

d) What analysis has Mr. Fetter done of the impact of the US financial crisis on Canada and whether it was more, or less severe than in the US to support his use of US analogies in Canada?

Response:

a) Those comments relate to the impact of the financial crisis on the capital markets in general.

b) Nova Scotia Power, with a "BBB" rating, issued a five-year note in January 2009 in the middle of the financial crisis. That utility was forced to pay an extreme 400 basis point spread over government debt to complete the transaction.

c) Mr. Fetter believes that within the overall regulated utility sector, the gas distribution utility business is generally "low risk, steady and predictable." If Mr. Daniel's statement means to imply that a severe financial crisis would not have any impact on the gas distribution utility sector, Mr. Fetter would disagree.

d) Mr. Fetter believes that both U.S. and Canadian utilities faced challenging times during the recent global financial crisis, and that strengthening of Union Gas' equity thickness would work toward limiting its downside risk if another financial crisis were to occur.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble**:** With respect to Mr. Fetter's comments on the provisions in the undertakings agreement for Union Gas on page 11.

a) Please indicate whether the provisions meet S & P's requirement for structural insulation or "ring fencing."

b) Please confirm that if the provisions did meet the S&P "ring fencing" requirement then Union Gas' bond rating would not be harmonized with that of its parent Spectra Energy.

c) Please indicate the "minimum equity level" that is contained in the undertakings agreement.

Response:

a) S&P's comment indicates that the agency is not yet ready to make a definitive judgment on the ring-fencing issue.

b) Mr.Fetter's understanding is that if the provisions did meet the S&P "ring-fencing" requirement, there would be greater leeway with regard to the Union Gas rating vis-à-vis the Spectra Energy rating. Mr.Fetter notes that such determination by S&P and the effect of such determination, as with the other rating agencies, would be done on a case-by-case basis.

c) Please see the response at Exhibit J.E-2-3-1.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble: With respect to Mr. Fetter's comments on S&P's business risk profile designations on page 15.

a) Please provide a table containing all S&P's current bond ratings for US regulated gas and electric utilities along with their business risk designation.

b) Is BBB the median bond rating for US gas and electric utilities rated "excellent" in terms of their business risk profile? If not, then please indicate how one can assess the usefulness of the business risk profile without having this link to their bond rating.

c) Is Mr. Fetter's assessment of Union Gas' stand-alone "S&P" bond rating (page 14) at A- based solely on the quantitative criteria discussed in those paragraphs?

d) With the stronger regulatory protection that is available in Canada, would the stand alone "S&P" rating for Union likely be higher than A-? If not, then please explain why not.

Response:

a) Please see Attachments 1 – 3 for the Reports from S&P ranking U.S. Electric and Gas Utilities Strongest to Weakest.

b) No. Mr. Fetter notes that the S&P Business Risk Profiles and Financial Risk Profiles are analyzed in concert and then related to S&P's published corporate credit rating matrix. Accordingly, the relationship between a bond rating and the Business Risk Profile cannot be considered in a vacuum – the Financial Risk Profile must also be included in order for the S&P ratings matrix to be useful in indicating likely credit rating levels.

c) No. Mr. Fetter's assessment is based upon considering Union Gas' qualitative factors, included in the utility's S&P Business Risk Profile, and its quantitative factors, included in the utility's S&P Financial Risk Profile.

d) No. S&P utilizes its corporate ratings matrix on a global level. Regulatory environment is captured within the Business Risk profile assigned to a particular utility.

Filed: 2012-05-04
EB-2011-0210
J.E-2-12-14a
Attachment 1

STANDARD & POOR'S

Global Credit Portal®

RatingsDirect®

January 5, 2012

Issuer Ranking:
U.S. Regulated Electric Utilities, Strongest To Weakest

Primary Credit Analyst:
John W Whitlock, New York (1) 212-438-7678; john_whitlock@standardandpoors.com

Secondary Contact:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Issuer Ranking:

U.S. Regulated Electric Utilities, Strongest To Weakest

The following list ranks all the rated companies in this industry from strongest to weakest based on rating and outlook. Companies with the same rating and outlook are further ranked by our opinion of credit quality based primarily on business risks for investment-grade companies and primarily on financial risks for speculative-grade companies.

Ratings are displayed as long-term rating/outlook or CreditWatch/short-term rating. A double dash (--) indicates no rating. Issuer credit ratings are identical for local and foreign currency unless noted with the "LC" and "FC" designations.

For the related industry report card, please see "Industry Report Card: U.S. Regulated Electric Utilities Continue On Stable Trajectory," published on Sept. 30, 2011.

U.S. Regulated Electric Utilities

Company	Corporate credit rating*	Business profile	Financial profile
Madison Gas & Electric Co.	AA-/Stable/A-1+	Excellent	Intermediate
Midwest Independent Transmission System Operator Inc.	A+/Stable/--	Excellent	Intermediate
American Transmission Co.	A+/Stable/A-1	Excellent	Intermediate
NSTAR Electric Co.	A+/Watch Neg/A-1	Excellent	Intermediate
NSTAR	A+/Watch Neg/A-1	Excellent	Intermediate
California Independent System Operator Corp.	A/Stable/--	Excellent	Intermediate
San Diego Gas & Electric Co.	A/Stable/A-1	Excellent	Intermediate
KeySpan Energy Delivery Long Island	A/Stable/--	Excellent	Intermediate
Alabama Power Co.	A/Stable/A-1	Excellent	Intermediate
Georgia Power Co.	A/Stable/A-1	Excellent	Intermediate
Mississippi Power Co.	A/Stable/A-1	Excellent	Intermediate
Gulf Power Co.	A/Stable/A-1	Excellent	Intermediate
Southern Co.	A/Stable/A-1	Excellent	Intermediate
Central Hudson Gas & Electric Corp.	A/Stable/--	Excellent	Significant
Consolidated Edison Co. of New York Inc.	A-/Stable/A-2	Excellent	Significant
Orange and Rockland Utilities Inc.	A-/Stable/A-2	Excellent	Significant
Virginia Electric & Power Co.	A-/Stable/A-2	Excellent	Significant
Duke Energy Carolinas LLC	A-/Stable/A-2	Excellent	Significant
Florida Power & Light Co.	A-/Stable/A-2	Excellent	Intermediate
Massachusetts Electric Co.	A-/Stable/A-2	Excellent	Significant
Narragansett Electric Co.	A-/Stable/A-2	Excellent	Significant
New England Power Co.	A-/Stable/A-2	Excellent	Significant
Niagara Mohawk Power Corp.	A-/Stable/A-2	Excellent	Significant
Duke Energy Indiana Inc.	A-/Stable/A-2	Excellent	Significant
Northern States Power Wisconsin	A-/Stable/A-2	Excellent	Significant

U.S. Regulated Electric Utilities (cont.)			
Public Service Co. of Colorado	A-/Stable/A-2	Excellent	Significant
Northern States Power Co.	A-/Stable/A-2	Excellent	Significant
Southwestern Public Service Co.	A-/Stable/A-2	Excellent	Significant
MidAmerican Energy Co.	A-/Stable/A-2	Excellent	Significant
Wisconsin Power & Light Co.	A-/Stable/A-2	Excellent	Significant
Wisconsin Electric Power Co.	A-/Stable/A-2	Excellent	Significant
Wisconsin Public Service Corp.	A-/Stable/A-2	Excellent	Significant
Southern Indiana Gas & Electric Co.	A-/Stable/--	Excellent	Significant
PacifiCorp	A-/Stable/A-2	Excellent	Significant
Duke Energy Kentucky Inc.	A-/Stable/--	Excellent	Significant
Consolidated Edison Inc.	A-/Stable/A-2	Excellent	Significant
National Grid Holdings Inc.	A-/Stable/--	Excellent	Significant
National Grid USA	A-/Stable/A-2	Excellent	Significant
KeySpan Corp.	A-/Stable/A-2	Excellent	Significant
Wisconsin Energy Corp.	A-/Stable/A-2	Excellent	Significant
Xcel Energy Inc.	A-/Stable/A-2	Excellent	Significant
Duke Energy Corp.	A-/Stable/A-2	Excellent	Significant
Dominion Resources Inc.	A-/Stable/A-2	Excellent	Significant
Duke Energy Ohio Inc.	A-/Stable/A-2	Strong	Significant
NextEra Energy Inc.	A-/Stable/--	Strong	Intermediate
Florida Power Corp. d/b/a Progress Energy Florida Inc.	BBB+/Watch Pos/A-2	Excellent	Aggressive
Carolina Power & Light Co. d/b/a Progress Energy Carolinas Inc.	BBB+/Watch Pos/A-2	Excellent	Aggressive
Progress Energy Inc.	BBB+/Watch Pos/A-2	Excellent	Aggressive
Connecticut Light & Power Co.	BBB+/Watch Pos/--	Excellent	Aggressive
Western Massachusetts Electric Co.	BBB+/Watch Pos/--	Excellent	Aggressive
Public Service Co. of New Hampshire	BBB+/Watch Pos/--	Excellent	Aggressive
Northeast Utilities	BBB+/Watch Pos/--	Excellent	Aggressive
Interstate Power & Light Co.	BBB+/Positive/A-2	Excellent	Significant
Alliant Energy Corp.	BBB+/Positive/A-2	Excellent	Significant
Integrys Energy Group Inc.	BBB+/Positive/A-2	Strong	Significant
International Transmission Co.	BBB+/Stable/--	Excellent	Aggressive
ITC Midwest LLC	BBB+/Stable/--	Excellent	Aggressive
Michigan Electric Transmission Co.	BBB+/Stable/--	Excellent	Aggressive
ITC Great Plains LLC	BBB+/Stable/--	Excellent	Aggressive
Oncor Electric Delivery Co. LLC	BBB+/Stable/--	Excellent	Aggressive
Potomac Electric Power Co.	BBB+/Stable/A-2	Excellent	Significant
Delmarva Power & Light Co.	BBB+/Stable/A-2	Excellent	Significant
Atlantic City Electric Co.	BBB+/Stable/A-2	Excellent	Significant
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant
Central Maine Power Co.	BBB+/Stable/--	Excellent	Aggressive
Tampa Electric Co.	BBB+/Stable/A-2	Excellent	Significant
South Carolina Electric & Gas Co.	BBB+/Stable/A-2	Excellent	Aggressive
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant

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U.S. Regulated Electric Utilities (cont.)			
Southern California Edison Co.	BBB+/Stable/A-2	Excellent	Significant
New York State Electric & Gas Corp.	BBB+/Stable/--	Excellent	Significant
ITC Holdings Corp.	BBB+/Stable/--	Excellent	Aggressive
MidAmerican Energy Holdings Co.	BBB+/Stable/--	Excellent	Aggressive
TECO Energy Inc.	BBB+/Stable/--	Excellent	Significant
SCANA Corp.	BBB+/Stable/A-2	Excellent	Aggressive
CenterPoint Energy Houston Electric LLC	BBB+/Stable/--	Excellent	Aggressive
CenterPoint Energy Resources Corp.	BBB+/Stable/A-2	Excellent	Aggressive
CenterPoint Energy Inc.	BBB+/Stable/A-2	Excellent	Aggressive
PEPCO Holdings Inc.	BBB+/Stable/A-2	Excellent	Significant
Detroit Edison Co.	BBB+/Stable/A-2	Strong	Significant
DTE Energy Co.	BBB+/Stable/A-2	Strong	Significant
Montana-Dakota Utilities Co.	BBB+/Stable/--	Strong	Intermediate
OGE Energy Corp.	BBB+/Stable/A-2	Strong	Significant
ALLETE Inc.	BBB+/Stable/A-2	Strong	Significant
Public Service Electric & Gas Co.	BBB/Positive/A-2	Excellent	Significant
Arizona Public Service Co.	BBB/Positive/A-2	Excellent	Aggressive
Pinnacle West Capital Corp.	BBB/Positive/A-2	Excellent	Aggressive
Rochester Gas & Electric Corp.	BBB/Positive/--	Excellent	Aggressive
PECO Energy Co.	BBB/Stable/A-2	Excellent	Significant
Commonwealth Edison Co.	BBB/Stable/A-2	Excellent	Significant
Pacific Gas & Electric Co.	BBB/Stable/A-2	Strong	Significant
PG&E Corp.	BBB/Stable/--	Strong	Significant
PPL Electric Utilities Corp.	BBB/Stable/A-2	Excellent	Aggressive
AEP Texas Central Co.	BBB/Stable/--	Excellent	Aggressive
AEP Texas North Co.	BBB/Stable/--	Excellent	Aggressive
Westar Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive
Kansas Gas & Electric Co.	BBB/Stable/--	Excellent	Aggressive
United Illuminating Co. (The)	BBB/Stable/--	Excellent	Aggressive
Columbus Southern Power Co.	BBB/Stable/--	Excellent	Aggressive
Ohio Power Co.	BBB/Stable/--	Excellent	Aggressive
Kentucky Utilities Co.	BBB/Stable/A-2	Excellent	Aggressive
Louisville Gas & Electric Co.	BBB/Stable/A-2	Excellent	Aggressive
LG&E and KU Energy LLC	BBB/Stable/--	Excellent	Aggressive
Appalachian Power Co.	BBB/Stable/--	Excellent	Aggressive
NorthWestern Corp.	BBB/Stable/A-2	Excellent	Aggressive
Green Mountain Power Corp.	BBB/Stable/--	Excellent	Aggressive
Kentucky Power Co.	BBB/Stable/--	Excellent	Aggressive
Public Service Co. of Oklahoma	BBB/Stable/--	Excellent	Aggressive
Southwestern Electric Power Co.	BBB/Stable/--	Excellent	Aggressive
Kansas City Power & Light Co.	BBB/Stable/A-2	Excellent	Aggressive
KCP&L Greater Missouri Operations Co.	BBB/Stable/A-2	Excellent	Aggressive
Great Plains Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive

U.S. Regulated Electric Utilities (cont.)			
Cleco Power LLC	BBB/Stable/--	Excellent	Aggressive
Avista Corp.	BBB/Stable/A-2	Excellent	Aggressive
Idaho Power Co.	BBB/Stable/A-2	Excellent	Aggressive
IDACORP Inc.	BBB/Stable/A-2	Excellent	Aggressive
Puget Sound Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive
PPL Corp.	BBB/Stable/--	Excellent	Aggressive
UIL Holdings Corp.	BBB/Stable/--	Excellent	Aggressive
American Electric Power Co. Inc.	BBB/Stable/A-2	Excellent	Aggressive
Cleco Corp.	BBB/Stable/--	Excellent	Aggressive
El Paso Electric Co.	BBB/Stable/--	Excellent	Aggressive
Portland General Electric Co.	BBB/Stable/A-2	Excellent	Aggressive
Indiana Michigan Power Co.	BBB/Stable/--	Strong	Aggressive
Entergy Gulf States Louisiana LLC	BBB/Negative/--	Excellent	Significant
Entergy Louisiana LLC	BBB/Negative/--	Excellent	Significant
Entergy Mississippi Inc.	BBB/Negative/--	Excellent	Significant
Entergy Arkansas Inc.	BBB/Negative/--	Excellent	Significant
Entergy Texas Inc.	BBB/Negative/--	Excellent	Significant
Entergy New Orleans Inc.	BBB/Negative/--	Excellent	Significant
System Energy Resources Inc.	BBB/Negative/--	Excellent	Significant
Entergy Corp.	BBB/Negative/--	Strong	Significant
Ameren Illinois Co.	BBB-/Positive/A-3	Excellent	Significant
Ameren Missouri	BBB-/Positive/A-3	Excellent	Significant
Ameren Corp.	BBB-/Positive/A-3	Strong	Significant
American Transmission Systems Inc.	BBB-/Stable/--	Excellent	Aggressive
Trans-Allegheny Interstate Line Co.	BBB-/Stable/--	Excellent	Aggressive
West Penn Power Co.	BBB-/Stable/--	Excellent	Aggressive
Pennsylvania Power Co.	BBB-/Stable/--	Excellent	Aggressive
Pennsylvania Electric Co.	BBB-/Stable/--	Excellent	Aggressive
Metropolitan Edison Co.	BBB-/Stable/--	Excellent	Aggressive
Jersey Central Power & Light Co.	BBB-/Stable/--	Excellent	Aggressive
Ohio Edison Co.	BBB-/Stable/A-3	Excellent	Aggressive
Cleveland Electric Illuminating Co.	BBB-/Stable/--	Excellent	Aggressive
Toledo Edison Co.	BBB-/Stable/--	Excellent	Aggressive
Potomac Edison Co.	BBB-/Stable/--	Excellent	Aggressive
Monongahela Power Co.	BBB-/Stable/--	Excellent	Aggressive
Duquesne Light Co.	BBB-/Stable/--	Excellent	Aggressive
Duquesne Light Holdings Inc.	BBB-/Stable/--	Excellent	Aggressive
Indianapolis Power & Light Co.	BBB-/Stable/--	Excellent	Highly leveraged
IPALCO Enterprises Inc.	BBB-/Stable/--	Excellent	Highly leveraged
Consumers Energy Co.	BBB-/Stable/--	Excellent	Aggressive
CMS Energy Corp.	BBB-/Stable/A-3	Excellent	Aggressive
Black Hills Power Inc.	BBB-/Stable/--	Excellent	Aggressive
Otter Tail Power Co.	BBB-/Stable/--	Excellent	Significant

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U.S. Regulated Electric Utilities (cont.)			
Empire District Electric Co.	BBB-/Stable/A-3	Excellent	Aggressive
Northern Indiana Public Service Co.	BBB-/Stable/--	Excellent	Aggressive
Dayton Power & Light Co.	BBB-/Stable/--	Excellent	Aggressive
DPL Inc.	BBB-/Stable/--	Excellent	Aggressive
Hawaiian Electric Co. Inc.	BBB-/Stable/A-3	Strong	Aggressive
Edison International	BBB-/Stable/--	Strong	Aggressive
FirstEnergy Corp.	BBB-/Stable/--	Strong	Aggressive
Black Hills Corp.	BBB-/Stable/--	Strong	Aggressive
Hawaiian Electric Industries Inc.	BBB-/Stable/A-3	Strong	Aggressive
Ohio Valley Electric Corp.	BBB-/Stable/--	Strong	Aggressive
Otter Tail Corp.	BBB-/Stable/--	Satisfactory	Significant
Nevada Power Co.	BB+/Stable/--	Excellent	Highly leveraged
Sierra Pacific Power Co.	BB+/Stable/--	Excellent	Highly leveraged
NV Energy Inc.	BB+/Stable/--	Excellent	Highly leveraged
Puget Energy Inc.	BB+/Stable/--	Excellent	Aggressive
Tucson Electric Power Co.	BB+/Stable/B-2	Strong	Aggressive
Texas-New Mexico Power Co.	BB/Positive/--	Strong	Aggressive
Public Service Co. of New Mexico	BB/Positive/--	Strong	Aggressive
PNM Resources Inc.	BB/Positive/--	Strong	Aggressive

*As of Jan. 4, 2012.

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The McGraw·Hill Companies

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EB-2011-0210
J.E-2-12-14a
Attachment 2

STANDARD & POOR'S

Global Credit Portal®

RatingsDirect®

January 11, 2012

Issuer Ranking:

U.S. Regulated Natural Gas Utilities, Strongest To Weakest

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

Secondary Contact:
Manish Consul, New York (1) 212-438-3870; manish_consul@standardandpoors.com

Issuer Ranking:

U.S. Regulated Natural Gas Utilities, Strongest To Weakest

The 2012 outlook for credit quality in the U.S. gas utility sector will likely remain stable. While Standard & Poor's Ratings Services expects the U.S. economy to remain weak, we see little movement in regulated gas utilities' credit risk profiles during periods of economic change. The essential services that the sector provides and the rate-regulated nature of its businesses allow it to generate stable cash flows and recover costs even when the economy is weak.

The following list ranks all the rated companies in this industry from strongest to weakest based on rating and outlook. Companies with the same rating and outlook are further ranked by our opinion of credit quality based primarily on business risks for investment-grade companies and primarily on financial risks for speculative-grade companies.

Ratings are displayed as long-term rating/outlook or CreditWatch/short-term rating. A double dash (--) indicates no rating. Issuer credit ratings are identical for local and foreign currency unless noted with the "LC" and "FC" designations.

For the related industry economic and ratings outlook, please see "U.S. Regulated Gas And Water Utilities' Credit Quality Should Remain Stable In 2012," published on Jan. 10, 2012.

Issuer Ranking: U.S. Natural Gas Distributors And Integrated Gas Companies

Company	Corporate credit rating*	Business risk profile	Financial risk profile
Washington Gas Light Co.	A+/Stable/A-1	Excellent	Intermediate
WGL Holdings Inc.	A+/Stable/A-1	Excellent	Intermediate
Northwest Natural Gas Co.	A+/Stable/A-1	Excellent	Intermediate
NSTAR Gas Co.	A+/Watch Neg/--	Excellent	Intermediate
Southern California Gas Co.	A/Stable/A-1	Excellent	Intermediate
Piedmont Natural Gas Co. Inc.	A/Stable/--	Excellent	Intermediate
Questar Gas Co.	A/Stable/--	Excellent	Intermediate
Questar Corp.	A/Stable/A-1	Excellent	Intermediate
New Jersey Natural Gas Co.	A/Stable/A-1	Excellent	Intermediate
Northern Natural Gas Co.	A/Stable/--	Excellent	Intermediate
Laclede Gas Co.	A/Stable/A-1	Excellent	Intermediate
Laclede Group Inc. (The)	A/Stable/--	Excellent	Intermediate
KeySpan Energy Delivery New York	A/Stable/--	Excellent	Intermediate
Wisconsin Gas LLC	A-/Stable/A-2	Excellent	Significant
Indiana Gas Co. Inc.	A-/Stable/--	Excellent	Significant
Vectren Utility Holdings Inc.	A-/Stable/A-2	Excellent	Significant
Vectren Corp.	A-/Stable/--	Excellent	Significant
Yankee Gas Services Co.	BBB+/Watch Pos/--	Excellent	Aggressive
Peoples Gas Light & Coke Co. (The)	BBB+/Positive/A-2	Excellent	Significant
North Shore Gas Co.	BBB+/Positive/--	Excellent	Significant
Peoples Energy Corp.	BBB+/Positive/--	Excellent	Significant

Issuer Ranking: U.S. Natural Gas Distributors And Integrated Gas Companies (cont.)			
Public Service Co. of North Carolina Inc.	BBB+/Stable/A-2	Excellent	Aggressive
Sempra Energy	BBB+/Stable/A-2	Strong	Intermediate
Atlanta Gas Light Co.	BBB+/Stable/--	Excellent	Significant
AGL Resources Inc.	BBB+/Stable/A-2	Excellent	Significant
Michigan Consolidated Gas Co.	BBB+/Stable/A-2	Strong	Significant
Atmos Energy Corp.	BBB+/Stable/A-2	Excellent	Significant
South Jersey Gas Co.	BBB+/Stable/A-2	Strong	Significant
South Jersey Industries Inc.	BBB+/Stable/--	Strong	Significant
Cascade Natural Gas Corp.	BBB+/Stable/--	Excellent	Intermediate
Southwest Gas Corp.	BBB+/Stable/--	Excellent	Aggressive
Connecticut Natural Gas Corp.	BBB/Stable/--	Excellent	Aggressive
Southern Connecticut Gas Co.	BBB/Stable/--	Excellent	Aggressive
ONEOK Inc.	BBB/Stable/A-2	Satisfactory	Intermediate
Alabama Gas Corp.	BBB/Stable/--	Satisfactory	Intermediate
PNG Cos. LLC	BBB-/Stable/--	Excellent	Aggressive
Bay State Gas Co.	BBB-/Stable/--	Excellent	Aggressive
NiSource Inc.	BBB-/Stable/A-3	Excellent	Aggressive
SEMCO Energy Inc.	BBB-/Negative/--	Excellent	Highly leveraged
SourceGas LLC	BB+/Stable/--	Excellent	Highly leveraged

*As of Jan. 3, 2012.

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The McGraw-Hill Companies

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Attachment 3

STANDARD
&POOR'S

Global Credit Portal®
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February 24, 2012

Issuer Ranking:

Canadian Utilities And Pipelines, Strongest To Weakest

Primary Credit Analysts:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com
Gavin MacFarlane, Toronto (1) 416-507-2545; gavin_macfarlane@standardandpoors.com

Secondary Contacts:
Stephen Goltz, Toronto (1) 416-507-2592; stephen_goltz@standardandpoors.com
Gerald Hannochko, Toronto (1) 416-507-2589; gerald_hannochko@standardandpoors.com

Research Contributor:
Faye Lee, Toronto (1) 416-507-2568; faye_lee@standardandpoors.com

Issuer Ranking:

Canadian Utilities And Pipelines, Strongest To Weakest

The following list ranks Standard & Poor's Ratings Services' ratings, outlooks, and overall credit strength for Canadian electric utilities and generators, and gas distribution utilities and pipelines. The lists reflect ratings and outlooks as of Feb. 24, 2012. The rankings within each rating/outlook grouping (for instance, A/Stable/--) are based on relative overall credit quality.

The ranking list reflects several our view of overall relative credit quality within each rating category. We describe business risk and financial risk profiles in the utility sector using our corporate ratings risk matrix (for more information, please see "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal). Our purpose is to present rating conclusions in a transparent and standardized manner across all corporate sectors.

We categorize business risk profiles from "excellent" to "vulnerable" (see table 1). To determine a business risk profile, Standard & Poor's analyzes a utility's regulatory support; commodity exposure; operational performance; asset concentration; markets and service area economy; competitive position; and ownership, risk appetite, and governance. The business risk profiles of most regulated utilities fall in the "excellent" and "strong" categories. We tend to weigh business risk slightly more than financial risk when differentiating among investment-grade ratings.

Table 1

Business Risk And Financial Risk Profile Matrix

Business risk profile	--Financial risk profile--					
	Minimal	**Modest**	**Intermediate**	**Significant**	**Aggressive**	**Highly leveraged**
Excellent	AAA	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	CCC+

We categorize financial risk profiles from "minimal" to "highly leveraged". To determine a financial risk profile, we analyze, amongst other things, a utility's sustainable cash flow strength with respect to its debt obligations, financial policies, liquidity and liability management, accounting and disclosure practices, and financial flexibility. Financial risk indicative ratios (see table 2) are not meant to be precise indications of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the matrix.

Table 2

Financial Risk Indicative Ratios For Corporate Issuers

	FFO/debt (%)	**Debt/EBITDA (x)**	**Debt/capital (%)**
Minimal	Greater than 60	Less than 1.5	Less than 25
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45

Table 2

Financial Risk Indicative Ratios For Corporate Issuers (cont.)			
Significant	20-30	3-4	45-50
Aggressive	Less than 12	4-5	50-60
Highly leveraged	Less than 12	Greater than 5	Greater than 60

FFO--Funds from operations.

An outlook is not necessarily a precursor of a rating change or CreditWatch action. "Positive" indicates that we believe there is a one-in-three likelihood of a rating action in the medium term for investment-grade issuers (generally up to two years) that could raise a rating; "negative" means we could lower a rating; "stable" indicates that ratings are not likely to change; and "developing" means we could raise or lower ratings. In determining an outlook, we consider any changes in the economic or fundamental business conditions (for more information, please see "General Criteria: Use Of CreditWatch And Outlooks," published Sept. 14, 2009).

Displayed ratings use the following format: long-term rating/outlook or CreditWatch/short-term rating. A double dash (--) indicates that we have not assigned a rating. Credit ratings are identical for local and foreign currency unless noted with the LC and FC designations. All commercial paper ratings listed are on Standard & Poor's global scale.

For the related industry report card, please see "Growth Poses Biggest Challenge To An Otherwise Stable Canadian Midstream And Utility Sector," published Feb. 15, 2012.

Table 3

Issuer Ranking: Canadian Utilities*

Electric utilities and generation

Issuers	Corporate credit rating‡	Business risk	Financial risk
Hydro One Inc.*	A+/Stable/A-1	Excellent	Significant
Canadian Utilities Ltd.	A/Stable/A-1	Excellent	Significant
ATCO Ltd.	A/Stable/--	Excellent	Significant
CU Inc.	A/Stable/A-1	Excellent	Significant
Hydro Ottawa Holding Inc.*	A/Stable/--	Excellent	Intermediate
Toronto Hydro Corp.*	A/Stable/--	Excellent	Significant
London Hydro Inc.*	A/Stable/--	Excellent	Intermediate
Enersource Corp.*	A/Stable/--	Excellent	Intermediate
Guelph Hydro Electric Systems Inc.*	A/Stable/--	Excellent	Significant
Horizon Holdings Inc.*	A/Stable/--	Excellent	Intermediate
Hamilton Utilities Corp.*	A/Stable/--	Excellent	Intermediate
Electricity Distributors Finance Corp.§	A	Excellent	Significant
ENTEGRUS Inc.*†	A/Negative/--	Excellent	Intermediate
Caribbean Utilities Co. Ltd.	A-/Stable/--	Excellent	Significant
AltaLink L.P.	A-/Stable/--	Excellent	Significant
Ontario Power Generation Inc.*	A-/Stable/--	Strong	Significant
FortisAlberta Inc.	A-/Watch Neg/--	Excellent	Significant
Fortis Inc.	A-/Watch Neg/--	Excellent	Significant
EPCOR Utilities Inc.	BBB+/Stable/--	Strong	Significant

Table 3

Issuer Ranking: Canadian Utilities* (cont.)			
Nova Scotia Power Inc.	BBB+/Stable/--	Strong	Significant
Emera Inc.	BBB+/Stable/--	Strong	Significant
Maritime Electric Co. Ltd.	BBB+/Stable/--	Strong	Significant
ENMAX Corp.*	BBB+/Stable/--	Strong	Significant
Brookfield Renewable Energy Partners L.P.	BBB/Stable/A-2	Satisfactory	Intermediate
TransAlta Corp.	BBB/Negative/--	Satisfactory	Intermediate
Capital Power L.P.	BBB/Negative/--	Satisfactory	Intermediate
Capital Power Corp.	BBB/Negative/--	Satisfactory	Intermediate
Northland Power Inc.	BBB-/Positive/--	Satisfactory	Intermediate
Algonquin Power Co.	BBB-/Positive/--	Satisfactory	Significant
AltaLink Investments L.P.	BBB-/Stable/--	Excellent	Aggressive
Innergex Renewable Energy Inc.	BBB-/Stable/--	Strong	Significant
Capstone Infrastructure Corp.	BBB-/Stable/--	Satisfactory	Significant
Gas distribution utilities and pipelines			
Inter Pipeline (Corridor) Inc.	A-/Positive/--	Excellent	Significant
TransCanada PipeLines Ltd.	A-/Stable/A-2	Excellent	Significant
TransCanada Corp.	A-/Stable/--	Excellent	Significant
Gaz Metro Inc. and Gaz Metro L.P.	A-/Stable/--	Excellent	Significant
Enbridge Gas Distribution Inc.	A-/Stable/A-1	Excellent	Significant
Enbridge Pipelines Inc.	A-/Stable/A-1	Excellent	Significant
Enbridge Inc.	A-/Stable/A-1	Excellent	Significant
Union Gas Ltd.	BBB+/Stable/A-2	Strong	Significant
Westcoast Energy Inc.	BBB+/Stable/--	Strong	Significant
Trans Quebec & Maritimes Pipeline Inc.	BBB+/Stable/--	Strong	Significant
Inter Pipeline Fund	BBB+/Stable/--	Strong	Significant
Pembina Pipeline Corp.	BBB+/Watch Neg/--	Strong	Significant
Tuscarora Gas Transmission Co.	BBB/Stable/--	Satisfactory	Modest
TC PipeLines L.P.	BBB/Stable/--	Strong	Significant
Veresen Inc.	BBB/Stable/--	Strong	Significant
AltaGas Ltd.	BBB/Stable/--	Strong	Significant

*Business risk and financial risk profiles reflect the stand-alone credit risk profile as per our government-related entity criteria. §Debt rating. †Previously Chatham Kent Energy Inc. ‡Ratings as of Feb. 24, 2012.

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UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble**:** With respect to Mr. Fetter's comments on Concentric Energy and common equity ratios on pages 17-19.

a) Please indicate the dollar book value and % relative to Union Gas of the common equity for the following gas utilities discussed on page 17

   i. NRG
   ii. Alta Gas (Alberta operations)
   iii. Centra Gas Manitoba

b) Please confirm that Centra Gas Manitoba's deemed common equity ratio of 40% and has not changed for at least 15 years.

c) Is AltaGas allowed a higher common equity by the AUC due to its small size and geographically dispersed rate base?

d) Is NRG's equity retractable and classified as a liability under Canadian GAAP and not equity? As a result, is its true common equity ratio less than 40%?

e) Is the median bond rating for Canadian utilities higher than the median bond rating for US utilities, despite the fact that lower financial metrics for Canadian utilities compared to US utilities has been a feature of the regulation for many years? If so, can one reasonably conclude that the greater regulatory protection for Canadian utilities materially contributes to this outcome?

f) Please confirm that Union Gas had an investment grade bond rating when it was deemed a 29% common equity ratio.

Response:

a) Please see Attachment 1. The information in the attachment was prepared by Union Gas.

b) Union cannot confirm that that Centra Gas Manitoba's deemed common equity ratio of 40% has not changed for at least 15 years.

c) In its Decision 2009-216 (November 12, 2009) on its Generic Cost of Capital Proceeding, the Alberta Utilities Commission increased AltaGas' deemed equity component of its capital structure by 2% to 43%. While small size was a contributing factor, there was nothing specifically mentioned regarding a geographically dispersed rate base.

d) Please see NRG's OEB proceedings EB-2010-0018 and EB-2008-0273.

e) Mr. Fetter believes this is an accurate statement (See attached S&P report ranking Canadian Utilities Strongest to Weakest). Mr. Fetter believes that, on a general basis, regulatory support for Canadian utilities has a greater positive influence on how their credit ratings are assigned as compared to U.S. utility credit ratings.

f) Confirmed.

Capital Structure	Union Gas 2007 Board Approved ($ millions)		Union Gas 2013 Proposed ($ millions)	
Long-Term Debt	2,016.8	61.66%	2,258.0	60.35%
Short-Term Debt	(28.9)	(0.89)%	(115.3)	(3.08)%
Preferred Equity	105.5	3.23%	102.2	2.73%
Common Equity	1,177.5	36.0%	1,496.6	40.0%
Total:	3,270.9		3,741.5	

Per: EB-2011-0210, Exhibit E1, Tab 1, Page 3 of 10

Capital Structure	Natural Resource Gas 2011 Board Allowed ($ millions)		AltaGas Utilities 2012 Forecast ($ millions)		Centra Gas Manitoba 2010/2011 Test Year ($ millions)	
Long-Term Debt	7.7	56.0%	99.9	57.0%	297.671	53.7%
Short-Term Debt	0.5	4.0%			94.869	17.1%
Common Equity	5.5	40.0%	75.3	43.0%	161.975	29.2%
Total:	13.7		175.2		554.515	

Natural Resource Gas

In its Draft Rate Order, NRG determined that its deemed rate base was $13,674,994. Deemed book value of capital structure components have been calculated per component percentages deemed by the OEB in its EB-2010-0018 Decision and Order. The Board did not provide a table in its Decision outlining the book values of capital structure components although it did determine the interest rate for long-term debt based on an average long-term debt principal of $7,157,066.

AltaGas Utilities

In its November 12, 2009 decision on its Generic Cost of Capital Proceeding, the Alberta Utilities Commission increased AltaGas' deemed equity component of its capital structure by 2% to 43%.

2012 capital structure components for AltaGas are as per its 2010-2012 General Rate Application.

In its Decision 2012-091 (dated April 9, 2012) on AltaGas' 2010-2012 General Rate Application – Phase I, the Alberta Utilities Commission directed AltaGas to use a common equity percentage of 43% for 2011 and 2012. The compliance filing is not due until June 4, 2012.

Centra Gas Manitoba

In its Order 8/94 (1994 rates), the Manitoba Public Utilities Board approved an equity ratio not to exceed 40% as the approved capital structure for Centra. In Order 49/95 (1995 Test Year), Order 8/97 (1997 Test Year), Order 79/98 (1998 Test Year), Order 118/03 (2003/04 Test Year), Order 103/05 (2005/06 and 2006/07 Test Years) and Order 99/07 (2007/08 and 2008/09 Test Years), the PUB approved an equity ratio of 40%, 39.952%, 39.061%, 38.6%, 32.3%, 33.4% and 30.2% respectively.

In its Order 99/07 (July 27, 2007), the Manitoba Public Utilities Board stated that:

> *"…given Centra's borrowings are guaranteed by the Province, with the fee for the guarantee allowed in costs for rate setting, a 70:30 ratio is adequate, rather than the 60:40 model that would be acceptable if there were no provincial guarantee."*

In its Order 128/09 (September 16, 2009) regarding Centra's 2009/2010 and 2010/2011 General Rate Application, the Manitoba Public Utilities Board stated:

> *"The financial strength of Centra's balance sheet improved significantly in 2007/08 and 2008/09, largely, as indicated previously, because of colder than normal weather. Centra's Net Income in each of the past two years was considerably in excess of its projected weather-normalized Net Income (by an aggregate of approximately $9 million), and the excess flowed into its retained earnings, allowing the Utility's debt to equity ratio to improve to 69:31 (69% debt, 31% equity) from 70:30 (the latter ratio being in place at the time of the last GRA).*
>
> *That said, the implications arising from IFRS could materially affect Centra's retained earnings and its capital structure, and the Board will monitor and review this at the next GRA."*

The above table shows the corporate capital structure of Centra as calculated in Order 128/09 (i.e., on a stand-alone basis according to Centra's projected balance sheets).

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Exhibit E2 testimony of Mr. Fetter.

Preamble: With respect to Mr. Fetter's conclusions on page 19.

a) Please describe and produce the results of any capital market research undertaken by Mr. Fetter pertaining to Union's ability over the past 5 years to continue to attract capital on reasonable terms.

b) Has Mr. Fetter examined the credit worthiness of Union Gas in terms of the credit spreads investors require of Union Gas debt versus that of other Canadian utilities? If so, please produce the results of that analysis.

Response:

a) Mr. Fetter believes that Union Gas' corporate credit rating in the 'BBB' category from S&P makes the utility more susceptible to capital market access problems if another financial crisis were to occur. Strengthening of its equity thickness would work toward limiting that downside risk.

b) No, but Mr. Fetter remains concerned about a Canadian utility holding a corporate credit rating in the 'BBB' category from S&P.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters ("CME")

Ref: Exhibit A3, Tab 7
Exhibit E1, Tab 1
Exhibit E2

In connection with this evidence, please provide the following additional information:

a) For the most recent financings listed in Exhibit A3, Tab 7, what was the amount of time that elapsed between the date the information circulars were distributed to the public and the investments described therein were fully subscribed?
b) How do the rates that Union paid for each of its financings for 2010 and 2011 described in Exhibit A3, Tab 7 compare with the cost of debt derived using the Board's formula?
c) What financings were made by Ontario Power Generation Inc. ("OPG"), Hydro One Networks Inc. ("HONI") and Enbridge Gas Distribution Inc. ("EGD") in the same time frame, and at what rates?
d) How do the interest rates for Financings made by OPG, HONI, and EGD over the past 5-years compare to the rates paid by Union?
e) Has there been any change in Union's stand-alone credit ratings over the past 5-years?

Response:

a) These issuances were launched in the morning and subscribed by that afternoon.

b) Union's debt was issued at a lower rate than the Board's formula.

	Effective Rate	Board Formula	Difference
2010	5.27%	5.64%	(0.37%)
2011	4.93%	5.48%	(0.55%)

c) Union does not have this information.

d) Union does not have this information.

e) Yes, there has been one change in Union's credit ratings over the past 5 years. On January 2, 2007, Standard & Poor's increased the Company's credit ratings on debentures and preferred shares to BBB+ and P-2 (low) respectively.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: Exhibit A3, Tab 6, DBRS page 3

Please provide the most recent DBRS rating reports for Westcoast Energy Inc., Spectra Energy Capital, LLC, and Spectra Energy Corp.

Response:

Please see Attachment 1 for Westcoast Energy Inc. and Attachment 2 for Spectra Energy Capital LLC. DBRS does not have a rating for Spectra Energy Corp.

Insight beyond the rating.

Rating Report

Report Date:
November 23, 2011

Previous Report:
October 19, 2010

Westcoast Energy Inc.

Analysts

Michael R. Rao, CFA
+1 416 597 7541
mrao@dbrs.com

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

The Company

Westcoast Energy Inc. is primarily involved in natural gas gathering, processing, transmission and distribution – and, to a lesser degree, natural gas liquids marketing – all within Canada. Westcoast Energy Inc. is an indirect wholly owned subsidiary of Spectra Energy Corp.

Commercial Paper Limit

$300 million

Recent Actions

October 26, 2011
Rates New Debt Issues

November 29, 2010
Rates New Debt Issue

Ratings

Debt	Rating Action	Rating	Trend
Commercial Paper	Confirmed	R-1 (low)	Stable
Unsecured Debentures	Confirmed	A (low)	Stable
First Preferred Shares – cumulative, redeemable	Confirmed	Pfd-2 (low)	Stable

Rating Rationale

DBRS has confirmed the Unsecured Debentures, First Preferred Shares and Commercial Paper ratings of Westcoast Energy Inc. (Westcoast or the Company) at A (low), Pfd-2 (low) and R-1 (low), respectively, all with Stable trends. The ratings are based on the following factors:

(1) Westcoast's business risk profile remains relatively strong. The Company derived 89% of its segment EBIT from low-risk, mostly regulated operations in 2010 (2009 – 87%), up from approximately 80% in 2007–2008. The main non-regulated business is Empress NGL Marketing (Empress; 11% of 2010 segment EBIT; 21% of 2008 segment), which is subject to earnings and cash flow volatility associated with exposure to commodity prices, fractionation spreads and throughput volumes. Empress benefited from strong industry conditions in 2008. However, reversal of this trend, beginning in Q4 2008, resulted in a substantial EBIT decline and a higher proportion of low-risk segment EBIT beginning in 2009, a trend that is likely to continue.

Earnings and cash flow from Empress generally benefit from low natural gas prices relative to crude oil prices, while Westcoast's British Columbia (B.C.) Pipeline and Field Services Divisions (BCPFS), Spectra Energy Facilities L.P. (Midstream) and Union Gas Limited (Union Gas; 46% of 2010 segment EBIT) businesses can be negatively affected by lower throughput under that scenario, resulting in a natural hedge and diversification benefits for the Company. (Continued on page 2.)

Rating Considerations

Strengths

(1) Strong gas transmission and processing segment
(2) Strong gas distribution and storage franchise
(3) Diversification to regulated operations provided by Empress
(4) Relatively strong financial profile

Challenges

(1) Competition in transmission and processing segment and relatively low conventional drilling activity
(2) Union Gas earnings sensitive to volume risk and low allowed return on equity (ROE)
(3) Empress earnings subject to price and volume risk
(4) Medium-term pressure on credit metrics

Financial Information

	9 mos. ended Sept.30		12 mos. ended	For the years ended December 31				
(CAD millions where applicable)	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Net income before extras (after pfd. divs.)	322	291	459	428	379	406	337	296
Cash flow (bef. work. cap. changes)	679	647	905	873	683	852	817	584
Return on common equity	13.0%	12.6%	13.8%	14.1%	12.1%	12.5%	10.9%	10.1%
Total debt in capital structure	57.4%	57.6%	57.4%	58.5%	58.6%	54.4%	51.4%	55.1%
Cash flow/total debt	16.7%	16.9%	16.7%	16.7%	13.8%	18.7%	19.9%	12.9%
EBITDA interest coverage (times)	4.27	3.75	4.24	3.86	3.63	3.97	3.50	3.26
EBIT interest coverage (times)	2.80	2.40	2.82	2.53	2.37	2.66	2.35	2.14
Fixed-charges coverage (times)	2.61	2.24	2.57	2.31	2.21	2.46	2.18	1.98
External debt in capital structure*	52.1%	52.0%	52.1%	52.9%	52.7%	54.4%	51.4%	55.1%
Cash flow/external debt*	18.6%	18.9%	18.8%	18.9%	15.6%	18.7%	19.9%	12.9%
External fixed-charges coverage* (times)	2.73	2.34	2.80	2.51	2.30	2.46	2.18	1.98

* Ratios adjusted to exclude $500 million subordinated debt due to an affiliate.

Westcoast Energy Inc.

Report Date:
November 23, 2011

Rating Rationale (Continued from page 1.)

While some of the BCPFS and Midstream facilities are mainly located near the most promising natural gas exploration and development fields in western Canada, exploration and drilling activity in some of the other operating areas of BCPFS and Midstream have been relatively low in recent years. If low gas prices persist, BCPFS and Midstream EBIT could be negatively affected, although this would be partly mitigated by strong regulatory and contractual arrangements and strong activity in the Montney and Horn River basins of B.C. DBRS believes that these low-risk operations will benefit over the medium to long term from strong exploration and drilling activity in Westcoast's key areas given the Company's plan to bring approximately $1.7 billion in growth projects with long-term contractual commitments (see below) into service in stages through 2013, supporting a high component of low-risk EBIT for the Company.

(2) Westcoast's financial profile remains relatively strong despite rising capex related to its medium-term growth program. Increasing earnings and cash flow from Empress from expansions placed in service to date have resulted in relatively strong credit ratios. On July 10, 2009, Westcoast borrowed $500 million from an affiliate on a subordinated basis, paid a common stock dividend of $524 million to its shareholders, and issued a new class of preferred stock to an affiliate for $50 million. While the transaction contributed to weaker credit metrics in 2009 (with cash flow-related metrics also affected by a significant future income tax reversal that year), Westcoast's key external credit metrics recovered in 2010 and in the first nine months of 2011 (9M 2011).

On a consolidated basis (excluding the intercompany transaction), the Company's external debt-to-capital ratio (52% at September 30, 2011; 54% at year-end 2008) and cash flow-to-external debt (19% for both the 12 months ending September 30, 2011, and in 2008) were relatively unchanged, while external fixed charges coverage (2.8 times, up from 2.5 times) improved marginally, partly due to contributions from expansions placed in service as noted above.

On a non-consolidated basis, Westcoast's direct ownership of BCPFS fully supports its ability to meet its direct debt obligations. Its credit metrics are enhanced by cash dividends from several sources, the largest of which is Union Gas, which generate approximately 50% of the Company's non-consolidated cash flow. Excluding the intercompany transaction, Westcoast's non-consolidated external debt-to-capital ratio increased to 36% in 2010 from 32% in 2008, while cash flow-to-external debt (25%, up from 16%) and external fixed charges coverage (3.2 times, up from 2.2 times) improved significantly, mainly as a result of contributions from expansions noted above.

Given its focus on mostly low-risk regulated operations in which it has a controlling interest, Westcoast should generate sufficient cash flow to meet a significant portion of its capex and dividend payments going forward, with manageable funding needs at both Union Gas and the Company. Westcoast's consolidated credit metrics will likely be pressured over the medium term as a result of its significant growth capex (see below). DBRS expects the Company to manage its medium-term capex program so that it has only a marginal impact on its key credit ratios.

(3) The Company's 2011 capex program is expected to total approximately $1,100 million, distributed between growth ($700 million) and maintenance ($400 million), of which $700 million (including $505 million for expansion) was spent during 9M 2011. The 2011 program includes capex of $800 million for its natural gas transmission and processing (T&P) segment (for expansion of processing and associated pipeline capacity primarily in the Montney, Horn River and North Montney areas of B.C. as well as for maintenance) and $300 million for Union Gas (mostly for maintenance). This compares with 2010 capex of $700 million.

Rating Considerations Details

Strengths

(1) Westcoast's T&P segment (excluding Empress) provides relatively low-risk, stable EBIT from the following operations: (a) BCPFS, a strong, regulated natural gas transmission, gathering and processing network in B.C.; (b) Midstream, fee-based gas gathering and processing services in B.C. and Alberta; and (c) Maritimes & Northeast Pipeline Limited Partnership (M&NP Canada, 78% interest), the National Energy Board (NEB)-regulated Canadian segment of an onshore natural gas pipeline from offshore eastern Canada to markets in Nova Scotia, New Brunswick and the U.S. Northeast (please see the DBRS rating report dated November 18, 2011, for details). On a combined basis, these operations provided 43% of Westcoast's 2010 segment EBIT. B.C. Pipeline shipments are equivalent to about 11% of the gas produced in the Western Canada Sedimentary Basin (WCSB). The vast majority of gas consumed in B.C. is delivered through Westcoast's BCPFS system, while about 50% of volumes are exported to the U.S. Pacific Northwest and Alberta. B.C. Field Services and Midstream, with a combined 3.3 billion cubic feet per day (bcf/d) of contractible gas processing capacity, captures most of B.C.'s proved marketable gas reserves.

(2) The Company benefits from ownership of Union Gas (46% of segment EBIT in 2010), a regulated natural gas distribution, storage and transmission franchise in Ontario that generates relatively low-risk, stable EBIT. The franchise area benefits from good long-term natural gas demand, while customer additions, fuel source conversions and substantial storage capabilities support EBIT growth. Effective January 1, 2008, Union Gas entered into a multi-year incentive regulation (IR) plan that runs from 2008 to 2012 (see the Regulation section for more details). The IR plan currently includes an earnings-sharing mechanism between Union Gas and its ratepayers that applies if, in any calendar year, the actual utility ROE exceeds the allowed ROE by more than 200 basis points. In that event, the excess earnings would be shared 50/50 with its customers. In the event of a variance of 300 basis points or greater in weather-normalized earnings above the allowed ROE, a 90/10 sharing mechanism, in favour of customers, applies.

(3) Westcoast derived 89% of its segment EBIT from low-risk, mostly regulated operations in 2010 (2009, 87%), up from approximately 80% in 2007–2008 and down from more than 90% in 2004–2005. The acquisition of Empress (11% of 2010 segment EBIT; 21% of 2008 segment EBIT) in August 2005 introduced earnings and cash flow volatility associated with exposure to commodity prices, fractionation spreads and throughput volumes. However, earnings and cash flow from Empress generally benefit from low natural gas prices relative to crude oil prices, while the BCPFS, Midstream and Union Gas businesses can be negatively affected by lower throughput under that scenario, resulting in a natural hedge and diversification benefits for the Company.

(4) The Company's financial profile remains relatively strong despite rising capex related to its medium-term growth program. Increasing earnings and cash flow from expansions placed in service to date have resulted in relatively strong credit ratios. On July 10, 2009, Westcoast borrowed $500 million from an affiliate on a subordinated basis, paid a common stock dividend of $524 million to its shareholders and issued a new class of preferred stock to an affiliate for $50 million. While the transaction contributed to weaker credit metrics in 2009 (with cash flow-related metrics also affected by a significant future income tax reversal in that year), the Company's key external credit metrics recovered in 2010 and 9M 2011.

Challenges

(1) Westcoast faces competition within its T&P segment:

- The B.C. Pipeline Division competes with the following pipelines for natural gas supply: (i) Alliance Pipeline transports Alberta and B.C. gas to Chicago, accessing some gas supply that could be shipped by Westcoast to its main markets in the B.C. Lower Mainland and the U.S. Pacific Northwest; (ii) Southern Crossing Pipeline in southern B.C. connects Alberta gas to B.C. and can also transport gas east to TransCanada PipeLines Limited's B.C. System (and then into the U.S. Pacific Northwest and California markets); and (iii) NOVA Gas Transmission Ltd. operates a large-diameter pipeline in Alberta, immediately adjacent to the B.C. border, that accesses gas in the eastern part of Westcoast's supply area.
- B.C. Field Services, Midstream and Empress are subject to competition from non-regulated gathering and processing and natural gas liquids (NGL) extraction facilities in B.C. and Alberta.
- M&NP Canada faces strong end-user market competition in the U.S. Northeast from several major pipelines as well as indirect long-term bypass risk if shale gas development in the Marcellus shale region significantly increases the amount of natural gas production that flows into the U.S. Northeast from third-party pipelines.

In addition, while some of the BCPFS and Midstream facilities are mainly located near the most promising natural gas exploration and development fields in western Canada, exploration and drilling activity in other operating areas of BCPFS and Midstream have been relatively low in recent years. If low gas prices persist, BCPFS and Midstream EBIT could be negatively affected in the near to medium term, although this is partly mitigated by strong regulatory and contractual arrangements and strong activity in the Montney and Horn River basins of B.C.

(2) Earnings from Union Gas (46% of 2010 segment EBIT) are exposed to volume risk, which is sensitive to changes in weather, economic conditions and gas prices. The weather sensitivity is largely related to the winter heating season, with warmer (colder) than normal temperatures adversely (positively) affecting residential and commercial demand for gas and, therefore, financial measures at Union Gas. Its earnings are also affected by changes in economic conditions, which affect industrial and commercial demand for natural gas, while higher (lower) gas prices can lead to lower (higher) average customer usage. In addition, the IR plan set a low base level for allowed ROE at 8.54% through year-end 2012. Although Union Gas has the opportunity to earn higher returns, the upside is capped as described in Strength (2) above.

(3) The Company has commodity price and fractionation spread risk at Empress within its T&P segment. Empress operations are also exposed to volume risk and competition from upstream field services. As a result, EBIT from this asset can be quite volatile, accounting for 11% of Westcoast's EBIT in 2010 (13% in 2009, 21% in 2008 and 20% in 2007). Significant fee-based T&P expansion has reduced the relative volatility over time.

(4) Westcoast's credit metrics will likely be pressured over the medium term as a result of its significant growth capex program, although the metrics are underpinned by Westcoast's low-risk mostly regulated operations and will likely remain within the parameters of the current ratings. The 2011 capex program is expected to total approximately $1,100 million, distributed between growth ($700 million) and maintenance ($400 million), of which $700 million (including $505 million for expansion) was spent during 9M 2011. The 2011 program includes capex of $800 million for T&P (for expansion of processing and associated pipeline capacity primarily in the Montney, Horn River and North Montney areas as well as for maintenance) and $300 million for Union Gas (mostly for maintenance). These expansion projects, which are supported by long-term customer commitments, are expected to result in about $1.7 billion of capital coming into service in stages over the 2009 to 2013 period.

Westcoast Energy Inc.

Report Date:
November 23, 2011

Earnings and Outlook

(CAD millions)	9 mos. ended Sept.30 2011		2010		12 mos. ended Sept.30, 2011		For the years ended December 31 2010		2009		2008	
Transmission & Processing (T&P) EBIT	377	57%	317	54%	514	56%	454	54%	429	54%	473	57%
Distribution (Union Gas) EBIT	279	43%	266	46%	401	44%	388	46%	364	46%	350	43%
Subtotal - before Corporate and other	656	100%	583	100%	915	100%	842	100%	793	100%	823	100%
Corporate and other	9		10		11		12		15		36	
Total EBIT before extras.	665		593		926		854		808		859	
Interest expense, net	(235)		(244)		(316)		(325)		(329)		(301)	
Income taxes	(86)		(36)		(116)		(66)		(69)		(119)	
Minority interest	(10)		(10)		(13)		(13)		(14)		(16)	
Net Income Before Extras.	334		303		481		450		396		423	
Extraordinary items	0		(1)		(1)		(2)		0		0	
Net income from continuing operations	334		302		480		448		396		423	
Discontinued operations	(1)		0		(1)		0		2		3	
Reported net income	333		302		479		448		398		426	
T&P includes Empress EBIT:	78	12%	52	9%	115	13%	89	11%	107	13%	176	21%

Westcoast generated 89% of its segment EBIT from low-risk, mostly regulated operations in 2010, with the balance largely subject to commodity price and fractionation spread risk at Empress within T&P.

- In 2008, Empress benefited from strong industry conditions, supporting strong earnings growth for the Company and accounting for 21% of segment EBIT. However, reversal of this trend beginning in Q4 2008 resulted in a decline in EBIT and a higher proportion of low-risk segment EBIT in 2009 and 2010.

Net income (before extraordinary items) rose by $50 million (13%) to $448 million in 2010.

- T&P EBIT rose by $25 million (6%), mainly due to higher gathering and processing earnings from expansions, partly offset by an $18 million (17%) drop in Empress EBIT (in part related to the impact of a three-week plant turnaround in May 2010).
- Union Gas EBIT rose by $24 million (7%), mainly due to lower operating fuel costs, partly offset by lower customer usage resulting from warmer weather in 2010 and higher employee benefit costs.

Net income (before extraordinary items) rose by $31 million (10%) in 9M 2011 compared with 9M 2010.

- T&P EBIT rose by $60 million (19%), mainly due to higher gathering and processing earnings from expansions and a $26 million (50%) rise in Empress EBIT (a result of higher NGL margins and the impact of a three-week plant turnaround in May 2010).
- Union Gas EBIT rose by $13 million (5%), mainly as a result of higher customer gas usage due to colder weather, partly offset by higher operating costs.
- These factors were partly offset by higher income taxes, which were a result of favourable tax settlements in 9M 2010, and higher earnings, partly offset by lower statutory tax rates, in 9M 2011.

Outlook

- DBRS expects medium-term earnings growth to be supported by T&P capex for expansion of processing and associated pipeline capacity in the Montney and Horn River areas. These projects, which are supported by long-term customer commitments, are expected to result in about $1.5 billion of growth projects coming into service in stages over the 2009 to 2013 period.
- In addition, North Montney expansion is expected to result in about $200 million of growth projects coming into service in stages over the 2012 to 2013 period.

Westcoast Energy Inc.

Report Date:
November 23, 2011

Consolidated Financial Profile

Consolidated	9 mos. ended Sept.30		12 mos. ended	For the years ended December 31				
(CAD millions)	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Net income bef. extras. (after pfd. divs)	322	291	459	428	379	406	337	296
Depreciation & amortization	346	329	459	442	427	407	381	375
Future income taxes & other items	11	27	(13)	3	(123)	39	99	(87)
Cash flow (bef. work. cap. changes)	679	647	905	873	683	852	817	584
Capital expenditures	(700)	(398)	(996)	(694)	(650)	(643)	(572)	(508)
Other (incl. M&NP Canada Escrow)	(44)	(41)	(58)	(55)	(74)	(17)	(19)	(13)
Common dividends & dist'ns paid	(207)	(2)	(202)	3	(238)	(262)	(215)	(208)
Gross free cash flow (bef. work. cap.)	(272)	206	(351)	127	(279)	(70)	11	(145)
Changes in non-cash work. cap. items	62	(386)	36	(412)	385	(190)	37	435
Gross Free Cash Flow	(210)	(180)	(315)	(285)	106	(260)	48	290
Business acquisitions, net of cash	0	0	0	0	0	(279)	(13)	0
Proceeds on sale of inv. and other assets	0	0	(2)	(2)	0	128	6	32
Net Free Cash Flow	(210)	(180)	(317)	(287)	106	(411)	41	322
Inc. (dec.) in debt & equivalents	208	169	316	277	389	458	(284)	(220)
Inc. (dec.) in equity & equivalents	0	0	0	0	(489)	0	0	115
Dec. (inc.) in cash balances	2	11	1	10	(6)	(47)	243	(217)
Funding Sources	210	180	317	287	(106)	411	(41)	(322)
Net debt & equivalents/capital	57.1%	57.3%	57.1%	58.2%	58.2%	54.0%	51.2%	53.6%
Total debt & equivalents/capital	57.4%	57.6%	57.4%	58.5%	58.6%	54.4%	51.4%	55.1%
Cash flow/total debt & equiv.	16.7%	16.9%	16.7%	16.7%	13.8%	18.7%	19.9%	12.9%
EBITDA interest coverage (times)	4.27	3.75	4.24	3.86	3.63	3.97	3.50	3.26
EBIT interest coverage (times)	2.80	2.40	2.82	2.53	2.37	2.66	2.35	2.14
Fixed-charges coverage ratio (times)	2.61	2.24	2.57	2.31	2.21	2.46	2.18	1.98
Consolidated External Debt Ratios								
Total debt & equivalents/capital	52.1%	52.0%	52.1%	52.9%	52.7%	54.4%	51.4%	55.1%
Cash flow/total debt & equiv.	18.6%	18.9%	18.8%	18.9%	15.6%	18.7%	19.9%	12.9%
Fixed-charges coverage ratio (times)	2.73	2.34	2.80	2.51	2.30	2.46	2.18	1.98

Westcoast's consolidated financial profile remains relatively strong despite rising capex related to the Company's medium-term growth program. Increasing earnings and cash flow from expansions placed in service to date have resulted in relatively strong credit ratios.

- On July 10, 2009, Westcoast borrowed $500 million from an affiliate on a subordinated basis, paid a common stock dividend of $524 million to its shareholders, and issued a new class of preferred stock to an affiliate for $50 million.
- While the transaction contributed to weaker credit metrics in 2009 (with cash flow-related metrics also affected by a significant future income tax reversal in that year), the Company's key consolidated external debt credit metrics recovered in 2010 and 9M 2011.

Outlook

Given its focus on mostly low-risk and regulated operations in which it has a controlling interest, Westcoast should generate sufficient cash flow to meet a significant portion of its capex and dividend payments going forward, with manageable funding needs at both Union Gas and the Company.

- Westcoast's consolidated credit metrics will likely be pressured over the medium term as a result of its significant growth capex (see below), although the metrics are underpinned by Westcoast's mostly low-risk and regulated operations and will likely remain within the parameters of the current ratings.
- Cash flow remains subject to volatility due to Empress's exposure to commodity prices and fractionation spreads (the difference in the amount received for liquids recovered from natural gas and the amount received for the equivalent natural gas if unprocessed). However, significant fee-based T&P expansion should reduce the relative volatility over time.
- The 2011 capex program is expected to total approximately $1,100 million, distributed between growth ($700 million) and maintenance ($400 million), of which $700 million (including $505 million for expansion) was spent during 9M 2011.
- The 2011 program includes capex of $800 million for T&P (for expansion of processing and associated pipeline capacity primarily in the Fort St. John (Montney) and Fort Nelson (Horn River) and North Montney areas as well as for maintenance) and $300 million for Union Gas (mostly for maintenance).

(1) Westcoast's Horn River Expansions consist of multiple projects to reactivate and increase gathering and processing capacity to accommodate natural gas production from the Horn River basin.

- The Company has received firm take-or-pay commitments for 800 million cubic feet per day (MMcf/d) of capacity. The expansion involves the reactivation of existing processing capacity and gathering system expansions as well as addition of the Fort Nelson North processing facility, with staged in-service dates between 2009 and 2012.

(2) The Company's Montney Area Expansion also consists of multiple projects.

- The Bissette Pipeline, a 33.5 kilometre, 16-inch gathering pipeline, was placed in service in April 2011.
- The 200 MMcf/d Dawson sour gas processing plant, which is under construction, is fully contracted and will be built in two equal phases. The first phase is expected to be completed in Q4 2011, with the remaining capacity to be available in Q1 2013. Sales gas will be delivered into the Groundbirch Pipeline.
- The T-North 2011 Transmission Expansion Project, which is expected to be in service in the first half of 2012, includes two components: (1) A 500 MMcf/d interconnect between T-North and the Groundbirch Pipeline; and (2) A 170 MMcf/d mainline expansion to increase Fort Nelson take-away capacity.

The Horn River and Montney expansion projects are expected to result in approximately $1.5 billion of growth projects coming into service in stages over the 2009 to 2013 period.

(3) Westcoast's North Montney Expansions, which are expected to come into service in stages over the 2012 to 2013 period, are expected to provide customers with North Montney gathering and processing as well as pipeline take-away capacity for a total cost of approximately $200 million.

Non-Consolidated Financial Profile

Westcoast is both a holding company and an operating company, consisting of the following:

- Direct ownership of BCPFS.
- Equity investments in a variety of entities (e.g., Union Gas, Empress, Midstream and M&NP Canada).
- Advances to (and from) various related parties.

Westcoast's operating subsidiaries (Union Gas and M&NP Canada) borrow external funds without a parent company guarantee. The Company raises external debt to support its investments (access to equity is through Spectra Energy Corp).

Non-Consolidated	9 mos. ended Sept.30		12 mos. ended	For the years ended December 31				
Non-Consolidated Ratios	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Total debt & equivalents/capital		Not available		41.9%	41.8%	31.5%	34.0%	35.0%
Cash flow/total debt & equiv.		on		18.2%	12.7%	16.2%	18.1%	18.7%
Fixed-charges coverage ratio (times)		interim basis		2.74	2.20	2.17	2.20	2.21
Non-Consolidated External Debt Ratios*								
Total debt & equivalents/capital		Not available		35.8%	35.2%	31.5%	34.0%	33.9%
Cash flow/total debt & equiv.		on		24.9%	17.6%	16.2%	18.4%	19.8%
Fixed-charges coverage ratio (times)		interim basis		3.25	2.40	2.17	2.32	2.26

* Ratios adjusted to exclude $500 million subordinated debt due to an affiliate.

- Westcoast's non-consolidated financial profile remains relatively strong despite rising capex related to the Company's medium-term growth program. Increasing earnings and cash flow from expansions placed in service to date has resulted in relatively strong credit ratios.
- While the intercompany transaction discussed in the Consolidated Financial Profile section above contributed to weaker non-consolidated credit metrics in 2009, the Company's key non-consolidated external debt credit metrics recovered in 2010.

The table on the following page illustrates how Westcoast's equity investments are financed.

- Regulated BCPFS operations are capitalized at 58% debt and 42% equity (allocated according to rate base).
- The Other Operations/Investments category, where most of Westcoast's non-consolidated equity base is allocated, includes its equity investments and intercompany advances and receivables.

- On a non-consolidated basis, Westcoast's direct ownership of BCPFS fully supports its ability to meet its direct debt obligations.
- The Company's credit metrics are enhanced by cash dividends from several sources, the largest of which is Union Gas, which typically generate approximately 50% of the Company's non-consolidated cash flow.
- Non-consolidated debt (including amounts due to affiliates) rose by $158 million in 2010 (to $2.520 billion).
- Non-consolidated external debt (excluding amounts due to affiliates) also rose by $158 million in 2010 (to $1.921 billion).

Westcoast Energy Inc.
Capital Structure at December 31, 2010

(CAD millions)	Consolidated		(A) = (B) + (C). (A) Non-Consolidated		Regulated B.C. Pipeline & Field Services		Other Operations/ Investments	
Short-term debt	442	5%	0	0%				
Long-term debt	4,276	48%	1,921	32%				
External Debt	4,718	53%	1,921	32%	1,698	58%	223	7%
Inter-company debt	500	6%	599	10%	0	0%	599	20%
Total Debt	5,218	59%	2,520	42%	1,698	58%	822	27%
Preferred equity	350	4%	350	6%	0	0%	350	11%
Minority interests	209	2%	0	0%	0	0%	0	0%
Common equity	3,141	35%	3,141	52%	1,254	42%	1,887	62%
Total capital	8,918	100%	6,011	100%	2,952	100%	3,059	100%
Total debt/capital (DBRS-adjusted)		58.5%		41.9%		57.5%		30.3%
Cash flow/total debt		16.7%		18.2%				
Fixed-charges coverage ratio (times)		2.31		2.74				

Capital Structure at December 31, 2009

(CAD millions)	Consolidated		(A) = (B) + (C). (A) Non-Consolidated		(B) Regulated B.C. Pipeline & Field Services		(C) Other Operations/ Investments	
Short-term debt	630	7%	339	6%				
Long-term debt	3,815	45%	1,424	25%				
External Debt	4,445	53%	1,763	31%	1,602	58%	161	6%
Inter-company debt	500	6%	599	11%	0	0%	599	21%
Total Debt	4,945	59%	2,362	42%	1,602	58%	760	26%
Preferred equity	350	4%	350	6%	0	0%	350	12%
Minority interests	198	2%	0	0%	0	0%	0	0%
Common equity	2,941	35%	2,941	52%	1,171	42%	1,770	61%
Total capital	8,434	100%	5,653	100%	2,773	100%	2,880	100%
Total debt/capital (DBRS-adjusted)		58.6%		41.8%		57.8%		30.0%
Cash flow/total debt		13.8%		12.7%				
Fixed-charges coverage ratio (times)		2.21		2.20				

- The non-consolidated debt-to-capital ratio (including amounts due to affiliates) was 42% in 2009 and 2010.
- Cash flow-to-debt (18.2% in 2010, up from 12.7% in 2009) and fixed-charges coverage (2.7 times in 2010, up from 2.2 times in 2009) improved significantly, largely due to earnings and cash flow from expansions placed in service in 2010.
- As shown in the table on the previous page, these non-consolidated credit metrics (except the debt-to-capital ratio) improved when amounts due to affiliates were excluded, mainly as a result of higher gathering and processing revenues from higher firm volumes.
- The debt-to-capital ratio for the Other Operations/Investments category was also unchanged (30.3% at year-end 2010; 30.0% at year-end 2009) as higher debt was offset by higher equity.

Long-Term Debt Maturities and Bank Lines

Westcoast has a $300 million CP program that is supported by a $300 million, multi-year credit facility maturing in May 2015. The credit facility contains a covenant requiring that the Company's non-consolidated debt-to-total capital ratio not exceed 75% (41% at September 30, 2011).

- On September 30, 2011, Westcoast had $145 million of commercial paper outstanding and $155 million of availability under its credit facility.

Union Gas has a $500 million CP program supported by a $500 million credit facility maturing in July 2012.

- The credit facility contains a covenant requiring that the debt-to-total capital ratio not exceed 75% (62% at September 30, 2011) and a provision that requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year.
- On September 30, 2011, Union Gas had $187 million of commercial paper outstanding and $313 million of availability under its credit facility.

Long-Term Debt Maturities* – Non-Consolidated

	2013	2015	2016	2018	2019+
CAD millions	100	125	250	150	1,300
% of long-term debt	5%	6%	13%	8%	67%

Long-Term Debt Maturities* – Consolidated

	2011	2012	2013	2014	2015+
CAD millions	18	35	157	207	4,185
% of long-term debt	1%	1%	3%	4%	91%

* As of September 30, 2011. Excludes commercial paper and subordinated note payable to affiliate.

- Debt maturities are well spread out, on both consolidated and non-consolidated bases.
- In October 2011, Westcoast issued $150 million of 3.883% medium-term notes (MTNs) due October 28, 2021, and $150 million of 4.791% MTNs due October 28, 2041.
- The Company's liquidity remains sufficient to manage its debt maturities and ongoing operations, given its demonstrated access to Canadian debt markets and the availability of additional liquidity from its owner, Spectra Energy Capital, LLC (see separate DBRS rating report), if required.

Business Profile

Westcoast operates in the following segments:

(1) Transmission & Processing (54% of Segment EBIT for 12 months ending September 30, 2011)

- **BCPFS** provides natural gas transportation and gas gathering and processing services in western Canada. The B.C. Pipeline Division is regulated by the NEB under full cost-of-service regulation, which results in no volume risk for Westcoast. The B.C. Field Services Division is regulated by the NEB through light-handed regulation of contracts, mainly on a fee-for-service basis, resulting in volume risk for Westcoast.
- **Midstream** provides natural gas gathering and processing services in B.C. and Alberta and consists of 11 natural gas processing plants and associated gathering pipelines. Revenues are derived on a fee-for-service basis, resulting in volume risk, but no direct commodity price risk, for Westcoast.
- **Empress** provides NGL extraction, fractionation, transportation, storage and marketing services to western Canadian producers and NGL customers throughout Canada and the northern tier of the United States. Empress has the capacity to produce 63,000 barrels per day (b/d) of NGL (the Company's share is 58,000 b/d) comprising approximately 50% ethane, 32% propane, 12% butanes and 6% condensate. This business is subject to volume risk, commodity price and fractionation spread risk, short-gas exposure and competition from upstream field services facilities. Empress's earnings and cash flow are exposed to changes in fractionation spreads.

- **M&NP Canada** (78% interest) is the NEB-regulated Canadian segment of an onshore natural gas pipeline running from offshore eastern Canada to markets in Nova Scotia, New Brunswick and the U.S. Northeast. M&NP Canada operates under cost-of-service regulation, supported by long-term ship-or-pay contracts with a remaining weighted-average term of six years, resulting in stable earnings and cash flow.

(2) Distribution (46% of Segment EBIT for 12 months ending September 30, 2011)
Union Gas provides retail natural gas distribution services in Ontario, as well as natural gas transportation and storage services to other utilities and energy market participants in Ontario, Québec and the United States. These services are primarily subject to the rules and regulations of the Ontario Energy Board (OEB).

Regulation

B.C. Pipeline and Field Services Divisions
The NEB regulates Westcoast's B.C. natural gas transmission system and its gathering and processing operations. This segment benefits from a favourable regulatory environment as described below.

B.C. Pipeline Division
The B.C. Pipeline Division operates under cost-of-service regulation, in which the Company does not take volume risk since tolls increase if volumes decline.

- In January 2011, the NEB approved a settlement agreement between B.C. Pipeline and its customers for transmission tolls for 2011 to 2013. Allowed ROE was set at 9.7% on an allowed equity component of 40%.

B.C. Field Services Division
B.C. Field Services Division operates under a framework for light-handed NEB regulation (the Framework).

- Westcoast is allowed to negotiate, on an individual basis, market-based terms and conditions, including tolls. Westcoast takes the risks and earns the benefits associated with the utilization rate for the gathering and processing assets. The Field Services Division is exposed to volume risk.

Union Gas Limited
The OEB regulates Union Gas's gas storage, transmission and distribution businesses. Effective January 1, 2008, Union Gas entered into a multi-year IR plan that runs from 2008 to 2012, summarized below.

Gas Distribution

- Allowance for inflationary rate increases, offset by a fixed productivity factor of 1.82% each year.
- Allowance for additional rate increases in the small-volume customer classes to reflect the decline in average use per customer. A new deferral account was established to capture the variance between forecast and actual use per customer. Union Gas continues to bear weather risk.
- A $1 per month increase in the fixed monthly customer charge for small-volume customers for each year.
- Continued pass-through of gas commodity, upstream transportation and demand-side management costs.
- An allowance for unexpected cost changes that are outside management's control.
- Union Gas's 2007 ROE of 8.54% and equity component of 36% remains unchanged through the period.
- The Gas Cost Deferral Accounts, Storage and Other Deferral Accounts remain in place.
- An earnings-sharing mechanism between Union Gas and its ratepayers applies if, in any calendar year, the actual utility ROE is more than 200 basis points above the allowed ROE. In that event, the excess earnings would be shared 50/50 between Union Gas and its customers.
- If the actual utility ROE is more than 300 basis points greater than the allowed ROE, a 90/10 sharing mechanism, in favour of customers, applies.

Gas Storage

- In November 2006, the OEB decided not to regulate the prices of storage services to customers outside Union Gas's franchise area or the prices of new storage services to customers within the franchise area.
- The decision required Union Gas to continue to share long-term storage margins with ratepayers over a three-year phase-out period from 2008 to 2010.
- Existing customers within the Union Gas franchise area continue to be charged at cost-based rates.

Maritimes & Northeast Pipeline Limited Partnership

- M&NP Canada's tolls are regulated by the NEB based on a cost-of-service methodology.
- M&NP Canada operates under a postage stamp structure, in which the tolls charged are the same regardless of the distance the gas has been shipped.
- Firm Service Agreements (FSAs) provide support on a long-term ship-or-pay basis.
- Tolls are set based on capital and operating cost forecasts for the forthcoming rate-making period and are established by dividing the revenue requirement by throughput (contracted capacity under FSAs).
- Firm services are charged regardless of actual volumes transported.
- Interruptible services are provided to the highest bidders (subject to a floor equal to 120% of the firm service toll) and are billed only to the extent of such volumes shipped.

In April 2010, the NEB approved a settlement on all 2010 toll issues other than compensation for funds held in escrow and M&NP Canada adjusted its tolls accordingly, including an adjustment to account for revenues from January 1, 2010 to the effective date of the partial toll settlement.

- M&NP Canada filed an application with the NEB on July 26, 2010, seeking compensation for funds held in escrow and finalization of 2010 tolls.
- In June 2011, the NEB determined that no compensation would be provided for the funds held in escrow and finalized the 2010 interim tolls approved previously.
- Tolls for 2011 remain subject to ongoing negotiations.

Westcoast Energy Inc.

Report Date:
November 23, 2011

Westcoast Energy Inc.
(Consolidated)

Balance Sheet (CAD millions) **Assets**	Sept.30 2011	Dec. 31 2010	Dec. 31 2009	**Liabilities & Equity**	Sept. 30 2011	Dec. 31 2010	Dec. 31 2009
Cash & equivalents	71	73	83	Short-term debt	332	157	127
Accounts receivable	645	730	563	A/P & accrued liab.	1,114	1,106	1,181
Future income taxes	16	14	57	Curr. port. LT Debt	35	285	503
Inventory	405	252	303	**Current Liabilities**	1,481	1,548	1,811
Other current assets	40	13	12	Long-term debt	4,567	4,276	3,815
Current Assets	1,177	1,082	1,018	LT debt - affiliate	500	500	500
Property, plant, & equipment, net	9,895	9,448	9,089	Preferred shares	300	300	300
Regulatory assets	861	820	756	Pref. shares - affiliate	50	50	50
Other long-term assets	650	602	600	Future income taxes	1,204	1,153	1,105
Total	12,583	11,952	11,463	Other LT liabilities	796	775	743
				Minority interest	217	209	198
				Common equity	3,468	3,141	2,941
				Total	12,583	11,952	11,463

(Cdn$ millions where applicable)

Balance Sheet & Liquidity Ratios (1)	9 mos. ended Sept.30 2011	2010	12 mos. ended Sept.30, 2011	For the years ended December 31 2010	2009	2008	2007	2006
Current ratio	0.79	0.68	0.79	0.70	0.56	0.80	0.61	1.05
Net debt in capital structure	57.1%	57.3%	57.1%	58.2%	58.2%	54.0%	51.2%	53.6%
Total debt in capital structure	57.4%	57.6%	57.4%	58.5%	58.6%	54.4%	51.4%	55.1%
Common equity in capital structure	36.6%	36.1%	36.6%	35.2%	34.9%	39.7%	39.9%	36.5%
Deemed equity: B.C. Pipeline	40%	36%	36%	36%	36%	36%	36%	35%
Deemed equity: Union Gas	36%	36%	36%	36%	36%	36%	36%	35%
Cash flow/total debt	16.7%	16.9%	16.7%	16.7%	13.8%	18.7%	19.9%	12.9%
(Cash flow - dividends)/net capex	0.95	1.60	0.69	0.94	0.66	1.14	1.10	0.76
Common dividend payout	0.0%	0.0%	43.7%	46.7%	61.9%	61.1%	52.2%	107.8%
Accum. Deprec./gross fixed assets	35.9%	36.1%	35.9%	35.6%	35.1%	37.2%	36.3%	35.3%
Coverage Ratios (times) (2)								
EBIT interest coverage	2.80	2.40	2.82	2.53	2.37	2.66	2.35	2.14
EBITDA interest coverage	4.27	3.75	4.24	3.86	3.63	3.97	3.50	3.26
Fixed-charges coverage	2.61	2.24	2.57	2.31	2.21	2.46	2.18	1.98
External Debt Ratios (2) (3)								
Total debt & equivalents/capital	52.1%	52.0%	52.1%	52.9%	52.7%	54.4%	51.4%	55.1%
Cash flow/total debt & equiv.	18.6%	18.9%	18.8%	18.9%	15.6%	18.7%	19.9%	12.9%
Fixed-charges coverage ratio (times)	2.73	2.34	2.80	2.51	2.30	2.46	2.18	1.98
Profitability Ratios								
Operating margin	25.4%	24.1%	25.8%	24.9%	23.2%	21.2%	21.6%	19.7%
Profit margin (before extras.)	12.9%	12.5%	13.6%	13.3%	11.4%	10.8%	9.8%	8.6%
Return on common equity	13.0%	12.6%	13.8%	14.1%	12.1%	12.5%	10.9%	10.1%
Allowed ROE: Union Gas	8.54%	8.54%	8.54%	8.54%	8.54%	8.54%	8.54%	9.63%
Return on capital	7.2%	7.3%	7.7%	7.8%	7.4%	7.7%	6.9%	6.4%
Segmented EBIT Before Extras.								
Transmission & processing	377	317	514	454	429	473	431	437
Distribution	279	266	401	388	364	350	321	279
Corporate and other	9	10	11	12	15	36	37	24
EBIT before extraordinary items	665	593	926	854	808	859	789	740
Net income before extras. (after pfd. divs.)	322	291	459	428	379	406	337	296
Net income, as reported (after pfd. divs.)	321	290	457	426	381	409	348	181
Selected Data ($ millions)								
Cash flow (bef. work. cap. changes)	679	647	905	873	683	852	817	584
Capex, equity investments, other	(744)	(439)	(1,054)	(749)	(724)	(660)	(591)	(521)
Common dividends paid	(207)	(2)	(202)	3	(238)	(262)	(215)	(208)
Free cash flow (bef. work. cap. changes)	(272)	206	(351)	127	(279)	(70)	11	(145)
Changes in non-cash work. cap.	62	(386)	36	(412)	385	(190)	37	435
Gross Free Cash Flow	(210)	(180)	(315)	(285)	106	(260)	48	290
Proceeds on sale of inv. & assets	0	0	(2)	(2)	0	(151)	(7)	32
Net Free Cash Flow	(210)	(180)	(317)	(287)	106	(411)	41	322
Operating Statistics								
T&P - Pipeline Throughput (Tbtu)	590	522	788	720	708	749	726	
T&P - Volumes Processed (Tbtu)	537	490	711	664	655	698	709	
T&P - Empress Inlet Volumes (Tbtu)	455	441	614	600	737	820	722	
Union Gas - Pipeline Throughput (Tbtu)	626	665	874	913	809	900	844	

(1) DBRS allocates debt and equity equivalents to preferreds and minority interest. (2) Excludes AFUDC and capitalized interest.
(3) Ratios adjusted to exclude $500 million subordinated debt due to an affiliate.
n/a = not applicable. n.a. = not available.

Westcoast Energy Inc.

Report Date:
November 23, 2011

Ratings

Debt	Rating Action	Rating	Trend
Commercial Paper	Confirmed	R-1 (low)	Stable
Unsecured Debentures	Confirmed	A (low)	Stable
First Preferred Shares – cumulative, redeemable	Confirmed	Pfd-2 (low)	Stable

Rating History

	Current	2010	2009	2008	2007	2006
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
First Preferred Shares – cumulative, redeemable	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)

Related Research

- Maritimes & Northeast Pipeline Limited Partnership, rating report, November 18, 2011.
- Union Gas Limited, rating report, January 31, 2011.
- Spectra Energy Capital, LLC, rating report, October 19, 2010.

Note:
All figures are in Canadian dollars unless otherwise noted.

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Rating Report

Report Date:
November 24, 2011

Previous Report:
October 19, 2010

Filed: 2012-05-04
EB-2011-0210
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Attachment 2

Insight beyond the rating.

Spectra Energy Capital, LLC

Analysts

Michael R. Rao, CFA
+1 416 597 7541
mrao@dbrs.com

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

The Company

Spectra Energy Capital, LLC owns and operates a large and diversified portfolio of North American natural gas-related assets in the following segments: (1) U.S. Transmission (42% of EBIT for the 12 months ending September 30, 2011); (2) Western Canada Transmission & Processing (21% of EBIT); (3) Distribution (18% of EBIT); and (4) Field Services (19% of EBIT). Other operations include a wholly owned captive insurance subsidiary. Spectra Capital is a wholly owned subsidiary of Spectra Energy Corp, which, on January 2, 2007, began operations as a newly public corporation.

Guarantor

In December 2007, Spectra Energy Corp agreed to fully and unconditionally guarantee the payment of principal and interest under all series of notes outstanding under the Senior Indenture of Spectra Capital.

Rating

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-2 (high)	Confirmed	Stable
Unsecured Debentures	BBB (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the Unsecured Debentures and Commercial Paper ratings of Spectra Energy Capital, LLC (Spectra Capital or the Company) at BBB (high) and R-2 (high), respectively, both with Stable trends. The current ratings incorporate DBRS's expectation that Spectra Capital's significant capex program (projected to be $2.0 billion in 2011, including $1.3 billion spent through September 30, 2011, and in excess of $1.0 billion of growth capex annually through 2015), combined with selective acquisitions (including the July 1, 2011, acquisition of Big Sandy Pipeline, LLC (Big Sandy) by the Company's 64%-owned subsidiary, Spectra Energy Partners, LP (SEP) for $390 million), will result in negative free cash flows and pressure its credit ratios, as much of the financing will come from increased long-term debt.

While Spectra Capital's capex program is substantial, the spending is allocated to low-risk transmission, gathering and processing and storage projects, which will continue to support its business risk profile. However, the Company's DCP Midstream, LLC (DCP, 50%-owned) and Empress NGL Marketing (Empress) operations, both of which own natural gas gathering and processing operations, provide a more volatile source of earnings and cash flow as a result of commodity price and fractionation spread risk. Despite lower capex, the Company had deteriorating credit metrics (cash flow-to-debt and EBITDA interest coverage of 14% and 3.6 times, respectively) and a very high dividend payout ratio (84%) in 2009 compared with 2008, largely due to much lower contributions from DCP. (Continued on page 2.)

Rating Considerations

Strengths

(1) Good business risk profile partly offsets relatively high balance sheet leverage
(2) Well-diversified, natural gas-based portfolio
(3) Regulated segments provide stable earnings base
(4) DCP Midstream benefits from diversification, critical mass and improving industry conditions

Challenges

(1) Large capex program pressuring credit metrics
(2) Competition in U.S. Transmission and Western Canada Transmission & Processing segments
(3) Distribution EBIT sensitive to volume risk and low allowed return on equity
(4) DCP and Empress earnings subject to commodity price and fractionation spread risk

Financial Information

Spectra Energy Corp	9 mos. ended Sept.30		12 mos. ended	For the year ended December 31				
(USD millions where applicable)	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Net income (before extras.)	858	704	1,155	1,001	753	1,114	948	905
Cash flow (bef. work. cap. changes)	1,585	1,191	2,226	1,832	1,395	1,973	1,599	1,222
Return on common equity	14.5%	12.9%	15.0%	13.5%	12.0%	18.0%	15.2%	10.6%
Net debt in capital structure	55.3%	56.7%	55.3%	56.1%	55.5%	61.2%	54.8%	57.3%
Total debt in capital structure	55.5%	57.0%	55.5%	56.4%	56.0%	61.7%	55.1%	58.2%
Cash flow/total debt	18.8%	14.4%	19.8%	16.2%	14.1%	19.6%	17.0%	14.2%
Adjusted Cash flow/total debt (1)	16.1%	12.1%	17.3%	13.9%	12.8%	14.6%	13.1%	8.8%
EBITDA interest coverage (times)	4.55	4.03	4.56	4.16	3.58	4.27	3.92	3.78
Adj. EBITDA interest coverage (1)	3.82	3.41	3.87	3.56	3.27	3.10	3.04	2.68
EBIT interest coverage (times)	3.45	3.04	3.46	3.16	2.65	3.41	3.12	3.03
Adj. EBIT interest coverage (1)	2.72	2.42	2.77	2.55	2.34	2.23	2.25	1.93

On January 2, 2007, Duke Energy completed the spin-off of its natural gas businesses to a newly created company named Spectra Energy Corp.
Financial results for prior periods have been restated to conform to the business segments adopted by Spectra Energy Capital, LLC.
Spectra Energy Corp's ownership of Spectra Capital is its only asset. The former has no debt outstanding.
(1) Numerator adjusted to exclude dividends (mostly from DCP) received from equity investments (tax-adjusted in the case of cash flow).

Rating Update (Continued from page 1.)

Spectra Capital's credit metrics improved in 2010 and in the nine months ending September 30, 2011 (9M 2011, during which the cash flow-to-debt, EBITDA interest coverage and dividend payout ratio were 19%, 4.6 times and 60%, respectively) as higher earnings and cash flow from expansion projects and acquisitions, as well as higher contributions from DCP and Empress, offset the impact of rising debt to finance free cash flow deficits. DBRS expects the Company's credit metrics to remain relatively volatile over the medium term, mainly due to net free cash flow deficits and variable results from DCP. In the absence of significant dividend income from its equity affiliates, especially DCP, Spectra Capital's credit metrics are relatively weak for the current ratings, although this is partly mitigated by the improved business risk profile expected over time.

In addition, Spectra Capital's Distribution segment earnings are exposed to volume risk, which is sensitive to changes in weather, economic conditions and gas prices. The Company's Western Canada Transmission & Processing (WCT&P) segment also faces some volume risk at B.C. Field Services and Spectra Energy Facilities L.P. (Midstream) and commodity price and/or fractionation spread risk at Empress. EBIT from both segments benefits from a lower CAD/USD exchange rate. U.S. Transmission (UST) faces significant competition for supply and end-user markets.

The above-noted factors are partly mitigated by the following factors:

(1) Spectra Capital has a good business risk profile, generating nearly 80% of its segment EBIT from low-risk, mostly regulated operations since the beginning of 2009, compared with 61% of segment EBIT in 2008. This factor somewhat offsets relatively high balance sheet leverage (debt-to-total capital of 55.5% at September 30, 2011), partly due to the one-third and 40% weighting of the Canadian regulated natural gas transmission and distribution operations with respect to EBIT and long-term debt, respectively (which have higher debt components than the U.S. regulated operations). The balance of Spectra Capital's EBIT generation (approximately 24% for the 12 months (LTM) ending September 30, 2011) comes from its interests in DCP and Empress.

(2) The Company's direct debt ($4.5 billion as at September 30, 2011) accounted for 40% of its consolidated total debt, compared with $3.7 billion of direct debt (37% of consolidated total debt) as at December 31, 2009. Virtually all of the Company's remaining $6.7 billion of consolidated total debt is held at subsidiaries that are engaged in self-supporting and stable natural gas transmission and distribution operations. Spectra Capital's non-consolidated credit metrics have improved from 2009 and 9M 2010 levels as higher equity earnings from expansion projects and DCP have offset the impact of higher debt. Consequently, non-consolidated credit metrics have also been relatively volatile, a trend that is likely to continue over the medium term. In the absence of significant equity earnings from DCP, Spectra Capital's non-consolidated credit metrics are relatively weak for the current ratings, although this is to some extent mitigated by an improving business risk profile.

Rating Considerations Details

Strengths

(1) Spectra Capital has a good business risk profile, generating nearly 80% of its segment EBIT from low-risk, mostly regulated operations. This factor partly offsets relatively high balance sheet leverage (debt-to-total capital ratio of 55.5% at September 30, 2011), partly due to the one-third and 40% weighting of the Canadian regulated natural gas transmission and distribution operations with respect to EBIT and long-term debt, respectively (which have higher debt components than the U.S. regulated operations).

(2) The Company has a well-diversified natural gas-based portfolio, including regulated natural gas transmission, storage and non-regulated midstream activities in the United States and eastern and western Canada, as well as regulated gas distribution operations in Ontario. Spectra Capital accesses gas supply from several basins and serves diverse end-user markets. In addition, the natural gas gathering and processing operations of DCP and Empress provide product diversification as these operations benefit from higher fractionation spreads (i.e., the difference between prices for natural gas and natural gas liquids (NGL)), while demand for gas transportation and storage services is tied to natural gas demand and pricing.

(3) Spectra Capital's low-risk, mostly regulated segments provide a stable earnings base (76% of EBIT in the LTM September 30, 2011, compared with 61% in 2008). (a) UST (42% of EBIT) has a strong portfolio of regulated assets, with most segment revenue derived from demand charges. (b) WCT&P (21% of EBIT) includes mainly regulated or contracted natural gas transportation and gathering and processing assets in western Canada, although about one-quarter of segment EBIT (5% of total EBIT) is from the more volatile Empress operations. (c) Distribution (Union Gas Limited (Union Gas), 18% of EBIT) provides regulated natural gas distribution operations in Ontario that are essentially delivered on a cost-of-service basis, although earnings are sensitive to volume risk.

(4) DCP (50% owned, 19% of EBIT in LTM September 30, 2011, compared with 31% in 2008) is one of the largest field services operators in North America, benefiting from diversification (it operates in nine North American gas basins), critical mass and improving industry conditions. Sensitivity to commodity prices remains significant given that a rise (fall) of $1 per barrel and $0.10 per million British thermal units (MMBtu) in NGL and natural gas prices, respectively, would result in a $6 million and $3 million rise (fall), respectively, in Spectra Capital's equity earnings from DCP. DCP does not hedge its directly owned operations. DCP has some operational flexibility to manage gas price spikes. Options include the following: (a) reducing the total NGL barrels extracted from the natural gas stream (ethane rejection) while still meeting pipeline quality specifications and (b) converting a portion of its "keep-whole" contracts (under which DCP is exposed to the fractionation spread) to a minimum processing fee.

Challenges

(1) Spectra Capital's large medium-term growth capex program is pressuring its credit metrics, although improved in LTM September 30, 2011, as higher earnings and cash flow from expansion projects and the Bobcat and Big Sandy acquisitions, as well as higher contributions from DCP and Empress, have offset the impact of rising debt to finance its free cash flow deficit. DBRS expects the Company's credit metrics to continue to be relatively volatile over the medium term as a result of continuing net free cash flow deficits and variable results from DCP and Empress.

(2) The Company faces competitive pressures in its UST and WCT&P segments. (a) (i) In the United States, Spectra Capital's largest pipeline, Texas Eastern Transmission, LP (TETLP), faces significant competition for supply and end-user markets. (ii) Maritimes & Northeast Pipeline (M&NP) faces strong end-user market competition in the U.S. Northeast from several major pipelines as well as indirect long-term bypass risk if shale gas development in the Marcellus shale region significantly increases the amount of natural gas production that flows into the U.S. Northeast from third-party pipelines. (iii) The Company's other U.S. pipelines also face similar pressures. (b) (i) In western Canada, the Company's B.C. Pipeline division faces competition for supply from Alliance Pipeline, Southern Crossing Pipeline and NOVA Gas Transmission, and for end-user markets for about half of its volumes into the U.S. Pacific Northwest, it faces competition from a number of U.S. pipelines. (ii) The B.C. Field Services, Midstream and Empress operations are subject to competition from non-regulated gathering and processing and NGL extraction facilities in British Columbia and Alberta.

(3) Distribution earnings are exposed to volume risk, which is sensitive to changes in weather, economic conditions and gas prices. The weather sensitivity is largely related to the winter heating season, with warmer (colder) than normal temperatures adversely (positively) affecting residential and commercial demand for gas and, therefore, financial measures at Union Gas. Its earnings are also affected by changes in economic conditions, which affect industrial and commercial demand for natural gas, while higher (lower) gas prices can lead to lower (higher) average customer usage. In addition, earnings at Union Gas have been dampened by its relatively low allowed return on equity (ROE) (8.54%) and equity thickness (36%). Union Gas is subject to a multi-year incentive regulation (IR) plan, which runs from 2008 to 2012, under which the allowed ROE and equity thickness remain unchanged. The plan allows for inflationary rate increases, offset by a productivity factor of 1.82%, which is fixed for each of the five years. The pass-through of gas commodity, upstream transportation and demand-side management costs continues. The earnings sharing mechanism between Union Gas and its ratepayers applies if, in any calendar year, the actual utility ROE exceeds the allowed ROE by more than 200 basis points. In that event, the excess earnings would be shared 50/50 with its customers. In the event of a 300 basis point or greater variance in weather-normalized earnings above the allowed ROE, a 90/10 sharing mechanism, in favour of customers, applies.

(4) Spectra Capital has commodity price and fractionation spread risk within its Field Services segment (50%-owned DCP) and its WCT&P segment (Empress). (a) DCP's earnings and cash flow are volatile as typically 70% to 90% of its gross margin is exposed to volatile energy (especially NGL) prices on an unhedged basis. (b) Empress operations are also exposed to volume risk and competition from upstream field services. These business segments accounted for approximately 24% of Spectra Capital's EBIT for LTM September 30, 2011, although their contributions are subject to significant variability.

Earnings and Outlook

Spectra Energy Corp	For the 9 months ended Sept. 30				12 mos. ended		For the year ended December 31					
(USD millions)	2011		2010		Sept.30, 2011		2010		2009		2008	
U.S. Transmission (UST)	749	42%	700	48%	986	42%	937	45%	883	51%	819	36%
Distribution (Union Gas)	305	17%	282	19%	432	18%	409	20%	336	20%	353	15%
W. Canada Trans. & Proc. (WCT&P)	373	21%	279	19%	504	21%	410	20%	343	20%	398	17%
Field Services (FS or DCP)	338	19%	207	14%	436	18%	305	15%	161	9%	716	31%
Subtotal - before Corporate and other	1,765	100%	1,468	100%	2,358	100%	2,061	100%	1,723	100%	2,286	100%
Corporate and other	(72)		(51)		(90)		(69)		(63)		(52)	
Total EBIT before extras.	1,693		1,417		2,268		1,992		1,660		2,234	
Interest expense, net	(471)		(476)		(625)		(630)		(610)		(636)	
Income taxes	(364)		(237)		(488)		(361)		(297)		(484)	
Net Income Before Extras.	858		704		1,155		1,001		753		1,114	
Extraordinary items	14		8		48		42		91		16	
Net income from continuing operations	872		712		1,203		1,043		844		1,130	
Discontinued operations	23		17		12		6		5		2	
Reported net income	895		729		1,215		1,049		849		1,132	
Low Risk Segment EBIT (DBRS est.)	1,347	76%	1,211	82%	1,805	77%	1,669	81%	1,467	85%	1,402	61%
Higher Risk Segment EBIT (DBRS est.)	418	24%	257	18%	553	23%	392	19%	256	15%	884	39%
Empress EBIT (included in WCT&P)	80	5%	50	3%	117	5%	87	4%	95	5%	168	7%

- DBRS estimates that Spectra Capital has recently generated nearly 80% of its segment EBIT from low-risk, mostly regulated operations, with the balance largely subject to commodity price and fractionation spread risk (mainly within DCP and at Empress within WCT&P).
- Net income (before extraordinary items) increased by $154 million (22%) to $858 million in 9M 2011 from $704 million in 9M 2010, mainly due to the following factors:
  - A $131 million (63%) rise in DCP equity earnings, mainly due to increased NGL and crude oil prices, net of decreased natural gas prices.
  - A $94 million (34%) rise in WCT&P EBIT, primarily due to higher gathering and processing earnings from expansions, higher NGL margins and impact of a three-week turnaround in May 2010 at Empress and the stronger Canadian dollar (CAD/USD exchange rate fell to $0.98 from $1.04).
  - A $49 million (7%) rise in UST EBIT, mainly due to higher earnings from expansion projects and the acquisitions of Bobcat Gas Storage assets (Bobcat) in August 2010 and Big Sandy in July 2011.
  - A $23 million (8%) rise in Distribution EBIT, primarily due to higher customer gas usage due to colder weather and the stronger Canadian dollar, partly offset by higher operating costs.
  - These factors were partly offset by a $127 million (54%) increase in income tax expenses related to the higher earnings and favourable tax settlements in 9M 2010.

Outlook

- Over the medium term, DBRS expects the Company's net income to benefit from the substantial portfolio of growth projects that it expects to develop over the next several years (see the Significant Growth Projects section for more detail).

Consolidated Financial Profile

Spectra Energy Corp	9 mos. ended Sept.30		12 mos. ended	For the year ended December 31				
(USD millions)	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Net income before extras.	858	704	1,155	1,001	753	1,114	948	905
Depreciation and amortization	543	493	714	664	598	581	534	606
Deferred income taxes and other	184	(6)	357	167	44	278	117	(289)
Cash flow (bef. work. cap. changes)	1,585	1,191	2,226	1,832	1,395	1,973	1,599	1,222
Capex, equity investments, other	(1,353)	(875)	(1,822)	(1,344)	(637)	(1,818)	(1,400)	(1,106)
Dividends paid	(511)	(487)	(674)	(650)	(631)	(598)	(558)	0
Free cash flow (bef. work. cap. changes)	(279)	(171)	(270)	(162)	127	(443)	(359)	116
Changes in non-cash work. cap. items	102	(184)	(138)	(424)	365	(168)	(132)	472
Gross Free Cash Flow	(177)	(355)	(408)	(586)	492	(611)	(491)	588
Business acquisitions, net of cash	(390)	(492)	(390)	(492)	(295)	(274)	(14)	(89)
Proceeds on sale of inv. & other activities	197	(54)	(14)	(265)	(89)	229	(130)	1,764
Net Free Cash Flow	(370)	(901)	(812)	(1,343)	108	(656)	(635)	2,263
Inc. (dec.) in debt and equivalents	170	944	378	1,152	(670)	1,406	168	398
Inc. (dec.) in equity and equivalents	(74)	(54)	(93)	(73)	276	(555)	(48)	(2,507)
Inc. (dec.) in other liabilities	218	1	445	228	247	(50)	310	(346)
Dec. (inc.) in cash balances	56	10	82	36	39	(145)	205	192
Funding Sources	370	901	812	1,343	(108)	656	635	(2,263)
Total debt and equivalents	11,247	10,999	11,247	11,320	9,918	10,047	9,398	8,625
Total equity and equivalents	9,024	8,287	9,024	8,745	7,806	6,235	7,663	6,204
Cash and cash equivalents	74	156	74	130	166	214	94	299
Net debt and equivalents/capital	55.3%	56.7%	55.3%	56.1%	55.5%	61.2%	54.8%	57.3%
Total debt and equivalents/capital	55.5%	57.0%	55.5%	56.4%	56.0%	61.7%	55.1%	58.2%
Distributions from equity investments	351	303	439	391	195	777	569	707
Cash flow/total debt & equivalents	18.8%	14.4%	19.8%	16.2%	14.1%	19.6%	17.0%	14.2%
EBITDA interest coverage (times)	4.55	4.03	4.56	4.16	3.58	4.27	3.92	3.78
EBIT interest coverage (times)	3.45	3.04	3.46	3.16	2.65	3.41	3.12	3.03
Common dividend payout ratio	59.6%	69.2%	58.4%	64.9%	83.8%	53.7%	58.9%	0.0%
Adjusted Cash flow/total debt (1)	16.1%	12.1%	17.3%	13.9%	12.8%	14.6%	13.1%	8.8%
Adj. EBITDA interest coverage (1)	3.82	3.41	3.87	3.56	3.27	3.10	3.04	2.68
Adj. EBIT interest coverage (1)	2.72	2.42	2.77	2.55	2.34	2.23	2.25	1.93

(1) Numerator adjusted to exclude dividends (mostly from DCP) received from equity investments (tax-adjusted in the case of cash flow).
On January 2, 2007, Duke Energy completed the spin-off of its natural gas businesses to Spectra Energy Corp.
Financial results for prior periods have been restated to conform to the business segments adopted by Spectra Energy Capital, LLC.
Spectra Energy Corp's ownership of Spectra Capital is its only asset. The former has no debt outstanding.

- Spectra Capital's credit metrics have improved from 2009 and 9M 2010 levels as higher earnings and cash flow from expansion projects and the Bobcat and Big Sandy acquisitions, as well as higher contributions from DCP and Empress, have offset the impact of rising debt to finance the Company's free cash flow deficit.
- Credit metrics have been relatively volatile, a trend that is likely to continue over the medium term.
- The Company's regulated natural gas pipeline and distribution operations in Canada (which account for approximately one-third of its EBIT and 40% of its long-term debt) are required to maintain debt-to-capital ratios in the low to mid-60% range, limiting Spectra Capital's ability to reduce consolidated balance sheet leverage in the absence of equity issuance.
- Potential for significant improvement of the cash flow-to-debt and interest coverage ratios is limited by regulatory constraints on its capital structure and allowed ROE, although some improvement is possible under favourable commodity price and fractionation spread conditions for DCP and Empress.
- The adjusted ratios in the above table (which remove the benefit of dividends received from equity affiliates, the vast majority of which is related to DCP) indicate that the Company has relatively consistent, although weak, credit metrics with respect to its consolidated operations.
- In the absence of significant dividend income from its equity affiliates, Spectra Capital's credit metrics are relatively weak for the current ratings, although partly mitigated by an improving business risk profile.

Spectra Energy Capital, LLC

Report Date:
November 24, 2011

Outlook

- The Company expects that in excess of $1.0 billion of annual growth capex could be funded through at least 2015, with most of the spending allocated to low-risk transmission, gathering and processing and storage projects.
- Of Spectra Capital's projected 2011 capex of $2.0 billion (including $1.2 billion for expansion), $1,305 million (including $802 million for expansion) was spent during 9M 2011. In addition, on July 1, 2011, SEP completed the $390 million acquisition of Big Sandy.
- DBRS expects the Company's credit metrics to continue to be relatively volatile over the medium term as a result of continuing net free cash flow deficits and variable results from DCP.

Non-Consolidated Financial Profile

Spectra Energy Corp Long-Term Debt
USD millions

Spectra Energy Corp Consolidated	Sept.30, 2011		Sept.30, 2010		Dec. 31, 2010		Dec. 31, 2009	
Spectra Energy Capital LLC Non-Consolidated	3,324	32.3%	3,334	33.3%	3,307	31.5%	3,291	33.7%
Union Gas Limited	2,177	21.1%	2,209	22.1%	2,241	21.4%	2,098	21.5%
Westcoast Energy Inc.	1,833	17.8%	1,724	17.2%	1,927	18.4%	1,591	16.3%
Maritimes & Northeast Pipeline, L.P.	376	3.7%	416	4.2%	413	3.9%	420	4.3%
Sub-total - Canadian Subsidiaries	4,386	42.6%	4,349	43.4%	4,581	43.7%	4,109	42.1%
Texas Eastern Transmission, LP	1,164	11.3%	1,167	11.7%	1,164	11.1%	1,167	12.0%
Maritimes & Northeast Pipeline, LLC	459	4.5%	480	4.8%	469	4.5%	490	5.0%
Spectra Energy Partners, LP	509	4.9%	230	2.3%	506	4.8%	240	2.5%
East Tennessee Natural Gas (private placement)	150	1.5%	150	1.5%	150	1.4%	150	1.5%
Algonquin Gas Transmission (private placement)	300	2.9%	300	3.0%	300	2.9%	300	3.1%
Other	6	0.1%	7	0.1%	7	0.1%	9	0.1%
Sub-total - U.S. Subsidiaries	2,588	25.1%	2,334	23.3%	2,596	24.8%	2,356	24.1%
Spectra Energy Corp Consolidated Long-Term Debt	10,298	100%	10,017	100%	10,484	100%	9,756	100%
Spectra Energy Corp Consolidated Short-Term Debt	949		982		836		162	
Spectra Energy Corp Consolidated Total Debt	11,247		10,999		11,320		9,918	
Spectra Energy Capital LLC Unconsolidated								
Non-Consolidated Long-Term Debt	3,324		3,334		3,307		3,291	
Non-Consolidated Short-Term Debt	1,189		1,187		1,253		388	
Non-Consolidated Total Debt	4,513	40.1%	4,521	41.1%	4,560	40.3%	3,679	37.1%

Spectra Energy Corp's ownership of Spectra Capital is its only asset. The former has no debt outstanding.

- At September 30, 2011, Spectra Capital had $4.5 billion of direct debt (40% of consolidated total debt), which is serviced via dividends and other advances from its subsidiaries.
- This compares with $3.7 billion of direct debt (37% of consolidated total debt) as at December 31, 2009.
- DBRS expects that the 60% consolidated debt-to-capital target ceiling will limit potential growth in double leverage at the Spectra Capital level.
- Virtually all of the Company's remaining $6.7 billion of consolidated total debt is held at subsidiaries that are engaged in self-supporting and stable natural gas transmission and distribution operations.
- In December 2007, Spectra Energy Corp agreed to fully and unconditionally guarantee the payment of principal and interest under all series of notes outstanding under the Senior Indenture of Spectra Capital.
- Spectra Energy Corp did not have any direct debt outstanding as of September 30, 2011, and there are currently no plans to issue direct debt at that entity.
- In October 2011, Westcoast issued $151 million (CAD 150 million) of 3.883% MTNs due October 28, 2021 and $151 million (CAD 150 million) of 4.791% MTNs October 28, 2041.

Spectra Energy Corp Non-Consolidated Measures

DBRS Estimates based on Public Information USD millions	9 mos. ended Sept.30 2011	9 mos. ended Sept.30 2010	12 mos. ending Sept.30, 2011	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Equity earnings - DCP Midstream, LLC	338	207	436	305	161
Equity earnings -other unconsolidated affiliates	557	530	1,214	1,187	1,078
Equity earnings - unconsolidated affiliates	895	737	1,650	1,492	1,239
Tax Benefits from Spectra Capital Interest Expense (1)	51	54	68	70	72
Sub-total - Est. Equity Earnings and Tax Benefits	946	791	1,718	1,562	1,311
Interest Expense - Direct Spectra Capital Debt	(147)	(153)	(193)	(199)	(207)
Sub-total - Est. Equity Earnings and Tax Benefits, net	799	638	1,525	1,363	1,104
Common Share Dividends	(511)	(487)	(674)	(650)	(631)
Equity Earnings & Tax Benefits, net after dividends	288	151	851	713	473
Total Non-Consolidated Debt	4,513	4,521	4,513	4,560	3,679
Total Non-Consolidated Equity	9,024	8,287	9,024	8,745	7,806
Non-Consolidated Total Debt/Capital	33.3%	35.3%	33.3%	34.3%	32.0%
Net Divs Rec'd/Total Debt (100% of DCP eq.earn.) (2)	15.4%	11.0%	20.3%	16.9%	15.4%
Divs Rec'd/Interest Expense (100% of DCP eq.earn.) (3)	4.54	3.43	5.75	4.87	3.73
Adj. Net Divs Rec'd/Total Debt (no DCP eq.earn.) (2)	5.4%	4.9%	14.9%	14.5%	16.6%
Adj. Divs Rec'd/Interest Expense (no DCP eq.earn.) (3)	2.24	2.08	3.50	3.33	2.95

(1) Assumes 35% corporate income tax rate applied to Spectra Capital's direct interest expense.
(2) Numerator includes DCP equity earnings assumption, 50% of equity earnings from other unconsolidated affiliates, and tax benefits less interest expense.
(3) Numerator includes DCP equity earnings assumption, 50% of equity earnings from other unconsolidated affiliates, and tax benefits.

- Spectra Capital’s non-consolidated credit metrics have improved from 2009 and 9M 2010 levels as higher equity earnings from expansion projects and DCP have offset the impact of higher debt. The Company’s credit metrics have been relatively volatile, a trend that is likely to continue over the medium term.
- The core base of dividends to support the Company’s direct debt comes mostly from stable natural gas transmission and distribution operations (“other unconsolidated affiliates” in the above table and listed in the previous table) with the balance from 50%-owned DCP.
- The adjusted ratios included in the above table (which exclude DCP equity earnings) indicate that the Company has relatively consistent, although weak, credit metrics with respect to its non-consolidated operations. In the absence of significant equity earnings from DCP, Spectra Capital’s non-consolidated credit metrics are relatively weak for the current ratings, although this weakness is partly mitigated by an improving business risk profile.
- At each operating company, Spectra Energy Corp books an amount to represent the amount of U.S. federal income taxes that would be payable at that entity if it were a stand-alone entity. However, Spectra Energy Corp sweeps all cash balances to the holding company level, from which it pays actual U.S. federal income taxes on a consolidated basis.

Bank Lines

Liquidity for Spectra Capital remains sound as the Company and its consolidated subsidiaries had $1,791 million of availability under $2,762 million of credit facilities on September 30, 2011. These facilities, which support commercial paper (CP) and letter of credit (L/C) issuance, are composed of the following:

- A $1,500 million committed facility available directly to Spectra Capital that matures in October 2016. The credit facility contains a covenant that stipulates the consolidated debt-to-total capital ratio cannot exceed 65% (55% at September 30, 2011). On September 30, 2011, $633 million of CP and $12 million of L/C issuance was outstanding, leaving $855 million of unused capacity.
- A $286 million (CAD 300 million) committed facility available to Westcoast matures in May 2015. This credit facility contains a covenant that stipulates the non-consolidated debt-to-total capital ratio cannot exceed 75% (41% at September 30, 2011). On September 30, 2011, $138 million (CAD 145 million) of CP was outstanding, leaving $148 million (CAD 155 million) of unused capacity.
- A $476 million (CAD 500 million) committed facility available to Union Gas matures in July 2012. The credit facility contains a covenant that stipulates the consolidated debt-to-total capital ratio cannot exceed 75% (62% at September 30, 2011). The facility requires Union Gas to repay all borrowings for a period of two days during the second quarter of each year. On September 30, 2011, $178 million (CAD 187 million) of CP was outstanding, leaving $298 million (CAD 313 million) of unused capacity.

- A $500 million committed facility available to Spectra Energy Partners, LP (SEP) maturing in May 2012. The credit facility contains a covenant that stipulates the total debt-to-adjusted EBITDA ratio cannot exceed 5.0 times (2.6 times at September 30, 2011). On September 30, 2011, $10 million was outstanding as a revolving loan, leaving $490 million of unused capacity. In October 2011, this facility was replaced with a new five-year $700 million credit facility maturing in October 2016 at SEP.

Long-Term Debt Maturities

Consolidated

(USD millions) (Dec. 31, 2010)	2011	2012	2013	2014	2015+
Long-term debt (excludes CP)	315	832*	1,162	1,185	6,990
% of long-term debt	3%	8%	11%	11%	67%

* Includes $299 million due under SEP's credit facility that was subsequently increased and extended to October 2016.

- In June 2011, Union Gas issued $309 million (CAD 300 million) of 4.88% MTNs due July 21, 2041. The proceeds were partly used to retire the $252 million (CAD 250 million) of 6.55% MTNs due in May 2011.
- For 2012, maturities are spread out among several borrowers, including the following:
  - $300 million at Algonquin Gas Transmission due in November 2012.
  - $150 million at East Tennessee Natural Gas due in December 2012.
  - $33 million (CAD 35 million) at Maritimes & Northeast Pipeline Limited Partnership (M&NP Canada).
  - $11 million at M&NP US.
- In October 2011, Westcoast issued $151 million (CAD 150 million) of 3.883% MTNs due October 28, 2021 and $151 million (CAD 150 million) of 4.791% MTNs October 28, 2041.

Direct

(USD millions) (Sept. 30, 2011)	2013	2014	2018	2019	2020+
Long-term debt (excludes CP)	745	556	650	500	873
% of long-term debt	22%	17%	20%	15%	26%

- The Company has spread out its direct maturities and should be able to refinance its obligations as they come due based on its current credit profile. On September 30, 2011, Spectra Capital had $855 million available under its direct credit facility to meet its obligations.

Business Profile

U.S. Transmission (42% of adjusted EBIT for the 12 months ending September 30, 2011)
U.S. Transmission provides transportation and storage of natural gas for customers in the northeastern and southeastern U.S. and the Atlantic provinces of Canada. Operations in this segment consist of the following:

(1) Pipelines held within this segment include the following:
- Texas Eastern Transmission, LP (TETLP).
- Algonquin Gas Transmission, LLC.
- East Tennessee Natural Gas, LLC (100%-owned by SEP).
- Maritimes & Northeast Pipeline (M&NP) (U.S. and Canadian portions, 78%-owned). For further details, please see separate DBRS report for M&NP Canada.
- Gulfstream Natural Gas System, LLC (1%-owned directly and 49%-owned by SEP).
- Southeast Supply Header, LLC (50%-owned).
- Ozark Gas Transmission, L.L.C. and Ozark Gas Gathering, L.L.C. (100%-owned by SEP).

Most pipeline revenue is derived from demand charges under long-term contracts. The Federal Energy Regulatory Commission (FERC) is responsible for U.S. interstate pipeline regulation, including all of Spectra Capital's U.S. pipelines. In Canada, the National Energy Board (NEB) regulates M&NP Canada.

(2) Gas storage operations held within this segment include the following:

- Market Hub Partners Holding (50%-owned directly and 50%-owned by SEP) owns and operates two natural gas storage facilities, Moss Bluff (in southeast Texas) and Egan (in south-central Louisiana), with total storage capacity of approximately 45 billion cubic feet (bcf).
- Saltville Gas Storage Company L.L.C. (100%-owned by SEP) owns storage facilities with total capacity of approximately five bcf in Virginia.
- Steckman Ridge Storage (50%-owned) owns storage facilities, with total capacity of approximately 12 bcf in south central Pennsylvania.
- Bobcat Gas Storage (100%-owned) owns storage facilities, with total capacity of approximately 18 bcf in southeast Louisiana.
- TETLP's gas storage facilities.

(3) SEP (64% owned by Spectra Capital) owns various interests, including those noted above.

Western Canada Transmission & Processing (21% of adjusted EBIT)
WCT&P operations are owned through Westcoast and consist of the following:

(1) B.C. Pipeline and Field Services Divisions, which are regulated by the NEB, provide natural gas transportation and gas gathering and processing services in western Canada.

- The B.C. Pipeline Division operates under cost-of-service regulation, which results in no volume risk for Westcoast. In January 2011, the NEB approved a settlement agreement between B.C. Pipeline and its customers for transmission tolls for 2011 to 2013. Allowed ROE was set at 9.7% on an allowed equity component of 40%.
- The B.C. Field Services Division operates under a framework for light-handed regulation (the Framework) approved by the NEB. Westcoast is allowed to negotiate, on an individual basis, market-based terms and conditions, including tolls. Westcoast takes the risks and earns the benefits associated with the utilization rate for the gathering and processing assets. The Field Services Division is exposed to volume risk.

(2) Midstream provides natural gas gathering and processing services in British Columbia and Alberta and consists of 11 natural gas processing plants and associated gathering pipelines. Revenues are derived on a fee-for-service basis, resulting in volume risk, but no direct commodity price risk, for Westcoast.

(3) Empress provides NGL extraction, fractionation, transportation, storage and marketing services to western Canadian producers and NGL customers throughout Canada and the northern tier of the United States. Empress has the capacity to produce 63,000 barrels per day (b/d) of NGL (the Company's share is 58,000 b/d) comprising approximately 50% ethane, 32% propane, 12% butanes and 6% condensate. This business is subject to volume risk, commodity price and fractionation spread risk, short gas exposure and competition from upstream field services facilities. Empress's earnings and cash flow are exposed to changes in fractionation spreads.

For further details, please see the separate DBRS rating report for Westcoast.

Distribution (18% of adjusted EBIT)
Distribution provides retail natural gas distribution service in Ontario, as well as natural gas transportation and storage services to other utilities and energy market participants in Ontario, Québec and the United States. These services are provided by Union Gas, and are primarily subject to the rules and regulations of the Ontario Energy Board. The operations of Union Gas, which is a wholly owned subsidiary of Westcoast, are currently subject to a multi-year IR plan that runs from 2008 to 2012.

For further details, please see the separate DBRS rating report for Union Gas.

Field Services (19% of adjusted EBIT)
Field Services is composed of the Company's 50% investment in DCP (ConocoPhillips is the other 50% owner) and operates in the two principal segments of the North American midstream natural gas industry:

- Natural gas gathering, processing, transportation, trading, marketing and storage.
- NGL fractionation, transportation, marketing and trading.

DCP is one of the largest NGL producers and one of the largest gas gatherers and NGL marketers in North America. DCP has a diverse asset base located in nine U.S. natural gas producing regions: the Mid-Continent, Rocky Mountain, East Texas-North Louisiana, Barnett Shale, Gulf Coast, South Texas, Central Texas, Antrim Shale and Permian basins.

Significant Growth Projects

- Estimated capital expenditures for expansion projects total approximately $4.0 billion, of which $2.3 billion (58%) are in the UST segment and $1.7 billion (42%) are in the WCT&P segment.
- The Company has publicly stated that approximately $1.0 billion of annual growth capex could be funded for the foreseeable future.
- Projects classified as in the development stage (not shown in the table below) may be added over time.

Spectra Energy Capital, LLC Current Projects in Execution

Current Projects in Execution	Segment	Status	Estimated Capex (USD millions)	In-Service
Horn River & Montney Expansions	WC	Partial In-Service	1,500	2009-2013
TEMAX/TIME III	UST	In-Service	700	Nov. 2010/Sept. 2011
Gulfstream Phase V	UST	In-Service	25	April 2011
Moss Bluff Storage Expansion (Cavern 4)	UST	In-Service	60	April 2011
Hot Spring Lateral	UST	In-Service	40	June 2011
Northeastern Tennessee	UST	In-Service	135	September 2011
TEAM 2012	UST	Execution	200	H2 2012
Philadelphia Lateral	UST	Execution	15	H2 2012
North Montney Expansions	WC	Execution	200	2012-2013
Bobcat Storage	UST	Execution	315	2012-2015
New Jersey - New York Expansion	UST	Execution	850	H2 2013
Total Projects in Execution			**4,040**	

UST = U.S. Transmission WC = Western Canada Transmission and Processing

Source: Spectra Energy Corp Major Projects Updated November 3, 2011.

Spectra Energy Capital, LLC

Report Date:
November 24, 2011

Spectra Energy Corp

Balance Sheet (USD millions)	Sept.30	Dec. 31	Dec. 31		Sept.30	Dec. 31	Dec. 31
Assets	2011	2010	2009	**Liabilities & Equity**	2011	2010	2009
Cash and cash equivalents	74	130	166	Short-term debt	949	836	162
Accounts receivable, net	886	1,018	778	A/P & accrued liabilitie	736	595	639
Inventory	423	287	321	Other current liabilities	764	777	885
Other current assets	225	203	164	Ltd. due in one year	64	315	809
Total Current Assets	1,608	1,638	1,429	**Current Liabilities**	2,513	2,523	2,495
Investments in affiliates	2,091	2,033	2,001	Long-term debt	10,234	10,169	8,947
Goodwill, net	4,337	4,305	3,948	Other liabilities	1,581	1,694	1,634
Other long-term assets	508	665	407	Deferred income taxes	3,863	3,555	3,209
Property, plant, and equipment	17,591	16,980	15,347	Minority interests	1,085	936	765
Regulatory assets and other	1,080	1,065	959	Common equity	7,939	7,809	7,041
Total Assets	27,215	26,686	24,091	**Total Liab. & Equity**	27,215	26,686	24,091

Balance Sheet and	9 mos. ended Sept.30		12 mos. ended	For the year ended December 31				
Liquidity Ratios (1)	2011	2010	Sept.30, 2011	2010	2009	2008	2007	2006
Current ratio	0.64	0.46	0.64	0.65	0.57	0.48	0.57	0.69
Net debt in capital structure	55.3%	56.7%	55.3%	56.1%	55.5%	61.2%	54.8%	57.3%
Total debt in capital structure	55.5%	57.0%	55.5%	56.4%	56.0%	61.7%	55.1%	58.2%
Total debt/capital (excl. Goodwill)	70.6%	73.1%	70.6%	71.8%	72.0%	77.9%	71.7%	76.2%
Total debt in capital structure (2)	55.9%	57.4%	55.9%	56.8%	56.4%	62.1%	55.9%	58.7%
Cash flow/total debt	18.8%	14.4%	19.8%	16.2%	14.1%	19.6%	17.0%	14.2%
Adjusted Cash flow/total debt (5)	16.1%	12.1%	17.3%	13.9%	12.8%	14.6%	13.1%	8.8%
Cash flow/total debt (2)	18.5%	14.2%	19.5%	15.9%	13.8%	19.3%	16.5%	13.9%
(Cash flow-divs.)/net capex (3)	0.83	0.80	0.88	0.88	0.78	0.98	0.88	-1.18
Common dividend payout ratio	59.6%	69.2%	58.4%	64.9%	83.8%	53.7%	58.9%	0.0%
Coverage Ratios (times) (4)								
EBIT interest coverage	3.45	3.04	3.46	3.16	2.65	3.41	3.12	3.03
Adj. EBIT interest coverage (5)	2.72	2.42	2.77	2.55	2.34	2.23	2.25	1.93
EBITDA interest coverage	4.55	4.03	4.56	4.16	3.58	4.27	3.92	3.78
Adj. EBITDA interest coverage (5)	3.82	3.41	3.87	3.56	3.27	3.10	3.04	2.68
Fixed-charges coverage	3.32	2.93	3.33	3.04	2.56	3.27	2.99	2.91
Fixed-charges coverage (2)	3.28	2.90	3.29	3.00	2.53	3.23	2.96	2.87
Profitability Ratios								
Operating margin	33.5%	33.2%	33.4%	33.2%	32.2%	28.7%	30.6%	26.7%
Profit margin	21.9%	19.8%	21.8%	20.2%	16.5%	22.0%	20.2%	20.1%
Return on common equity	14.5%	12.9%	15.0%	13.5%	12.0%	18.0%	15.2%	10.6%
Return on capital	7.7%	7.3%	7.9%	7.5%	6.8%	9.2%	8.5%	7.0%
Segmented EBIT Before Extras.								
U.S. Transmission	749	700	986	937	883	819	886	772
Distribution	305	282	432	409	336	353	317	265
W. Canada Transm. & Process.	373	279	504	410	343	398	359	324
Field Services (6)	338	207	436	305	161	716	545	555
Corporate and other	(72)	(51)	(90)	(69)	(63)	(52)	(78)	(27)
EBIT before extraordinary items	1,693	1,417	2,268	1,992	1,660	2,234	2,029	1,889
Net income before extraordinary items	858	704	1,155	1,001	753	1,114	948	905
Reported earnings	895	729	1,215	1,049	849	1,132	957	1,244
Cash flow (bef. work. cap. changes)	1,585	1,191	2,226	1,832	1,395	1,973	1,599	1,222
Capex, equity investments, other	(1,353)	(875)	(1,822)	(1,344)	(637)	(1,818)	(1,400)	(1,106)
Dividends paid	(511)	(487)	(674)	(650)	(631)	(598)	(558)	0
Free cash flow (bef. work. cap. changes)	(279)	(171)	(270)	(162)	127	(443)	(359)	116
Changes in non-cash work. cap. items	102	(184)	(138)	(424)	365	(168)	(132)	472
Gross free cash flow	(177)	(355)	(408)	(586)	492	(611)	(491)	588
Business acquisitions, net of cash	(390)	(492)	(390)	(492)	(295)	(274)	(14)	(89)
Proceeds on sale of inv. & other activities	197	(54)	(14)	(265)	(89)	229	(130)	1,764
Net free cash flow	(370)	(901)	(812)	(1,343)	108	(656)	(635)	2,263

On January 2, 2007, Duke Energy completed the spin-off of its natural gas businesses to a newly created company named Spectra Energy Corp.
Financial results for prior periods have been restated to conform to the business segments adopted by Spectra Energy Capital, LLC.
Spectra Energy Corp's ownership of Spectra Capital is its only asset. The former has no debt outstanding.
(1) DBRS allocates debt and equity equivalents to all preferreds and minority interests. (2) Includes operating leases treated as debt.
(3) Capex excludes acquisitions and equity investments. (4) Coverage ratios have been adjusted to account for the impact of MTM transactions.
(5) Numerator adjusted to exclude dividends (mostly from DCP) received from equity investments (tax-adjusted in the case of cash flow).
(6) Spectra Capital accounts for DCP Midstream as an equity investment.

Spectra Energy Capital, LLC

Report Date:
November 24, 2011

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-2 (high)	Confirmed	Stable
Unsecured Debentures	BBB (high)	Confirmed	Stable

Rating History

	Current	2010	2009	2007-2008	2003-2006	2002
Commercial Paper	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (middle)	NR
Unsecured Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB	NR

Related Research

- Westcoast Energy Inc., Rating Report, November 23, 2011.
- Maritimes & Northeast Pipeline Limited Partnership, Rating Report, November 18, 2011.
- Union Gas Limited, Rating Report, January 31, 2011.

Note:
All figures are in U.S. dollars unless otherwise noted.

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UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: Exhibit A3, Tab 6, S&P page 2

Please confirm that the Applicant has no information that S&P is considering a rating separation between the Applicant and its ultimate parent company.

Response:

Confirmed.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: Exhibit A3, Tab 6

Please provide any more recent credit rating reports than those filed in the original Application.

Response:

Please see Attachments 1 and 2 for the most recent credit ratings reports. There were no changes to the ratings.

DBRS January 24, 2012
S&P December 19, 2011

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

December 19, 2011

Union Gas Ltd.

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Secondary Contact:
Gerald Hannochko, Toronto (1) 416-507-2589; gerald_hannochko@standardandpoors.com

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Union Gas Ltd.

Major Rating Factors

Strengths:

- Low-risk regulated cash flows
- Monopoly gas network business
- Minimal commodity risk

Weaknesses:

- High debt leverage associated with the company's regulated capital structure
- Exposure to weather-induced variability in gas demand and cash flows

Corporate Credit Rating
BBB+/Stable/A-2

Rationale

The ratings on Union Gas Ltd., an Ontario-based natural gas distribution company, reflect Standard & Poor's Ratings Services' view of the consolidated credit profile of its ultimate parent, Spectra Energy Corp. (BBB+/Stable/--), and its strong business risk profile. Union Gas' monopoly-like market position, regulatory advantages, and stable cash flow generation also support the rating, in our opinion. We believe that counterbalancing the ratings are the company's significant financial risk profile and softer key credit ratios.

Union is the second-largest natural gas distribution utility in Canada, serving approximately 1.3 million customers in northern, southwestern, and eastern Ontario. The company has a very diverse customer base, in our view, with a large portion of residential customers that reduces volatility due to stable energy demands. In addition, it owns the largest gas storage facility in Canada, with a working storage capacity of 156 billion cubic feet (Dawn Storage, near Sarnia, Ont.) and operates a transmission system from Dawn to Oakville, Ont., which enhances business integration by providing customers value-added midstream services.

Supporting Union Gas' strong business risk profile are its efficient regulated gas distribution network, attractive franchise region in Ontario, strategic ownership of natural gas storage and transmission assets in southern Ontario, and a regulatory mechanism that allows for a complete flow-through of commodity cost expense to customers and permits the utility to adjust rates quarterly. The Ontario Energy Board (OEB) regulates the company's distribution operations under a cost-of-service model where operating and interest costs are covered, and Union Gas is allowed to earn an allowed return on equity (ROE), which is key for rate-setting purposes. It is operating under an OEB-approved five-year incentive regulation agreement that began in 2008. The next period of cost-of-service rebasing is 2013. The current allowed ROE applies for the five-year incentive regulation period. This regulation is a critical factor in our assessment of the company's business risk profile and results in the company generating stable and consistent operating cash flow. However, despite the regulatory framework protecting it from earnings volatility, Union Gas' distribution business remains exposed to weather-induced variability of demand, as differences from the assumed weather that is used in rate-setting could result in volatility in gas consumption.

While most revenue comes from regulated activities, Union Gas' unregulated storage business (about one-third of total storage capacity) is expanding, which could introduce more earnings volatility and alter its business risk profile. Although the storage and transmission assets enhance operating flexibility and enable the company to manage its gas inventories (providing the benefit of supply security) the unregulated storage assets are subject to market rates and market demand, which can affect earnings.

We continue to equalize the ratings on Union Gas with those on the parent but we believe some modest rating separation is possible if Spectra's credit profile were to deteriorate. Based on our methodology, we rarely rate a utility company higher than its parent. We believe that should Spectra's credit profile deteriorate quickly, the OEB's might initiate more comprehensive monitoring of Union Gas' financial position, offering modest protection to bondholders. This could lead to more stringent regulation of the company's operations, but we do not believe the regulator has the ability to prevent cash drain. We do recognize that the undertakings agreement between Spectra and the OEB governing the financial and business activity of Union Gas is intended to ensure operating sustainability. Some major provisions include a minimum equity level requirement (which can limit dividend payouts), quarterly capital structure forecasts, asset sale restrictions, and financial penalties for noncompliance. Other considerations for rating separation in our methodology include the utility's strategic nature to the parent company and a higher stand-alone rating. Strategically, while Union Gas is a valuable asset to Spectra and a good strategic fit, we do not believe that it is a critical component to the parent's broad overall business strategy.

We believe Union Gas' financial risk profile is significant, somewhat stronger than indicated under our criteria guidelines based on its high leverage and weak financial metrics. Although Spectra determines financial policy, we believe the local regulatory framework guides it. The OEB allows a 35% deemed equity component in the company's capital structure for rate-setting purposes which is at the low end for North American regulated utilities. Furthermore, the company's ROE (which the OEB sets) is lower than that of most U.S. peers. However, offsetting these factors is cash-flow stability, supported by a strong national and regional regulatory compact with a long track record of timely cost recovery.

Liquidity

We view Union Gas' liquidity as adequate, supported by the company's ability to generate stable operating cash flows through its largely regulated revenue sources. In accordance with our criteria, expectations and assumptions that support our assessment include the following factors:

- Liquidity sources in the next 12 months will exceed its uses by 1.2x or more.
- Net sources would be positive, even with a 15% drop in EBITDA.
- The company appears to have sound relationships with its banks and satisfactory standing in credit markets.

Liquidity sources include cash flow from operations, a cash balance of $1 million as of Sept. 30, 2011, and a committed credit facility of C$500 million. Cash flow from operations has generally been sufficient to fund maintenance capital expenditures. However, given our expectation that Union Gas will have increased growth capital spending and dividend payouts through to 2013, we believe they will be discretionary-cash-flow-negative and will proceed with debt financing to fund any shortfall. Furthermore, we believe that, if necessary, immediate parent Westcoast Energy Inc. (BBB+/Stable/--) would provide Union Gas support in the form of equity injections or reduced dividends to maintain its capital structure at the required regulatory levels, should existing liquidity sources fall short.

Union Gas' C$500 million credit facility matures in July 2012, but we do not believe this poses an immediate refinancing risk for the company. Union Gas generally uses the facility to backstop a commercial paper program and for short-term funding purposes. The facility contains a covenant that limits debt-to-capitalization to 75%, and as of Sept. 30, 2011, the company complied with the covenant.

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Outlook

The stable outlook on Union Gas reflects our consolidated outlook on parent Spectra. Although an upgrade at Spectra would likely flow through to Union Gas, a negative outlook or one-notch downgrade at Spectra would not necessarily affect the rating on Union Gas.

The stable outlook on Spectra reflects our expectation that consolidated leverage measures at the company will remain acceptable through a commodity price cycle. We also expect Spectra to focus growth on fee-based businesses. We believe continued stability will come from the regulated transmission, storage, and distribution operations. We believe the company's funds from operations (FFO)-to-debt ratio will be 14%-20% under most commodity price assumptions. If it appears that Spectra will maintain an FFO-to-debt ratio above or below this range, we could raise or lower the rating. We could also lower the ratings on Spectra if the company aggressively pursues higher-risk growth opportunities, if it finances projects disproportionately with debt, or if it cannot execute key projects without driving costs notably over budget.

Table 1

Union Gas Ltd.--Peer Comparison

Industry Sector: Gas

	--Fiscal year ended Dec. 31, 2010--			
(Mil. C$)	**Union Gas Ltd.**	**Enbridge Gas Distribution Inc.**	**Gaz Metro Inc.**	**Westcoast Energy Inc.**
Rating as of Dec. 19, 2011	BBB+/Stable/A-2	A-/Negative/--	A-/Stable/--	BBB+/Stable/--
Revenues	1,830.0	2,475.0	2,020.4	3,387.0
EBITDA	639.4	662.0	434.8	1,347.0
Net income from continuing operations	206.0	193.0	39.3	448.0
Funds from operations (FFO)	443.0	470.1	411.8	911.4
Capital expenditures	232.7	362.0	148.2	708.1
Free operating cash flow	(46.6)	139.1	216.2	(208.7)
Discretionary cash flow	(354.6)	(69.9)	118.7	(227.7)
Cash and short-term investments	12.0	0.0	79.5	73.0
Debt	2,684.1	2,877.9	2,034.9	5,772.6
Equity	1,241.4	1,756.9	1,040.0	3,366.3
Adjusted ratios				
EBITDA margin (%)	34.9	26.7	21.5	39.8
EBITDA interest coverage (x)	3.8	3.5	3.6	3.8
EBIT interest coverage (x)	2.6	2.3	2.4	2.6
Return on capital (%)	10.8	9.0	9.3	9.1
FFO/debt (%)	16.5	16.3	20.2	15.8
Free operating cash flow/debt (%)	(1.7)	4.8	10.6	(3.6)
Debt/EBITDA (x)	4.2	4.3	4.7	4.3
Total debt/debt plus equity (%)	68.4	62.1	66.2	63.2

Table 2

Union Gas Ltd.--Financial Summary

Industry Sector: Gas	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Positive/--
Revenues	1,830.0	2,019.0	2,130.0	2,063.0	2,079.0
EBITDA	639.4	601.5	569.7	535.0	481.0
Net income from continuing operations	206.0	175.0	180.0	145.0	104.0
Funds from operations (FFO)	443.0	335.7	382.8	336.8	188.7
Capital expenditures	232.7	248.5	397.0	369.0	336.0
Dividends paid	308.0	50.0	120.0	41.0	54.0
Debt	2,684.1	2,262.8	2,528.9	2,170.6	1,975.0
Preferred stock	110.0	105.0	105.0	105.0	105.0
Equity	1,241.4	1,247.7	1,284.4	1,268.1	1,126.6
Debt and equity	3,925.5	3,510.5	3,813.2	3,438.7	3,101.5
Adjusted ratios					
EBITDA margin (%)	34.9	29.8	26.7	25.9	23.1
EBIT interest coverage (x)	2.6	2.4	2.4	2.3	2.0
FFO interest coverage (x)	3.5	2.9	3.4	3.2	2.1
FFO/debt (%)	16.5	14.8	15.1	15.5	9.6
Discretionary cash flow/debt (%)	(13.2)	16.1	(13.9)	(4.7)	3.6
Net cash flow/capex (%)	58.0	115.0	66.2	80.2	40.1
Debt/debt and equity (%)	68.4	64.5	66.3	63.1	63.7
Return on capital (%)	10.8	10.4	10.2	10.5	9.7
Return on common equity (%)	15.3	12.8	13.1	11.3	8.4
Common dividend payout ratio (unadjusted; %)	93.1	95.4	65.7	25.7	49.5

Table 3

Reconciliation Of Union Gas Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2010--									
Union Gas Ltd. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	2,583.0	1,447.0	1,830.0	605.0	405.0	158.0	174.0	174.0	308.0	232.0
Standard & Poor's adjustments										
Operating leases	20.7	N/A	N/A	1.4	1.4	1.4	4.1	4.1	N/A	1.7
Postretirement benefit obligations	152.5	(214.6)	N/A	27.0	27.0	3.0	19.3	19.3	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	1.0	(1.0)	(1.0)	N/A	(1.0)
Asset retirement obligations	84.9	N/A	N/A	6.0	6.0	6.0	(10.4)	(10.4)	N/A	N/A

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Table 3

Reconciliation Of Union Gas Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)

Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	257.0	N/A	N/A
Minority interests	N/A	9.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt--other	(157.0)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	101.1	(205.6)	0.0	34.4	34.4	11.4	12.0	269.0	0.0	0.7
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	2,684.1	1,241.4	1,830.0	639.4	439.4	169.4	186.0	443.0	308.0	232.7

N/A--Not applicable.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Credit Factors: Business and Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings Detail (As Of December 19, 2011)	
Union Gas Ltd.	
Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Canadian National Scale Commercial Paper Rating	A-1(LOW)
Preferred Stock (4 Issues)	BBB-
Canadian Preferred Stock Rating (4 Issues)	P-2(Low)
Corporate Credit Ratings History	
02-Jan-2007	BBB+/Stable/A-2
13-Sep-2006	BBB/Positive/--
29-Jun-2006	BBB/Developing/--
Business Risk Profile	Strong
Financial Risk Profile	Significant
Related Entities	
Spectra Energy Capital LLC	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured (7 Issues)	BBB
Spectra Energy Corp.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured (4 Issues)	BBB

Ratings Detail (As Of December 19, 2011) (cont.)	
Spectra Energy Partners LP	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (2 Issues)	BBB
Texas Eastern Transmission L.P.	
Issuer Credit Rating	BBB+/Stable/--
Westcoast Energy Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canadian National Scale Commercial Paper Rating	A-1(LOW)
Preferred Stock (2 Issues)	BBB-
Canadian Preferred Stock Rating (2 Issues)	P-2(Low)

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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The McGraw-Hill Companies

DBRS
Insight beyond the rating.

Rating Report

Report Date:
January 24, 2012

Previous Report:
January 31, 2011

Union Gas Limited

Analysts

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

Adeola Adebayo
+1 416 597 7421
aadebayo@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

The Company

Union Gas Limited is a utility that provides natural gas distribution and transmission and storage services in southwestern, northern and eastern Ontario, serving approximately 1.35 million customers. It is a direct, wholly owned subsidiary of Westcoast Energy Inc. (rated A (low), Stable), which is indirectly owned by Spectra Energy Capital, LLC (rated BBB (high), Stable).

Commercial Paper Limit

$400 million

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures/Medium-Term Note Debentures	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable
Cumulative Redeemable Preferred Shares	Pfd-2	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of the Unsecured Debentures/Medium-Term Note Debentures, the Commercial Paper and the Cumulative Redeemable Preferred Shares of Union Gas Limited (Union or the Company) at "A," R-1 (low) and Pfd-2, respectively, all with Stable trends. The confirmations reflect relatively stable earnings contributions from Union's regulated businesses (i.e., gas distributions, regulated storage and gas transmission), which accounted for the majority of consolidated earnings, and Union's reasonable credit profile.

Union's financial performance continued to benefit from the continued expansion of higher-margin non-regulated natural gas storage facilities, offset by higher cost-cutting pressure in the regulated business (as a result of Union's regulatory regime having changed from a cost-of-service (COS) system to an incentive regulation (IR) framework in 2008). However, DBRS is concerned about rising non-regulated business exposure, affecting Union's overall business risk profile and increasing earnings volatility. Non-regulated earnings increased from 10% in 2008 to more than 20% in 2010 (DBRS estimate) and are expected to continue to rise over the medium term. DBRS views the Company's current 64% debt level target as rather high, given its rising non-regulated business exposure. DBRS notes that the Company has filed a rate case for the 2013 rebasing, asking for a 40% deemed equity (currently 36%). If its request is granted, DBRS expects Union to manage its balance sheet in line with the new regulatory capital structure and maintain greater financial flexibility, commensurate with the current rating category.

The IR framework creates uncertainty in the regulated business that did not exist under the COS system. Earnings from the regulated distribution business are under cost-saving pressure with the IR framework. Union is required to continue to identify cost-saving opportunities to overcome the productivity factor of 1.82% to improve its earnings. In addition, the Company is required to continue to manage its capital program effectively within its regulatory limits during the IR period since any extra capital investment as a result of its aging infrastructure may not be recovered in a timely fashion, which could weaken its credit metrics.

Rating Considerations

Strengths

(1) Reasonable regulatory environment
(2) Large customer base and strong service area
(3) Reasonable credit metrics
(4) Additional earnings growth from storage facilities

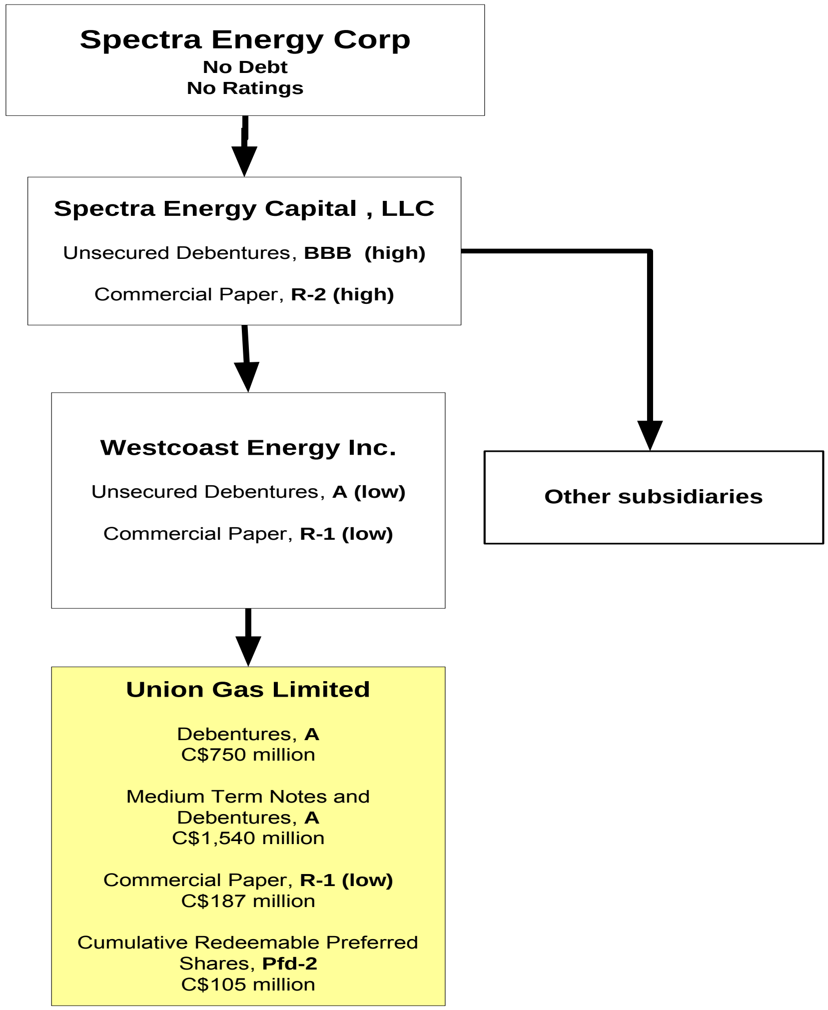
Challenges

(1) Volume risk and decline in customer usage
(2) Expansion in unregulated businesses
(3) Low allowed return on equity (ROE)
(4) Consistent free cash flow deficits

Financial Information

Union Gas Limited	LTM Sep. 30	For the year ended December 31				
(C$ millions where applicable)	2011	2010	2009	2008	2007	2006
EBIT-interest coverage	2.74x	2.56x	2.41x	2.47x	2.24x	1.90x
Fixed-charges coverage	2.68x	2.53x	2.36x	2.35x	2.13x	1.81x
Debt/Capital	61.6%	64.1%	61.0%	64.1%	61.6%	63.4%
Cash flow/Debt	15.6%	16.6%	14.0%	14.6%	14.7%	7.8%
Cash flow/Capex	1.31x	1.85x	1.28x	0.92x	0.87x	0.50x
Approved ROE	8.54%	8.54%	8.54%	8.54%	8.54%	9.63%
Net Income before non-recurring items	215	206	177	177	140	102
Cash flow from operations	385	429	315	372	323	171

Organizational Chart



As of September 30, 2011.

Rating Considerations Details

Strengths

(1) **Reasonable regulatory environment:** Union's gas distributions are in a stable and reasonable regulatory environment, which allows it to recover prudently incurred capital expenditures and earn a reasonable return on its investments. The Company currently has a five-year agreement under the IR framework (the Agreement) to the end of 2012. Under the Agreement, the Company may not recover operating costs that are not covered by the formula specified in the Agreement. However, DBRS still views Ontario's IR framework as reasonable as it provides Union with an incentive to improve its earnings beyond the allowed ROE and maintain reasonably stable cash flow.

(2) **Large customer base and strong service area:** Union's cash flow is supported by a large customer base (1.35 million) as it is one of the largest natural gas distributors in Canada and provides distribution, storage or transportation services to most gas-fired generation plants in Ontario. Moreover, the Company's service area covers more than 400 communities in northern, southwestern and eastern Ontario. Approximately 45% of this customer base is residential, which is less exposed to economic conditions.

(3) **Reasonable credit metrics:** For the 12 months ending September 30, 2011 (LTM 2011), Union's debt leverage ratio (61.1%), EBIT interest coverage (2.74 times (x)) and cash flow-to-debt ratio (15.6%) remained appropriate for its rating parameters. Union is committed to maintaining its common equity level in line with the 36% level approved by the Ontario Energy Board (OEB). Given Union's debt leverage strategy and the move to the IR framework, DBRS expects the Company to maintain EBIT interest coverage above 2.2x and cash flow-to-debt above 14.5%.

(4) **Additional earnings growth from storage facilities:** Union's Dawn storage facility (50 billion cubic feet of capacity) is the largest natural gas storage facility in Canada and is strategically connected to key pipelines that allow Union to transmit natural gas to other major Canadian and U.S. markets. The Company's continued expansion of its unregulated storage capacity is expected to provide additional earnings growth potential over the medium term and enable the Company to better manage gas inventory, thereby increasing operational flexibility.

Challenges

(1) **Volume risk and decline in customer usage:** Union is exposed to a degree of demand risk since its rates are based on forecast volumes, which are sensitive to changes in weather, economic conditions, natural gas prices and declines in customer usage. In addition, Union is experiencing a reduction in distribution throughput from energy conservation initiatives and the negative impact of the recent economic recession. This is partially mitigated by low natural gas prices, which support its competitiveness relative to other energy sources.

(2) **Expansion into unregulated business:** Union's intention to expand its unregulated storage segment may result in higher earnings volatility as DBRS views this segment as higher risk than the distribution business and the regulated storage business. Currently, the unregulated portion of Union's storage business comprises approximately one-third of its storage capacity, which is manageable.

(3) **Low allowed ROE:** Union is allowed to earn a fixed ROE of 8.54% for the 2008–2012 period, which is relatively weak compared with that of other utilities in Ontario. While the IR framework provides the Company with an incentive to earn higher returns than the allowed ROE, up to 200 basis points (bps), earnings levels greater than 200 bps will have to be shared with ratepayers on a 50/50 basis.

(4) **Cash flow deficits:** Union generated negative free cash flow (before working capital) in most years. Deficits for LTM 2011 were mainly due to higher dividends paid to the parent in 2010 (the cash flow surplus for the nine months ending September 2011 was due to a substantial reduction in dividends). These deficits have been largely financed with debt issuance. DBRS expects the Company to continue to manage its dividend policy in such a way as to maintain the debt leverage below or at the deemed equity of 36%.

Union Gas Limited

Report Date:
January 24, 2012

Regulation

Regulatory Overview

Union's gas storage, transmission and distribution businesses are regulated by the OEB. However, rates for storage services to customers outside of Union's franchise area and rates for new storage services to customers within Union's franchise area are not regulated by the OEB.

Gas Distribution

Union's distribution rates are set under the Agreement, which expires by the end of 2012. The Agreement was approved by the OEB on January 17, 2008, with the associated annual rate changes implemented on April 1, 2008. Key elements of the Agreement include the following:

- Allowance for inflationary rate increases based on the consumer price index (CPI), offset by a productivity factor of 1.82% that is fixed for the duration of the Agreement.
- Allowance for additional rate adjustments in the small-volume customer classes to reflect the decline in the three-year average use per customer. A new deferral account was also established to capture declines in the variance between forecast and actual use per customer.
- Continued pass-through of gas commodity (adjusted quarterly), upstream transportation and demand-side management costs.
- An allowance for unexpected, prudent cost changes that are outside of management's control. These costs must not already be in the pricing formula in the Agreement.
- Allowed ROE of 8.54% fixed through 2012. An earnings sharing mechanism between the Company and its ratepayers stipulates that if, in any calendar year, the Company's actual gas distribution ROE is more than 200 bps above the allowed ROE, excess earnings will be shared 50/50 between Union and its customers.
- The deemed equity component also remains at 36% throughout the Agreement.
- In December 2009, the OEB issued a policy report, determining that Union's ROE should increase by 129 bps, which is expected to be incorporated in its application for 2013 rates.
- The current gas cost deferral accounts, storage accounts and other deferral accounts remain in place.
- The Agreement also provides that, in the event ROE is 300 bps below the allowed level, Union could file for relief.
- Pursuant to a subsequent agreement (2009), any earnings exceeding the 300 bps limit will have to be shared with the ratepayers on a 90/10 basis in favour of the ratepayers.
- The Company filed its 2013 rate application at the end of 2011; it is pending a hearing before the OEB.

Gas Storage

- On November 7, 2006, the OEB issued the decision that it would not regulate the price of storage services to customers outside Union's franchise area or of new storage services to customers in the franchise area.
- However, existing customers (representing two-thirds of its storage capacity) in the Company's franchise area continue to be charged at COS rates. The OEB decision also required Union to share long-term storage margins with ratepayers over a four-year phase-out period, which started in 2007 and ended in 2011.
- Given Union's large storage capacity and current strong gas fundamentals, the unregulated storage segment of its business allows Union to earn more profit from customers outside its franchise area and new customers in its franchise area.
- However, this upside is somewhat tempered by higher potential risk as rates for unregulated storage are market based, which makes them more volatile than COS rates. Presently, the unregulated portion of Union's storage business comprises approximately one-third of its total storage capacity.

Union Gas Limited

Report Date:
January 24, 2012

Earnings and Outlook

Income Statement (C$ millions)	9-months ended Sep. 30/11	9-months ended Sep. 30/1o	LTM Sep. 30/11	For the year ended December 31 2010	2009	2008	2007
Gas Distribution Revenue (net)	518	496	721	699	658	675	655
Storage and Transportation Revenues	233	230	311	308	299	244	215
Ancillary Revenue	21	23	27	29	36	34	37
Operating Revenue	772	749	1,059	1,036	993	953	907
Total operating expenses	480	471	640	631	608	587	567
EBITDA	448	428	625	605	580	552	514
EBIT	292	278	419	405	385	366	340
Net Interest Expense	112	117	153	158	160	148	152
Income Taxes	43	33	51	41	48	41	48
Net Income (before extra. & pref divs)	137	128	215	206	177	177	140
Extraordinary Items gain/(loss)	0	0	0	0	2	(3)	5
Preferred Dividends	2	2	2	2	2	5	5
Net Income Available to Common	135	126	213	204	173	169	140
EBIT Margin (net of Cost of Gas)	37.8%	37.1%	39.6%	39.1%	38.8%	38.4%	37.5%
Return on Common Equity	13.2%	12.6%	15.3%	15.5%	13.4%	13.8%	11.6%

Summary

- Union's earnings are principally from regulated gas distribution, regulated storage and transmission and unregulated storage (DBRS estimates that the current net unregulated earnings account for more than 20% of total earnings, up from 10% in 2008).
- Earnings in 2010 were higher than 2009, mainly as a result of the following factors:
  - A significant reduction in operating fuel costs (down $31 million).
  - Increases in transmission services and in long-term storage services.
  - A modest growth in new customers.
  - Higher earnings were offset: (1) by warmer weather in 2010 compared to 2009, which resulted in higher usage and; (2) higher pension costs.
- Earnings for the nine months ending September 30, 2011, were higher than the same period in 2010 mainly as a result of the following factors:
  - Colder weather (15% colder than the first nine months of 2010).
  - New customers (a $11 million increase in revenue).
  - Higher employee benefit costs offset the earnings increase.

Outlook

- DBRS anticipates that earnings from Union's gas distribution segment will remain relatively stable through 2012 until the next rate application has been settled.
- Although weather conditions are unpredictable, DBRS expects ongoing energy conservation programs, including the Company's Demand Side Management (DSM) initiative, to have a modest impact on customer usage, which should be offset by modest customer growth.
- Long-term earnings from unregulated storage are expected to increase, reflecting demand growth from gas-fired power generation in Union's service area and the Company's intention to expand the storage business.

Union Gas Limited

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Financial Profile

Cash Flow Statement	9-months ended		LTM	For the year ended December 31			
(C$ millions)	Sep. 30/11	Sep. 30/1o	Sep. 30/11	2010	2009	2008	2007
Net Income (before extras. & after prefs.)	135	126	213	204	175	172	135
Depreciation & Amortization	156	149	207	200	195	187	176
Non-Cash Charges & Deferred Income Taxes	(6)	54	(35)	25	(55)	13	12
Cash Flow From Operations	285	329	385	429	315	372	323
Dividends to Parent	(49)	(165)	(190)	(306)	(50)	(120)	(36)
Capital Expenditures	(194)	(131)	(295)	(232)	(247)	(404)	(373)
Free Cash Flow Before W/C	42	33	(100)	(109)	18	(152)	(86)
Change in Working Capital	65	(211)	19	(257)	327	(218)	(29)
Net Free Cash Flow	107	(178)	(81)	(366)	345	(370)	(115)
Acquisitions/Divestitures	0	0	0	0	0	0	(7)
Other	0	0	0	0	0	0	0
Cash Flow before Financing	107	(178)	(81)	(366)	345	(370)	(122)
Net Change in Debt Financing	(118)	144	82	344	(311)	362	13
Net Change in Preferred Equity Financing	0	0	0	0	0	0	0
Net Change in Common Equity Financing & Othe	0	0	0	0	0	0	0
Net Change in Cash	(11)	(34)	1	(22)	34	(8)	(109)

Key Ratios	For 9-months ended		LTM	FYE Dec. 31st			
(C$ millions)	Sep. 30/11	Sep. 30/10	Sep. 30/11	2010	2009	2008	2007
Total Debt	2,468	2,388	2,468	2,588	2,245	2,555	2,195
Debt/Capital	61.6%	61.3%	61.6%	64.1%	61.0%	64.1%	61.6%
EBIT/Interest Expense	2.61x	2.38x	2.74x	2.56x	2.41x	2.47x	2.24x
Cash Flow/Total Adj. Debt	15.4%	18.4%	15.6%	16.6%	14.0%	14.6%	14.7%
Fixed-Charge Coverage	2.54x	2.31x	2.68x	2.53x	2.36x	2.35x	2.13x

Summary

- Overall, free cash flow (before working capital) was negative in most years, reflecting higher capex prior to 2009 and a substantial increase in dividends in 2010.
- Capex in 2010 and 2011 in the gas distribution business was largely used to maintain system reliability.
- Significant working capital fluctuations largely reflect variances in gas cost deferral accounts.
- Union financed deficits largely with debt.
- Dividends are primarily used to manage Union's capital structure at regulatory-approved levels (64% debt and 36% equity). Capex was reduced significantly in 2011, enabling the Company to use free cash flow to reduce the debt by $118 million, improving the debt-to-capital ratio to a reasonable level at 61.6%.
- The Company's interest coverage and cash flow ratios (LTM 2011) at 2.74x and 15.6%, respectively, were reasonably in line with the "A" rating category.

Outlook

- DBRS expects Union to continue to generate negative free cash flow over the near to medium term as capex increases from the 2010 level and its dividend policy maintains the debt leverage in line with the regulatory capital structure in the rate base.
- In 2012, capex is expected to exceed depreciation by approximately 30%, which is considered normal. DBRS expects extra capex (above the deprecation amount) in the regulated businesses to be added to the rate base in the re-basing year.
- Debt levels are expected to increase as the Company continues to finance cash shortfalls with debt. DBRS expects the debt leverage ratio to return to the 64% level in the medium term, which DBRS views as rather high for the current rating.
- Given the Company's debt leverage strategy and the move to the IR framework, DBRS expects Union to maintain its EBIT interest coverage above 2.2x and cash flow-to-debt ratio above 14.5%, which are in line with the current rating.

Union Gas Limited

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Liquidity and Long-Term Debt Maturities

Liquidity

Credit Facility*	As at September 30, 2011			
(C$ millions)	Maturity Date	Committed	CP	Available
Five-year syndicated credit facility	Jul. 2012	500	187	313
Total		500	187	313

- In December 2011, the five-year syndicate credit facility was reduced to $400 million from $500 million, maturing in December 2016. All the terms and conditions in the new facility remained unchanged.
- DBRS views Union's liquidity as sufficient for its working capital funding requirements. Union's $400 million five-year committed credit facility expires in July 2012 and is used to backstop the Company's $400 million commercial paper program.
- The facility contains a maximum 75% debt-to-capital covenant and includes a provision that requires the Company to repay all borrowings under the facility for a period of two days during the second quarter of each year.
- Union is generally subject to seasonality as a part of its business and as a result, its short-term debt (because of the need from more liquidity) and its gas inventory typically peak in the first and fourth quarters of every year.

Debt Maturity

Debt Maturity (C$ millions)	2012	2013	2014	2015	2016	2016+	Total
MTNs and Debentures	0	0	150	150	200	1,776	2,276

- The Company's debt maturity is well spread out, with no long-term debt due in 2012 and 2013, and the amounts due in 2014 and 2015 remain modest and within the financing capacity of the Company.
- The $500 million shelf prospectus, maturing in October 2012, contains a 75% maximum total debt-to-capitalization issuance covenant; in addition, any incremental debt is also subject to an interest coverage test of 2.0x. As at September 30, 2011, the Company was in compliance with all covenants.
- In June 2011, the Company issued $300 million in medium-term notes (MTNs; Series 9, 4.88%, due 2041) to refinance the $250 million MTNs due in May 2011 and for general corporate purposes.

Long-Term Debt

Long-term debt as at September 30, 2011*		
(C$ millions)	Coupon	Amount
Medium-Term Notes/Debentures		
Series 5, due June 2016	4.64%	200
Series 6 to Series 9 due 2018-2041	4.85%-6.05%	1,340
Other Debentures		
1994 Series due February 2014	7.90%	150
1990 Series due August 2015	11.50%	150
1992-1995 Series due 2017-2025	8.65%-9.70%	450
		2,290
Less: Deferred financing charges		14
Total long -term debt		2,276
Short-term debt (commercial papers)		187
Total debt as at September 30, 2011		**2,463**

* DBRS estimates based on the Company's 2010 Annual report and Q3 report

Union Gas Limited

Report Date:
January 24, 2012

Union Gas Limited

Balance Sheet *(C$ millions)*

Assets	As at Sep. 30/11	As at December 31st 2010	2009	Liabilities & Equity	As at Sep. 30/11	As at December 31st 2010	2009
Cash	1	12	34	Short-Term Debt	187	355	39
Accounts Receivable	432	516	401	A/P & Accrued Charges	670	590	873
Inventories	288	174	224	LT Debt Due in One Year	0	250	222
Other	16	14	57	**Current Liabilities**	857	1,195	1,134
Current Assets	737	716	716	Long-Term Debt	2,276	1,978	1,979
Net fixed assets	4,436	4,376	4,303	Def'd Income Taxes & Others	991	956	890
Other	493	493	427	Debt Equiv. Pref.	5	5	5
				Preferred Equity	105	105	105
				Non-Controlling Interest	9	9	10
				Shareholders Equity	1,423	1,337	1,323
Total	5,666	5,585	5,446	**Total**	5,666	5,585	5,446

Ratio Analysis

	LTM Sep. 30 2011	For the year ended December 31 2010	2009	2008	2007	2006	2005
Liquidity Ratios							
Current Ratio	0.86x	0.60x	0.63x	0.84x	0.58x	0.96x	1.02x
Cash Flow/Total Debt	15.6%	16.6%	14.0%	14.6%	14.7%	7.8%	13.7%
Cash Flow/Capital Expenditures	1.31x	1.85x	1.28x	0.92x	0.87x	0.50x	1.27x
Cash Flow-Dividends/Capital Expenditures(1)	0.66x	0.53x	1.07x	0.62x	0.77x	0.36x	0.77x
Debt/Cap	61.6%	64.1%	61.0%	64.1%	61.6%	63.4%	64.0%
Deemed Common Equity	36.0%	36.0%	36.0%	36.0%	36.0%	35.0%	35.0%
Dividend Payout(1)	89.2%	150.0%	28.6%	69.8%	26.7%	50.5%	100.0%
Debt/EBITDA	3.95x	4.28x	3.87x	4.63x	4.27x	4.80x	4.44x
Coverage Ratios(2)							
EBIT/Interest Expense	2.74x	2.56x	2.41x	2.47x	2.24x	1.90x	2.09x
EBITDA/Interest Expense	4.08x	3.83x	3.63x	3.73x	3.38x	2.95x	3.09x
Fixed-Charge Coverage	2.68x	2.53x	2.36x	2.35x	2.13x	1.81x	1.99x
Earnings Quality/Operating Efficiencies & Statistics							
Operating margin	39.6%	39.1%	38.8%	38.4%	37.5%	35.4%	38.5%
Net margin (bef. extras., after preferred divs)	20.1%	19.7%	17.6%	18.0%	14.9%	11.7%	13.6%
Return on avg. common equity	15.3%	15.5%	13.4%	13.8%	11.6%	9.1%	10.9%
Approved ROE	8.54%	8.54%	8.54%	8.54%	8.54%	9.63%	9.62%
Degree day deficiency – % normal	102%	106.8%	97.7%	97.8%	105.4%	115.9%	103.5%
Customer growth	1.3%	1.4%	1.2%	1.6%	1.7%	1.5%	2.0%

(1) Special dividends were paid to maintain capitalization within regulated limits in 2008 and 2005.
(2) Before capitalized interest, AFUDC, and debt amortizations.

	9m-2011	2010	2009	2008	2007	2006	2005	2004
Actual heating degree days (Celcius)	2,749	3,796	4,130	4,161	3,928	3,605	4,041	4,126
Normal heating degree days (Celcius)	2,690	4,056	4,034	4,070	4,139	4,178	4,182	4,171
Customers (Thousands)	1,352	1,344	1,325	1,309	1,289	1,268	1,249	1,224

Union Gas Limited

Report Date:
January 24, 2012

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures/Medium Term Note Debentures	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable
Cumulative Redeemable Preferred Shares	Pfd-2	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008	2007
Unsecured Debentures/ Medium-Term Note Debentures	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Cumulative Redeemable Preferred Shares	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2	Pfd-2

Notes:
All figures are in Canadian dollars unless otherwise noted.

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UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref: Exhibit E2

Please provide the following information with respect to the witness:

a) What is his formal training economics or corporate finance?

b) To what extent, if any, did the witness personally prepare ratings for utility companies? To what extent was his responsibility management of individuals who prepared ratings, and to what extent was his responsibility a support or advisory role with respect to others who prepared ratings?

c) Please provide a list of all "consumer advocate" clients, and a brief summary of the nature of each retainer. If any public reports or testimony were prepared for any of these clients, please provide copies.

Response:

a) During his law school and undergraduate education, Mr. Fetter took courses in economics, accounting, corporate transactions, corporate taxation, and commercial transactions.

b) Mr. Fetter estimates that he participated in approximately 85% of the hundreds of utility rating committees (the means by which ratings are assigned) convened during his 8 1/2 year tenure at Fitch.

   Mr. Fetter was originally hired by Fitch to interpret the impact of regulatory, legislative, and political developments on utility credit ratings, and to express his opinions during credit rating committees (the means by which credit ratings are assigned), a responsibility he held throughout his tenure at the rating agency. During the latter half of his 8 ½ years at Fitch, Mr. Fetter was Group Head and Managing Director of the Global Power Group, serving as group manager of the combined 18-person New York and Chicago utility team.

c) In Federal Energy Regulatory Commission proceeding Devon Power LLC, et al., Docket Nos. ER03-563-000 and EL04-102-000 (2005), Mr. Fetter was retained by the Vermont Department of Public Service, the Maine Public Advocate, the Maine Public Utilities Commission, and the Vermont Public Service Board. Mr. Fetter does not possess a copy of the testimony he prepared for those clients, but states that the subject matter related to the difficulty merchant generation developers would face, within the territory covered by ISO New England, in the absence of contractual commitments by electricity purchasers.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref: At page 11 of the Annual Report,

Union says that its quarterly dividend is paid to maintain the common equity component of capital structure at least no greater than that approved by the OEB. Please explain fully. Does that explain the very high levels of dividends paid in relation to the earnings allocated to the common shareholder, in 2009, 2010, and 2011?

Response:

Please see the response at Exhibit J.E-2-3-1 a).

The level of equity in the Board-approved capital structure and included in rates has been 36%. As Union was not earning a return on equity levels above 36%, there was no reason to leave higher levels of equity in the Company.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref:

Please explain the unusually high level of dividends paid to the parent company. Why is the Limited Partnership, Great Lakes Basin LP, placed between Westcoast Energy Inc. and Union Gas Limited? What is the corporate/tax function of Great Lakes Basin LP?

Response:

Please see the response at Exhibit J.E-2-3-1 regarding the treatment of dividends.

The Great Lakes Basin partnership was established as per EB-2008-0304. In this proceeding, Union sought and received Board approval to transfer 100% of the voting shares of Union to a limited partnership to be organized under the laws of Ontario. As detailed in its submission (dated September 15, 2008) the intent of the partnership was to provide flexibility to manage "earnings and profits" for U.S. tax purposes within the Westcoast group.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A2, Tab 1, Schedule 1, Table 3, Updated

Please provide a version of Table 3 that reflects a normalized actual ROE that is based on normalized volumes for 2008 through 2011.

Response:

The weather normalized return on equity calculated below was based on results as presented in the earnings sharing calculation of the identified years and adjusted by that year's estimated weather impact on revenue. No other estimates of weather related activity were made to arrive at the below figures such as fuel or O&M.

Line No.		2008 (a)	2009 (b)	2010 (c)	2011 (d)
1	Weather Normalized ROE (%)	12.97	11.02	11.59	11.77
2	Benchmark ROE (%)	8.81	8.47	8.54	8.10
3	Difference (%)	4.16	2.55	3.05	3.67
4	Weather Normalized Sufficiency/Deficiency ($ Millions)	75.40	47.70	56.80	66.00

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit A2, Tab 1, Schedule 1, Table 3

a) Please provide the normalized actual ROE 2007-2011.

b) Please provide the amounts credited to shareholder and ratepayers under ESM.

Response:

a)

Line No.	Particulars	2007 (a)	2008 (b)	2009 (c)	2010 (d)	2011 (e)
1	Weather Normalized ROE (%)	10.43	12.97	11.02	11.59	11.77
2	Credited to ratepayers under ESM ($ millions)	-	34.17	7.06	3.43	16.65
3	Credited to shareholder under ESM ($ millions)	-	11.85	7.06	3.43	9.84

Note: 2011 results are preliminary and are shown as filed in EB-2012-0087.

b) Please see the response at a) above.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit F2 & OEB Cost of Capital Report

The Board in the COC Report determined a risk premium approach was most appropriate for its ROE –Setting Formula.

a) Why is evidence on other approaches relevant to the Boards formulaic ROE approach and/or are you advocating abandoning the risk premium approach? Please Discuss.

b) In its Cost of Capital Report the Board established an initial Risk Premium of 550 basis points, including 50 basis points for transactional costs. Why is a risk premium of 650 basis points now appropriate for Union, especially given an increase in equity thickness? Please justify your response with reference to the COC report.

c) Do you accept that the new Formulaic ROE approach adjusts ROE based on a combination of the Utility Bond Spread [Series C29530Y] and 0.5% of the change in Long Canada Bond (LCB) rates [Cansim Series V39056]?

d) Confirm that the 2007 base IRM ROE was based on a LCB rate of 4.30% (confirm-Page 34 - 35 Exhibit 3) in 2007 (Unions IRM Base Year) and an ROE of 8.54% (confirm EB-2006-0606 Settlement Para 2.3).

e) Please provide a calculation that applies the ROE Formula adjustment of 0.5% of the LCB Bond rate change times the Utility Bond spread to 2007 base ROE to estimate the resulting 2012/2013 risk premium and ROE.

f) Compare the result to that from the Board's Formulaic ROE for 2012 and Union's proposed test year 9.58% ROE and the ROE 11.2 % (risk premium) in your evidence at Q&A 65.

g) Discuss why your recommended ROE of (average) 10.7% is appropriate.

Response:

a) The evidence on other approaches is relevant to Union's request that it be allowed to use the Board's formulaic approach to determine its return on equity in conjunction with its proposal to increase its common equity ratio from 36% to 40%.

b) Union is requesting that it be allowed the Ontario Energy Board's Formula ROE on an equity ratio equal to 40 %. To support its recommendation, Union asked Dr. Vander Weide to make an independent appraisal of the reasonableness of the Company's request. In Dr. Vander Weide's opinion, it would be circular and uninformative to appraise the reasonableness of the Company's request simply by citing the results of the Formula. In addition, Dr. Vander Weide has not asserted or recommended that a 650 basis point risk premium be used to calculate Union's cost of equity. Rather, he refers to the 650 basis point risk premium result shown in Table 1 of his written evidence to support his conclusion that the 550 basis point risk premium indicated by the Formula and requested by the Company is reasonable, if not conservative.

c) Dr. Vander Weide accepts that the Board's ROE Formula is given by the equation cited in Answer 6, page 5 of his written evidence.

d) The 4.30% LCB rate is generally representative of the calculation in 2006. For Union specifically the ROE of 8.54% used during Union's Incentive Regulation period was calculated as follows:

Long Canada base		7.25%
Estimated Long Canada	4.23%	
Adjustment factor	75% x (4.23% - 7.25%)	-2.26%
Risk Premium		3.55%
ROE		8.54%

e) Adjusting the 2007 ROE with selected parts of the new formula is not meaningful or relevant for the 2013 ROE.

f)

Line No.	ROE Comparison (%)	Adjusted 2007 (a)	EB-2009-0084 Jan 2011 (b)	EB-2009-0084 Sept 2011 (c)	Exhibit F2 Page 22 Q&A 65 (d)
1	Long Canada Bond	7.25	4.25	4.24	4.20
2	LCBF Adjustment	(2.26)	(0.16)	(0.43)	-
3	Risk Premium	3.55	5.50	5.50	7.00
4	UtilBondSpread Adjustment	(0.01)	(0.01)	0.10	-
		8.54	9.58	9.42	11.20

g) As discussed in his written evidence, Dr. Vander Weide does not recommend that Union Gas be allowed to earn an ROE equal to 10.7%. Rather, in accordance with his stated purpose, he provides evidence on the cost of equity to test the reasonableness of Union's request to earn the Board's Formula ROE on an equity ratio equal to 40%. Dr. Vander Weide concludes in Answer 88 that Union's request to earn the Board's Formula ROE on an equity ratio equal to 40% is reasonable, if not conservative. The evidence supporting Dr. Vander Weide's conclusion that his comparable utilities' cost of equity is in the range 10.3% to 11.2%, with an average of 10.7%, is discussed at length in his written evidence and schedules.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit F2, Page 28, Table 3

a) Please provide the DBRS and S&P Ratings for the Senior Debt of the listed Canadian Utilities.

Response:

Please see the response at Exhibit J.E-2-3-6 a).

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Ref: Exhibit A2, Tab 1, page 6

For each year 2007-2012(forecast) please provide the level of overearnings and the allocation of that amount to the ratepayers and the shareholders.

Response:

Excess earnings (pre-tax in $millions)	2007	2008	2009	2010	2011	2012
Shared with customers	-	34.2	7.1	3.4	16.7	-
Retained by Union	26.2	48.1	44.5	40.7	45.8	12.0
Total	26.2	82.3	51.6	44.1	62.5	12.0

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble**:** US comparables to Union.

a) Dr. Vander Weide points out that his US sample is comparable to Union, since Union has a BBB bond rating. Does Dr. Vander Weide agree that Union is rated A by DBRS; that Union's rating is a flow through from its riskier US parent Spectra Energy and that Mr. Fetter admits that it would be an A- from the direct application of S&P's financial metrics.

b) Does Dr. Vander Weide agree that in the passage referenced on page 12, the OEB accepts that results from the US cannot be used in Canada without applying judgment and a system of weighting. Please indicate where Dr. Vander Weide has done this.

c) Does Dr. Vander Weide agree that in the NEB statement on page 12 the Board indicates that "risk differences" between Canada and the US can be understood and accounted for. What is Dr. Vander Weide's understanding of the risk differences between Canadian and US regulated utilities?

Response:

a) This interrogatory incorrectly presumes that Dr. Vander Weide concludes that his U.S. sample is comparable to Union because Union has a BBB bond rating. First, Dr. Vander Weide notes that Union's S&P bond rating is BBB+. Second, as Dr. Vander Weide discusses in his written evidence, Dr. Vander Weide concludes that his U.S. sample is comparable to Union because: (1) U.S. natural gas and electric utilities rely on essentially the same natural gas and electric technologies to deliver their services to the public as natural gas and electric utilities in Canada; (2) the economics of natural gas and electric transmission and distribution is similar in the U.S. and Canada; (3) U.S. natural gas and electric utilities are regulated under similar cost-based regulatory structures and fair rate of return principles as Canadian utilities; (4) U.S. and Canadian utilities have many of the same cost adjustment and revenue stabilization mechanisms; and (5) Canadian utilities generally have greater financial risk than U.S. utilities due to their greater reliance on debt financing than U.S. utilities. Dr. Vander Weide notes the similarity between Union's BBB+ bond rating and the average BBB+ bond rating for his comparable U.S. utilities only as additional confirmation of the reasonableness of his conclusion that his U.S. utilities are comparable in risk to Union.

Dr. Vander Weide also does not agree with the statement that "Union's rating is a flow through from its riskier U.S. parent Spectra Energy and that Mr. Fetter admits that it would be an A- from the direct application of S&P's financial metrics." To the contrary, as Mr. Fetter notes on p. 12 of his written evidence, S&P recognizes that:

> "there is a degree of insulation for Union Gas' ratings vis-à-vis its parent, and also that financial support for Union Gas coming out of this proceeding could benefit the regulated utility's ratings without necessarily having any impact on the parent company's ratings." Mr. Fetter also notes on page 15 of his written evidence:
>
> Most important in this case, as discussed below, the S&P matrix clearly illustrates that Union Gas' current equity thickness of 36% stands far below S&P's guidelines for the utility sector, which covers a range from 55 to 65%."

b) Dr. Vander Weide does not agree that the "OEB accepts that results from the U.S. cannot be used in Canada without applying judgment and a system of weighting." The Board's statement is quoted precisely in response to Answer 31, pp. 11 – 12 of Dr. Vander Weide's written evidence. Dr. Vander Weide applied "judgment and a system of weighting" in his discussion of comparable risk utilities in Section II of his written evidence, pp. 7 – 12.

c) Yes. Dr. Vander Weide discusses his understanding of the potential risk differences between Canadian and U.S. regulated utilities in Section II of his written evidence, pp. 7 – 12.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble**:** DCF Estimates

a) Please provide the quarterly dividend per share for each of the firms in Dr. Vander Weide's US and Canadian samples since 2000.

b) In Dr. Vander Weide's judgment, does the data in a) above indicate that dividends are changed once a year or on a quarterly basis?

c) Please indicate the number of analyst growth forecasts used by Dr. Vander Weide in each of his forecasts.

d) Is Dr. Vander Weide asserting that 10.3% is the cost of equity capital for his US sample and that US investment analysts use numbers like these when doing a DCF analysis to value utility stocks?

e) Does Dr. Vander Weide's sample of US utilities represents utility holding companies or predominantly pure rate of return regulated utility operations?

Response:

a) The DCF calculations for the natural gas and electric utilities shown in Exhibit 1 and Exhibit 2 only require information on the companies' recent quarterly dividends, which are shown in the exhibits. Dr. Vander Weide does not calculate DCF results for Canadian utilities due to a lack of availability of the required information.

b) Dr. Vander Weide accepts that dividends for U.S. utilities are generally paid quarterly and changed once a year. Dr. Vander Weide notes that the frequency of change in the amount of dividend payments does not affect whether a quarterly or an annual DCF model should be used to calculate the DCF-based risk premium because the price in the DCF model reflects both the timing and the amounts of dividend payments, not the frequency of change in the amount of dividend payment.

c) The number of analysts contributing to each company's growth forecast for the companies shown in Exhibit 1 and Exhibit 2 are shown in the attached tables.

d) No. As discussed in Answer 78, p. 27, Dr. Vander Weide concludes that his comparable utilities' cost of equity is in the range 10.3 percent to 11.2 percent, with an average of 10.7 percent. Dr. Vander Weide did not study the cost of equity estimates of analysts, nor is he aware of any data set which contains the cost of equity estimates of investment analysts.

e) Dr. Vander Weide's sample of utilities represents the publicly-traded utilities that satisfy his criteria for inclusion in the proxy group. Dr. Vander Weide has not studied whether the utilities in his sample of utilities are organized as holding companies.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble**:** Ex Post risk premium study

a) In table 1, please provide the average return for the following over the same period: the long Canada bond; the TSX60 index; the TSX Composite index.

b) Does Dr. Vander Weide accept that bond prices increase when interest rates decline?

c) Does Dr. Vander Weide accept that utilities are classified as interest sensitive equities since they are dividend rich? If not, please provide the current dividend yield for his US and Canadian utility samples and for the TSX Composite and S&P500 indexes.

d) Does Dr. Vander Weide accept that long term interest rates in Canada peaked in 1981 and since then have declined to the current 2.7% level causing significant unexpected capital gains for all interest sensitive investments?

e) Can Dr. Vander Weide please provide the long Canada bond yield at the start of 1956 and 1983, his two periods in Table 1, and does he accept that there is less "interest rate" effect in the 1956-2010 than 1983-2010? If not please explain why not.

f) What is the theoretical justification for taking a US risk premium and adding it to a Canadian long term interest rate forecast (page 25)?

Response:

a) Dr. Vander Weide does not discuss the average returns for the TSX Composite index, long Canada bonds, or the TSX60 in his written evidence.

b) Dr. Vander Weide accepts that the price of a bond generally increases when the interest rate on bonds with similar risk and maturity declines.

c) Dr. Vander Weide accepts that the current average dividend yield for U.S. and Canadian utilities is higher than the average dividend yield for the companies in the TSX Composite and S&P 500 indices. However, the fact that utilities generally have higher dividend yields than non-utilities does not imply that utility stocks are interest sensitive. Utility stock prices should behave differently from bond prices because the expected cash flows from investing in utility stocks vary with the allowed rate of return, and hence with interest rates, while the expected cash flows from investing in a bond are fixed at the time a bond is purchased. Indeed, because the expected cash flows (dividends) from utility equities depend on the utility's expected allowed ROEs in all future periods, and allowed ROEs can rationally be expected to move in the same direction as interest rates, it would be rational to expect that utility stock prices would be relatively insensitive to changes in interest rates. In short, any change in the discount factor for utility stocks should be roughly off-set by changes in allowed ROEs, and hence, dividends.

d) Dr. Vander Weide accepts that long-term interest rates in Canada were high in 1981 and are now significantly lower. For the reasons explained in response to sub-part (c) above, Dr. Vander Weide does not accept that these changes in interest rates, alone, caused "significant unexpected capital gains" for utility stocks.

e) The yield on long Canada bond yields was 3.30 percent in January 1956 and 12.28 percent in January 1983; the average yield on long Canada bonds in 1956 was 3.63 percent and the average yield in 1983 was 11.79 percent, as shown in Exhibit 1. Dr. Vander Weide does not accept that there is an "interest rate effect" for utility stocks because the expected return on utility stocks depends on both the expected cash flows from investing in utility stocks and the rate at which these cash flows are discounted to present value. Since the cash flows generated by utility stocks depend on the utility's allowed rate of return, and allowed ROEs generally move in the same direction as the discount rate, the impact of a change in interest rates on the utility's cash flows should roughly off-set the impact of the change in interest rates investors use to discount cash flows to present value. These off-setting effects of changes in interest rates should therefore cause potential "interest rate effects" to be negligible.

f) The theoretical justification for taking a U.S. risk premium and adding it to a Canadian long-term interest rate forecast is that the experienced risk premium on U.S. stocks is a reasonable estimate of the required risk premium on Canadian stocks, but the risk-free rate in the two countries may differ.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble: Allowed ROEs

a) Does Dr. Vander Weide acknowledge that in the allowed ROEs discussion on pages 27-28, he has made no adjustments for differences in the cost of capital between the US and Canada?

b) Please provide the long Canada and long US Treasury yields as of the end of December 2010 and December 2011.

c) Is Dr. Vander Weide suggesting that the US and Canadian governments face the same long term financing costs and that the fair rate of return is the same in both countries?

d) Please indicate the current S&P bond ratings for the Canadian and US governments.

Response:

a) Dr. Vander Weide confirms that his allowed ROE discussion, p. 27 and Exhibit 8 and Exhibit 9, makes no adjustment for differences in the cost of capital between U.S. and Canadian utilities. No adjustment is required because U.S. and Canadian utilities face similar risks (see Section II) and capital costs for companies of similar risk are approximately the same in Canada and the U.S.

b) The average yield on ten-year Canada bonds at December 2010 was 3.16 percent, and at December 2011, 1.96 percent. The average yield on ten-year U.S. Treasury bonds was 3.35 percent at December 2010, and 1.92 percent at December 2011. In Dr. Vander Weide's opinion, the U.S. and Canadian governments face approximately the same long-term financing costs at present; and the fair rate of return is approximately the same in both countries.

c) Yes.

d) The current S&P bond rating for the Canadian government is AAA, and the current S&P bond rating for the United States government is AA+. Moody's rates both governments as Aaa. Dr. Vander Weide notes that information on the sovereign credit ratings of Canadian and U.S. governments is irrelevant to the required rate of return on an investment in Canadian and U.S. utilities because the required return on utilities depends on the risk of investing in utility stocks, not the risk of investing in Canadian and U.S. government bonds.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble**:** Capital Structures

a) In Table 3, Dr. Vander Weide provides a table of common equity ratios for Canadian utilities. Please rank the Canadian utilities in table 3 according to Dr. Vander Weide's assessment of their business risk.

b) Canadian regulators adjust the common equity ratios to reflect the business risks and task status of the utilities they regulate. Please explain how Dr. Vander Weide applied this principle in formulating his evidence in this case.

c) Upon what Canadian regulatory precedent, if any, does Dr. Vander Weide rely when using the "market value" rather than the book value of utility capital ratios in his analysis?

Response:

a) Dr. Vander Weide has not assessed the relative business risk of the companies in Table 3. He merely notes that Union's requested equity ratio is approximately equal to the average approved equity ratios of other Canadian gas and electric distribution utilities.

b) Dr. Vander Weide applies this principle in reporting the average allowed equity ratios for the companies in Table 3 because Table 3 only includes companies that, like Union, are regulated gas or electric distribution utilities.

c) The interrogatory incorrectly assumes that Dr. Vander Weide relies on market value rather than book value utility capital ratios in his analyses. In Section IV, pp. 27 – 28, and Exhibit 8 and Exhibit 9, Dr. Vander Weide compares Union's requested 40 percent book equity ratio to the average approved book equity ratios of Canadian and U.S. utilities.

UNION GAS LIMITED

Answer to Interrogatory from
CME et al

Reference: Union Evidence E2 testimony of Dr. Vander Weide

Preamble**:** Schedules

a) For each utility in Exhibit 1& 2 please provide the following:

   i. the proportion of their revenues that are rate of return regulated
   ii. a brief description of their business profile as it appears in something like Value Line or S&P
   iii. their S&P bond rating
   iv. the number of analysts included in the growth estimate average

b) Does Dr. Vander Weide's utility index data in Exhibit 3 include BCE and indirectly Nortel?

c) Please explain why Dr. Vander Weide did not use the TSE gas or electric sub-indexes prior to 2002 to avoid the Nortel effect.

d) Please provide the same data as for Exhibits 3 and 4 with the return on the long Canada bond instead of the yield

e) Please confirm that the latest DCF utility risk premium from the US in March 2011 was 5.87%.

Response:

a)

i) Dr. Vander Weide believes that percentage of total assets devoted to regulated operations is a better indicator of the degree of regulated activity than revenues. Please see Attachment 1 for the percentages of regulated assets compared to total assets for the companies shown in Exhibit 1 and Exhibit 2 are provided.

ii) Brief descriptions of the companies' business profiles from Value Line are provided below.

AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in nonregulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. BlackRock Inc. owns 7.9% of common stock; off./dir., less than 1.0% (3/11 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309

Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2011 gas volumes: 281.5 MMcf. Breakdown: 57%, residential; 32%, commercial; 7%, industrial; and 4% other. 2011 depreciation rate 3.3%. Has around 4,750 employees. Officers and directors own 1.5% of common stock (12/11 Proxy). President and Chief Executive Officer: Kim R. Cocklin. Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240.

National Fuel Gas Company has four segments. Natural gas Utility (25% of 2011 earnings) delivers gas to about 725,000 customers in western New York and northwestern Pennsylvania. Pipeline and Storage (12%) owns gas pipelines and storage in PA and NY. Seneca Resources (48%) explores for and produces natural gas and oil in California, Appalachia, and the Gulf of Mexico. Energy Marketing (3%) markets natural gas in NY & PA. 2011 output: 50 billion cubic feet equivalent (bcfe), 61% gas. Proved reserves at 9/30/11: 935 bcfe, 56% gas. Has 1,827 empls. Off./dirs. own 4.5% of stock; Vanguard, 9.0%; Gabelli, 8.1% (1/12 proxy). Chrmn./CEO: David F. Smith. Inc.: NJ. Addr.: 6363 Main Street, Williamsville, NY 14221

NiSource Inc. is a holding company for Northern Indiana Public Service Company (NIPSCO), which supplies electricity and gas to the northern third of Indiana. Customers: 457,000 electric in Indiana, 3.3 million gas in IN, OH, PA, KY, VA, MD, MA. Acquired IWC Resources 3/97; Bay State Gas 2/99; Columbia Energy 11/00. Revenue breakdown, 2011: electrical, 24%; gas, 71%; other, 5%. Generating sources, 2011: coal, 84%; purchased & other, 16%. 2011 reported deprec. rates: 3.5% electric, 2.8% gas. Has 7,957 employees. Chairman: Ian M. Rolland. President & Chief Executive Officer: Robert C. Skaggs, Jr. Incorporated: Indiana. Address: 801 East 86th Ave., Merrillville, Indiana 46410. Telephone: 877-647-5990.

Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. BlackRock Inc. owns 7.9% of shares; officers and directors, 1.5% (4/11 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209.

Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 968,188 customers in North Carolina, South Carolina, and Tennessee. 2011 revenue mix: residential (46%), commercial (27%), industrial (7%), other (20%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 60.0% of revenues. ‘11 deprec. rate: 3.2%. Estimated plant age: 10 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,782 employees. Off./dir. own about 1.2% of common stock, BlackRock; 7.6% (1/12 proxy). Chrmn., CEO, & Pres.: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210.

Questar Corp. is a diversified natural gas holding company. Major subsidiaries include Questar Gas, a natural gas utility in Utah, Wyoming, and Idaho, serving over 909,570 customers; Questar Pipeline, owns storage facilities and over 2,500 miles of transmission lines serving Rocky Mountain producing basins; and Wexpro, which develops and produces cost-of-service gas for Questar Gas. Spun off Exploration and Production, Gas Management, and Energy Trading units, 6/10. Employs 1,705. Officers & directors own 2.1% of stock; BlackRock Inc., 8.1% (3/11 Proxy). President & CEO: Ronald W. Jibson. Inc.: UT. Address: 180 East 100 South Street, P.O. Box 45433, Salt Lake City, UT 84145-0433.

South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey’s southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix ‘11: residential, 41%; commercial, 20%; cogeneration and electric generation, 14%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 675 employees. Off./dir. control 1.0% of common shares; Black Rock Inc., 8.3% (4/11 proxy). Chrmn. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone

Alliant Energy Corp., formerly named Interstate Energy, is a holding company formed through the merger of WPL Holdings, IES Industries, and Interstate Power. Supplies electricity, gas, and other services in Wisconsin, Iowa, and Minnesota. Elect. revs. by state: WI, 47%; IA, 50%; MN, 3%. Elect. rev.: residential, 37%; commercial, 23%; industrial, 28%; wholesale, 7%; other, 5%. Fuel sources, 2011: coal, 52%; nuclear, 17%; gas, 2%; other, 29%. Fuel costs: 45% of revs. 2011 depreciation rate: 4.6%. Estimated plant age: 10 years. Has 4,262 employees. Chairman & Chief Executive Officer: William D. Harvey. Incorporated: Wisconsin. Address: 4902 N. Biltmore Lane, Madison, Wisconsin 53718. Telephone: 608-458- 3311.

ALLETE, Inc. is the parent company of Minnesota Power, which supplies electricity to 146,000 customers in northeastern MN, & Superior Water, Light & Power in northwestern WI. Electric revenue breakdown: taconite mining/processing, 24%;

paper/wood products, 9%; other industrial, 10%; residential, 13%; commercial, 14%; wholesale, 13% other, 17%. Has real estate operation in FL. Discont. water-utility ops. in ‘01. Spun off automotive remarketing operation in ‘04. Generating sources: coal & lignite, 60%; hydro, 3%; other, 2%; purchased, 35%. ‘11 deprec. rate: 3.0%. Has 1,400 employees. Chairman, President & CEO: Alan R. Hodnik. Inc. MN. Address: 30 West Superior St., Duluth, MN

American Electric Power Company, Inc. (AEP), through 10 operating utilities, serves about 5.3 million customers in Arkansas, Kentucky, Indiana, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia. Electric revenue breakdown: residential, 37%; commercial, 25%; industrial, 21%; wholesale, 14%; other, 3%. Sold 50% stake in Yorkshire Holdings (British utility) ‘01; sold SEEBOARD (British utility) ‘02; sold Houston Pipeline ‘05. Generating sources not available. Fuel costs: 35% of revenues. ‘10 deprec. rate: 3.3%. Has 18,700 employees. Chairman: Michael G. Morris. President & CEO: Nicholas K. Akins. Inc.: New York. Address: 1 Riverside Plaza, Columbus, Ohio 43215-2373.

Consolidated Edison, Inc., parent of Consolidated Edison Company of New York, Inc. (CECONY), sells electricity (68% of revenue), gas (13%), steam (5%), other (14%) in most of New York City and Westchester County. Also parent to Orange & Rockland Utilities (acquired 7/99) which operates in New York, New Jersey, and Pennsylvania. Combined customer base: electric (3.6 million), gas (1.2 million). Pursues competitive energy opportunities through three whollly owned subsidiaries. Fuel costs: 43% of revenues; labor costs, 22%. 2010 reported depreciation rate: 3.0%. Has 15,180 employees as of 12/10, Chairman, CEO & President: Kevin Burke. Inc.: NY. Address: 4 Irving Place, New York, N.Y. 10003. Tel

Dominion Resources, Inc. is a holding company for Virginia Power & North Carolina Power, which serve 2.4 mill. customers in Virginia & northeastern North Carolina. Acq’d Consolidated Natural Gas (1.3 mill. customers in Ohio & West Virginia) 1/00. Nonutility operations include independent power production & retail energy services. Electric rev. breakdown: residential, 46%; commercial, 31%; industrial, 7%; other, 16%. Generating sources: coal, 31%; nuclear, 28%; gas, 10%; other, 2%; purch., 29%. Fuel costs: 47% of revs. ‘10 reported depr. rates: 2.2%-4.6%. Has 15,800 employees. Chairman, President & CEO: Thomas F. Farrell II. Inc.: VA. Address: 120 Tredegar St., P.O. Box 26532, Richmond, VA

DPL, Inc. DPL is no longer publicly traded, and Value Line no longer publishes a report on DPL. DPL Inc. was acquired by AES in a transaction that was initiated in April 2011 (after the time of Dr. Vander Weide’s studies) and completed at the end of November 2011. DPL Inc. and its principal subsidiary, The Dayton Power and Light Company (DP&L), supply power to over 500,000 customers in 24 counties throughout West Central Ohio.

Duke Energy Corporation is a holding company for utilities with 4.0 million electric customers in North Carolina, South Carolina, Ohio, Indiana, and Kentucky, and over 500,000 gas customers in Ohio, Indiana, and Kentucky. Owns independent power plants & has international operations. Acquired Cinergy 4/06; spun off midstream gas ops. 1/07. Electric rev. breakdown: residential, 44%; commercial, 31%; industrial, 18%; other, 7%. Generating sources: coal, 56%; nuclear, 33%; other, 2%; purchased, 9%. Fuel costs: 35% of revs. '10 reported deprec. rate (utility): 2.7%-4.1%. Has 18,400 employees. Chairman, President & CEO: James E. Rogers. Inc.: NC. Address: 526 South Church St., Charlotte, NC 28202-1803

Edison International (formerly SCECorp) is a holding company for Southern California Edison (SCE), which supplies electricity to 4.9 million customers in a 50,000 sq. mi. area in central, coastal, and southern California (excl. Los Angeles and San Diego). Edison Mission Group (EMG) is an independent power producer. Electric revenue breakdown: residential, 40%; commercial, 45%; industrial, 6%; other, 9%. Generating sources: nuclear, 20%; gas, 8%; coal, 6%; hydro, 5%; purchased, 61%. Fuel costs: 33% of revs. '10 reported deprec. rate (utility): 4.1%. Has 20,100 employees. Chairman, President & CEO: Theodore F. Craver, Jr. Inc.: CA. Address: 2244 Walnut Grove Ave., P.O. Box 976, Rosemead, CA 91770

Hawaiian Electric Industries, Inc. is the parent company of Hawaiian Electric Company (HECO) & American Savings Bank (ASB). HECO & its subs., Maui Electric Co. (MECO) & Hawaii Electric Light Co. (HELCO), supply electricity to 446,000 customers on Oahu, Maui, Molokai, Lanai, & Hawaii. Operating companies' systems are not interconnected. Disc. int'l power sub. in '01. Elec. rev. breakdown: res'l, 33%; comm'l, 34%; large light & power, 32%; other, 1%. Generating sources: oil, 60%; purchased, 40%. Fuel costs: 54% of revs. '10 reported depr. rate (util.): 3.5%. Has 3,400 empls. Chairman: Jeffrey N. Watanabe. Pres. & CEO: Constance H. Lau. Inc.: HI. Address: 900 Richards St., P.O. Box 730, Honolulu, HI 96808-0730.

IDACORP, Inc. is the holding company for Idaho Power, a utility that operates 17 hydroelectric generation developments, 2 natural gas-fired plants, and partly owns three coal plants across Idaho, Oregon, Wyoming, and Nevada. Service territory covers 24,000 square miles with estimated population of one million. Sells electricity in Idaho (95% of revenues) and Oregon (5%). Revenue breakdown: residential, 39%; commercial, 22%; industrial, 13%; other, 26%. Fuel sources: hydro, 51%; thermal, 49%. Has 2,032 employees. Chairman: Gary G. Michael. President & CEO: J. LaMont Keen. Incorporated: Idaho. Address: 1221 W. Idaho St., Boise, ID. 83702.

Integrys Energy Group, Inc. is a holding company for Wisconsin Public Service, Peoples Gas, and four other utility subsidiaries. Has 493,000 electric customers in WI and MI, 1.7 million gas customers in WI, IL, MN, and MI. Also has retail electric and gas marketing operations in the Northeast and Midwest. Electric revenue breakdown: residential, 29%; small commercial & industrial, 29%; large commercial & industrial, 19%; other, 23%. Generating sources: coal, 53%; other, 5%; purchased, 42%. Fuel costs: 62% of revenues. ‘11 deprec. rates (utility): 2.2%-3.3%. Has 4,600 employees. Chairman, President & Chief Executive Officer: Charles A. Schrock. Inc.: WI. Address: 130 East Randolph St., Chicago, IL 60601-6207.

NextEra Energy, Inc. (formerly FPL Group, Inc.) is a holding company for Florida Power & Light (FPL), which provides electricity to 4.6 million customers in a 27,650-sq.-mi. area in eastern & southern Florida. NextEra Energy Resources is a nonregulated power generator with nuclear, gas, & wind ownership. Revenue breakdown: residential, 57%; commercial, 39%; industrial, 3%; other, 1%. Generating sources: gas, 58%; nuclear, 20%; coal, 5%; oil, 4%; purchased, 13%. Fuel costs: 41% of revs. ‘10 reported deprec. rates: FPL, 3.2%; NextEra, 4.4%. Has 15,000 employees. Chairman & CEO: Lewis Hay, III. President & COO: James L. Robo. Inc.: FL. Address: 700 Universe Blvd., Juno Beach, FL 33408.

Northeast Utilities is the parent of the NU system, which is the largest utility in New England and serves 1.9 million electric and 206,000 gas customers. Connecticut Light & Power (CL&P) provides service to most of CT; Public Service Co. of New Hampshire (PSNH) supplies power to three quarters of NH’s population; Western Massachusetts Electric Co. (WMECO) serves the western half of MA. Acq’d Yankee Energy 3/00. Electric rev. breakdown: res’l, 52%; comm’l, 29%; ind’l, 6%; other, 13%. Generating sources not avail. Fuel costs: 41% of revs. ‘10 reported depr. rate: 2.7%. Has 6,200 employees. Chairman, Pres. & CEO: Charles W. Shivery. Inc.: MA. Address: One Federal St., Building 111-4, Springfield, MA 01105

OGE Energy Corp. is a holding company for Oklahoma Gas and Electric Company (OG&E), which supplies electricity to 789,000 customers in Oklahoma (88% of electric revenues) and western Arkansas (9%); wholesale is (3%). Owns 81.3% of Enogex pipeline subsidiary. Acquired Transok 6/99. Electric revenue breakdown: residential, 43%; commercial, 24%; industrial, 18%; other, 15%. Generating sources: coal, 49%; gas, 33%; wind, 2%; purchased, 16%. Fuel costs: 58% of revenues. ‘11 reported depreciation rate (utility): 2.9%. Has 3,500 employees. Chairman, President & CEO: Peter B. Delaney. Incorporated: Oklahoma. Address: 321 North Harvey, P.O. Box 321, Oklahoma City, Oklahoma 73101-0321

Pepco Holdings, Inc. consists mainly of three electric utility subsidiaries: Potomac Electric Power Co., serving Washington, D.C. and adjoining areas of Maryland; Delmarva Power, which serves the peninsula area of Delaware, Maryland and Virginia; and Atlantic City Electric, serving southern New Jersey. In July 2010, Pepco sold competitive energy business (Conectiv Energy) to Calpine Corp. Electricity customers: 1.8 million; gas customers: 123,000. Electricity breakdown: residential, 30%; commercial, 49%; other, 21%. 2010 depreciation rate: 2.6%. Has approximately 5,014 employees as of 12/31/10. Chrmn., Pres. & CEO: Joseph M. Rigby. Inc.: DE. Address: 701 Ninth Street, N.W., Wash., D.C. 20068.

Pinnacle West Capital Corporation is a holding company for Arizona Public Service Company (APS), which supplies electricity to 1.1 million customers in 11 of 15 Arizona counties. Discontinued SunCor real estate subsidiary in '10. Electric revenue breakdown: residential, 47%; commercial, 39%; industrial, 5%; other, 9%. Generating sources: coal, 37%; nuclear, 27%; gas, 12%; purchased, 24%. Fuel costs: 36% of revenues. Has 7,200 employees. '09 reported depreciation rate: 3.1%. Chairman, President & Chief Executive Officer: Donald E. Brandt. Incorporated: Arizona. Address: 400 North Fifth Street, Post Office Box 53999, Phoenix, Arizona 85072-3999.

Portland General Electric Company (PGE) provides electricity to 825,000 customers in 52 cities in a 4,000-square-mile area of Oregon, including Portland and Salem. The company is in the process of decommissioning the Trojan nuclear plant, which it closed in 1993. Electric revenue breakdown: residential, 45%; commercial, 34%; industrial, 12%; other, 9%. Generating sources: coal, 23%; gas, 21%; hydro, 9%; wind, 4%; purchased, 43%. Fuel costs: 46% of revenues. '10 reported depreciation rate: 3.9%. Has 2,700 employees. Chairman: Corbin A. McNeill, Jr. Chief Executive Officer and President: Jim Piro. Incorporated: Oregon. Address: 121 SW Salmon Street, Portland, Oregon 97204.

Public Service Enterprise Group Incorporated is a holding company for Public Service Electric and Gas Company (PSE&G), which serves 2.2 million electric and 1.8 million gas customers in New Jersey. PSEG Power is a nonregulated power generator with nuclear, gas, and coal-fired plants in the Northeast. PSEG Energy Holdings is a domestic power producer. The company no longer breaks down data on electric and gas operating statistics. Fuel costs: 45% of revenues. '10 reported depreciation rate (utility): 2.5%. Has 10,000 employees. Chairman, President & Chief Executive Officer: Dr. Ralph Izzo. Inc.: New Jersey. Address: 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171

SCANA Corporation is a holding company for South Carolina Electric & Gas Company, which supplies electricity to 664,000 customers in South Carolina. Supplies gas and transmission service to 1.3 million customers in North and South Carolina and Georgia. Owns gas pipelines. Acquired PSNC Energy 2/00. Electric revenue breakdown: residential, 43%; commercial, 32%; industrial, 17%; other, 8%. Generating sources: coal, 52%; oil & gas, 23%; nuclear, 21%; hydro, 3%; purchased, 1%. Fuel costs: 57% of revenues. '10 reported deprec. rate: 2.9%. Has 5,900 employees. Chairman, CEO (effective 11/30/11) & President: Kevin B. Marsh. Inc.: South Carolina. Address: 100 SCANA Parkway, Cayce, SC 29033.

Sempra Energy is a holding co. for San Diego Gas & Electric Co., which sells electricity and gas mainly in San Diego County, & Southern California Gas Co., which distributes gas to most of Southern California. Customers: 1.4 mill. electric, 6.6 mill. gas. Elec. rev. breakdown: res'l, 43%; comm'l, 37%; industrial, 10%; other, 10%. Purchases most of its power; the rest is nuclear & gas. Has subs. in gas pipeline & storage, power generation, and liquefied natural gas. Sold commodities bus. in ‘10. Power costs: 41% of revs. ‘10 reported deprec. rates: 1.7%-8.2%. Has 17,500 empls. Chairman: Donald E. Felsinger. CEO: Debra L. Reed. President: Mark A. Snell. Inc.: CA. Address: 101 Ash St., San Diego, CA 92101-3017.

The Southern Company’s four operating subsidiaries supply electricity to 4.4 million customers in about 120,000 square miles of Georgia, Alabama, Florida, and Mississippi. Also has competitive generation business. Electric revenue breakdown: residential, 38%; commercial, 31%; industrial, 18%; other, 13%. Retail revenues by state: Georgia, 52%; Alabama, 34%; Florida, 9%; Mississippi, 5%. Generating sources: coal, 55%; oil & gas, 24%; nuclear, 14%; hydro, 2%; purchased, 5%. Fuel costs: 41% of revenues. ‘10 reported deprec. rate (utility): 3.3%. Has 25,900 employees. Chairman, President and CEO: Thomas A. Fanning. Inc.: Delaware. Address: 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308.

TECO Energy, Inc. is a holding company for Tampa Electric, which serves 672,000 customers in west central Florida, and Peoples Gas (acquired 6/97), which serves 336,000 customers in Florida. TECO also mines coal and has generation investments in Guatemala. Sold TECO Transport 12/07. Electric revenue breakdown: residential, 50%; commercial, 30%; industrial, 9%; other, 11%. Generating sources: coal, 53%; gas, 38%; purchased, 9%. Fuel costs: 35% of revenues. ‘10 reported deprec. rate (utility): 3.6%. Has 4,100 employees. Chairman: Sherrill W. Hudson. President & CEO: John B. Ramil. Incorporated: Florida. Address: TECO Plaza, 702 N. Franklin Street, Tampa, Florida 33602.

UIL Holdings, through its subsidiaries, operates as one of the largest regulated utility companies in Connecticut. Business consists of electric distribution/transmission operations of The United Illuminating Company and natural gas transportation/distribution operations of The Southern Connecticut Gas Company, The Connecticut Natural Gas Company, and The Berkshire Gas Company. Revenue distribution by class: residential, 51%; commercial, 29%; industrial, 5%; other, 15%. Fuel costs: 32% of revenues; O&M costs, 26%. Has 1,824 employees as of 12/10. President & Chief Executive Officer: James P. Torgerson. Inc.: CT. Address: 157 Church Street, P.O. Box 1564, New Haven, CT. 06506-0901.

Westar Energy, Inc., formerly Western Resources, is the parent of Kansas Gas & Electric Company. Westar supplies electricity to 688,000 customers in Kansas. Electric revenue sources: residential and rural, 42%; commercial, 37%; industrial, 21%. Sold investment in ONEOK in 2003 and 85% ownership in Protection One in 2004. 2011 depreciation rate: 4.2%. Estimated plant age: 14 years. Fuels: coal, 51%; nuclear, 8%; gas, 41%. Has 2,424 employees. BlackRock, Inc. owns 6.3% of common; off. & dir., less than 1% (4/11 proxy). Chairman: Charles Q. Chandler IV. Chief Executive Officer and President: Mark A. Ruelle. Inc.: Kansas. Address: 818 South Kansas Avenue, Topeka, Kansas 66612.

Wisconsin Energy Corporation is a holding company for We Energies, which provides electric, gas & steam service in Wisconsin. Customers: 1.1 mill. elec., 1.1 mill. gas. Acq'd WICOR 4/00. Discontinued pump-manufacturing operations in '04. Sold Point Beach nuclear plant in '07. Electric revenue breakdown: residential, 36%; small commercial & industrial, 31%; large commercial & industrial, 24%; other, 9%. Generating sources: coal, 54%; gas, 7%; hydro, 1%; wind, 1%; purchased, 37%. Fuel costs: 42% of revs. '11 reported deprec. rate (utility): 2.8%. Has 4,600 employees. Chairman, President & CEO: Gale E. Klappa. Inc.: WI. Address: 231 W. Michigan St., P.O. Box 1331, Milwaukee, WI 53201.

Xcel Energy Inc. is the parent of Northern States Power, which supplies electricity to Minnesota, Wisconsin, North Dakota, South Dakota, & Michigan & gas to Minnesota, Wisconsin, North Dakota, & Michigan; Public Service of Colorado, which supplies electricity & gas to Colorado; & Southwestern Public Service, which supplies electricity to Texas & New Mexico. Customers: 3.4 mill. electric, 1.9 mill. gas. Electric revenue breakdown: residential, 31%; commercial & industrial, 53%; other, 16%. Generating sources not available. Fuel costs: 50% of revs. '10 reported deprec. rate: 3.0%. Has 11,400 employees. Chairman, President & CEO: Ben Fowke. Inc.: MN. Address: 414 Nicollet Mall, Minneapolis, MN 55401

iii) The current Standard & Poor's bond rating for each company in Exhibit 1 and Exhibit 2 is provided.

iv) The number of analysts included in each company's long-term growth estimate is provided.

b) Table 1 shows data on the experienced risk premiums on the S&P/TSX Utilities Stock Index, and Table 2 shows data on the experienced risk premiums of the BMO CM Utilities Stock Data Set. The S&P/TSX Utilities Stock Index includes returns on BCE, but not returns on Nortel. (In 1998, BCE had a 5.41 percent relative weight in the S&P/TSX Utilities Stock Index.) The BMO CM Utilities Stock Data Set does not include any telecommunications companies such as BCE or Nortel.

c) Dr. Vander Weide has not used the TSE gas or electric sub-indexes because he was informed by Standard & Poor's that gas and electric utilities sub-indices contain data only from January 1981 to December 1991, and a later gas/electric utilities index only contains data from January 1992 to January 2004. Thus, there does not appear to be a continuous utility index that excludes BCE and Nortel from the early 1980s to the present.

d) A comparison of returns on utility stocks to returns on long Canada bonds was not part of Dr. Vander Weide's analyses because, in his opinion, the yield on long Treasury bonds is the best estimate of the risk-free rate and is the best estimate of the long-run return investors expect to earn on long-term Treasury bonds at the time the bonds are purchased.

e) Dr. Vander Weide's estimate of the utility risk premium is based on the regression relationship between the risk premiums and interest rates shown in Exhibit 5 and Exhibit 6. As stated in his written evidence, page 24, Answer 71, at the time of his studies Dr. Vander Weide finds a forward-looking risk premium based on his regression analyses equal to 6.9 percent for the natural gas utility group and 6.8 percent for his electric utility comparable group. Please see Dr. Vander Weide's written evidence, p. 24, Answer 71, and Exhibit 5, Exhibit 6, and Appendix 2. The 5.87 percent risk premium for the natural gas utilities shown in Exhibit 5, line 154, is simply the latest observation for the natural gas utility group used in the natural gas utility regression analyses.

Interrogatory 6
Sub-part a), a.
Regulated Assets

Exhibit 1

Company	% Regulated Assets
AGL Resources	80%
Atmos Energy	93%
National Fuel Gas	60%
NiSource Inc.	77%
Northwest Nat. Gas	90%
ONEOK Inc.	46%
Piedmont Natural Gas	97%
Questar	80%
South Jersey Inds.	77%
Average	78%

Exhibit 2

Company	% Regulated
ALLETE	91%
Alliant Energy	87%
Amer. Elec. Power	97%
Avista Corp.	91%
Consol. Edison	89%
Dominion Resources	63%
DPL Inc.	100%
Duke Energy	77%
Edison Int'l	79%
Hawaiian Elec.	48%
IDACORP Inc.	98%
Integrys Energy	83%
NextEra Energy	54%
Northeast Utilities	95%
OGE Energy	77%
Pepco Holdings	73%
PG&E Corp.	100%
Pinnacle West Capital	99%
Portland General	100%
Public Serv. Enterprise	56%
SCANA Corp.	77%
Sempra Energy	66%
Southern Co.	93%
TECO Energy	94%
UIL Holdings	99%
Westar Energy	100%
Wisconsin Energy	92%
Xcel Energy Inc.	95%
Average	85%

Interrogatory 6
Sub-part a), c.
S&P Bond Ratings

Exhibit 1

Company	**S&P BOND RATING**
AGL Resources	BBB+
Atmos Energy	BBB+
National Fuel Gas	BBB
NiSource Inc.	BBB-
Northwest Nat. Gas	A+
ONEOK Inc.	BBB
Piedmont Natural Gas	A
Questar	A
South Jersey Inds.	BBB+
Average	**BBB+**

Exhibit 2

Company	**S&P BOND RATING**
ALLETE	BBB+
Alliant Energy	BBB+
Amer. Elec. Power	BBB
Avista Corp.	BBB
Consol. Edison	A-
Dominion Resources	A-
DPL Inc.	BBB-
Duke Energy	A-
Edison Int'l	BBB-
Hawaiian Elec.	BBB-
IDACORP Inc.	BBB
Integrys Energy	A-
NextEra Energy	A-
Northeast Utilities	BBB
OGE Energy	BBB+
Pepco Holdings	BBB+
PG&E Corp.	BBB
Pinnacle West Capital	BBB
Portland General	BBB
Public Serv. Enterprise	BBB
SCANA Corp.	BBB+
Sempra Energy	BBB+
Southern Co.	A
TECO Energy	BBB
UIL Holdings	BBB
Westar Energy	BBB
Wisconsin Energy	A-
Xcel Energy Inc.	A-
Average	**BBB+**

Interrogatory 6
Sub-part a), d.
No. of Analysts' Estimates

Exhibit 1

Company	No. of I/B/E/S Estimates
AGL Resources	4
Atmos Energy	5
National Fuel Gas	3
NiSource Inc.	4
Northwest Nat. Gas	4
ONEOK Inc.	3
Piedmont Natural Gas	4
Questar	3
South Jersey Inds.	3

Exhibit 2

Company	No. of I/B/E/S Estimates
ALLETE	3
Alliant Energy	3
Amer. Elec. Power	4
Avista Corp.	3
Consol. Edison	4
Dominion Resources	4
DPL Inc.	3
Duke Energy	3
Edison Int'l	6
Hawaiian Elec.	4
IDACORP Inc.	3
Integrys Energy	4
NextEra Energy	6
Northeast Utilities	4
OGE Energy	4
Pepco Holdings	3
PG&E Corp.	5
Pinnacle West Capital	5
Portland General	6
Public Serv. Enterprise	3
SCANA Corp.	5
Sempra Energy	3
Southern Co.	5
TECO Energy	6
UIL Holdings	3
Westar Energy	3
Wisconsin Energy	5
Xcel Energy Inc.	7

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters ("CME")

Ref: Exhibit E1, Tab 1
Exhibit F2

In connection with this information, please provide the following information:

a) Please clarify the purpose of Dr. Vander Weide's evidence in this proceeding having regard to Union's proposal that the Board's ROE formula is to be applied in determining its 2013 Rates and the Board's Cost of Capital Report indicating that any review of the appropriateness of the Board's ROE formula return is to occur at the earliest at the end of 2013.

b) Please provide the Actual and Estimated Costs Union expects to incur for the expert evidence and supporting testimony of Mr. Fetter and Dr. Vander Weide.

Response:

a) As stated at pg. 5 of Exhibit F2, Dr. Vander Weide was asked to prepare an independent appraisal of the reasonableness of the ROE requested by Union in this proceeding in the context of Union's proposal to increase its equity level to 40%. Union is requesting that the Board approve Union using the Board's ROE formula on an equity ratio of 40%.

b) In this proceeding, Union has incurred approximately $48,000 for Mr. Fetter's services and approximately $30,000 Mr. Vander Weide's services. Further costs incurred depend on any settlement conference, hearing attendance, and argument requirements.