

May 24, 2012

By COURIER and RESS

Neil McKay, Manager Natural Gas Applications
Ontario Energy Board,
Suite 2700, 2300 Yonge Street,
Toronto, Ontario.
M4P 1E4

RE: EB-2011-0040
Red Lake Project

Dear Sir:

This letter will update the Ontario Energy Board ("OEB") on Union Gas Limited ("Union") plans for Phase II of the Red Lake Project. This letter will also fulfill Conditions of Approval 1.1, 1.2, 1.5, 1.6, 1.7, 1.8 and 2.3 of the OEB's Leave to Construct Order regarding the project.

Union is proposing to commence construction of Phase II of the Red Lake Project on May 25, 2012. Phase II will provide distribution service to the residents of Red Lake. Union has worked with the Municipality of Red Lake in developing the detailed construction plans to serve the Municipality. Updated maps of the areas which Union is proposing to serve are attached as Appendix 1. These maps show some minor changes to the location of pipelines from Union's original pre filed evidence. There is one significant change in Union's construction plan from the pre filed evidence. Union is not proposing to construct a pipeline north from Cochenour. The purpose of that line was to provide service to a potential mine north of Cochenour which is still at the conceptual stage.

Union has completed an environmental review for Phase II, which is attached as Appendix 2. No significant environmental concerns were identified as part of this review. Union's standard construction practices and the mitigation measures outlined in the environmental checklist will ensure that there will be no long term significant environmental impacts as a result of pipeline construction.

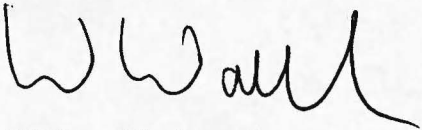
Union has completed an economic analysis for Phase II as per the EBO 188 guidelines, which is attached as Appendix 3. This analysis was completed using the same input parameters as the Phase I analysis. This analysis is based on the project costs attached as Appendix 4, and an updated attachment forecast attached as Appendix 5. The attachment forecast has been updated based on discussions with Municipal officials who have provided Union with addition details regarding growth and conversion potential. Appendix 4 does not include the \$7M that was spent as part of Phase I to facilitate Phase II. The total Phase II costs are approximately \$19.3M.

Union has reviewed its rolling and investment portfolios and has determined that there will be no significant impact to Union's existing customers if Phase II of the Red Lake Project has a PI of 0.9. With a PI of 0.9 the economic analysis indicates that there is a \$10.5M aid to construct. In order to fund this aid to construct, the following contributions will be made:

- The Province of Ontario will contribute \$4.9M;
- FedNor is expected to contribute \$2.7M;
- The Municipality of Red Lake will contribute \$0.75M; and,
- Goldcorp Red Lake Mines will forgive \$2.15M of the payment they made to upsize Phase I of the project.

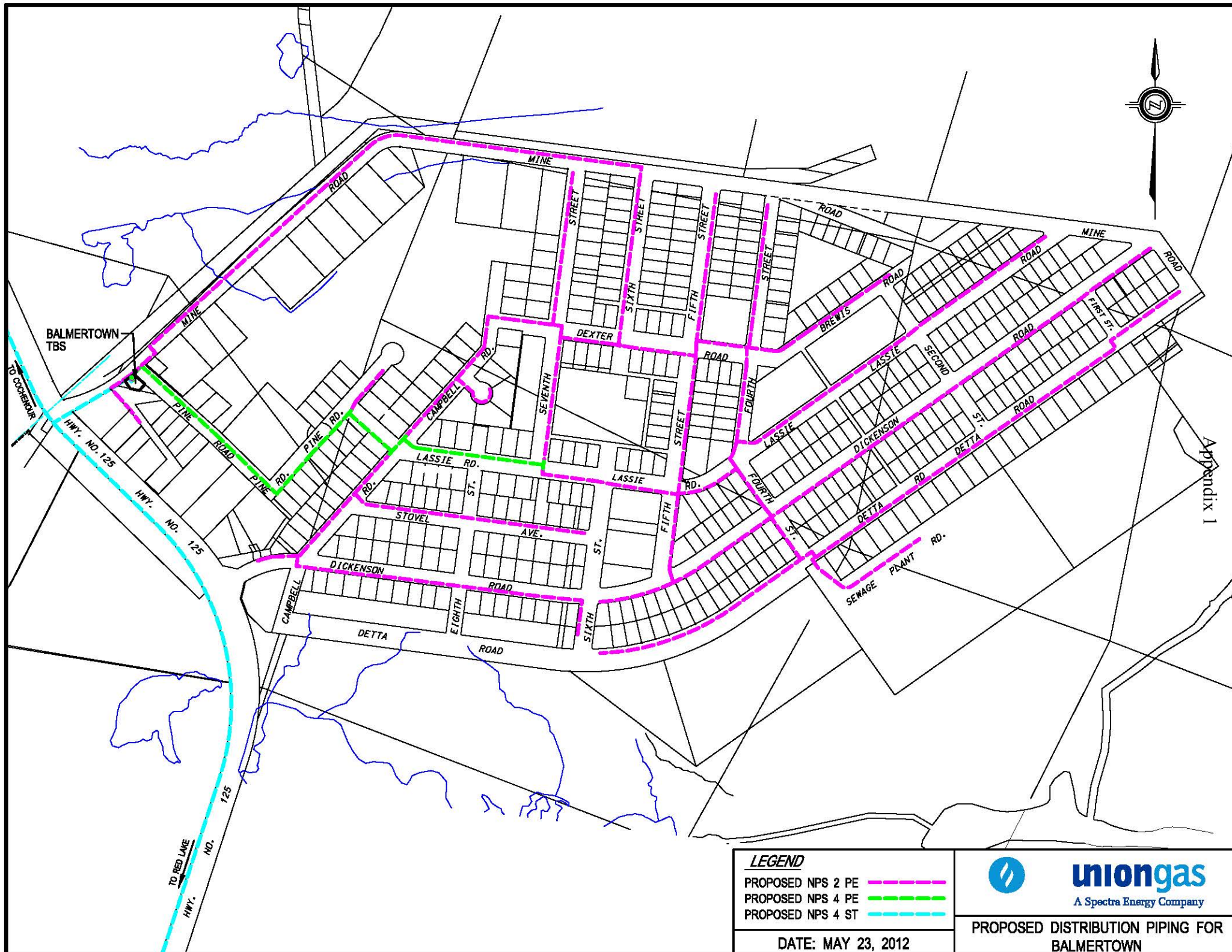
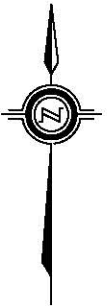
If you have any questions or require additional information please contact the undersigned.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W Wachsmuth', with a stylized, cursive script.


William Wachsmuth
Senior Administrator, Regulatory Projects
Encl.


cc. Zora Crnojacki, Chair OPCC




Appendix 1


LEGEND

PROPOSED NPS 2 PE 

PROPOSED NPS 4 PE 

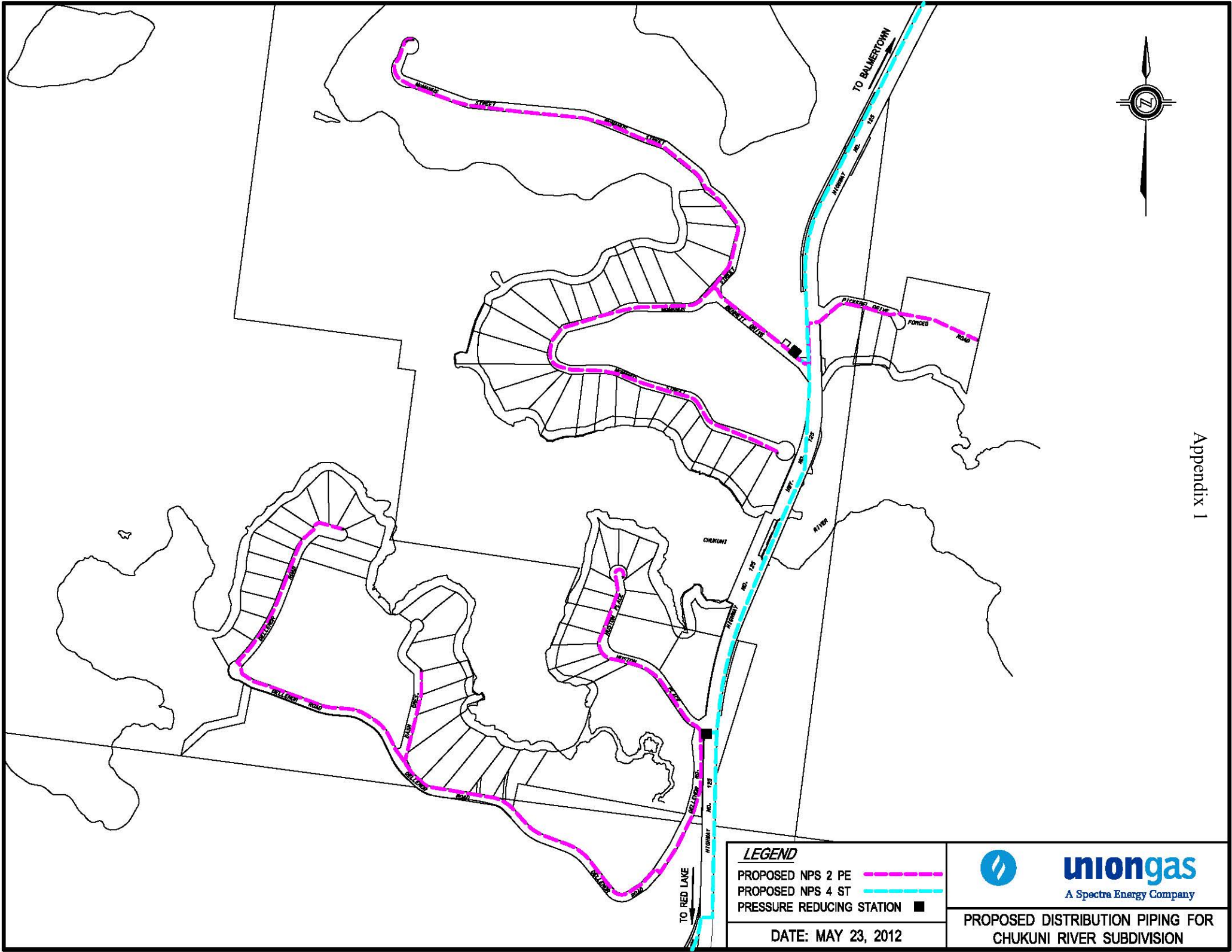
PROPOSED NPS 4 ST 

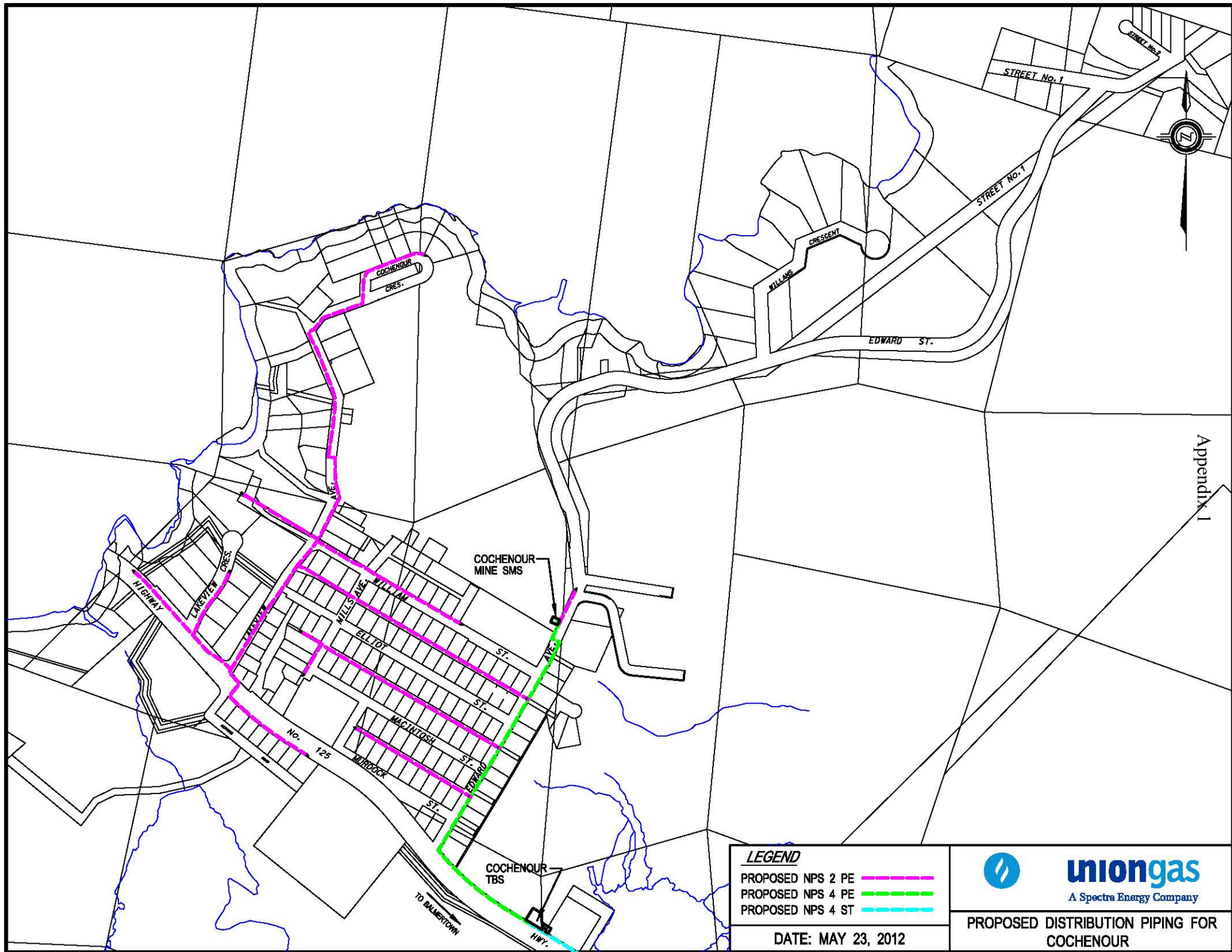
DATE: MAY 23, 2012



uniongas
A Spectra Energy Company

**PROPOSED DISTRIBUTION PIPING FOR
BALMERTOWN**



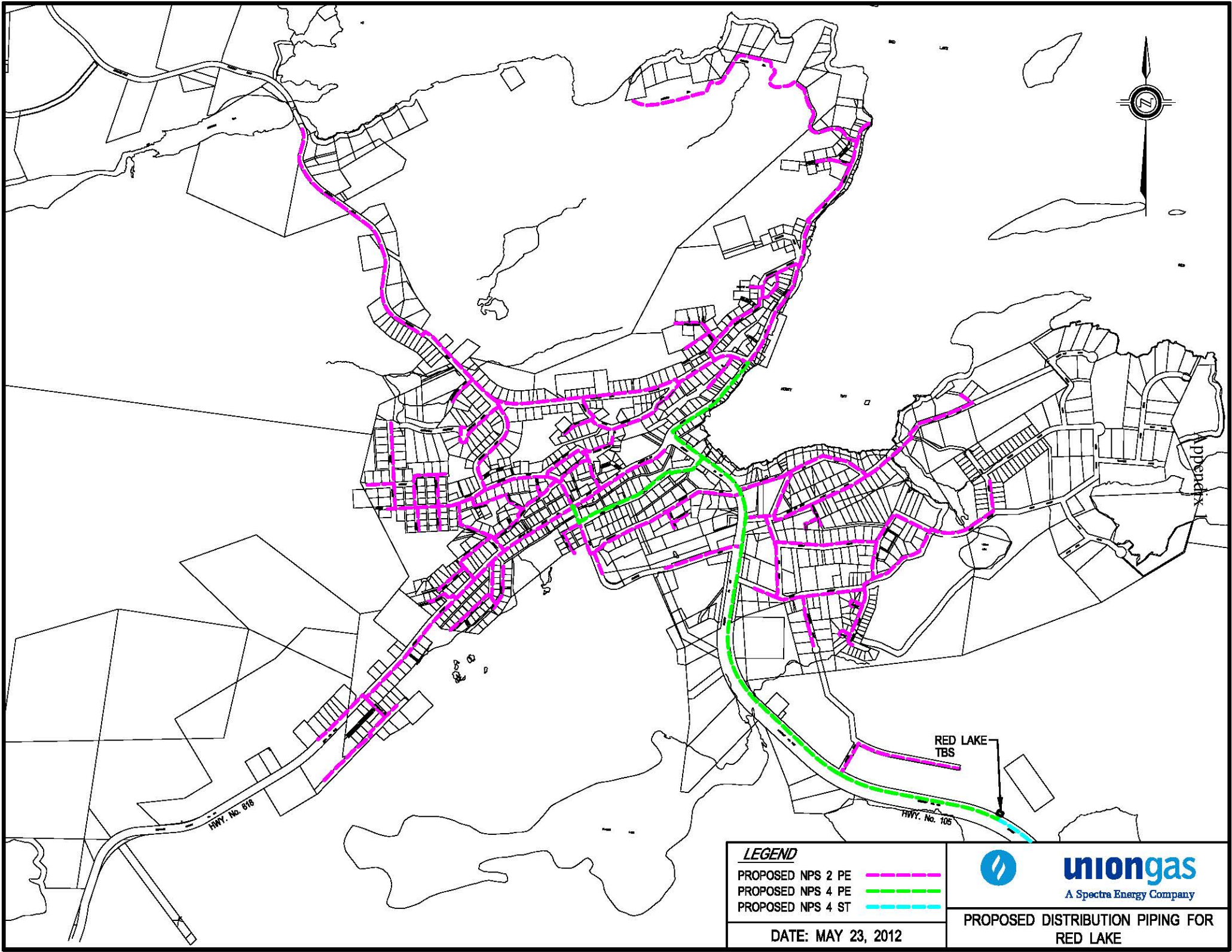


Appendix 1



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PROPOSED DISTRIBUTION PIPING FOR
COCHENOUR



LEGEND	
PROPOSED NPS 2 PE	
PROPOSED NPS 4 PE	
PROPOSED NPS 4 ST	

DATE: MAY 23, 2012



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**PROPOSED DISTRIBUTION PIPING FOR
RED LAKE**



Environmental Checklist

The Project Originator is responsible for reviewing and completing the following checklist to determine if the project should be forwarded to EH&S Planning for their review. **When completing this form, please ensure that a Description of Feature is given and that the Proposed Mitigation is identified for those features marked YES in the Impacted column.**

Project Name: Red Lake Pipeline **Project Number:**
 Project Phase 2
Date: 2012-05-01
Project Originator: Peter Fantuz/Doug Schmidt
Project Description: The Red Lake Pipeline Project Phase 2 includes the construction and installation of in town pipelines in the communities of Red Lake, Balmertown and Cochenour. Pipelines will be located within the municipal road allowance and will range in size from 2" to 4". Construction is proposed to commence in spring 2012.

Feature and Description	Impacted Yes/No	Proposed Mitigation
Water Course Crossings Description: Crossings see attached drawings for locations There will be seven (7) watercourse crossings associated with Phase 2 of the Red Lake Pipeline Project. Six (6) are located within the community of Red Lake and one (1) is located in the Chukuni Subdivision. An Environmental Protection Area (ESA) - Locally Significant Wetland will be crossed in two separate areas in the community of Red Lake.	Yes	See sections 3.44 and 3.45 C&M Manual for mitigation. Adhere to SCR and permit requirements Watercourse crossings will be completed by either installing the pipe over top the watercourse in cover associated with an existing bridge or culvert, Horizontal Directional Drill (HDD) or Dam & Pump. For HDD and Dam & Pump installations, Department of Fisheries and Oceans DFO- OGLA/UGL AGREEMENT 2008 will be adhered to. Impacts to the ESA will be minimized or avoided by installing the pipeline within the road allowance and installation will be completed by one of the methods identified above. For additional information and mitigation refer to the Red Lake Environmental Protection Plan, Section 7.1 General Environmental Features - Watercourse Crossings, Environmental Protection Area and Appendix 4 (associated drawings). Any permits required will be obtained prior to construction.
Social Impacts Description: Construction in road allowance Potential impacts associated with construction noise, dust, traffic, access to homes and businesses etc.	Yes	See sections 18.7 and 18.8 of the C&M manual for mitigation For additional information and mitigation refer to the Red Lake Environmental Protection Plan, Section 7.1, General Environmental Features - Water Wells, Blasting and Table 1 Pipeline Construction Mitigation Summary in Appendix 2.
Land use Designations Description: Three Hazard Land Areas	Yes	Pipelines will be located within the road allowance and will avoid hazard areas.

Agricultural Resources Description:	No	See sections 3.46 and 3.25 C&M Manual for mitigation
Vegetation and Wildlife Habitat Description: Potential for minor amount of shrub/vegetation removal.	Yes	Removal of vegetation is limited. Cover to be restored through seeding as soon as practical.
Water Wells and Hydrology Description: Water Wells	No	Impacts are not anticipated as the communities of Red Lake, Balmertown and Cochenour are serviced by a municipal source.
Heritage Resources Description: Archaeology	No	Construction to remain in disturbed portions of the road allowance.
Geological Resources and Minerals Description: Rock Outcrops	Yes	Blasting will follow Union's standard blasting procedure during construction. For additional details refer to the Red Lake Environmental Protection Plan, Section 7.1, General Environmental Features - Blasting.
Additional Concerns Description:	No	

Union North

Discounted Cash Flow Analysis

Red Lake Economics - Phase 2

May 24, 2012

Project Year	2011 Year 1	2012 Year 2	2013 Year 3	2014 Year 4	2015 Year 5
Cash Inflows					
Total Sales Margin	27,745	337,759	479,997	574,995	637,268
O & M Expense	-13,642	-37,201	-54,403	-66,946	-76,251
Property (Municipal) Tax	-15,000	-45,000	-45,000	-45,000	-45,000
Capital Tax	-2,098	-3,325	-4,092	-4,409	-4,579
Income Tax	30,039	-45,956	-49,680	-51,393	-58,916
Large Corporation Tax	0	0	0	0	0
Total Cash Inflow	\$ 27,044	206,277	326,822	407,247	452,521
Cash Outflows					
Capital Expenditure	-6,558,918	-1,751,376	-1,251,147	-728,730	-562,467
Contribution	3,675,111	0	0	0	0
Change in Working Capital	-1,399	-5,589	-3,038	-2,102	-1,441
Total Cash Outflows	\$ -2,885,206	-1,756,965	-1,254,185	-730,832	-563,908
Net Cash Flows	\$ -2,858,162	-1,550,688	-927,363	-323,585	-111,387
NPV per Period	-2,846,378	-1,496,960	-848,979	-280,956	-91,733
Cumulative NPV	\$ -2,846,378	-4,343,338	-5,192,317	-5,473,273	-5,565,006
Net Present Value Project	\$ -798,604				
Profitability Index per Period	0.01	0.05	0.09	0.14	0.18
Profitability Index Project	0.90				

2016	2017	2018	2019	2020	2021	2022
Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
686,051	725,228	757,341	783,985	808,570	820,863	820,863
-84,342	-91,636	-98,224	-104,252	-110,199	-114,454	-116,898
-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000
-4,649	-4,657	-4,599	-4,512	-4,431	-4,165	-3,916
-66,816	-74,879	-82,401	-90,508	-99,106	-101,598	-108,000
0	0	0	0	0	0	0
485,243	509,056	527,117	539,713	549,834	555,645	547,049
-446,247	-371,136	-286,131	-245,502	-245,502	0	0
0	0	0	0	0	0	0
-1,177	-987	-851	-745	-711	-447	-175
-447,424	-372,123	-286,982	-246,247	-246,213	-447	-175
37,819	136,933	240,135	293,466	303,621	555,198	546,874
29,502	101,367	168,597	195,402	191,721	332,483	310,585
-5,535,504	-5,434,137	-5,265,541	-5,070,139	-4,878,417	-4,545,934	-4,235,349
0.23	0.27	0.31	0.35	0.39	0.43	0.47

2023 Year 13	2024 Year 14	2025 Year 15	2026 Year 16	2027 Year 17	2028 Year 18	2029 Year 19	2030 Year 20	2031 Year 21	2032 Year 22	2033 Year 23
820,863	820,863	820,863	820,863	820,863	820,863	820,863	820,863	782,441	722,803	687,750
-119,342	-121,786	-124,230	-126,674	-129,118	-131,562	-134,005	-136,449	-135,329	-132,219	-131,056
-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000	-45,000
-3,681	-3,460	-3,252	-3,057	-2,874	-2,701	-2,539	-2,387	-2,244	-2,109	-1,982
-113,969	-119,530	-124,709	-129,527	-134,008	-138,170	-142,033	-145,615	-137,235	-122,154	-114,438
0	0	0	0	0	0	0	0	0	0	0
538,871	531,087	523,672	516,605	509,864	503,430	497,285	491,411	462,633	421,320	395,274
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
-175	-175	-175	-175	-175	-175	-175	-175	788	1,305	703
-175	-175	-175	-175	-175	-175	-175	-175	788	1,305	703
538,696	530,912	523,497	516,430	509,689	503,255	497,110	491,236	463,421	422,626	395,976
290,136	271,173	253,573	237,228	222,037	207,909	194,761	182,518	163,298	141,235	125,489
-3,945,213	-3,674,040	-3,420,467	-3,183,239	-2,961,203	-2,753,294	-2,558,532	-2,376,014	-2,212,717	-2,071,482	-1,945,993
			-798,604							
0.50	0.54	0.57	0.60	0.63	0.65	0.68	0.70	0.72	0.74	0.76
			0.90							

0.77	0.78	0.79	0.81	0.82	0.83	0.83	0.84	0.85	0.86
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Red Lake Project Phase 2 Costs

Plastic Mains

Contract Labour	\$3,200,418
Material	\$194,131
Outside Services	\$493,928
Contingency	\$194,424

Total Mains		\$4,082,901
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Steel Mains

Contract Labour	\$856,541
Overall Project Coordination	\$1,437,000
Material	\$238,578
Company Expenses and Labour	\$49,733
Outside Services	\$270,591
Contingency	\$142,622

Total Steel Mains		\$2,995,065
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Services

Contract Labour	\$3,853,940
Material	\$822,085
Company Expenses	\$53,045
Contingency	\$236,454

Total Services		\$4,965,524
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Stations

Contract Labour	\$234,325
Material	\$234,325

Total Stations		\$468,650
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Total Phase 2 Costs

	<u><u>\$12,512,140</u></u>
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Appendix 5

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