uniongas
A Spectra Energy Company

August 27, 2012

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

Dear Ms. Walli:

Re: EB-2012-0087 - Union Gas Limited - 2011 Earnings Sharing & Disposition of Deferral Accounts and Other Balances – KT1.1

Please find attached the supporting documents for Exhibit KT1.1.

If you have any questions please contact me at (519) 436-5473.

Yours truly,

[*Original Signed by*]

Karen Hockin
Manager, Regulatory Initiatives

cc Crawford Smith (Torys)
Alexander Smith (Torys)
EB-2012-0087 Intervenors

Documents from EB-2011-0210

Evidence

Exhibit A2 Tab 1 Schedule 1 pages 14, 15 c) TCPL Mainline Toll Application

Exhibit C1 Tab 3 Pages 9 -13 2/ Short-Term Transportation and Exchange Revenue Forecast

Transcripts

Volume 6 and 7 - Evidence of Panel 4 Ex- franchise revenue panel

- as it relates to treatment of upstream transportation optimization revenues for 2011, in the context of Union's existing IRM framework.

IR's

JC 4-3-1
JC 4-7-9
JC 4-7-10
JC 4-10-6
JC 4-10-8
JD 1-16-2
JD 1-16-4
JD 1-16-5
JD 14-16-14

Tech conference undertakings

JT 1.6
JT 2.13

Undertakings

J3.2	J6.5
J3.3	J7.1
J3.5	J7.3
J3.6	J7.6
J4.1	J7.8
J4.2	J7.9
J6.1	J7.10
J6.2	

Exhibits

K6.4 Union Direct Examination Compendium – Ex Franchise panel
K6.5 CME Compendium Ex-Franchise Revenue Witness panel
K7.1 updated table from EB-2012-0087 IR B7.7
K7.4 IR response from EB-2009-0101

c) TCPL Mainline Toll Application

As indicated above, gas flows on TCPL's mainline have been in steady decline since 2007. As a result, TCPL mainline tolls have doubled since 2007. In response to the significant increase in tolls, TCPL filed an application with the NEB on September 1, 2011 proposing to re-organize their transportation services and change their toll design. TCPL's mainline toll application would set rates for 2012 and 2013.

TCPL's mainline toll application contains a number of toll redesign proposals and financial measures that impact both TCPL long-haul and short-haul tolls. Union's primary concern with TCPL's proposed tolls, as it relates to the Dawn-Parkway transmission system, is with the sustainability of TCPL short-haul tolls. TCPL short-haul tolls must remain competitive in relation to services offered on other transportation paths. Union is concerned that TCPL's rate proposal does not result in a long-term, sustainable solution that maintains the competitiveness of short-haul tolls. If short-haul tolls increase over time, these services may become uncompetitive and cause current short-haul shippers to seek transportation options that bypass Union's Dawn-Parkway transmission system. Only by maintaining competitive short-haul tolls (and the removal of the capacity constraint between Parkway and Maple) will shippers consider contracting for Dawn-Parkway services.

TCPL has also proposed to increase tolls for interruptible ("IT") and short-term firm transportation services ("STFT") and to eliminate the FT RAM. The increase of both the IT and STFT services is intended to extract more revenue from discretionary shippers as well as to attract more shippers to firm service. Eliminating FT RAM is also intended to encourage more shippers to contract firm services or increase their use of the more expensive discretionary services.

At this time, Union generally supports these services and pricing changes intended to increase mainline revenue from transactional services and help preserve lower long-haul and short-haul rates for firm transport service including the elimination of the FT RAM. Union notes, however, that the elimination of TCPL's FT RAM severely limits Union's ability to sell exchanges and other upstream transportation services. As indicated above, one of the major contributors to earnings sharing over the IR term was Union's ability to successfully optimize its upstream capacity.

d) Market-Based Storage Prices

As a result of the significant growth in North American natural gas supplies attributable to shale gas production, natural gas prices are relatively low and stable when compared to historical levels. Price stability, or lack of price volatility, negatively impacts market-based storage prices because storage prices are primarily based on the difference in price

Other S&T Revenue

The final component of the Long-term Transportation revenue forecast is Other S&T Revenue. This is comprised of revenue earned from name changes, Ontario Producers and other miscellaneous services. The revenue for these services has been constant at $1.1 million in 2010 and 2011. The forecast for 2012 and 2013 is $1.1 million.

2/ SHORT-TERM TRANSPORTATION AND EXCHANGES REVENUE FORECAST

The short-term transportation and exchanges revenue forecast is $32.2 million for 2012, and $20.2 million for 2013. Factors which influence this forecast are customer demands, market prices, locational basis spreads and weather. The forecast assumes normal weather, and it also assumes there will be no incremental transportation capacity built downstream of Parkway beyond the proposed TCPL expansions for 2012 and 2013.

This forecast is made up of two main components: transportation and exchanges.

Transportation

The transportation component of the transactional forecast is comprised of short-term firm and interruptible transportation on Union's Dawn-Parkway system, the Ojibway system, and St. Clair/Bluewater system. Actual and forecast revenues for these services on the three systems are shown in Table 3.

Table 3

Short-term Transportation Revenue

Revenue - $Million's	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast
Dawn-Parkway system	$9.3	$8.0	$8.7	$8.7
Ojibway system	2.6	1.0	0.6	0.6
St. Clair/Bluewater system	0.9	3.5	1.8	1.8
TOTAL	$12.8	$12.5	$11.1	$11.1

The decline in revenues for Dawn-Parkway short-term transportation since 2010 reflects the reduction in Dawn-Parkway values resulting from insufficient take-away capacity on TCPL downstream of Parkway. More detail regarding this can be found at Exhibit A2, Tab 1, Schedule 1 which discusses, among other things, the changes in gas supply dynamics, the impact of the changes on Union's Dawn to Parkway system and the impact of TCPL's capacity constraint between Parkway and TCPL's connection at Maple.

The significant reduction in revenue on the Ojibway path reflects the reduction in market spreads seen in 2011.

Changes in the Transportation Market

Since 2007, there have been significant changes in the North American gas market. These changes are described at Exhibit A2, Tab 1, Schedule 1 and Schedule 4.

There has been a significant reduction in load factors on TCPL long-haul service, resulting in increases in TCPL tolls. In order to mitigate this trend, TCPL introduced the Firm Transportation Risk Alleviation Mechanism ("FT RAM") program. This program gives firm shippers of long-haul capacity (or short-haul capacity linked to long-haul capacity) credits for any capacity left unutilized. These credits can then be spent, in the same month upon which they are earned, on any interruptible service on TCPL's system. The program was designed to encourage shippers to remain contracted on TCPL's system.

On September 1, 2011, TCPL filed evidence with the National Energy Board ("NEB") aimed at redesigning their overall framework. Included in TCPL's proposal was the elimination of the FT RAM program.

The 2012 forecast assumes the TCPL FT RAM program will be eliminated on November 1, 2012. A full year impact of the FT RAM program being discontinued is reflected in 2013.

Exchanges

Exchange revenue is comprised of activity using Union's upstream transportation capacity to provide exchange services to third-parties. It also includes net revenue generated from pipe releases or revenue from TCPL's FT RAM program. Actual and forecast revenue for exchanges are shown in Table 4.

Table 4
Exchange Revenue

Year	$ Millions
2006	2.6
2007	3.4
2008	11.6
2009	20.5
2010	19.7
2011 Actual	31.7
2012 Forecast	21.1
2013 Forecast	9.1

The single biggest factor contributing to growth in exchange revenue was the utilization of the TCPL FT RAM program starting in 2008. Full year impacts of this program are seen in 2009 and 2010. Union's 2011 actual revenue is primarily supported by TCPL's FT RAM program, but also includes activity related to colder-than-normal weather, TCPL outages, and system outages downstream of Parkway. All of these factors resulted in price spikes that are not forecast to reoccur.

It is also expected that during the forecast period, the increase in shale production will continue to put downward pressure on market spreads for exchange paths, thus reducing value of services to points such as Iroquois. This is described at Exhibit A, Tab 2, Schedule 1.

The 2013 forecast of $9.1 million exceeds the actual revenues earned in years prior to the TCPL FT RAM program optimization. As noted earlier, TCPL's FT RAM program is expected to be terminated in 2012.

3/ SHORT-TERM STORAGE & BALANCING

Union's forecast for short-term storage and balancing is $9.1 million in 2012 and $11.5 million in 2013. This forecast is made up of two components: peak short-term storage, and off-peak storage, balancing and loans.

Changes in Short-term Storage Market

Since 2007, there has been a steady decline in short-term storage prices, with the most significant reductions seen since spring, 2010. These storage price reductions reflect a declining spread between summer and winter gas prices. The main drivers for this declining spread are:

i. Increased summer values as a result of higher demands in the power sector;
ii. Lower winter values as a result of higher supplies from increased Marcellus shale production; and,
iii. Lower winter values as a result of lower demands resulting from an overall sluggish economy in the U.S., as well as energy efficiencies.

The decline in storage spreads is exemplified by the reduction in the actual price of short-term peak storage space relative to price included in approved rates. In 2011, 10.1 PJ of short-term

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2011-0210**

VOLUME:	**6**	
DATE:	**July 19, 2012**	
BEFORE:	**Marika Hare**	**Presiding Member**
	Paul Sommerville	**Member**
	Karen Taylor	**Member**

MR. JANIGAN: Thank you. Commissioner Taylor -- I'm in the wrong board here. Ms. Taylor asked the question that I was going to ask for Dr. Booth. So I have nothing in redirect.

MS. HARE: Okay. Thank you very much for your participation in this hearing, Dr. Booth.

DR. BOOTH: Thank you.

MS. HARE: You are now excused.

Mr. Smith, do you have your next panel available, which would be ex-franchise revenues?

MR. SMITH: Yes, I do. And I would ask that they come forward. As we had earlier indicated, Mr. Shorts is on this panel, as well. He need not be sworn.

So I would ask Mr. Isherwood to come forward, Ms. Cameron to come forward, Mr. Fay to come forward and Ms. Elliott to come forward, along with Mr. Shorts.

UNION GAS - PANEL 4

MR. SMITH: If I could ask the witnesses to come forward and be sworn, that would be appreciated. With the exception of Mr. Shorts.

Carol Cameron, Sworn

Mark J. Isherwood, Sworn

Pat Elliott, Sworn

William Fay, Sworn

Chris Shorts, Previously Sworn

MS. HARE: Mr. Smith, we've been handed your direct examination compendium, which will get an exhibit number shortly.

Mr. Millar?

MR. MILLAR: K6.4.

EXHIBIT NO. K6.4: UNION GAS DIRECT EXAMINATION COMPENDIUM.

MS. HARE: It looks rather extensive, and I would just like -- you know very well it is not the Board's practice to go through an extensive examination-in-chief.

MR. SMITH: I am fully aware of the Board's normal practice. And perhaps I can just tell you what my thought process was, and I will obviously take your guidance.

On reviewing my friend's Mr. Thompson's compendium, there are a number of documents that date back to the 0520 case, the 0606 case and the 0220 case.

That isn't Union's case in-chief, obviously, and so none of those materials would have been included in this proceeding, which of course is concerned with the 2013.

I was concerned, however, in seeing that, that the Board not be provided with what -- at least from Union's perspective -- is the beginning of the story, which would predate the 0520 case, and that's why you have the materials you have.

The alternative is for me to wait and re-examine on it, which I am prepared to do, but -- and I take the Board's guidance on it, but it struck me that, as a matter of fairness to my friends, better to get out in front.

But I understand -- I'm happy to go whichever way you would prefer that we go.

MS. HARE: Are there any comments from other parties?

MR. THOMPSON: One of the rare times I agree with Mr. Smith. He should get out in front.

MR. QUINN: I would agree also. Thank you.

MS. HARE: Any other comments?

Okay. Thank you, Mr. Smith.

MR. SMITH: I don't expect any further agreement.

[Laughter]

MS. HARE: Okay. Please proceed.

EXAMINATION-IN-CHIEF BY MR. SMITH:

MR. SMITH: Thank you. Why don't we just go through adopting the evidence first?

Mr. Isherwood, if I can -- or Ms. Cameron, perhaps I can begin with you.

I understand you are the manager, capacity management and utilization for Union Gas?

MS. CAMERON: Yes.

MR. SMITH: And that you have, prior to that, held the position of manager, strategic sales?

MS. CAMERON: Yes.

MR. SMITH: And that you held various -- you have held various positions in Union's S&T group since about 1996?

MS. CAMERON: Yes.

MR. SMITH: And that you have a bachelor of commerce degree from the University of Windsor?

MS. CAMERON: I do.

MR. SMITH: And you have testified before this Board on several occasions, most recently in Union's 2011-0038 case?

MS. CAMERON: That's true.

MR. SMITH: And were you responsible or did you assist in the preparation of the evidence at Exhibit C1, tab 3?

MS. CAMERON: I did.

MR. SMITH: And do you adopt that evidence for the purposes of testifying here today?

MS. CAMERON: I do.

MR. SMITH: And similarly, with respect to answers to undertakings given in respect to that evidence, do you adopt that for the purposes of testifying today?

MS. CAMERON: I do.

MR. SMITH: Mr. Isherwood, if I can turn to you, I understand that you hold the position of vice president, business development, storage and transmission?

MR. ISHERWOOD: That's correct.

MR. SMITH: And that is a title that you have had since -- beginning earlier this year?

MR. ISHERWOOD: I did. That's true.

MR. SMITH: Prior to that, you were general manager, business development, storage and transmission?

MR. ISHERWOOD: Yes.

MR. SMITH: That's a position you held since 2010?

MR. ISHERWOOD: Yes.

MR. SMITH: And before that, you were similar responsibilities with the title of director from about 2005?

MR. ISHERWOOD: That's correct.

MR. SMITH: And you've been with Union Gas since 1982?

MR. ISHERWOOD: Yes.

MR. SMITH: I understand that you have an MBA from the University of Windsor?

MR. ISHERWOOD: Yes, I do.

MR. SMITH: You have a bachelor of commerce from the University of Windsor?

MR. ISHERWOOD: Yes.

MR. SMITH: And that you have a bachelor of engineering, chemical, from the University of Waterloo?

MR. ISHERWOOD: That's correct.

MR. SMITH: You are a member of the professional engineers of Ontario?

MR. ISHERWOOD: I am.

MR. SMITH: I understand that you have testified before this Board on approximately a dozen occasions?

MR. ISHERWOOD: That's correct.

MR. SMITH: Including most recently in Union's 2011-0038 case?

MR. ISHERWOOD: Yes.

MR. SMITH: Members of the Board, just with respect to Mr. Isherwood, his CV is not at tab A1 or tab -- A1, tab 14, and we will have a copy made available.

Mr. Isherwood, do you adopt the evidence at Exhibit C1, tab 3, for the purposes of testifying today?

MR. ISHERWOOD: Yes.

MR. SMITH: And, equally, the answers to undertakings given in relation to that evidence?

MR. ISHERWOOD: Yes.

MR. SMITH: Ms. Elliott, I understand that you are Union Gas's controller?

MS. ELLIOTT: That's correct.

MR. SMITH: And that's a position you have held since 2008?

MS. ELLIOTT: Yes.

MR. SMITH: And I gather that you have been with Union Gas since about 1981?

MS. ELLIOTT: Yes.

MR. SMITH: In various finance or accounting-related positions?

MS. ELLIOTT: That's correct, yes.

MR. SMITH: And you are a chartered accountant?

MS. ELLIOTT: Yes.

MR. SMITH: And previously worked for Clarkson, Gordon, the predecessor to Ernst & Young?

MS. ELLIOTT: I did, yes.

MR. SMITH: You have a bachelor of mathematics degree from the University of Waterloo?

MS. ELLIOTT: Yes.

MR. SMITH: And you have testified before the Board on approximately two dozen occasions?

MS. ELLIOTT: Sure.

[Laughter]

MR. SMITH: You are a member of the CICA?

MS. ELLIOTT: I am, yes.

MR. SMITH: And a member of the ICAO?

MS. ELLIOTT: Yes.

MR. SMITH: And, Mr. Fay, I understand that you are the manager, underground storage Canada for Union Gas Limited?

MR. FAY: That's correct.

MR. SMITH: And that is a position that you have held since 2002?

MR. FAY: Correct.

MR. SMITH: And I understand that you have in various -- I guess began your career with Union Gas in 1980?

MR. FAY: Correct.

MR. SMITH: And you have a bachelor of engineering from the University of Waterloo, civil?

MR. FAY: Yes.

MR. SMITH: And that you are a registered professional engineer in Ontario?

MR. FAY: Yes.

MR. SMITH: And you are a past president and member of the board of directors of the Ontario Petroleum Institute?

MR. FAY: Correct.

MR. SMITH: And that you have testified before this Board on approximately ten prior occasions?

MR. FAY: Correct.

MR. SMITH: And do you adopt the evidence at Exhibit D1, tab 9, for the purposes of testifying here today?

MR. FAY: Yes, I do.

MR. SMITH: And, similarly, do you adopt the answers to interrogatories given in respect of that evidence?

MR. FAY: Yes.

MR. SMITH: Members of the panel, if you have a copy of the direct examination compendium, I just have a few questions in relation to that. And, bearing in mind my earlier discussion, I will be reasonably quick.

Can I ask you to turn to page 1? This appears to be an Interrogatory J20.10 given in the RP-2003-0063 proceeding, which I believe was Union's 2004 rate case.

I would draw your attention to the answer given in relation to question a), and there's a description of an exchange at that answer. And either Mr. Isherwood or Ms. Cameron, can you just take a moment to review that and tell the Board, if you could, how exchanges back in 2003 are different, if at all, from what you undertake now?

MR. ISHERWOOD: Yes. The definition that shows up on this first page actually is a definition that we will have seen through a number of different cases through the years.

An exchange is defined here as really between us and party A. So party A would give us gas at one location, and we would give party A gas in a different location on the same day.

And the only other condition we would put around that is that one of those two spots, either where we give customer A gas or where they give us gas, one of those two spots would be on our system and one would be off our system.

That is a pretty consistent definition going back pretty far into our history, actually. It is no different today than it was back in 2003. We would talk today, and we will be talking today, about exchanges, and some start in our system and some end in our system, but it is always with another party.

MR. SMITH: Just if you can give the Board some sense of it, for how long have you been engaging in exchange activity?

MR. ISHERWOOD: I think the first deferral account actually showed up in 1993, and, as I kind of researched back through some of our history, I found references as far back as '91 as being revenue in that year that was being earned on exchanges, which implies to me it was being done even before that.

So it goes back a number of years.

MR. SMITH: Can I ask you to turn over -- perhaps we can just identify it, but at Exhibit -- at pages 2, 3 and 4, what do we have there? Am I correct that this is an excerpt from your prefiled evidence in that case, in the 00 --

MR. ISHERWOOD: That's correct.

MR. SMITH: And if we can look at page 6 of the compendium, we have an excerpt from the decision. And just dealing with the question of deferral accounts, can I ask you to look over at pages 8 and 9 of the compendium and if you could just describe, Mr. Isherwood, the deferral account treatment that you referred to for exchange activity and how that has been treated by Union and the Board?

MR. ISHERWOOD: It's summarized on page, I guess, 8 and 9 of the compendium, but there are really two different sharing elements. The first is how much of that activity is built into the actual forecast.

So if we forecasted revenue going into the next year, how much of that would be shared between the ratepayer and Union's shareholder? And as described here, that shearing was done on a 90/10 basis. So based on our forecast 90 percent of what we had forecast as being revenue would be built on the actual forecast.

Then the deferral account itself would be set up for any changes in revenue relative to what was in the forecast, and that was shared 75/25, 75 to the benefit of the ratepayer.

And on this decision -- and this deferral account has evolved over time since '93, obviously, but the change that happened in this decision really was -- it is really found under Board findings on page 9 of the compendium, page 67 of the decision, the second paragraph:

> "The Board finds that symmetrical variance account treatment of these revenues is appropriate."

So this was really the first time that we got the symmetry on the account. Prior to that, we would actually have upside but not downside protection.

MR. SMITH: Ms. Elliott, maybe this can be for you, but when we're talking about deferral accounts, which deferral accounts are we talking about here or which deferral account? Oh, I'm sorry, I should have directed you to page 10, my apologies, and thereafter.

MS. ELLIOTT: The accounting orders in this material from page 10 through to page 13 are the accounting orders -- are the orders for those accounts that we have closed.

MR. SMITH: And were these the deferral accounts, these were closed back -- we'll come to it, but were these the deferral accounts that were in existence or were these deferral accounts in existence at the time of the 2004 case?

MS. ELLIOTT: Yes, they were. They were closed in either the 2007 rate case or subsequently in the settlement for the IR framework in 2008.

MR. SMITH: Well, we can, I think, put a bit more precision on that.

Mr. Isherwood, do you have Mr. Thompson's compendium handy?

MR. ISHERWOOD: I do.

MR. SMITH: And if you turn to his page --

MS. HARE: I'm sorry, Mr. Smith, I don't think we have that yet.

MR. SMITH: Oh.

MS. HARE: But since we're going to wait for it, I do want to ask just a question on your compendium, page 9, so that I understand what the mechanism was.

If we assume -- just so I understand this -- if we assume that the forecast was $10 million and so nine would go to ratepayers and one would go to the shareholder -- and you did 11, I understand that. That extra million goes in the deferral account to then be split 75/25, well, what if you only did $9 million? Did the deferral account and the symmetrical treatment apply? Or were you held to the forecast of 10?

MR. SMITH: We should ask Mr. Isherwood, but I believe that is correct.

MS. ELLIOTT: I think the language in the accounting order would suggest that the 75/25 sharing would apply on both sides.

Having never experienced that situation, I'm --

MS. HARE: Oh, you never had a downside?

MS. ELLIOTT: No.

MS. HARE: Okay. Moot point.

MR. SMITH: That's okay.

MS. HARE: Thank you.

MR. SMITH: It's -- well, I can't give evidence. That is not actually 100 percent true. There is a small problem with it, but...

The --

MS. HARE: We have the CME compendium, so we should give that an exhibit number.

MR. MILLAR: Yes. K6.5.

EXHIBIT NO. K6.5: CME COMPENDIUM.

MR. SMITH: Mr. Isherwood, just looking at page 8 of the CME compendium, Mr. Thompson has included here an excerpt from the 0520 case, which was Union's 2007 rate case.

And if I could ask you to turn under item 4.0, "S&T

deferral account proposal," what was Union's proposal at that time?

And you should probably look over at pages 8 and 9.

MR. ISHERWOOD: It actually shows up on the bottom of page 9 and a bit on the top of page 10.

But I will refer to page 24 of 39 of that exhibit, but page 10 of the compendium. Line 4, our proposal really was to eliminate the S&T transactional accounts at that point in time, and it was consistent with a view from the Board in the NGF policy paper in March of '05.

MR. SMITH: And what, then, would have happened to S&T revenues beyond that included in the forecast revenue requirement?

MR. ISHERWOOD: So I think the intent at the time and the purpose at the time was to build in an appropriate amount of revenue into the forecast, and then beyond that, the upside or downside would be at the risk of Union Gas.

MR. SMITH: Now, did those accounts actually get closed at that time?

MR. ISHERWOOD: No, not at that time.

MR. SMITH: If I could ask you, then, to turn over to Mr. Thompson's compendium, over a few pages to page 12, this is an excerpt from the settlement agreement that was entered into by the parties on May 15th, 2006.

And on page 12 of the agreement, page 21 of Mr. Thompson's compendium, can you just advise the Board of what had been agreed to at that time?

MR. ISHERWOOD: So this was really for the cost of service case in 2007. And although Union had proposed to eliminate the deferral accounts, the Board actually sent a letter and asked that that issue be moved to the incentive regulation -- well, a couple of letters, but eventually landed in the incentive regulation hearing.

So at this point in time, those deferral accounts were maintained through 2007 cost of service.

MR. SMITH: And so if I can ask you, then, to turn back to my compendium, at page 15, this is an excerpt from EB-2007-0606, Exhibit B, tab 1, page 11 of 48, paragraph 3, sir.

Can you tell the Board what Union was proposing then in its incentive regulation proceeding?

MR. ISHERWOOD: Still at this point proposing to eliminate the five S&T accounts.

MR. SMITH: And did that ultimately happen?

MR. ISHERWOOD: It did not. Not in the '07 cost of service case.

MR. SMITH: We are now in the --

MR. ISHERWOOD: Sorry, this is the incentive regulation case? Sorry. It did get -- they did get eliminated through the settlement.

MR. SMITH: So if you look over on page 18 -- "the parties further agree..." -- and is that where you are indicating that the parties had agreed to close certain deferral accounts?

MR. ISHERWOOD: That's correct.

MR. SMITH: And it may be useful to draw the Board's attention to this back in Mr. Thompson's compendium, and I apologize for bouncing around.

Can I ask you to turn to page 38 of Mr. Thompson's compendium?

And under item 14.1, we have an agreement, and what is it that Union had agreed to do with respect to S&T revenues in margin?

MR. ISHERWOOD: What Union had agreed to was to actually increase the S&T revenues -- in this case, actually, it is a margin number -- by 4.3 million.

So at that time, our margin forecast was 2.6 million, and by adding the 4.3, it took it to 6.9. And again, that's a margin -- margin, not revenue. And the 6.9 would have been then built into rates to provide rate relief for customers.

MR. SMITH: Can I ask you to turn back to the compendium -- my compendium again or our compendium again, at page 19.

You should have here Exhibit B2.2; do you have that, sir?

MR. ISHERWOOD: I do.

MR. SMITH: And there is a reference there to "DOS MN" and perhaps I should start by asking what "DOS MN" is.

MR. ISHERWOOD: DOSMN stands for Dawn overrun service must nominate; that is what the "DOS MN" stands for.

It was a service enhancement that TCPL added to FT contracts for the winter of 2008 and 2009.

They had previously sold some capacity from Dawn to markets east using the flexibility of their integrated system, and that flexibility really required to have a certain amount of gas flowing from western Canada down through the Great Lakes system and back into Dawn.

And they were actually projecting lower volumes than they needed to make that integrated system work the way they had planned, so they were going to be short gas supply at Dawn. If they didn't have enough gas coming into Dawn, they couldn't provide the services they had contracted for.

So for them it was a way of ensuring that they got the right amount of gas flowing to Dawn to ensure they could meet their firm obligations on their system.

And what they actually needed was 165,000 gJs a day of capacity; they could guarantee, know what's coming, and they actually offered that to the market, the FT shippers, based on how much demand charge you're paying relative to the totals FT on their system. So they kind of offered it on a pro-rata basis.

Depending how much FT you had on TransCanada and the demand charges you were paying, you would be allocated part of what they required.

So they were looking for 165,000 gJs per day for that winter, and Union Gas was allocated about 17,400 gJs per day.

And because we actually assigned some of our FT contracts to our industrials and other direct purchase customers, we offered those customers access to the same program that we had access to, and that actually was --

about 3,000 of the 17,000 gJs went to that part of the market.

So at the end of the day, Union Gas had about 14,400 of that service available to use for that winter.

MR. SMITH: And what financial benefit did that give to Union Gas?

MR. ISHERWOOD: Yes. The benefit to TransCanada was they were guaranteed the gas would flow and they could provide the services they had committed to.

And they offered that service basically, being transportation service from Empress Alberta to Dawn, at basically the firm commodity rate only, which is very low on TransCanada. Most of their tolls earn the demand charge and fuel.

So for a very low toll, we could flow gas from Empress to Dawn.

MR. SMITH: And how did you treat that benefit that you received?

MR. ISHERWOOD: For that year we had, in our gas supply plan, planned to buy gas at Dawn. So instead of buying gas at Dawn at the Dawn price, we actually bought gas at Empress and flowed it on this inexpensive transport to Dawn.

And the gas savings, the savings between what was in the plan versus what we had landed the gas at Dawn, was put through the transportation exchange account as an optimization activity.

MR. SMITH: And you were asked in this interrogatory whether Union had taken its pro rata share and whether the full benefits would, in effect, flow through to ratepayers.

And the answer we have below, which was what?

MR. ISHERWOOD: The answer was it actually flowed through the S&T transactional account, and to the extent that it helped us earn our forecasted amount, it was the first contribution, if you want, towards ratepayers.

And, ultimately, if it contributed towards earnings sharing, it would also contribute towards ratepayer benefit that way.

MR. SMITH: This was obviously the subject of some dispute in the 0220 case. And can I ask you to turn to page 21 of the compendium? What was the Board's decision with respect to that proposed treatment?

MR. ISHERWOOD: So on page 21, the second paragraph from the bottom under the title "Upstream Transportation Changes", it talks -- it gives the Board's decision in terms of agreeing with Union's position that ratepayers were already benefitting from the forecast that was built into rates. As well, it can ultimately contribute to earnings sharing, as well, and that this was normal activity towards the transportation exchange account.

MR. SMITH: A couple of other questions. We have filed at Exhibit J3.1 an answer to an undertaking given to Mr. Quinn, and that was to draw a chart.

If I could just ask that that be pulled up. And perhaps this is for you, Mr. Shorts, but could you just tell me what it is that we're looking at here?

MR. SHORTS: Sure. I will start from the bottom, just to give everybody an idea of what we're showing under this graph.

If we look at the blue area, the blue area represents the daily deliveries into Union's EDA for its in-franchise sales service and bundled customers.

This would exclude our transportation or T-service customers, because they are responsible for bringing their own transportation and supply into the zone each day.

If we go up to the first horizontal line at approximately 60,000, so that yellow line represents the contracted Empress to EDA Union long haul transportation capacity.

I will then move up to the green line, and the green line, which is just below 100, that is the long haul EDA to -- or Empress to EDA long haul capacity, as well as the firm short haul Parkway to EDA capacity that is contracted for.

I'm going to skip right up to the red line at the top, which is just over 160,000 shown, and that represents the contracted Empress to EDA long haul, the short haul firm Parkway to EDA I just mentioned, as well as our firm STS withdrawal rates.

And it is this line that is the firm capacity or the firm portfolio that is used to serve the design day in the plan for the EDA.

Now, a couple of things just to note. You will see that the yellow line or the EDA capacity, that long haul capacity from Empress to the EDA, really serves two purposes.

It not only serves as part of that portfolio of peak day or design day assets, but it also serves to meet those annual delivery needs.

So, for example, if you look at the area in the graph where the blue lines are below the yellow line, that would simply be a time period in which, on a given day, the demands coming into the eastern delivery area were in excess of the daily requirements, and that gas would be STS-injected into Dawn storage to be used later.

And, likewise, when the blue lines are above that, that firm pipe is supplemented by those other assets, so either the firm short haul or the STS withdrawal rates.

One thing to also note is that during this time period, from November of 9 to March 2012, that gas supply was purchased each and every day at Empress. So it was needed there for annual needs, and there was no UDC incurred because of those supplies.

MR. SMITH: Thank you, Mr. Shorts. And just a couple of last questions. We had similarly provided, as we agreed to do, an update to Exhibit B7.7, which was a response to an interrogatory in a different proceeding, the 0087 proceeding.

And, Ms. Cameron, perhaps this is for you, but I would just ask you to focus on the TCPL-Union CDA and just describe what is being captured under the optimization percentage referred to there.

MS. CAMERON: So Mr. Smith brought you to the last line on the graph, the Union CDA Empress to Parkway, and we have indicated we have optimized this 95 percent of the time.

Thinking back to what Mr. Shorts said about the graph, similar to the EDA, in the summertime the CDA would have similar load factors, that we wouldn't need all of the gas at Parkway in the summertime that we currently have demands for.

So we would contract for that by alternate arrangements and have that gas delivered directly to Dawn. And we have characterized that as optimization, because it didn't go to the Parkway delivery point and went straight to Dawn for storage.

In the wintertime, we would have contracted for this gas to go to Parkway, but our actual gas -- our gas plan on a design day dictates that that gas would be delivered to the WDA or the NDA - so think of North Bay, Sudbury area - to serve our design day requirements.

During this particular winter - and I think this was 2011 - we delivered that gas to the WDA and NDA on non-peak days. So just on an average winter day, we would deliver that gas to the WDA or the NDA, Sudbury, Thunder Bay, and we also dictated that as optimization.

It still went where the gas plan dictated it should go, but we did it on a more frequent basis. By doing so, that left some amount of capacity - think of North Bay to Toronto - unutilized and would create RAM credits.

So we would take this transaction -- all of these transactions were due to the RAM credit benefit that Union could receive from that, and we could use those RAM credits to offset exchange costs.

We will do these transactions, while RAM is in place, to earn the credits and offset exchange costs, but we won't do this without the RAM benefit.

MR. SMITH: May I ask you why that is?

MS. CAMERON: Once RAM ends, there will be no -- and financial incentive to transport the -- to leave unutilized pipe, we would only incur incremental costs with no market demand or no need for exchanges.

MR. SMITH: Mr. Isherwood, just picking up on that, just at a high level, assuming the FT RAM program is discontinued by TCPL as they are advocated, what do you foresee the impact on your exchange activity being?

MR. ISHERWOOD: Our 2013 filing has transportation exchange revenue at around $9 million. That's a level not unlike what we saw prior to RAM coming into -- really into being in 2008 in a big way. It existed before that, but in terms of large numbers and revenue, it is 2008 and beyond.

So our revenue from exchanges would go down to kind of a pre-RAM level of around $9 million.

MR. SMITH: Finally, Mr. Isherwood, just one last question.

We have heard some evidence very recently about Marcellus and the impact on Dawn. And how do you characterize that impact?

MR. ISHERWOOD: I think North America is going through a pretty fundamental change right now in terms of gas supply.

We see the Western Canadian Sedimentary Basin and even the Gulf Mexico in decline, and those are two basins that have been fundamental in supplying North America for many, many years, dating back to the '50s and '60s, for sure.

And as those basins are in decline, we're seeing, thankfully, luckily, shale gas evolving and developing all through North America in a very big way. Closest to us, obviously, is Marcellus and Utica, which is in Pennsylvania and Ohio, very close to Ontario.

So the good news is is we have increasing supply to offset decreasing supply. What we don't know is how that gas is going to flow to market.

At this point in time, there's not great connectivity between Marcellus, Utica and Ontario. There are projects to actually develop pipelines from Ohio into Dawn, but at this point in time all we have really seen is turnback of our capacity.

We've had major turnback of capacity starting in 2011, again in 2012, and we have already gotten notice for 2013. And when you add up the turnback we've gotten, it's close to a million gJs of supply or close to a pJ of transportation. That's about a fifth of our Dawn-to-Parkway capacity.

And in terms of what's going to happen between '14 and '19, the number that's exposed is very large. The number that we think is high-risk, though, is probably another 800,000 gJs a day of capacity.

So we look at the capacity on Dawn-to-Parkway being at risk.

We also have evidence that we are hopeful of growth, and the growth is also probably in the 800 to -- 800,000 to 1 pJ of growth, as well.

But it is a really uncertain time. We've definitely seen the turnback, and we are hoping for the growth.

MR. SMITH: Thank you. Those are my questions.

And I appreciate the Board's indulgence. Thank you very much.

MS. HARE: We will take our lunch break now, returning at 1:45.

--- Luncheon recess taken at 12:30 p.m.

--- On resuming at 1:53 p.m.

MS. HARE: Mr. Aiken, I understand you're first in the order of cross-examining this panel.

PROCEDURAL MATTERS:

MR. SMITH: Just by way of -- I always have something to say, but this time it is germane.

[Laughter]

MR. SMITH: Just by way of update, the day 4 undertakings have been filed.

MS. HARE: Very good. Thank you.

MS. HARE: Oh, sorry, since we did break, we see this are new cost allocation binders with updated evidence. So has everything been updated so we can replace the previous binders with the new binders?

MR. SMITH: Yes, for binders G and H.

MS. HARE: Okay, thank you. Did I say cost allocation? Okay, thank you. Then, Mr. Aiken.

CROSS-EXAMINATION BY MR. AIKEN:

MR. AIKEN: Thank you, Madam Chair.

Panel, could you turn to page 6 and 8 of Exhibit K1.1? This is the LPMA compendium from the first day of the hearing. This is Exhibit J.E-2-2-2. The question I posed earlier this week was referred to you, Ms. Elliott.

Page 6 and 8, it's on the screen there. In part d) of the question, I asked whether Union was proposing any protection through deferral or variance accounts with respect to the cost escalation risk and, in particular, to bad debt, vehicle fuel costs, company-used gas, unaccounted for gas or any other cost.

The response on page 8 indicates that Union was not proposing new deferral accounts in this proceeding.

So my question is: Can you elaborate on the deferral or variance accounts that will continue to protect Union from the cost escalation risks?

MS. ELLIOTT: The list of deferral accounts that we're proposing to continue in this proceeding is filed at Exhibit H1, tab 4, appendix B.

MR. AIKEN: And what do those accounts do, in terms of, for example, the protection related to unaccounted-for gas or company-used gas?

MS. ELLIOTT: So you're specifically asking about the cost escalation of these particular costs in the question, not just in general?

MR. AIKEN: Yes, those ones, in particular.

MS. ELLIOTT: For the cost escalation risk in bad debt, there is nothing that the company is proposing following the settlement agreement that deals with the cost escalation risk impact on bad debt expense.

The same goes for vehicle fuel costs. Variations in vehicle fuel costs will impact the earnings directly. There's no deferral mechanism to protect the company or the ratepayer against variations in vehicle fuel costs.

With respect to company-used gas and unaccounted-for gas, through the QRAM process or quarterly rate adjustment mechanism we have a mechanism to deal with the price variances on the Board-approved forecast amount.

So if the cost of gas goes up relative to how rates are set, that is adjusted through the quarterly rate adjustment mechanism for company-used and unaccounted for, but there is no protection on volume variances.

The only other cost escalation deferral mechanisms we have in place would be generally we have the cost of gas commodity deferrals, we have toll deferrals on the transport, and we have deferrals on DSM, the demand side management program.

We have a deferral or continue to have a deferral on IFRS conversion costs, but there is no new activity in that account.

That's the extent of our deferrals for cost escalations.

MR. AIKEN: Would it be fair to summarize that the protection going forward is the same as the protection you had in the past?

MS. ELLIOTT: Yes, absolutely.

MR. AIKEN: Okay, thank you. Panel, I have another compendium that I have filed and I put it on your desk at the break, the morning break. It is labelled "London Property Management Association Cross-Examination Compendium, Part 2."

Mr. Millar, if we could have an exhibit number for that, please?

MR. MILLAR: We can. Did you place copies of these at the desk here, Mr. Aiken?

MR. AIKEN: I did. It was on Mr. Viraney's chair.

MR. MILLAR: Oh... We have it now.

MS. HARE: The number, please, K6...

MR. MILLAR: Yes. K6.6.

EXHIBIT NO. K6.6: LONDON PROPERTY MANAGEMENT ASSOCIATION CROSS-EXAMINATION COMPENDIUM, PART 2.

MR. AIKEN: Ms. Elliott and others, do you have a copy of that?

MS. ELLIOTT: We do, yes.

MR. ISHERWOOD: We do.

MR. AIKEN: So if you could turn to the first page of K6.6, this is Exhibit J.DV-4-2-3.

This deals with the change in the wording for account number 179-70, the short-term storage and other balancing services.

The response to part a) seems to indicate that there are no sources of revenue that Union is currently aware of that may materialize in the future that would be based on the use of the utility storage space in excess of the in-franchise requirements that is not included in the proposed list of revenues. Have I got that correct?

MS. CAMERON: That's correct.

MR. AIKEN: Then this list of revenues is shown in the deferral account wording in Exhibit H1, tab 4, appendix C, which I have included at page 2 of the compendium, and I will read the relevant section. It says:

> "To record, as a debit (credit) in Deferral Account No. 179-70 the difference between actual net revenues for Short-Term Storage and Other Balancing Services including; Peak Short-Term Storage underpinned by excess utility storage assets, Off-Peak Short-Term Storage, Gas Loans and Supplemental Balancing Services and the net revenue forecast for these services as approved by the Board for ratemaking purposes."

Then in part b) of the interrogatory response, J.DV-4-2-3, I asked:

> "Does Union agree that any source of revenue that is received based on the use of the regulated utility storage space that is not included in the proposed list should be included in the deferral account?"

The response provided indicates that:

"Union expects to sell the space in excess of in-franchise requirements up to 100 PJ on a short-term basis."

Now, this response, while helpful, does not answer the question posed. Would Union agree to modify the wording in the deferral account to include, after the words "supplemental balancing services", the phrase, "and any other revenue generated through the use of excess utility storage assets"?

MS. ELLIOTT: As the deferral account is currently written, it's only the peak short-term storage in excess of the utility storage asset that applies to the utility storage assets.

Every other source of revenue going into this deferral account, we don't identify the assets that are associated with it. So 100 percent of those activities are currently going through this deferral account. There is no differentiation between utility assets and non-utility assets.

So the applicability for utility assets only relates to peak short-term storage.

MR. AIKEN: I guess my concern is we don't know what kind of services Union may develop over the next number of years that may be based on these excess utility storage assets.

So if there was a new service that was to be provided, say, two years from now, that was not defined as peak short-term storage underpinned by excess utility storage assets, would the revenues from that new service or new activity be included in this account, if they were underpinned by those assets?

MS. ELLIOTT: Yes.

MR. AIKEN: Okay.

Could you now turn to attachment 1 of Exhibit J.DV-2-2-1? This is on page 6 of the compendium.

This table shows the margins that would have been in account in 179-69 for the last three years had the account not been discontinued for the IRM period; have I got that correct?

MS. ELLIOTT: Yes, that's my understanding.

MR. AIKEN: Does the "Revenue" line at line 1 include FT RAM credits?

MS. ELLIOTT: It includes the exchange revenue earned as a result of utilizing FT RAM credits, yes, for optimization.

MR. AIKEN: Are there any costs associated with the FT RAM credits that would show up in line 2?

[Witness panel confers]

MS. ELLIOTT: If there were costs incurred to provide the service -- IT costs, for example -- they would be showing up in line 2, yes.

MR. AIKEN: Could you undertake to provide a version of this table that excludes the impact of FT RAM in the four years shown? Because my understanding, there is no FT RAM in 2013; is that correct?

MS. CAMERON: That's our forecast, yes.

MR. AIKEN: Okay. So could you provide a version of this table that would show, on an apples-to-apples comparison, everything that is left over, excluding the FT RAM?

MR. SMITH: Sorry, just one moment, Mr. Aiken.

Sorry. We'll do it. I'm pausing because I think we have now agreed to do this at least two other occasions; that's why I am pausing. We have broken out FT RAM so many different ways.

But I think we can do it. So if we've already done it, we will point to the interrogatory where it was done.

MR. AIKEN: That's because it is so damn well hidden in these numbers.

MR. SOMMERVILLE: That would also include a revision of the "Cost" line?

MR. AIKEN: Yes.

MR. MILLAR: J6.1, and just so the record is clear, Mr. Aiken, it is -- the chart is the one at J.DV-2-2-1, attachment 1?

MR. AIKEN: Yes.

MR. MILLAR: Thank you.

UNDERTAKING NO. J6.1: TO UPDATE CHART AT J.DV-2-2-1, ATTACHMENT 1, TO EXCLUDE IMPACT OF FT RAM.

MR. AIKEN: Now, if you go back to page 5, the question referred to the deferral accounts shown in Exhibits C3, C16, C33.2 in the EB-2007-0606 case.

In addition to account 179-69, there was account 179-

73, which was "other S&T services" account, and account 179-74, "other direct purchase services." And I believe those are actually listed in the direct examination compendium.

And my question is: Would you also undertake to add to attachment 1 the same type of information that would have been in accounts 179-73 and 179-74 for the 2010 through 2013 period, because essentially that was what the question was trying to get at?

MR. SMITH: I guess the question is -- we can do that, Mr. Aiken, but my understanding is we don't provide a number of the services that were previously reflected in the deferral account. So that's going to be the answer.

MR. AIKEN: And that would be fine. I would assume that would show up as declining numbers over this period.

MR. SMITH: Or zero.

MR. AIKEN: Or zero.

MR. SMITH: We will footnote it.

MR. AIKEN: That would be fine.

MR. SMITH: Yes, we will do it.

MR. MILLAR: J6.2.

UNDERTAKING NO. J6.2: TO ADD TO ATTACHMENT 1 THE SAME TYPE OF INFORMATION THAT WOULD HAVE BEEN IN ACCOUNTS 179-73 AND 179-74 FOR THE 2010 THROUGH 2013 PERIOD.

MR. AIKEN: If you could now turn to page 8 of the compendium -- this is Exhibit J.T.-1-1-3 -- this is an undertaking of Ms. Girvan to Ms. Cameron, or vice versa depending on how you want to word it.

This shows the year to date S&T actuals for 2012 compared to the forecast for the same period.

So based on the numbers there, am I correct that this shows that the total S&T revenue was about $7 million ahead of the forecast after three months?

MS. CAMERON: That's correct.

MR. AIKEN: Okay. Now, there are two line items that appear to be driving this variance.

The first is at line 4, which is the "C1 short-term transportation and exchanges" line, and it is about six million or 50 percent above forecast.

Am I correct that this is the line item that would have been in account 179-69?

MS. ELLIOTT: That's correct, yes.

MR. AIKEN: How much of the $6 million increase is related solely to the FT RAM credits?

MS. CAMERON: I don't -- I don't have the exact percentage, but I expect the large bulk of it would be due to RAM.

MR. AIKEN: So at least -- would you say or would you accept, subject to check, at least five out of the six million would be FT RAM-related?

MS. CAMERON: That would be speculation, but it doesn't sound unreasonable.

MR. AIKEN: Okay. Then the second driver is at line 10. This is "short-term storage services", which is about a million dollars above forecast.

Am I correct that this line item is covered in account

179-70 that was discussed earlier?

MS. ELLIOTT: That's correct, yes.

MR. AIKEN: Can you update this undertaking response to reflect year-to-date June actuals and forecasts, and could you also break out the FT RAM credits included in line 4 as a separate line item?

MR. SMITH: Yes, we will do that.

MR. MILLAR: J6.3. And again, just to be clear, the table is the one from JT1.13?

MR. AIKEN: Yes.

UNDERTAKING NO. J6.3: UPDATE TABLE FROM JT1.13 TO REFLECT YEAR-TO-DATE JUNE ACTUALS AND FORECASTS, AND BREAK OUT FT RAM CREDITS INCLUDED IN LINE 4 AS A SEPARATE LINE ITEM.

MR. AIKEN: So if we stay at this exhibit, JT1.13, am I correct that lines 10 and 11 are included in the "short-term storage and other balancing services" account, 179-70?

MS. ELLIOTT: That's correct, yes.

MR. AIKEN: And then line 4 would be covered under 179-69 if it were to be reinstated?

I think you confirmed that earlier?

MS. ELLIOTT: Yes.

MR. AIKEN: Would any other line items shown here be covered in a reinstated account 179-69?

[Witness panel confers]

MS. ELLIOTT: There may be -- in the M12 transportation line, the previous account 179-69 also included M12 transportation overrun and limited firm service. To the extent that those services still exist and are reported in line 1, they may be picked up in the deferral account.

But, generally, 179-69 was intended for short-term transportation and exchanges.

MR. AIKEN: Okay. And then what line items would have been included or what line items, if any, would have been included in account 179-73, other S&T services account? Would that strictly have been line 8?

MS. ELLIOTT: The revenue as line 8 would have been included in that account.

MR. AIKEN: And, similarly, what line items, if any, would have been included in account 179-74, other direct purchase services?

MS. ELLIOTT: The schedule you're referring to, storage and transportation services, would not have included any of the direct purchase services.

MR. AIKEN: Sorry. Were any of the other line items that we haven't touched on in this schedule included in any deferral or variance account in the past?

MS. ELLIOTT: No.

MR. AIKEN: Now, I understand that Union opposes the reestablishment of a variance account for the short-term transportation and exchange revenues relative to the Board-approved amounts built into rates.

What is Union's rationale for not reinstating such an account at this time?

MS. ELLIOTT: In this proceeding, we're relying on our forecast and not requesting a deferral account.

MR. AIKEN: So then if we go back to page 6 of the compendium, again, this is attachment 1 to J.DV-2-2-1. The gross margin shown for 2010, 2011 and 2012 are all significantly higher than the Board-approved margin in rates.

Am I correct that the Board-approved margin in rates reflected Union's forecast in its last rebasing application?

MR. ISHERWOOD: Actually, the margin in that, as included in rates, was actually adjusted in the settlement conference. We had a forecast of 2 million and a bit more, but call it 2 million. The settlement conference added 4 million, a margin to that, for a total of 6.9, I believe it was.

MR. AIKEN: This is what you mentioned earlier today?

MR. ISHERWOOD: Yes.

MR. AIKEN: So your forecast was in the neighbourhood of two, two-and-a-half million for each of those -- or for that year?

MR. ISHERWOOD: That's correct.

MR. AIKEN: Okay. Now, the average gross margin over the 2010 through 2012 period is about 26 million, while your forecast was in the neighbourhood of -- let's round it to 2.6 million.

And this is before we factor in an increase of revenues of $6 million for the first three months of 2012 that we have in the other schedule.

So my question is this: Why has Union's forecast been so bad? How much of this variance was related to the FT RAM credits, specifically?

MR. ISHERWOOD: The variance is largely attributable to the FT RAM credits and how we optimized those credits and made them into revenue.

MR. AIKEN: Did these FT RAM credits -- sorry, did these FT RAM credits exist at the time of Union's last rebasing application?

MR. ISHERWOOD: FT RAM is a program that started in actually 2004, November 2004, so a very small impact in 2004.

So it was actually in place since 2004, but when you look at the activity in our earnings from 2004 onward, it really started to occur -- the impact started occur in 2008.

MR. AIKEN: So then I guess on this issue of forecasting, if we go to Exhibit K6.4, which was the direct examination compendium filed this morning, and on page 3 of the compendium, this is your prefiled evidence in the RP-2003-0063 case. It is page 6 of Exhibit C1, tab 3 in that evidence.

At the bottom of the page, starting at line 20, it says:

> "The S&T transactional services market has declined dramatically over the last few years. The following summarizes some of the key market factors that will reduce the opportunities to

generate transactional services revenues at the same levels as has been generated over the last few years."

Then it goes on to list things like Enron, and counterparty risk, and summer/winter price differentials and so on.

How did your actuals actually stack up against your declining forecast from that case?

MS. CAMERON: To confirm, I believe you are asking what the actuals for 2003 looked like versus the forecast for 2003?

MR. AIKEN: No. I'm asking about the fact that your forecast was that your revenues were going to decline because of the reduced opportunities to generate transactional service revenues at the same levels as had been generated over the last few years.

So that was your forecast in 2003. How did that forecast stack up against what actually happened in 2004 through to the current date?

MR. ISHERWOOD: I think -- I'm not sure we have the information going back to 2003/2004, but I think what I said this morning was it is still valid, in that our forecast for 2013 for this category was a little over $9 million, and we compare that back to our S&T revenue for transportation exchanges in the period prior to the incentive regulation. And the $9 million is in that same range. It is probably the high end of that range.

MR. AIKEN: And what about during IRM? That's when that 9 million would have been substantially lower than what was actually recorded?

MS. CAMERON: When you look at -- actually, if I can take you to IR undertaking J.C-4-7-9 and attachment 2 of that response, and on line 1, you will see what our revenue has been since 2007 for what we would deem base exchanges.

And while everything on this page is an exchange service, we have tried to differentiate the exchanges we could provide without RAM, which is line 1, and the exchanges that we provided that were assisted by the RAM credits.

You will see that our exchange revenue for 2007 was about 3 million, and that escalates to maybe 8 and almost 10 million in 2011.

So that would be, if RAM didn't exist, what we would characterize as our exchange revenue for that period.

MR. AIKEN: So while we're on that attachment 2 of J.C-4-7-9, can you update us as to what your six-month actuals versus forecast for base exchanges are?

MR. ISHERWOOD: That's part of the undertaking, I believe.

MR. SMITH: Let's put it this way: If it's not, I'm happy to make it part of the undertaking.

MR. AIKEN: I'm just wondering which line item on JT1.13 on page 8 of my compendium that base exchanges is included in?

MS. ELLIOTT: It would be included in line 4.

MR. ISHERWOOD: It would be included in line 4.

MR. AIKEN: Is there anything else in line 4 other than the base exchanges?

MR. ISHERWOOD: There would also be C1 short-term transportation.

MR. AIKEN: Okay. That is why I would like to have it broken out separately, if possible.

MR. SMITH: Yes, that's possible.

MR. MILLAR: Would that be part of the previous undertaking, or would you like that marked separately?

MR. SMITH: Why don't we mark it separately?

MR. MILLAR: So J6.4.

UNDERTAKING NO. J6.4: TO PROVIDE BASE EXCHANGE FIGURE AS A SEPARATE FIGURE FROM COMBINED NUMBER IN LINE 4 OF JT1.13, PAGE 8, LPMA COMPENDIUM PART 2.

MR. AIKEN: And those are my questions. Thank you.

MS. HARE: Thank you, Mr. Aiken. I understand, in terms of logistics, Mr. Cameron, you are not available tomorrow until 2:30, so you would like to go today with cross-examination?

MR. CAMERON: If I could, Madam Chair, yes, though we've got an agreement among counsel that I won't start right away, but I -- because as I understand it, we don't expect to go all of tomorrow, I have to do my cross-examination today, but I just want to --

MS. HARE: That's fine. How long do you think you will be?

MR. CAMERON: That's difficult to call, because I just got here, but I am sticking to the hour estimate that I gave.

MS. HARE: All right. So, Mr. Quinn, I understand you are next. We will take a break around 3:00 if that's convenient.

MR. QUINN: Yes. That's fine.

MR. CAMERON: Then I could pick up after the break.

MS. HARE: Then you could pick up. That would work best. Thank you.

MR. SMITH: Madam Chair, just so that we're all on the same page, I had understood my friend, Mr. Quinn, to have indicated that he was going to be two hours in cross-examination.

MS. HARE: I have 90 minutes, but he will break at the break and then pick it up tomorrow morning.

MR. SMITH: Oh, okay.

MS. HARE: Is my understanding as to what's been arranged.

MR. QUINN: That's correct. To the extent Mr. Cameron asks questions I would have otherwise, then it may be less.

MR. SMITH: And if I may, when we break, I would just ask for some guidance from the Panel, a request to my friends for their estimate as to how long they think they will be, because I am, again, finding myself with a question about a panel.

MS. HARE: Right.

MR. SMITH: So we will have to make a decision on that.

MS. HARE: That's fine.

MR. SMITH: Thank you.
MS. HARE: Mr. Quinn?

CROSS-EXAMINATION BY MR. QUINN:

MR. QUINN: Yes, thank you. Good afternoon, panel. My name is Dwayne Quinn. I think I know most of you now. And I represent the Federation of Rental-housing Providers of Ontario.

Mr. Aiken was kind of going through the "what" and I am going to maybe start with the "who" and "how."

If I may start with you, Mr. Isherwood, I was encouraged by your participation on the panel, which wasn't in the original witness list, so when I went to look for the CV I didn't find it.

It seems like you have been -- had a minor change in responsibilities from the last time we met here.

MR. ISHERWOOD: That's true.

MR. QUINN: For the benefit of myself and hopefully the Panel, can you just help me with the scope of responsibilities that is underneath your authority at this time?

MR. ISHERWOOD: Sure.

MR. QUINN: If I may, I am referring to A1, tab 10, page 2. It might be helpful if we turn that up. It is an organizational chart that delineates the different areas under Mr. Isherwood's responsibility.

MR. ISHERWOOD: I will start without it.

So as the vice president of business development and storage and transmission, I have seven different direct reports that have basically seven different areas of responsibility.

Mr. Shorts is one of my -- on my team as director of gas supply. So the gas supply function is my area.

So I will just go across the top.

So Mr. Shorts is part of the group.

Mr. Fay, as manager, underground storage for Canada is also in my group, as well.

The manager of contract billing and operational support is really the back office part of all of the direct purchase activity, at Union Gas. That role reports in to me, as well.

General manager business development, Mr. Redford, who is appearing before the Board, I believe, next week is also a direct report, responsible for business development activities at Union Gas in terms of large storage, large transmission projects.

The manager of gas control capacity management and GMS, which is the operations side of our large pipelines and storage operations reports to me, as well.

The manager of product process developments, which is an area where we're developing new products and services also reports in to my area.

And finally, the S&T marketing account manager reports in to me, as well -- Patti Piett, for those that know Patti -- and she has accountability for some of the S&T marketing. Carol Cameron, beside me, reports in to Patty's group. The group also has accountability for some ex-franchise sales into the power market and into the US northeast market.

MR. QUINN: Thank you for the overview.

I am going to start at the high level and just ask a couple of more detailed questions after that.

I note that the box is shaded gray and it says: "Not a Union Gas employee."

Can you help me with that understanding?

MS. ELLIOTT: At the time that this evidence was filed in November, that position was held by Mr. Allan Capps, who is an employee of Spectra.

MR. QUINN: Okay. So Mr. Isherwood is at this time an employee of Union Gas?

MS. ELLIOTT: He is, yes.

MR. QUINN: Then this might make my next question a moot point, but I would like to ask for clarification, Mr. Isherwood.

Do you have any other employees reporting to you that are non-Union Gas employees?

MR. ISHERWOOD: Well, the other shaded box on that chart is the manager, underground storage, Mr. Fay, and he is officially paid through Westcoast, and Union Gas reimburses Westcoast for his salary.

MR. QUINN: Okay. I am going to -- one more question for you, Mr. Isherwood, then I will ask Mr. Fay.

So beyond Mr. Fay, I guess you're saying there is no other non-Union Gas employee under your reporting, reporting to you?

MR. ISHERWOOD: I believe not. Not as -- I'd say no.

MR. QUINN: Are there any other services that are not Union Gas services under your responsibility?

MR. ISHERWOOD: Yes. So I am also the president of St. Clair Pipelines.

MR. QUINN: Okay.

MR. ISHERWOOD: Also an officer of MHP Canada, and an officer of the Tipperary Pool, as well, Tipperary Limited Partnership.

MR. QUINN: And those organizations are held by Westcoast; is that correct? At least jointly owned in some areas? Maybe I will let you clarify.

MS. ELLIOTT: With the exception of the Huron Tipperary Storage Pool, the other organizations are Westcoast entities. Huron Tipperary is Union Gas-owned.

MR. QUINN: In whole?

MS. ELLIOTT: Yes -- sorry, no. Tribute Energy Resources owns a part of that.

MR. QUINN: Okay. That's what I thought. Thank you.

If I may, Mr. Fay -- and I respect that you have been kind of on the end there, and I wanted to give you a moment to get to the mic -- it's good to see you again, Mr. Fay, it's been a while.

You are responsibility, it sounds like, underground storage Canada. Can you provide to us an understanding of what that role encompasses in terms of Union Gas assets and any non-Union Gas assets?

MR. FAY: Yes. I'm responsible for the system planning, the geology and the reservoir engineering and drilling for Union Gas and the affiliates. And we do that through service-level agreements with the affiliates.

MR. QUINN: Would there be any other affiliates beyond the MHP Canada or Tipperary that would -- that haven't been discussed so far?

MR. FAY: Actually there is one other one I had forgotten about, but Airport Pool is a joint venture with AltaGas; it's a single facility joint venture.

MR. QUINN: So with the addition of Sarnia Airport Pool, Mr. Fay, that --

MR. FAY: Those would be the main ones, yes.

MR. QUINN: Okay. Thank you.

So to be clear, then, you have no responsibility or are not at work for any of these affiliates outside of the Union Gas franchise area?

MR. FAY: No.

MR. QUINN: Okay. So no MichCon, no -- nothing across the border?

MR. FAY: No.

MR. QUINN: Okay. Thank you.

There is one position, a couple -- there's two positions under here, Mr. Isherwood, that I wanted further clarification.

Straight down from Mr. Shorts is manager, upstream regulation; would that be the person responsible for managing interventions in TransCanada proceedings?

MR. ISHERWOOD: Yes. That role currently reports in to the S&T marketing account manager. So he reports in to Ms. Piett.

MR. QUINN: To Ms. Piett, but ultimately to you?

MR. ISHERWOOD: Yes.

MR. QUINN: Okay. Thank you.

And the other role that I had an interest, manager, gas control capacity planning, NGMS, can you help us with that role, what it encompasses?

MR. ISHERWOOD: Certainly. We have a gas control group out of the Chatham office, which is a control function for our entire system, from Kenora to Cornwall to Windsor. It's staffed around the clock, as you would expect.

So that whole function reports in to this role.

Also part of that is capacity planning in terms of -- I call it scheduling, but there's some folks that look at the entire system across the entire franchise, and on the day -- on the day and I would say out three or four days looking at what the volume requirements would be in each of the different delivery areas. So it would be looking at weather patterns and market patterns in the WDA EDA, for example, and detailed analysis for the day, detailed analysis for tomorrow, and then looking out at a little higher level as you get further out.

Then the third part of that is GMS, which is gas management service. When you talk about scheduling gas on our system, if you're a customer wanting to use our system you have to make a nomination.

So if I was wanting to move gas from Dawn to the EDA and you are a customer of Union Gas, and you send a request into Union Gas - a nomination, we call it - and they would handle all of that process.

So all of those I consider to be kind of the operational side of my group.

MR. QUINN: Thank you. That was helpful just to understand the organization, as we struggled a little bit the other day with what I used to call panel 2, and you being panel 3. We were trying to work out whose responsibilities lay where. So hopefully this will help me direct my questions and understand what capacity each of your respective areas hold.

In that regard, we're glad to see Mr. Shorts join us, because we had a little bit of challenge with what I called vernacular, but I think we left some uncertainty around the storage transportation service the other day.

I would like to, if I may, just make sure we have a clear definition of storage transportation service. So if I could help create a simpler definition, in a pragmatic sense, Mr. Shorts, I liken STS to like a bank account.

By making FT firm transport deliveries, you create an injection -- you create an injection or, from a bank account perspective, you create a deposit. Are you with me so far?

MR. SHORTS: You can STS inject if you use your long haul firm to inject into that STS account.

MR. QUINN: Okay. So that's the same as what I said, or did I miss some differentiating feature?

MR. SHORTS: You can also -- like a bank account, if you have overdraft protection, you could withdraw more than what was in that bank account.

MR. QUINN: Okay. Well, we will get to that in a moment, then.

MR. ISHERWOOD: I think the one differentiation Mr. Shorts was making was you can't buy gas at Dawn and put it into the STS account. It has to come off the TCPL system from the EDA or WDA, for example. Then it is counted as an injection into the account.

MR. QUINN: It has to come from the EDA system, as an example. Let's use EDA to make it simple, Mr. Isherwood, and that has to be coming long haul transport to the EDA?

MR. ISHERWOOD: That is coming long haul transport into Ontario.

MR. QUINN: The long haul transport to your service area, in this case, the eastern delivery area, creates a deposit like it would into a bank account?

MR. ISHERWOOD: Yes, the gas that is required in the EDA that day. You can go back to the graph Mr. Shorts talked about this morning. You say the kind of sine waves, the peaks and the valleys. That whole valley period, you would be expecting injections into the STS account.

MR. QUINN: We will get back to those graphs, but I just want to take this one step at a time, because unfortunately I didn't get clarity.

So like a bank account, you make your deposits in good times, like you're talking about when the gas is not needed in the EDA, to create capacity to withdraw it when you need it. Would that be an appropriate analogy?

MR. SHORTS: We create the supply in the STS account for when you could need it, yes.

MR. QUINN: Okay. So can I extend that analogy? If you have this FT contract and you have an STS contract that provides you a maximum daily withdrawal -- so in an everyday sense, like with a bank account, could your STS rate, your maximum daily rate, be likened to the bank card that allows you a maximum daily withdrawal?

MR. SHORTS: You can withdraw your STS up to your maximum allowable STS withdrawal contracted level, regardless of what you had as a bank account in the STS account.

MR. QUINN: So this is the overdraft protection that you were referring to before?

MR. SHORTS: Correct.

MR. QUINN: And help us with how that overdraft protection works from the STS point of view.

MR. SHORTS: So say, for example, you spent a period of time that you were flowing your long haul and you were injecting into that STS account. You could build up a positive balance.

You could then continue to STS withdraw all the way to zero, and then you could continue to withdraw past zero and you would have to pay an incremental fee to do that.

MR. QUINN: That incremental fee, is it significantly greater than the commodity charge that you would pay for a normal STS withdrawal if you had a positive balance?

MR. SHORTS: So, for example, in the EDA, that withdraw cost is an incremental 7 cents a gJ.

MR. QUINN: And how does that compare to the commodity cost relative to a normal STS withdrawal?

MR. SHORTS: I'm not exactly sure what the commodity cost is on the STS withdrawal.

MR. ISHERWOOD: STS is tolled very much like short haul. So it is a demand charge for the month, and it would go from Dawn to the EDA or Dawn to the NDA, for example. It is essentially a short haul service.

I don't want to leave the impression it is actually a storage account being used here. It is really a notional storage account.

MR. QUINN: It is like a bank account. That is where we struggled the other day, Mr. Isherwood, so I'm just trying to get clarity.

MR. SMITH: Sorry. The problem with analogies is they're not always perfect. Just let the witness answer the question.

MR. QUINN: I was asking about the commodity charge, not the demand charge, so that's why I was trying to clarify, Mr. Smith.

MR. SHORTS: If we look at D3, tab 2, schedule 5, and you go to the STS firm withdrawal, you will see a commodity charge of 0.18, which is 1.8 cents per gJ.

MR. QUINN: Does that same schedule have -- I guess it does not have the penalty charge on there?

MR. SHORTS: No, it does not.

MR. QUINN: In simple numbers, you're talking about 1.8 cents for -- on a standard commodity withdrawal for STS if you have a positive balance, and approximately 7 cents if your balance is less than zero?

MR. SHORTS: Seven cents on top of the 1.8.

MR. QUINN: Thank you. That's a good clarification.

So with that clarification, that is a point we didn't understand the other day and that is helpful.

I'm going to continue on, but I'll come back to the actual.

So would you agree with me, then, that you are using your STS service to help manage your high consumption days, your peak days, mostly in the months of January and February?

MR. SHORTS: We are using STS withdraw on a planned basis, as you can see on the graph, to serve high level loads above that firm -- that yellow line plus the green line. That would be where we would be required on an actual basis to use those STS withdrawals.

MR. QUINN: Predominantly that would be January and February of the actual utilization, from a plan -- on a planned basis, Mr. Shorts?

MR. SHORTS: Yes, on a planned basis, you're looking at -- I would expect it to follow much in the same way as this one has been on an actual basis. So you would be looking at certainly between December and March, the whole winter period, basically.

MR. QUINN: But if Mr. Quigley has put together his annual gas supply plan, would it not be reasonable that most of the STS would be used in January and February?

MR. SHORTS: It could be. I don't know the specifics of when he has planned to actually have the STS withdraws being utilized. But they would certainly be being planned to be utilized in January and February, for sure.

MR. QUINN: Okay, thank you. And because you used March 1st as your last day of a potential peak day?

MR. SHORTS: I believe so, yes.

MR. ISHERWOOD: But you would be using STS -- any time you need volumes above -- above the gold line on that chart, you would be using STS. So it's not necessarily just on peak days. It is going to be all winter long, any time you are above your average.

MR. QUINN: Well, that's -- okay. So when you hold -- if you are holding this STS contract and you are making your increases in your balance or your deposits using long haul firm transport, but you assign that long haul firm transport to another party, you do not have the opportunity to make deposits to your STS balance; is that correct?

MR. SHORTS: If we were not delivering the long haul, we would not be able to STS inject.

MR. QUINN: Okay. So the assignments we were discussing -- we spent a good amount of time the other day, which generated this undertaking and the graph.

When Union assigns its FT contracts to a third party, then, the opportunity to make these STS deposits is lost?

MR. ISHERWOOD: That's correct.

MR. QUINN: Okay. And I respect that you would not have this handy, but an additional layer of understanding has been gained by Mr. Shorts talking about the overdraft protection, and I guess I would like to ask, for the period that's on the graph, if it would be a difficult undertaking to look at the amount of STS premium service that was used during that time period.

Would you know if that premium service of 7 cents was drawn on during that time period, Mr. Shorts?

MR. SHORTS: Mr. Quinn, any situation where we are utilizing the STS withdraw and we are into that premium, as you call it, situation, those costs are completely borne by S&T, and the in-franchise customers are not subject to those costs.

They would just pay the standard commodity cost, not any incremental premium cost.

MR. QUINN: Where would we see that in -- maybe this is a question for Ms. Elliott. Where would we see that in any of the filings to understand how those costs are differentiated?

MS. ELLIOTT: I'm not sure that you would see a breakdown.

STS costs are part of our cost of gas expense in our financial statements, so as the costs are incurred, they are expensed on the income statement.

MR. QUINN: That's true of cost of gas, but the traditional cost of gas that is a commodity flow-through, you're not talking about that cost of gas?

MS. ELLIOTT: That's right. There is no deferral mechanism on the STS charges, other than the toll changes from TransCanada.

MR. QUINN: But the STS commodity charges would flow through to your gas commodity costs, would they not?

MS. ELLIOTT: No. They don't. STS is treated as a storage cost; it's not subject to deferral.

MR. QUINN: So it would be under load balancing?

MS. ELLIOTT: We classify it as a cost of gas. It's a third-party cost, recorded in our "cost of gas" line as part of the expense.

MR. QUINN: Okay. I think I will need to consider that, but I appreciate the clarity that's been provided.

So you turned us back, Mr. Shorts -- again, we have it up on the screen, so I think this might be a good time to deal with it directly.

The graph, as was explained this morning, provided some of what we were looking for in terms of clarity of understanding, how Union actually contracts versus how it actually utilizes the capacity.

If I may ask -- and turning your attention to the yellow line, the yellow line as described in the legend at the bottom says: "Contracted Empress-to-EDA long-haul, net of in-franchise assignments."

Can you help me with why it was developed on net of in-franchise assignments?

MR. SHORTS: Sure. There's a very small volume -- I don't have the exact number -- certainly I believe less than 1,500 gJs a day -- that we have temporarily assigned to T-service customers. They were once bundled, but they went T-service, and so they asked us for assignment on a temporary basis of the TransCanada capacity, to allow them to manage that on their own.

MR. QUINN: So this is different than the ex-franchise assignments that we have been discussing?

MR. SHORTS: Correct.

MR. QUINN: I just want to make sure we all have clarity on that.

So similarly, the purple line that is drawn near the top has that similar stream of assigned T-service capacity removed?

MR. SHORTS: No. Actually, the purple line was the response to Undertaking 3.7, which was to net off the annual assignments.

MR. QUINN: But you've got annual in-franchise assignments again.

MR. SHORTS: No. Annual and in-franchise assignments, because it is all additive.

MR. QUINN: Right. So the in-franchise assignments is removed from the purple line also?

MR. SHORTS: Yes. As it is removed from all through it, yes.

MR. QUINN: Okay. So how long has Union been using STS to supplement its firm long-haul deliveries?

MR. ISHERWOOD: As far as back as I can remember. It goes way back.

MR. QUINN: So...

MR. ISHERWOOD: '80s, '70s. I don't know. Way back.

MR. QUINN: Okay. So you -- your guess was --

MR. ISHERWOOD: Actually, Ms. Cameron has the answer to that question.

MS. CAMERON: Actually, I think, Mr. Quinn, if you look to the compendium that you filed with this, and on page 5, actually, if you look towards the middle in the "CDA" section, you will actually see -- you really just have to go the --

MR. QUINN: Ms. Cameron, if I may, I had tried to do this in sequence, but I think it is an appropriate time that we ask for an exhibit number, so that everybody can be --

MS. CAMERON: Oh, certainly.

MR. QUINN: -- looking at the same compendium.

MR. MILLAR: This is the FRPO compendium. It says "for witness panel 3" but it is for the ex-franchise panel. K6.7, and we will bring copies up for the Panel.

EXHIBIT NO. K6.7: FRPO COMPENDIUM FOR EX-FRANCHISE PANEL.

MR. QUINN: That's my apology. I continue to refer to this as panel 3 in my planning. We switched panel numbers around, so this is the ex-franchise panel.

MS. HARE: Do we have copies? I don't think we do. So this is 6.7? Thank you.

[Mr. Millar passes out the exhibit]

MS. HARE: So we are on page 5 of this compendium; is that correct?

MS. CAMERON: Yes. If you go to page 5 of the compendium, in the seventh grouping of customer information, you will see "Union Gas" is in the middle of that, and the first "Union Gas" line, it starts with 11, 4-2.

The contract start date is listed there as April of 1992, and that refers to the STS service. I can't be certain that it didn't exist before then, but I think this does support that it has existed for quite some time.

MR. QUINN: So historically this service was used for some time to be able to meet peak winter demands. When did Union --

MR. ISHERWOOD: Actually the purpose of the service is to make sure the FT contracts can flow on a hundred percent load factor, or as close to that as possible.

So it not only helps you serve the winter peak, but also helps you serve the summer valley and provide a spot for that to go back to Dawn. So it really is a very unique tool. It is a great service TCPL offers that allows us to balance our system, summer and winter.

It is just as important in the summer as it is in the winter. Otherwise gas would be very expensive in Ontario.

MR. QUINN: Okay. Well, I am trying to work backwards from the graph into where Ms. Cameron led us, but I think I will just do it this way.

The gas supply panel has a five-year plan and it is annually renewing, and I guess my question is: How do they determine what STS withdrawal capability would be needed for a particular winter?

MR. SHORTS: So when we would gather the demands, we would get a forecast of all of the demands, when they were expected to occur. We would also have the design day information related to that, and then we would, through the SENDOUT model, determine when and how STS withdrawals, for example, could, would and would need to be required during the winter period.

MR. QUINN: Okay. And with that, then, would you then establish some form of target for STS injections to be able to carry a balance into the winter?

MR. SHORTS: There would certainly be a planned target, but as I mentioned before, from the perspective that if the S&T activity drove us into the negative area, that would not be a cost that would go to the end-use customer in that case.

MR. QUINN: So are you telling us, then, if you ran into a zero balance in your STS account, that if you had incremental needs to your delivered gas into a delivery area, that your first, I guess, recourse would be to deliver STS overrun? I'm using that term; is that the correct term for STS when you have a zero balance?

MS. CAMERON: The service would continue to be a firm service, but we would pay an incremental fee, the 7 cents, to reflect that there wasn't a balance in the account.

MR. QUINN: And would that be your first alternative for bringing additional gas into the delivery area if you found yourself short?

MS. CAMERON: The STS service would be continued to be used, yes; it is the alternative. We would continue to use it as planned.

MR. QUINN: Okay. So how do you differentiate that cost, then, to Ms. Elliott's point that it is being streamed off? Does that come through -- does that come through your area, or does it go through capacity utilization?

MR. ISHERWOOD: I am not sure I understand the question.

MR. QUINN: If you choose through the -- let's say the month of February you don't have a STS balance -- you receive significant overrun charges -- who is responsible to take that cost and say: That's being borne elsewhere?

MR. ISHERWOOD: The S&T group would absorb that cost into their overall model or business.

MR. QUINN: And so the capacity utilization people differentiate that cost? Or who does that separation?

MR. ISHERWOOD: Actually, they would be able to identify the fact that we would be in the situation where we're paying the penalty, and they would identify that. It would actually show up on the TCPL invoice for that month's activity.

MR. QUINN: Okay. So I am focussing in this capacity utilization because it goes into my next question.

Clearly - maybe I will start a step back, because I was asked by the second panel to ask this of the ex-franchise panel, Mr. Isherwood, to you, that when you are delivering gas, you've got a contract, and I will use the EDA as example.

My understanding is the gas need not in the summer arrive in the EDA if your flows are low, like is evidenced on this graph.

MR. ISHERWOOD: Right.

MR. QUINN: Who tells the assignee where the gas should go?

MR. ISHERWOOD: Who do you identify as the assignee?

MR. QUINN: A third party. Whoever you have assigned the capacity to, they are to deliver gas, but they need not deliver to the EDA, because its ultimate destination is Dawn.

MR. ISHERWOOD: Right.

MR. QUINN: My first question is: My understanding is it does not need to go the EDA? It can be diverted to Dawn?

MR. ISHERWOOD: So the one option would be we would just leave the contract from Empress to EDA empty, and we would flow from Empress to Dawn on IT and we would do that ourselves. That's one option.

MR. QUINN: Okay. I want to break this down, if I may stop you there.

What you're saying is you now take back the responsibility somehow of landing the gas in Ontario?

MR. ISHERWOOD: The S&T group will optimize the gas supply plan, and, again, a lot of these decisions are made because of FT RAM being a feature of FT.

So if there's economics and if the market requires exchanges, and we try to generate FT RAM credits, one way of doing that would be to leave the Empress to EDA contract empty. That would create FT credits -- or IT credits, sorry, and we would flow that gas from Empress to Dawn on an IT basis.

MR. QUINN: So what you've just described, then, is not an assignment. This is a choice by Union to leave the pipe empty, bank the credit and find a cheaper path to Dawn?

MR. ISHERWOOD: And what happens in that case --

MR. QUINN: Sorry, is that correct?

MR. ISHERWOOD: That's correct. And, Mr. Quinn, just to expand on that, when we do the IT volumes from Empress to Dawn, that path is going to be cheaper than the path from Empress to EDA.

So at the end of the day, we will end up with extra FT credits and we will do other market-based exchanges to derive value out of that. But as the gas supply panel testified to, in all of that case, we're still buying the same gas at Empress and we're still delivering that same gas to Dawn; just on that day we're doing it differently. And I call that option A.

Option B was the option that you had started your question with, which was we assigned the Empress to EDA contract to a third party, and, as part of that deal, they would deliver gas, the same volume of gas we bought at Empress, to Dawn.

So both option A and option B have exactly the same result. They just pay us the differential, if you want, as an S&T benefit.

MR. QUINN: Okay. I want to camp on that second alternative, because that's what I was trying to ask, but I appreciate the understanding on the Union-held S&T, FT RAM scheme that you had.

So the assigning of the Empress to EDA contract, the third party then has the choice to go to Dawn, or do you tell them on any given day where they should land the gas?

MS. CAMERON: We provide the direction where we want the gas to arrive.

MR. QUINN: Each month, or during the winter is it more frequently?

MS. CAMERON: For the term of the transaction. So if the transformer was a one-month transaction, we would tell them for -- the delivery point will be consistent for the term of the transaction.

MR. QUINN: Okay. So on an annual transaction, you will tell them where to deliver the gas each and every month?

MS. CAMERON: For an annual transaction we would say, for the winter months, deliver it at location A, and for the summer months, deliver it at location B.

MR. QUINN: Okay. Now, would location A --

specifically, if the gas is EDA, would location A be,
Deliver the gas in the EDA for the winter months?
     MS. CAMERON: It could be.
     MR. QUINN: You've got a contract. You've got a defined need to go to the EDA, but you're saying would assign away that contract and tell them to transport the gas somewhere else?
     MS. CAMERON: I could have them deliver it to a different delivery area, yes.
     MR. QUINN: So the northern delivery area, the western delivery area?
     MS. CAMERON: Yes.
     MR. QUINN: I guess my question would be: Why wouldn't you contract for those delivery areas if that's what your need is? If you know a year in advance, 12 months in advance, of a gas year that your needs are in the northern delivery area not the eastern delivery area or let's use western delivery area -- well, let's use the western delivery area.
     If your need is in the western delivery area, why are you contracting for the eastern delivery area?
     MS. CAMERON: I'm sorry, I'm not -- could you be more specific with your question?
     MR. QUINN: Okay. You have an annual contract -- maybe what we should do is turn up J.C-4-7-10.
     If our ready-reference person could keep that other graph handy, we might need to flip back to it.
     So attachment 2, I believe it is of that -- sorry,

attachment 1, my mistake -- has the amount of assignments, capacity assignments. Now, to differentiate, these are not the in-franchise customer assignments that Mr. Shorts was talking about before. These are ex-franchise customer assignments; is that correct?

MS. CAMERON: Yes.

MR. QUINN: Okay. So if we just start -- because I am going to try to stay consistent with the chart, if we start in November of 2009, you have 80,000 gJs that stems through from November 2009 to October 2010, a minimum of 80,000 gJs.

I think if we're interpreting your graph correctly, that was annualized assignment?

MS. CAMERON: That is not correct.

MR. QUINN: Okay. Help us with that.

MS. CAMERON: If I can take you to the undertakings that were filed I believe last night --

MR. QUINN: J3.6?

MS. CAMERON: Yes.

MR. QUINN: I was going to go there next. Thank you.

MS. CAMERON: And if you look at line 26 -- oops, sorry. I apologize. Line 19, you will see that there is an annual assignment for the eastern zone for 60,000 a day.

And I believe just now, I believe Mr. Smith mentioned that we had also filed the undertakings from day 4, and if you could look to Exhibit J4.2? And, once again, we're looking at the same time period. You will see on line 10 there is an assignment of 20,000 a day, and on line 11 an assignment of 60,000 a day. That will reconcile to the 80,000 that was in the original attachment that was filed as an undertaking.

So when we look at the amount back on J3.6, and I apologize for flipping back and forth, but that an annual assignment of 60,000, no more of that is the 20,000 of EDA.

So the 20,000 in EDA capacity that was demonstrated on the graph is all of the capacity that was assigned on an annual basis. It wasn't 60,000. It wasn't 80,000. On an annual basis, 20,000 of capacity was assigned to the EDA.

MR. QUINN: So you're saying 20 -- I'm sorry, 60,000 -- I'm looking at J3.6, and I think what you have on the screen here is -- this is the challenge with technology, but that is J4. -- oh, it's 3.6, okay.

So you have 60,000 gJs to the eastern zone. Let's just focus on that. That is an annual assignment?

MS. CAMERON: That is an annual assignment made up of 20,000 to the EDA and 40,000 to the CDA. So that 20,000 is the same 20,000 that we would see on the chart that we've looked at several times today.

MR. QUINN: Okay. Well, then just so -- and this is all in the eastern zone? That's why you've got the EDA and CDA?

MS. CAMERON: Yes.

MR. QUINN: So for the annualized -- I am conscious of the clock. I think I would like to ask for the winter, starting November 2009 to March of 2012, can you tell us, of that annual assignment, where you had the gas directed, where you had your assignee direct the gas to for each month during that period?

MR. SMITH: Yes, we will do that.

MR. QUINN: Okay. And what I would like to ask, that if you could also add to that what the demand charge -- multiply out what the demand charge would be to the eastern zone versus where you had the gas directed, and what the difference of cost would be for any of those months.

If there is a difference, if any of the eastern zone gas has been directed to another zone, what the difference in demand charge is between the respective zones, and multiply that by the number of units delivered for that month.

MS. CAMERON: You're interpreting costs -- you mean the TransCanada toll?

MR. QUINN: Demand charge for the TransCanada toll.

MR. SMITH: Yes, we will do that.

MR. QUINN: Okay. I think that is an appropriate time to break, thank you.

MR. MILLAR: J6.5.

UNDERTAKING NO. J6.5: TO ADVISE WHERE UNION DIRECTED ANNUALIZED ASSIGNMENT OF GAS FOR EACH MONTH BETWEEN NOVEMBER 2009 AND MARCH 2012; TO MULTIPLY THE DEMAND CHARGE TO THE EASTERN ZONE VERSUS WHERE THE GAS WAS DIRECTED, AND TO ADVISE THE DIFFERENCE IN COST BETWEEN THOSE PLACES FOR ANY OF THOSE MONTHS; AND IF THERE IS A DIFFERENCE, IF ANY OF THE EASTERN ZONE GAS HAS BEEN DIRECTED TO ANOTHER ZONE, TO PROVIDE THE DIFFERENCE IN

DEMAND CHARGE BETWEEN THE RESPECTIVE ZONES, AND TO MULTIPLY THAT BY THE NUMBER OF UNITS DELIVERED FOR THAT MONTH.

MS. HARE: Thank you.

MR. SOMMERVILLE: That is November to March?

MR. QUINN: Yes, November of 2009 to March of 2012. Thank you.

MS. HARE: Thank you.

We will break until 3:20.

--- Recess taken at 3:03 p.m.

--- On resuming at 3:28 p.m.

MS. HARE: Please be seated. Before we proceed to Mr. Cameron's cross-examination, Mr. Smith, I wanted to ask about the question that Mr. Wolnik on behalf of APPrO left that was then deferred to this panel.

Is this panel prepared to respond?

MR. SMITH: Yes.

MS. HARE: Yes?

MR. SMITH: They can answer the question, and I can just read it in, if that is suitable.

MS. HARE: Please, yes.

MR. SMITH: But before I do that, subject to the Board's guidance, of course, and based on what I understand to be the time estimates remaining, I would not propose to have our panel come from Chatham for the finance panel for tomorrow afternoon. I project, based on current cross-examination estimates, that they would be called after the lunch hour tomorrow.

I am in your hands.

MS. HARE: What do the time estimates take you to, if we start at 9:30?

MR. SMITH: Well, if we start at 9:30, I understand Mr. Cameron has an hour, which would take us through the balance of today.

MS. HARE: Today, yes.

MR. SMITH: I understand that Mr. Quinn has another hour. That would take us to 10:30.

MS. HARE: Yes.

MR. SMITH: If we were to resume at 10:45, I understand that Mr. Buonaguro has somewhere around approximately 15 minutes or so, and that would be 11 o'clock.

And I understand that Mr. Thompson has at least -- has an hour and a half, and Mr. Brett has half an hour to 45 minutes, I believe.

MS. GIRVAN: Sorry, we may have 15, 20 minutes.

MR. SMITH: So I think at the earliest we would be looking, based on those estimates, at the afternoon break.

MS. HARE: I think that is reasonable, particularly since we're not sitting on Monday. There is no point in bringing people from Chatham on a Friday for an hour and a half.

MR. SMITH: I appreciate that. Thank you very much.

MS. HARE: Okay. Mr. Cameron, please.

MR. SMITH: I'm sorry, Madam Chair. I think you wanted me read in Mr. Wolnik's question.

MS. HARE: Yes, I did, sorry. I raised it and I forgot.

MR. SMITH: Not at all. I diverted you, no pun intended.

[Laughter]

MR. SMITH: There's nothing funnier than a glass supply joke.

[Laughter]

MR. SMITH: Cross-examination, this is from page 168 of the transcript on day 2, members of the Panel.

The question is:

> "Do you have a forecast of the earliest reasonable time when those attributes..."

And that's a reference to FT RAM:

> "...could be phased out if the Board approves that within the TransCanada rate case?"

MR. ISHERWOOD: So when we filed our initial evidence, it was all based on a forecast that we did back in the spring of '11, essentially, and at that point we had assumed that FT RAM would end on November 1st, actually, of this year.

The NEB process has taken a bit longer than we had expected back in the spring of 2011. That process should now end -- the end of September is the timeline that people are thinking, with a decision from the NEB to follow.

That question was asked of TCPL. Assuming they get a decision from the NEB end of year, early next year, when would they be able to phase in the new framework? I believe the answer they gave was May of 2012.

MS. HARE: 2012 or 2013?

MR. ISHERWOOD: Sorry, 2013. I'm not sure if some of the easier elements, like eliminating FT RAM, may be sooner, but in terms of total framework, they're saying May of 2013.

MR. SMITH: Thank you.

MS. HARE: Okay. Mr. Cameron, please.

CROSS-EXAMINATION BY MR. CAMERON:

MR. CAMERON: Thank you. Mr. Isherwood, we heard your impressive list of responsibilities at Union and its affiliates. Is it a term of your contract that you not take up hang gliding?

MR. ISHERWOOD: Sorry, I didn't hear the last part.

MR. CAMERON: That you not taking hang gliding.

MR. ISHERWOOD: Yes, absolutely, or sky diving.

MR. CAMERON: I am going to -- I tried to get you out of this, Mr. Isherwood, by punting the questions to Mr. Redford based on a comment made last week -- or, sorry, I guess it was earlier this week, to the effect that Mr. Redford was the one who knew about these St. Clair contracts, but I understand you volunteered to try, at least.

MR. ISHERWOOD: I will do my very best.

MR. CAMERON: All right. So if I could start by taking you to your response to the undertaking that you gave to me that is J3.8? It is the bundle of St. Clair and Bluewater agreements.

MR. ISHERWOOD: K3 -- which?

MS. CAMERON: Eight.

MR. ISHERWOOD: Yes, I have it.

MR. CAMERON: There's the response that says the documents are attached, and then the first page of the bundle of contracts, the top of the page reads "Agreement for transportation services". Are we on the same page?

MR. ISHERWOOD: Yes.

MR. CAMERON: And the second page, this is just a very -- I don't know if "technical" is the right word, but I just want to make sure I understand the definition of international border, because it seems odd to me in this, but I think we can figure out what it is. It says:

> "... means the point on the Belle River-Bickford pipeline which corresponds to the international border between the United States and Canada."

And I hadn't heard of a Belle River-Bickford pipeline before. Had you?

MR. ISHERWOOD: Nor have I, but I think the national border in this case is the middle of the river, the St. Clair River. So that is really the demarcation point.

MR. CAMERON: That's what I would have expected.

So the international -- if you went from Belle River to Bickford - and I can understand how gas could travel that route - you would cross the border on the St. Clair River crossing?

MR. ISHERWOOD: That's correct.

MR. CAMERON: Thank you. And is it fair to say that the service that Union acquires from St. Clair on the St. Clair River crossing line is transportation from the point where the St. Clair River intersects the international border to Union's St. Clair valve site or vice versa?

MR. ISHERWOOD: That's correct.

MR. CAMERON: Same question for the Bluewater line. Is it fair to say that the service that Union acquires from St. Clair on the Bluewater line is transportation from the point where the Bluewater line intersects the international border to Union's Bluewater valve site, or vice versa?

MR. ISHERWOOD: The only difference on the Bluewater line is there this is, I think, 2-1/2 kilometres of pipe on the Canadian side from the river towards the Sarnia industrial line, whereas St. Clair basically ends right at the river bank, or very close to it.

MR. CAMERON: Fair enough.

But I think the Bluewater valve site is still the --

MR. ISHERWOOD: Yes.

MR. CAMERON: -- termination of the Bluewater line?

MR. ISHERWOOD: Yes, that's correct.

MR. CAMERON: Okay. And I think you will also agree that the only way for Union to obtain transportation either way between those two points on the St. Clair River crossing line is to use the St. Clair River crossing line; correct?

MR. ISHERWOOD: Ask that question one more time, please?

MR. CAMERON: The only way for Union to obtain transportation - and I will fill in the words here - from the point where the St. Clair River crossing intersects the international border to Union's St. Clair valve site, or vice versa, is to use the St. Clair River crossing?

MR. ISHERWOOD: I think it is true from that point in the middle of the river, obviously, because you're not going to have multiple options from the middle of the river, but that pipeline really goes back to Belle River Mills, which is a compressor plant on the MichCon system.

If you take it up a level and want to go from MichCon to Belle River station to Dawn or to Union, there are different ways of getting it on that path, for sure. But in terms of on this line from the middle of the river, then you definitely need this point.

MR. CAMERON: The service you buy is from the middle of the river?

MR. ISHERWOOD: Yes.

MR. CAMERON: And the same is true for the Bluewater line? The only way for you to obtain transportation from the receipt and delivery points on that line is to use that line?

MR. ISHERWOOD: Again, to go from the middle of the river to the valve site, that's correct. But to go from Belle River Mills or Bluewater storage to Union, there are other options.

MR. CAMERON: We're talking about the Bluewater line. I didn't understand the reference to Belle River Mills.

MR. ISHERWOOD: I was going back to -- the St. Clair line goes to Belle River Mills. The Bluewater line goes to Bluewater storage.

MR. CAMERON: Right. But the service you buy from St. Clair is service from the international border; correct?

MR. ISHERWOOD: Yes, that's correct.

MR. CAMERON: Can we look for a second at J4.5, which I think was just recently filed? It is titled "Undertaking of Mr. Millar to Mr. Shorts".

MR. ISHERWOOD: Yes, we have it.

MR. CAMERON: The second sentence of that response reads:

> "St. Clair Pipelines' rates were determined using a cost of service approach at the time they were established."

And my first question is: Have these rates been determined using a cost of service approach since?

MS. ELLIOTT: They haven't been changed since they were initially established.

MR. CAMERON: Yes, I saw that in the sentence that followed, but the question was: Have the rates continued to be established on a cost of service basis since the beginning of the contracts?

And it's not a trick question, I hope. The point of the question is normally cost of service rates go up and down, and here we have flat rates, and so I am trying to figure -- I am trying to get those two concepts to parallel. How -- if you've got flat rates for the last 10 years, and can they still be cost of service rates?

MS. ELLIOTT: They were initially set on a cost of service basis. As I recall, they were set for a period of time and they haven't been changed.

So we're using the same rates that were set initially.

MR. CAMERON: I'll still not getting, I don't think, a response to the question.

Well, let me ask it this way. Last year, what were the elements of the cost of service in those rates?

MS. ELLIOTT: We don't recalculate the rates on an annual basis, but the elements of the costs of service rates would be the operating costs, the carrying costs of the assets, which are the interest, the return on the investment and the depreciation, so all of the same components that went into the initial rate design.

The rates were set, contracted for and haven't changed.

MR. CAMERON: Let me pick up on that answer, if I can.

You mentioned depreciation being one of the elements of the cost of service. And when we were here last week, we had the financial statements entered -- financial statements for St. Clair entered as Exhibit K3.5.

MS. ELLIOTT: I have those.

MR. CAMERON: And if you go to -- I guess we should start at page 3 of 12. We see that St. Clair has recorded a depreciation expense of $163,725 for, effectively, each of 2011 and 2010; correct?

MS. ELLIOTT: Yes.

MR. CAMERON: And if we look over to note 4 of the accounting on page 10 of 12, we have a table that shows a declining net book value as a depreciation expense that's taken.

Do you see that? For both of the lines?

MS. ELLIOTT: Sorry, what page are you on?

MR. CAMERON: Page 10 of 12. There's a table under the heading "Capital Assets"?

MR. CAMERON: Yes.

MR. CAMERON: You can see there is a declining net book value. And you can take this subject to check; if you add up the declines in net book value that lead to the respective accumulated depreciation figures, it correlates with the figure we were just looking at of $163,000 and... right?

MS. ELLIOTT: I'm sorry, could you repeat the question?

MR. CAMERON: Well, are you following me, that St. Clair is depreciating these assets over time?

MS. ELLIOTT: Yes, they are.

MR. CAMERON: And is the O&M going up by the same amount that the pipeline depreciates each year?

MS. ELLIOTT: I don't know. We haven't done that analysis.

MR. CAMERON: Well, it would be a coincidence if it did, wouldn't it?

MS. ELLIOTT: There is no correlation between the declining net book value and the increase in O&M.

MR. CAMERON: Right. What I'm getting at is can't we draw the conclusion from that, that the rates might have been initially established on a cost basis, but they haven't been on a cost basis after the first year, in each case?

MS. ELLIOTT: I'm not sure that I can necessarily draw the conclusion. And unfortunately I don't have the supporting documentation from when the rates were designed 20 years ago.

But the cost of service calculation was based on a period of time, which resulted in under-earnings in the beginning of the period and over-earnings at the end of the period as the rate base declined.

I can't tell you what the period of time over which those initial rates were set.

MR. CAMERON: Well, that would be one explanation. Do you know that to be the case, that St. Clair under-earned in the first years of this -- of this contract and over-earned in the subsequent years?

MS. ELLIOTT: I don't have evidence to support that, no. I have a recollection from the time I spent in regulatory when the St. Clair project was going forward, but at this point in time we don't have the files to support that.

MR. CAMERON: And what about the... sorry.

[Witness panel confers]

MR. CAMERON: If you go back to J3.8 -- and these pages aren't numbered, but after the contract we've just -- sorry, that I was just looking at with Mr. Isherwood, with the definition questions, there is a letter dated September 16th, 1996.

MR. ISHERWOOD: Sorry, Mr. Cameron, that is after the first contract, is it?

MR. CAMERON: Yes, that's right. It's about 12 pages into the bundle.

MR. ISHERWOOD: Yes, we have it.

MR. CAMERON: You can see that there's a request for a decrease in the monthly demand charge. Do you recollect - and I can take you to the point if you don't - that the original monthly demand charge was $32,000?

MR. ISHERWOOD: That's correct.

MR. CAMERON: Was there some reduction in St. Clair's costs that caused this request by Union for a decrease in tolls?

MR. ISHERWOOD: As I understand it, Mr. Cameron, there were a couple of Union Gas hearings at about the same time a couple of years prior to this, where the OEB had actually asked Union to go back and request a decrease in the cost of the contract. It was based on the request of the OEB that we went back and negotiated the reduction.

MR. CAMERON: Again, I'm having difficulty reconciling that with a cost-based rate; though if you were negotiating the reduction on the basis of instructions from the OEB, I suppose the point could be moot.

But do you recollect the basis on which you were asked to negotiate a reduction?

MR. ISHERWOOD: I have no recollection.

MR. CAMERON: Now, that was 1996. Might the same rationale for the request that you negotiate a reduction between 1990 and 1996 apply in the subsequent periods?

MR. SHORTS: Mr. Cameron, as I mentioned the other day, when we looked at the value that this pipeline brings to us, we did not want to go forth. We don't feel there was a need to reduce that rate. We felt that the rate that we were being charged was fair value for the service we were contracting for.

MR. CAMERON: I remember that answer, but there might be a reason why the value of the service to you isn't the appropriate rate for you to be paying, and I'll have to deal with that in argument. But --

MR. ISHERWOOD: I think you need to look at this from a couple of different perspectives, I guess. As Mr. Shorts mentioned, certainly the value proposition, we look at it, as well, in terms of the margin that we get on this path when we sell capacity from the middle of the river to Dawn.

Those rates in the wintertime can be 6, 7, 8 cents, as high as ten and perhaps higher once in a while, but call it 7, 8 cents. Summertime obviously lower than that. It would be 3, 4, 5 cents.

But this rate on this contract on the St. Clair River crossing is 0.4 of a cent. So our cost is 0.4 of a cent, which we find to have good value, as Mr. Shorts mentioned.

Ms. Hodgson presented, I think, some analysis that showed the different paths and the costs to get to Dawn, and this path is very competitive with other options. So we look at it as saying this path provides value, as well.

We look at competing options. I mentioned before that from Belle River Mills to Dawn there are different paths you can take. It is not just this pipeline. And, again, 0.4 cents has value. It is reasonable.

MR. CAMERON: Can we go back to J4.5, then? You answer with St. Clair's fully allocated costs for 2013, and am I correct that the new river crossing will go into service no later than April of 2013?

MR. ISHERWOOD: Yes. It's projected to go in service third week of January, at the latest. That is when we lose the leased line. So we're aiming for the third week of January.

MR. CAMERON: Okay. And so these fully allocated costs are not the same as the costs for the 2012 rates, which were based on the leased line; correct?

MR. SHORTS: Are you referring to the costs that Union is paying, like, the rate we're paying on the contract between 2012 and 2013?

MR. CAMERON: No. I'm referring to St. Clair's costs. When it says 1.2 million, and then it says 1 million related to Bluewater and 0.2 million related to St. Clair, the 1 million related to Bluewater reflects Bluewater's costs of the new 20-inch river crossing?

MS. ELLIOTT: That's correct. These are not the same costs as you see in the 2011 financial statements.

MR. CAMERON: And the Bluewater line, from its inception up to it sounds like January of 2013, St. Clair's capital costs, such as it is, are the costs of the lease to Genesis Pipeline; correct?

MR. ISHERWOOD: The lease to Genesis Pipeline is part of the Bluewater path.

MR. CAMERON: Sorry, did I say St. Clair?

MR. ISHERWOOD: I believe so.

MR. CAMERON: Sorry. With respect to the Bluewater line, St. Clair's capital costs are the costs of the lease of the Genesis line?

MR. ISHERWOOD: In terms of Bluewater, St. Clair's costs are the leased line, and, as I mentioned, 2-1/2 kilometres of pipe on the Canadian side would be part of their capital, as well.

MR. CAMERON: Fair enough.

Now, I know we're not talking about a lot of money here, so I won't spend more than one or two questions on this, but when I look at the breakout of the fully-allocated costs between the Bluewater and the St. Clair line, it is, again, I think, apparent that the rates you're paying on those two lines haven't been and won't in the future be based on St. Clair's fully allocated cost of each line.

In other words, your St. Clair rate -- or just let me ask the question. Is your St. Clair rate one-fifth of your Bluewater rate?

MR. ISHERWOOD: The St. Clair rate I believe is 0.4 cents per gJ -- or, sorry, per MCF, and the Bluewater rate is 1.5 cents per MCF.

MR. CAMERON: Okay. So I think my conclusion was correct. The fully allocated costs of the pipelines together roughly match or are higher than your tolls all taken together, but it is apparent that neither toll today is, or historically has been, calculated on the basis of St. Clair's fully allocated costs for each line?

MS. ELLIOTT: The tolls aren't being updated annually to reflect the fully allocated costs. But, as I said, initially they were calculated on a cost basis.

MR. CAMERON: Okay. And I take it no one is disputing the point, then, that though they were initially established on a fully allocated cost basis, they have ceased to be so? I mean, can't we see that from the fact -

MS. ELLIOTT: They aren't being updated annually to reflect updates in costs, no.

MR. CAMERON: So they have ceased to become rates based on fully allocated costs; correct?

MR. SHORTS: The rates we're paying to St. Clair and Bluewater are the negotiated rates that were in the contract, as we have stated.

And because it is a group 2 pipeline, we have not thought that those rates were unwarranted, so we have not complained certainly about those rates or required that St. Clair/Bluewater change those rates, accordingly.

MR. CAMERON: And I think I agree with you on those points, Mr. Shorts, but can I have an answer to my question?

Do we agree that the rates that St. Clair is charging to Union on these two pipelines are not based on St. Clair's fully allocated costs for each pipeline?

[Witness panel confers]

MS. ELLIOTT: I guess the difficulty I'm having is initially they were cost-based. I have agreed they aren't being updated to reflect updated costs, but that doesn't necessarily mean that they're not cost-based. It is just they're not based on current costs.

MR. CAMERON: Okay. I think, then, you are agreeing with me that the rates that Union is paying to St. Clair on these two pipelines are not based on St. Clair's fully allocated costs?

MS. ELLIOTT: They're not reflective of the current fully allocated costs.

If that was the case, I would have to increase the tolls that Union Gas is paying; decrease St. Clair and increase Bluewater.

MR. CAMERON: And just to, I think, close the circle on this point, can you appreciate that with Union at times proposing extra-jurisdictional projects involving these pipelines, that it could matter that the rates that Union pays be appropriately allocated as between the two pipelines?

MR. ISHERWOOD: I think we're talking fractions of a penny here, Mr. Cameron. I'm not sure it would make a difference in terms of the total path.

MR. CAMERON: Well, if the St. Clair line came out of Union's rate base and the St. Clair River crossing became dedicated to an extra-jurisdictional pipeline, it could matter what Union's consumers were left paying for the Bluewater line, right?

MR. SMITH: Well, I don't think we want to revisit the Dawn Gateway proceeding, but -- that ship sailed.

MR. CAMERON: I know. I am just using it as an example of why it could matter.

MR. ISHERWOOD: But I think in the case you gave, the rate we're paying on Bluewater, the 1.5 cents based on the river expansion, is underpaying Bluewater, not overpaying.

MR. CAMERON: Well, but maybe your next proposal will be to take Bluewater out of -- a Bluewater path out of jurisdiction.

MR. ISHERWOOD: Then we're talking about a rate today of 0.4 cents might go -- should be at 0.3 cents. We're not talking pennies and nickels. We're talking a fraction of a penny.

MR. CAMERON: Okay. Can you just bear with me through these contracts a little longer?

One evolution that we see in these contracts is that you have gone to a situation where, as I understand it - and I just got these at 7:00 o'clock last night, so correct me if I'm wrong - we are now in a situation where both of these contracts are terminable by St. Clair on one year's notice?

MR. ISHERWOOD: I would have to take that subject to check, because both contracts -- at least the St. Clair contract changed a few times. I can take that, subject to check, or I can take a look, if you prefer.

MR. CAMERON: Well, let's take that subject to check.

MR. ISHERWOOD: Okay.

Mr. CAMERON: And the question is: Why has Union agreed to those changes, given the value that Mr. Shorts has described as being derived from these lines?

MR. ISHERWOOD: I think, as normal commercial terms, once you get through a primary term -- and both of these contracts had a lengthier primary term -- a one-year renewable contract is pretty standard, with notice for both parties to cancel.

MR. CAMERON: The effect, then, though, is that St. Clair could take either of these or both of these routes away from you on one year's notice; correct?

MR. ISHERWOOD: That's correct.

MR. CAMERON: Can we go through to the first Bluewater contract, which is after the -- it's about two pages after the amending agreement for the St. Clair contract.

MR. ISHERWOOD: Yes, I have it.

MR. CAMERON: Thanks. And maybe I can just ask you this question without going through all of the references.

Can you confirm for me that, originally, you were paying a commodity rate on the Bluewater line? That is, you paid for what you used?

MR. ISHERWOOD: I missed the very last parts of that.

MR. CAMERON: You paid for what you used, on the Bluewater line? According to the initial contract?

MR. ISHERWOOD: My understanding -- my understanding is as of the start of that contract, we were paying for the firm demand of 200,000 MCFD.

And in 1999 we actually reduced the contract demand down to 115,000 MCFD.

But in both cases, we're still paying the same unit rate of one-and-a-half cents on the Bluewater line.

MR. CAMERON: Okay. Well, let's follow that through.

If you look at the third page of this contract, article 3.1, you can see there is a contract quantity of 200 million cubic feet per day, which accords with the answer you just gave?

MR. ISHERWOOD: Yes.

MR. CAMERON: And then if we go over two pages to section 9.1, we read:

> "Commencing on the date the pipeline is completed and in service, shipper agrees to pay transporter a commodity rate of 0.15 cents per MCF."

Follow that?

MR. ISHERWOOD: Yes.

MR. CAMERON: Now, then if you go to the end of that contract, about six or eight pages, we come to a document "first amendment to the transportation services agreement between St. Clair Pipelines and Union Gas Limited," dated November 1, 1995?

MR. ISHERWOOD: Yes.

MR. CAMERON: And what we see here is the first amendment, which is the new contract quantity of 115 million cubic feet per day, which accords with your recollection, Mr. Isherwood.

And then in the next amendment, it says:

"Effective November 1, 1999 and continuing until October 31, 2005, the shipper agrees to pay the transporter a monthly demand charge..."

So we now have a monthly demand charge, such as you pay on the St. Clair River crossing.

"...equal to the applicable amount approved by the National Energy Board from time to time."

MR. ISHERWOOD: Yes.

MR. SMITH: Stop. Stop. Not you, that screen.

MR. CAMERON: So with that little trip through the original contract and the amending contract, would you say now that, under the original contract, you had a commodity rate, where you paid for what you used, and then under the amendment, you went to a demand charge, a monthly demand charge, albeit at the same per-unit rate?

[Witness panel confers]

MR. ISHERWOOD: We definitely went to a demand charge contract in the amendment, and I would have to take it subject to the undertaking in terms of your first question on the first contract.

I had assumed that it was demand-based, but I would want to double-check.

MR. CAMERON: Okay. Would you undertake to do that, check and tell us whether you were paying 200 million a day times --

MR. ISHERWOOD: Right.

MR. CAMERON: -- the rate, or just the amount you used?

MR. SMITH: Yes, we will do that.

MR. CAMERON: Thank you.

MR. MILLAR: J6.6.

UNDERTAKING NO. J6.6: TO CONFIRM WHETHER, UNDER THE ORIGINAL CONTRACT, UNION PAID A COMMODITY RATE, AND THEN UNDER THE AMENDMENT, UNION PAID A MONTHLY A DEMAND CHARGE AT THE SAME PER-UNIT RATE.

MR. CAMERON: Now, with respect to the second amendment on the same page, we have as Exhibit K3.6 a bundle of St. Clair and Bluewater tariffs with the National Energy Board.

And I don't warrant that that is a complete set. It is what the National Energy Board gave TransCanada when it asked for a complete set, but it doesn't include any tariff other than the original 1995 Bluewater tariff.

Do you know whether there were any subsequent tariffs filed for Bluewater?

MR. SHORTS: I'm not aware of any more that were filed.

MR. CAMERON: Okay. And if we read the second amendment, then, the amendment made your demand charge:

> "...equal to the applicable amount approved by the National Energy Board from time to time."

But the only tariff you filed with the National Energy Board is based on the 0.015 cents for each million cubic foot of daily contracted firm demand.

[Witness panel confers]

MR. CAMERON: Let me change this from a question --

MR. ISHERWOOD: So my -- subject to check. And I don't have a calculator in front of me, but I think the monthly fee that we pay is based on the demand of 115,000 in the amendment times the one-and-a-half cents in the rate.

MR. CAMERON: I think you meant 0.015 cents? Or is it --

MR. ISHERWOOD: No, I think it is 1.5 cents. It is 0.015 dollars.

MR. CAMERON: Sorry. Thanks for the correction.

I said I was going to change the question into a suggestion. St. Clair is charging Union a rate that does not accord with the tariff that it filed with the National Energy Board in 1995, based on what we've just looked at?

MR. SHORTS: Mr. Cameron, I would say that the rate we're paying, if you look, it says the 1.5 cents for each unit of daily contracted demand.

So as Mr. Isherwood said, we're paying them the 115,000 times the .15 (sic) times 365.

MR. CAMERON: Well, trust me, Mr. Shorts, I'm trying to be helpful here. The amendment changed it to a monthly demand charge, and your tariff filed with the NEB refers to a fee based on daily contracted firm demand.

MR. SHORTS: Which is a monthly -- which is a common terminology for a monthly demand charge. Your firm contracted demand is our 115,000. So you would take your firm contracted demand times your demand charge of the .15 (sic), and that's the rate that you are paying.

MR. CAMERON: Okay.

MR. ISHERWOOD: I would agree that the language maybe in the tariff and or the amendment, one of the two, is a little awkward, but what's been transpiring since 1996, I think it was -- '95, sorry, is -- the calculation is the contract demand level times one-and-a-half cents, times 365 divided by 12. That would be the monthly fee that we'd be paying.

MR. CAMERON: I'm not the NEB police, and so I will leave it with you as the president of St. Clair, but one option would be to, pronto, go back to Chatham and file a new tariff with the National Energy Board, so, if you are not in compliance now with the NEB Act, you will be then.

MR. ISHERWOOD: Thank you.

MS. HARE: Mr. Cameron, as you are looking through your questions, I just want to remind you we do have a 4:30 hard stop.

MR. CAMERON: Yes, thank you.

In the first Bluewater contract -- two pages down, Mr. Buonaguro. If you move two pages...

MR. SMITH: Mr. Cameron, are we in the undertaking or K3.6?

MR. CAMERON: Sorry. We are in J3.8.

MR. SMITH: J3.8?

MR. CAMERON: Yes, the first Bluewater contract.

And, again, we are at article 9.1, and we will go down to 9.3:

"In the event that shipper utilizes the capacity on the Bluewater line to resell as a firm service, shipper agrees to share 50 percent of any resulting profit with transporter."

And I think you will agree with me that that, if it ever occurred - and I don't know that it ever did - would not have been a cost-based rate; correct?

MR. ISHERWOOD: Again, I missed the very tail end of that.

MR. CAMERON: If that had occurred, it would not have been a cost-based rate; correct?

MR. ISHERWOOD: I can confirm it never happened.

MR. CAMERON: Okay, I will move to another topic. I have two types of questions about Dawn-to-Dawn service. And for clarity, I know that's the lingo we use and I will use it, but we understand that when we talk about Dawn-to-Dawn service, we're talking about Union Dawn to Dawn TCPL; correct?

MR. ISHERWOOD: Okay, yes.

MR. CAMERON: One type is commercially related, which I think is the right stuff for this panel. I have some engineering questions that I'm going to save for the Dawn Parkway panel, which has a pipeline engineer on it.

I know that Mr. Smith invited me to ask them of this panel, but I'm not going to waste my time, because there isn't a pipeline engineer.

MR. ISHERWOOD: Actually, Mr. Fay is very knowledgeable about Dawn, so it might be appropriate to Mr. Fay. If he can't answer it, then potentially Mr. Redford and others could. But Mr. Fay would have some knowledge there.

MR. CAMERON: Okay. Let's start there, then.

We asked an information request and got a response which appears as Exhibit -- as attachment 1 to Exhibit J.G-1-7-7.

Have you found that?

MR. ISHERWOOD: Yes, we do.

MR. CAMERON: We asked an information request and asked that we be given a schematic containing a certain amount of information and that the schematic be in the form that you have provided here, but we didn't get the information that goes along with the schematic. So I am just going to ask if you could undertake to add some information to the schematic, and I will read it out and you can consider if it makes a sensible undertaking.

The box that is currently labelled "Great Lakes, Dow Moore, Tecumseh & Vector", we would ask that be separated into three boxes so that it shows one box as Dawn TCPL or Great Lakes, whatever you want to call it, and another box that is Dow Moore and Tecumseh, and another box that is Vector. That is the first change we would propose.

Can you do that, Mr. Fay, or can Union do that?

MR. ISHERWOOD: Actually, if we could hear all of the requests at once? We do have some concerns around the security of the Dawn yard. We don't want to provide too much information publicly, but why don't you go through your request and we can decide at the end?

MR. CAMERON: Then add the flow direction arrows, representing the direction of flow on a design day when Union is physically delivering 500 terajoules to Dawn TCPL. So just arrows showing where, on that schematic, the gas is flowing.

Then add a box or boxes on the schematic for the dehydration facilities that are referred to in the answer to one of our other IRs, the Dawn-to-Dawn IR. I think they're pretty simple changes.

MR. FAY: Can I ask for a clarification on the point? Point number 2, you want a flow direction arrows. Are the flow direction arrows that are on there inadequate?

MR. CAMERON: Well, they're not the ones we asked about. We asked for the flow direction arrows -- or we asked that the schematic show the flow direction on a design day when Union is physically delivering 500 terajoules to Dawn TCPL.

MR. FAY: Correct.

MR. CAMERON: Okay. Do you understand that?

MR. FAY: Yes.

MR. CAMERON: Could we have that undertaking, please?

MR. SMITH: Yes, we will do that.

MR. CAMERON: Thank you.

MR. MILLAR: J6.7.

UNDERTAKING NO. J6.7: TO PROVIDE CHANGES REQUESTED TO SCHEMATIC IN UNDERTAKING RESPONSE J.G-1-7-7.

MR. CAMERON: Now referencing that schematic at J.G-1-- sorry, J.G-1-7-7, what facilities are being used to provide Dawn-to-Dawn service today?

MR. FAY: For the 500 million a day that TransCanada has signed a contract for, the flow is going directly from the Vector pipeline to Great Lakes. So it's a -- an exchange within the Dawn yard of 700-pound gas being received from Vector, and then it's being redirected to the Great Lakes metering site.

MS. HARE: Mr. Cameron, I don't know how much you're going to pursue this, but I did hear the caution from Mr. Isherwood that he has some concerns about confidentiality, in terms of the layout.

If you have a concern, we can go in camera, but if you are okay with how it is going, that's fine.

MR. ISHERWOOD: I think the concern is more around the schematic, but we will try to keep it at a high enough level that we're okay. Thank you.

MS. HARE: Okay.

MR. CAMERON: We just want schematic flows. We don't want the type of physical layout information yet --

MR. ISHERWOOD: Fair enough.

MR. CAMERON: -- that I think you're concerned about.

MS. HARE: Did you say "yet"?

[Laughter]

MR. CAMERON: Now, this is probably for you, Mr. Isherwood.

You are familiar with the history by which this Dawn-to-Dawn service came about?

MR. ISHERWOOD: I am.

MR. CAMERON: And can I encapsulate it this way, that as a result of declining easterly flows on the TransCanada system, it became necessary for TransCanada to provide service by using flows physically into Dawn-TCPL, instead of just out of it?

MR. ISHERWOOD: That's correct.

MR. CAMERON: And this was a decision that TransCanada made because it was requested to do so by its shippers?

MR. ISHERWOOD: I would have characterized it as something that TransCanada needed to do to meet their firm commitments. I don't know if shippers asked for it or not, to be honest. They may have. I don't know.

MR. CAMERON: The alternative was for TransCanada to build facilities, and its shippers preferred that TransCanada obtain this Dawn-to-Dawn service; correct?

MR. ISHERWOOD: I don't know. I think -- my recollection of this, Mr. Cameron, was to provide service back into TCPL to meet their -- basically, the short-haul commitments.

So to your -- your point is well taken, that the alternative would have been to build facilities. And I don't recall the discussion that the tolls task force -- in terms of the preference between the two, but that may have been where it went.

MR. CAMERON: Okay. And if TransCanada determined that it could provide service to Union and other Ontario customers most economically by contracting for more Dawn-to-Dawn TCPL service, and TransCanada was willing to contract for that service, I trust that Union would make incremental Dawn-to-Dawn service available?

MR. ISHERWOOD: Yes. So to the extent that TransCanada needed more Dawn-to-Dawn TCPL service, there would be a cost to do that, a capital cost that was part of the undertaking and motion, as well, I believe. So that number is on the record, as well.

Union is concerned that this path is not as economic as being more directly going from Dawn to Parkway rather than going -- this gas going basically back on the Great Lakes and up through -- up through Emerson and back around northern Ontario back to Toronto. It is a long way to take the gas.

So, as you know, Union is not supportive of that path, and would want to be convinced that the costs were appropriate.

MR. CAMERON: Well, if TransCanada decided that it was the cheapest way for it to do so, and was willing to contract for it, I trust Union would provide the service?

MR. ISHERWOOD: If TransCanada asked for the service and could be -- through either an aid-to-construct or through the rate itself, then we would provide the service, but we would still ask questions around the prudency of that.

We don't believe that path is the right path, but that would be a disagreement we have between us.

MR. CAMERON: If we had longer, I would engage you on that, Mr. Isherwood, but I think you're right. We have a disagreement about that.

Let me go this far. If it's TransCanada paying the fare, so to speak, if TransCanada determines that it's most economical for its shippers -- including Union customers and other Ontario gas users -- to get gas to market using Dawn-to-Dawn service, why would Union decline -- or are you saying Union would decline to provide that service, even if TransCanada was willing to buy it?

MR. ISHERWOOD: No. I think as any customer approaching Union Gas for service, we would obviously provide the service.

That is our requirement and we would do that.

My point is more around -- and perhaps more an NEB issue, maybe, than an OEB issue, but we would definitely want to be convinced it was the best for the market.

MR. CAMERON: Fair enough. You would want to convince TransCanada that Dawn-to-Dawn service wasn't the most economic way to get gas to market; is that what you're saying?

MR. ISHERWOOD: Yes. Union Gas is being faced with a lot of turnback right now. That's in our evidence.

And we can see the day not too far down the way where we will have empty capacity in our Dawn-to-Parkway system, Dawn-to-Toronto system.

So we obviously want to do what's best for our customer, as well. And our view is that gas should flow on the path, which is Dawn-to-Toronto, rather than going around the Great Lakes.

So I think -- I think it is fair enough. It is probably more an NEB discussion.

But our interest is keeping our pipe full and keeping our rates as low as possible for our customers.

MR. CAMERON: I see.

When you -- I guess this is a question for you, Mr. Fay, or you might not have been involved at the time, but when TransCanada asked Union for 500 terajoules of Dawn-to-Dawn capacity, how did Union figure out that it would be able to do that?

MR. FAY: The Dawn-to-Dawn TCPL service was determined on the basis -- we looked at the Vector volumes and what we thought that we could receive on a fairly firm basis from Vector, without much risk, going forward for the term of the contract.

So we knew that we were able to use the Vector volumes to divert them to the Great Lakes, to provide the service for TransCanada.

MR. ISHERWOOD: I would just add to that I think at the time the intent was that the service would not be used very often. And in fact, I think the first few years it wasn't used at all; more of a backstopping arrangement.

But I think the understanding, or at least our understanding was it would not be used every day, 365, at half a BCF a day. It was more of an occasional use, more of a backstopping insurance policy type of arrangement.

MR. CAMERON: Fair enough. As a matter of fact -- you might be familiar with this, Mr. Isherwood -- it was only used on three days in 2011; correct?

MR. ISHERWOOD: Correct. Actually, that's, I think, in '12. I think it was this past winter. I think.

MR. CAMERON: Okay. Fair enough. '11/'12.

MR. ISHERWOOD: I think it was January, but yes.

MR. CAMERON: Okay. And for the last three years, if you can remember it, Mr. Fay, what has been your daily receipts from Vector during the winter?

MR. FAY: It varies every day.

MR. CAMERON: It is in the range of one BCF?

MR. FAY: It goes as low as 500 million a day, you know, historically. On summer days we can be very low.

MR. CAMERON: Right. Let's stick to the winter. Can you undertake to provide your Vector receipts on a daily basis for the last three years?

MR. SMITH: Just one moment, Mr. Cameron.

MR. CAMERON: Sorry, and just in the winter period.

MR. ISHERWOOD: We actually have a graph that shows the Vector volumes going back two or three years, so it would be easy to do that.

MR. SMITH: That there is the answer.

MR. CAMERON: Or show me where in the evidence.

MR. ISHERWOOD: It may not be in the evidence. It is included in presentations in the past, but it may not be in evidence.

MR. CAMERON: It shows the daily volumes?

MR. ISHERWOOD: Yes. Yes.
MR. CAMERON: Thank you.
MR. MILLAR: J6.8.
UNDERTAKING NO. J6.8: TO PROVIDE YOUR VECTOR RECEIPTS ON A DAILY BASIS FOR THE LAST THREE YEARS IN THE WINTER.
MS. CAMERON: Thank you.
You referred to a price estimate for providing this service. If I'm correct, that was in -- I'm not sure what exhibit this was given, but Union's responses to the compelled undertakings. I know what -- it's the answer to J.G-1-7-11, but that was in a letter form that came after the other undertaking responses.
MS. HARE: Mr. Cameron, what is the question? Just to confirm this?
MS. CAMERON: In part d) of that response, there is in the fourth-last line a reference to the preliminary estimated cost of this alternative was $130 million; correct?
MR. FAY: That's correct.
MR. CAMERON: And does Union take the position that that estimate is an accurate proxy for any of the 600, 800 or 900 tJ increments that were referred to in the question?
MR. FAY: It's a high-level estimate, but, yes, we do.
MR. CAMERON: Now, that was an estimate for going from zero to 800 million cubic feet a day; correct?
MR. FAY: That's for 800 million a day, yes.
MR. CAMERON: Was the cost from going from zero Dawn-

to-Dawn capacity to 800 a day; correct?

MR. FAY: Correct.

MR. CAMERON: Okay. And that included compression; correct?

MR. FAY: Correct.

MR. CAMERON: What would be the price without compression, ballpark?

MR. FAY: Ballpark would probably be around $40 million.

MS. CAMERON: Thank you, Madam Chair, those are my questions.

MS. HARE: Thank you, Mr. Cameron. We are adjourned, then, for today and we will resume tomorrow at 9:30.

MR. SMITH: Thank you.

--- Whereupon the hearing adjourned at 4:32 p.m.

VT INCEPIT FIDELIS SIC PERMANET

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2011-0210**

VOLUME:	**7**	
DATE:	**July 20, 2012**	
BEFORE:	**Marika Hare**	**Presiding Member**
	Paul Sommerville	**Member**
	Karen Taylor	**Member**

Friday, July 20, 2012

--- On commencing at 9:35 a.m.

MS. HARE: Good morning. Please be seated.

Do we have any preliminary matters?

MR. SMITH: No, Madam Chair.

MS. HARE: Thank you. Then, Mr. Quinn, we're ready for your cross-examination, resumption of your cross-examination.

UNION GAS LIMITED - PANEL 4, RESUMED

Carol Cameron, Previously Sworn

Pat Elliott, Previously Sworn

Bill Fay, Previously Sworn

Mark Isherwood, Previously Sworn

Chris Shorts, Previously Sworn

CONTINUED CROSS-EXAMINATION BY MR. QUINN:

MR. QUINN: Thank you, Madam Chair. Good morning, panel. I thought I would start off where -- part of your examination-in-chief dealt with an issue that I think is important to make sure we understand, and then we will move back through the cross-examination.

Yesterday Union led some evidence about its application of the DOS MN service from 2008 to 2009, and I guess I would like to ensure the Board understands this service and how it was used and the cost implications.

So what I would like to do is just give you a brief summary of what I understood the service to be, and, Mr. Isherwood, to the extent I missed something, please help me out.

From yesterday's transcript, you basically said:

"...they offered that service basically, being transportation service from Empress Alberta to Dawn, at basically the firm commodity rate only, which is very low on TransCanada. Most of their tolls earn the demand charge and fuel."

So stopping there just to clarify, there was no demand charge associated with the DOS MN service?

MR. ISHERWOOD: That's correct.

MR. QUINN: So going on, it says:

"For that year we had, in our gas supply plan, planned to buy gas at Dawn. So instead of buying gas at Dawn at the Dawn price, we actually bought gas at Empress and flowed it on this inexpensive transport to Dawn. And the gas savings, the savings between what was in the plan versus what we had landed the gas at Dawn, was put through the transportation exchange account as an optimization activity. "

So this was the 2008 DOS MN service?

MR. ISHERWOOD: That was the service in place for the winter of 2008/2009, and the second service for 2009/'10.

MR. QUINN: And the distinguishing feature of 2009/'10 was that the DOS MN service started with a receipt point of Emerson, as I remember?

MR. ISHERWOOD: Yes, there are two things that distinguished the second year of service compared to the first.

The first was the same volume for the whole winter period. It went from Empress Alberta to Dawn. In the second year of the service, which was for the winter 2009/'10, it started at Emerson, which is basically at the Manitoba border where Great Lakes comes off and goes through the States. So it went from Emerson to Dawn.

The monthly amount -- actually, the amount of capacity you got was changed every month based often how much TCPL needed each of those five winter months, so a variable amount, which made it a little less valuable.

We would have treated that differently than we did the first year. The first year was as I described, and that's how -- that's how it impacted the 2008 year, I guess.

And the second year, because of the variable amount, instead of moving gas to Dawn, we just actually sold the capacity we had as an exchange. So we would have sold from Emerson to Dawn as an exchange service.

So we had the same -- the same capacity. We got to the financial benefit a little bit differently using an exchange service, which is why the transportation and exchange account was the appropriate way to go.

MR. QUINN: You're speaking of for 2009?

MR. ISHERWOOD: The second year, that's right. We could have done that in the first year. We had that choice. We had a choice of do the exchange or move the gas in displaced on purchases.

MR. QUINN: I will deal with the second one. Just a very brief question, but we will land on the first one again. So in 2009, all of the transactions were handled, as I hear, through the transportation exchange account. So there was no gas supply ratepayer implications?

MR. ISHERWOOD: We took the benefit that was provided under the DOS MN and we sold it as an exchange.

MR. QUINN: So is it accurate the way I said it, that there was no gas supply ratepayer implications in the 2009 --

MR. ISHERWOOD: I'd say there is no application in either year -- no implications in either year.

MR. QUINN: I want to go back to 2008 so we understand how there was not a ratepayer implication on that.

MR. ISHERWOOD: Yes.

MR. QUINN: So you purchased the service at Empress, and -- sorry, you purchased your gas at Empress and you used the inexpensive transport to get it to Dawn as opposed to purchasing landed gas at Dawn?

MR. ISHERWOOD: That's correct.

MR. QUINN: Okay. So what I was trying to understand, then, is there obviously was a cost of that service. There was a cost of your gas at Empress.

But was there an -- maybe it is for you or for Ms. Elliott. How did you determine what revenue would go into the transportation exchange account?

MR. ISHERWOOD: It would be the difference between the gas at Dawn and the gas we bought at Empress and moved to Dawn using the DOS MN service, which would have included some fuel and a small commodity charge.

MR. QUINN: So I want to be clear that we break this down and possibly, if helpful -- you're saying the price at Dawn, so what price at Dawn did you use as a proxy for what you would have already -- what you would have foregone by transporting from Empress to Dawn on the DOS MN service?

MR. ISHERWOOD: I'm not sure of the exact numbers, Mr. Quinn, but that was the principle that was applied.

MR. QUINN: Okay. And I respect that that is some years ago, but how the calculation -- more than the numbers, how the calculation was effected is more what I am trying to get at.

Maybe by way of undertaking, could you provide the calculations for the winter of 2008 that show the cost of gas and the transport, and how you netted out or how you used what I would probably term to be an avoided cost of purchasing at Dawn to effect a revenue and transportation exchange account?

MR. SMITH: Members of the Panel, I have the following concern about that request. I mean, the DOS MN service, we're using account. It is not synonymous with deferral account, because obviously we heard the evidence that the transportation deferral account was closed. We're talking about a ledger.

But, in any event, all of that information would have been the subject of the 2008-0220 account, where the issue arose whether or not that should be treated as a Y factor or if it should just flow through earnings sharing, and the Board determined it should flow through earnings sharing.

So the question of the appropriateness of that treatment has long since been resolved. So I guess that's my reservation with the undertaking.

MS. HARE: Mr. Quinn, do you have a reply to that?

MR. QUINN: Yes. I actually spent some time in 2008-0020 before this proceeding, and I thought it was actually more appropriately going to be coming at us in the 0087 proceeding.

I was surprised that it made the record yesterday, so if we're going to deal with it in this proceeding, I think it is important to have an evidentiary basis to distinguish the 0220 decision from what, in fact, is occurring today.

So part of this is the accounting in terms of how a revenue was created for the transportation exchange account from landing gas supply on behalf of ratepayers.

I understand and I respect that I have been told that ratepayers did not pay for an additional cost. That's Union's view, and I accept that, but how they actually calculated it, they would have had to have presumed a cost at Dawn and said, That's the cost we would have paid, and now here are other costs we actually did pay, and what is the difference and how did it go into the account?

MS. HARE: Let me understand how this is relevant to setting rates in 2013 on a cost of service basis.

MR. QUINN: Our proposition as we have been going through this is there are more effective ways of providing gas supply to Union's customers here in Ontario.

Union has talked about its gas supply plan and the principles behind its gas supply plan, and, as we were talking about yesterday - and we will hopefully reveal a little bit more today - the gas supply plan and how it is used/optimized is a huge source of transportation exchange revenue at this time.

In our view -- and we've already gone through it. We're not going to ask them to redo the gas supply plan, but for the Board to clearly understand how the plan comes together, how it is actually being used, and, frankly, if it is being used that way, why isn't it being planned that way, is very material to what their 2013 plan ought to be, or could evolve for 2014 if there are costs of unwinding what's already in place for 2012/2013.

We understand we don't want to bear any -- throw good money after bad, but the reality is the market is telling Union Gas that there are much cheaper ways of getting gas to Ontario, and ratepayers aren't benefitting in the plan that they have. The shareholder has been benefitting, and we would like to have ratepayers benefit more equitably in the process.

MS. HARE: Mr. Smith.

MR. SMITH: Well, I appreciate the long preview of my friend's argument, but the response to that is the DOS MN service doesn't exist anymore. So I guess I still wonder about the utility of us going back and redoing calculations that would have been done some time ago, when we're talking about 2013 rates. That is the simple response to it.

MS. HARE: Just a second.

[Board Panel confers]

MS. HARE: Mr. Thompson?

MR. THOMPSON: Can I make a brief submission on this before you rule?

MS. HARE: We've already decided.

MR. THOMPSON: Okay.

MS. HARE: Yes, Mr. Thompson, please.

[Laughter]

MR. SMITH: Do I get to respond?

MS. HARE: Well, actually I should have asked if other parties wanted to make a submission, so...

Yes, Mr. Thompson.

MR. THOMPSON: Well, the only point I wanted to make - and I will be touching on this in my cross-examination - is that the company, in correspondence that is in my material, has been taking the position that this DOS MN event is the precedent that justifies them streaming these $40 million of -- $67 million to earnings.

So if they're abandoning that position, that's fine. But if they aren't, I think we should have some understanding of the differences between that transaction and this on the record.

MS. HARE: Sorry, Mr. Smith. Before I go to you, is there any other party that wants to comment on this issue?

Mr. Brett?

MR. BRETT: Yes. Very briefly, just to say I think Mr. Thompson's exactly right. The importance of this is the context and the fact that it's being used as -- that they're preparing to use it as a precedent in argument for similar treatment of the 67 million.

MS. HARE: Mr. Smith?

MR. SMITH: There are two answers to that.

The first is -- well, really three points.

We're obviously going to get into this, but the premise of Mr. Thompson's submission is incorrect.

And why I felt it was important to lead the examination yesterday, we are not saying that this all began with the DOS MN service, as it will certainly be our position at the end of the day that Union has been engaged in exchange activities for the past 20 years, and it's been treated the same way and there's nothing magical about an exchange involving FT RAM. That's number one.

Number two, yes, that during the incentive regulation, the DOS MN service was treated in a comparable manner by the Board.

And answer number three is this goes back to the concern I expressed the other day at the very outset of cross-examination when I saw my friend's materials, that this case is not about revisiting the IR parameters and trying to undo earnings sharing calculations.

This case is about 2013 rates. And so I do have a very serious concern about my friends obtaining information for collateral purposes.

If the Board wants the calculation, we will provide it, certainly. We can do it and we will do it, but I did want to make sure that that was perfectly clear.

MS. HARE: Mr. Quinn, can you repeat your undertaking request?

MR. QUINN: By way of undertaking, could Union Gas produce the calculations which show how the DOS MN revenue generation was determined, and that ratepayers were kept whole in these transactions.

MS. HARE: The Board is interested in seeing the response to that undertaking request.

MR. SMITH: We will do that, then.

MS. HARE: Okay. Thank you.

We're also interested in understanding how the reference price at Empress was -- sorry, at Dawn was established.

MR. SMITH: Yes.

MR. MILLAR: J7.1.

UNDERTAKING NO. J7.1: TO PRODUCE CALCULATIONS SHOWING HOW DOS MN REVENUE GENERATION WAS DETERMINED AND RATEPAYERS WERE KEPT WHOLE IN THESE TRANSACTIONS, AND HOW DAWN REFERENCE PRICE WAS ESTABLISHED.

MR. QUINN: Thank you. And panel, if I can draw your attention to the compendium we filed yesterday, it was marked as Exhibit K6.7.

Ms. Cameron took us to the index of customers, which starts on page 2.

If you would turn that up at this time, please?

MS. CAMERON: We have it.

MR. QUINN: Now, before we get into the detail of what's on this -- and there's many pages and I won't lead people through the detail, but I guess speaking to you, Mr. Isherwood, I think you and your staff would be aware that this report is produced monthly?

MR. ISHERWOOD: Yes.

MR. QUINN: So you are also aware that TCPL's website keeps an archive of this report for, well, over the last -- for each month over the last 10 years?

MR. ISHERWOOD: I have never looked at it, but I will take it, subject to check.

MR. QUINN: Take it, subject to check? Okay.

I see Mr. Shorts nodding. Do you understand that, Mr. Shorts?

MR. SHORTS: Again, subject to check.

MR. QUINN: Okay. Well, I ask either of you, if we just look at the top headings -- and I am actually going to work from page 5, because we'll be able to see the detail for Union Gas at the bottom.

But I want to make sure we understand what we're looking at. It is fairly -- I'm sorry. It's fairly clear that the service requester is the counterparty to TransCanada in the column, the second column on the left.

But as we move across, we have contract start and end date, service type -- which we spent a bit of time on yesterday -- receipt and delivery points. But then we get to contracted demand -- contract demand and operational demand.

If I may, our assistant on the referencing, Ryan, if you could just actually go down to the bottom as we look --

well, actually, if you keep it open, the whole open, and then we will zoom down at the bottom -- but on contracted demand and operational demand, my understanding -- and Mr. Shorts or Mr. Isherwood, you can correct me if I'm wrong -- contracted demand is the total amount of the contract that is the respective contract number on the left?

MR. SHORTS: That would be the total, yes.

MR. QUINN: So then we have operational demand, shifted quantity and temporary assigned quantity. I'm only going to deal with operational demand and temporary assigned quantity.

The temporary assigned quantity, as I understand it, is the assignments that a party has undertaken that are a portion or potentially all of that contracted demand; is that accurate?

MR. ISHERWOOD: And I would just add it is for a temporary basis. It is not a permanent assignment; it is temporary, but eventually it would be planned to come back to the utility.

MR. QUINN: Okay. So the operational demand, then, would be the net of whatever has been either temporary assigned or shifted?

MS. CAMERON: That is correct.

MR. QUINN: Okay. So if I may ask, if we could zoom down to the bottom -- this print is rather small, so the Union Gas contracts are down at the bottom. This is on page -- yes, page 4 of 5.

Somehow your printout is slightly different than mine, but what I want to focus on is contracts 1048, 1142, which are near the top of that screen.

If you could scroll over, or for the witnesses looking at it, the paper copy, I am focussing on the EDA for Union Gas. And it starts at, on my version, 1048.

There we are. Thank you.

So these are FT contracts or STS contracts that are flowing to the Union EDA. So it is the bottom five rows of that report on page 4 of 5.

So you see that?

MR. SHORTS: Yes.

MR. QUINN: Okay. So yes, if you just scroll over two more columns, we will be able to see the contracted demand quantity, then, is the fourth column from the left. And for the first contract, it is 50,426? Is that correct?

MS. CAMERON: Yes.

MR. QUINN: And the amount that has been assigned is 40,270, with a net operational demand of 10,156?

Are you on that line with me?

MS. CAMERON: Yes.

MR. QUINN: Okay. So this report is dated July 3rd, 2012. And these are for contracts which are in place for this coming year? Well, sorry, this coming year being the winter of 2012 and into 2013?

MS. CAMERON: I would say that this is the current contract demands, actually. So these are the ones that are currently in place today.

MR. QUINN: In place today. And these contracts are still in place to at least a minimum of December 31st, 2013?

MS. CAMERON: Yes. And this assigned -- the temporary assigned quantity that we see in the column to the far right refers to quantities that were assigned for the month of July. It is not a future-looking report. It is a current report.

MR. QUINN: So in looking at that figure, you have knowledge of that -- that is only for the month of July?

MS. CAMERON: This report is referring to the month of July.

MR. QUINN: Okay. Can you tell us if that continues on for any length of time into 2013?

MR. SHORTS: Mr. Quinn, just to be clear, those assignments, as I mentioned yesterday, not only include anything from an ST perspective, but those would also include those temporarily assigned to direct purchase customers who wanted the T-service option.

So some of those volumes would continue where they were assigned or temporarily assigned to those T-service customers. And if you add up all of the columns, it is about 25,000 gJs a day that is included in this, in your compendium here, that is actually assigned to those T-service customers.

So those would continue as long as those customers wanted to continue with the T-service option.

MR. QUINN: But, Mr. Shorts, I think I recall yesterday -- and we can go back to the transcript. I understood of those T-service customers, about 1,500 gJs is in the EDA?

MR. SHORTS: No. Actually, when I look at this, it is a much smaller number. It is only about -- it's less than 300.

MR. QUINN: So if we're focussing on the EDA and the 40,000 temporarily assigned --

MR. SHORTS: No, I just wanted to make that clear that if you're asking the question on an ongoing basis, we do know that those temporary assignments to those customers will continue year over year unless the customer chooses not to continue with the T-service option. That is all I wanted to make clear.

MR. QUINN: You gave us a figure of 25,000. That is in totality for all of Union's delivery areas?

MR. SHORTS: In the north, yes.

MR. QUINN: So focussing on EDA, which we have been, of the 40,000, only 300 --

MR. SHORTS: Yes, that's correct.

MR. QUINN: Okay. So getting back to my question, can you confirm for us, or would you like to by way of undertaking, what has been assigned for this coming winter and -- or into 2013?

MS. CAMERON: We have not done any capacity assignments to the EDA for this winter.

MR. QUINN: Okay. Well, we did the undertaking previously, and we can get some information from that. So I think I will move on in terms of the specifics here.

MS. HARE: Can I just ask a question here? You haven't done any assignments for 2013. Is that because it is too soon in the year, or because you have decided you're not going to do any?

MS. CAMERON: Certainly the uncertainty surrounding the continuation of RAM has impacted market demands for those services.

The assignments that we've entered into to this date -- so when you look at those charts that we have filed that show assignments, whether on a monthly or a seasonal or annual basis, are really driven by RAM and that market demand for the capacity, because they're looking for the credits that they can use anywhere they choose.

Without access to the credits, the market interest in our capacity has declined substantially to near zero. We can provide the same market service by providing exchange without a requirement to assign any capacity away.

And you will actually see on the undertaking that we filed yesterday, I believe the J3.6, that we hadn't done any assignments to the EDA last winter, either. It was due, in part, to the lack of certainty around the RAM program.

MS. HARE: All right, thank you.

MS. TAYLOR: Just to follow on this discussion, so Union EDA -- I can't see the contract number, but it looks like the -- it is 50,426 gJs. It's 1048.

MS. CAMERON: For that particular contract, yes.

MS. TAYLOR: Right. So if you could go back over.

Thank you. It looks like 40,270 of that has been assigned at a snapshot of July.

MS. CAMERON: Yes.

MS. TAYLOR: And how long -- so you're saying that the market has no incentive to take an assignment that would extend beyond the estimated or anticipated termination date or option date, if you will, given the NEB outcome?

And that is kind of mid May'ish 2013. So does that assignment, then, deal with a period prior to?

MS. CAMERON: Subject to check - I don't have the numbers in front of me - I believe at best we've done assignments to the end of October.

The market was tenuous about what to do about November and December, and then into January, February and March, because I think the end date of RAM, and whether it will end, is still subject to much debate at the NEB.

So there wasn't a lot of market interest. A lot of people were waiting to see what the results of that proceeding would be.

MS. TAYLOR: Okay, thank you.

MR. ISHERWOOD: I think the point I was trying to make yesterday was TCPL has given the date of May for the full rollout of their plan.

I think the market is not certain if they can terminate FT RAM sooner. If they could, would they do it sooner? So there is a bit of a question mark on FT RAM post January 1, 2012 -- 2013, sorry.

MS. TAYLOR: My issue with the answer was I had no sense of the timing, so whether this was an annual assignment of the contract or monthly, or it is a snapshot as of July. I had no sense for the length or duration of the assignment of that particular contract.

So what you're telling me is the assignment ends towards the beginning of October --

MS. CAMERON: It would end October 31st, subject to check.

MS. TAYLOR: Okay, thank you.

MS. HARE: Mr. Quinn, I hope our interruption didn't affect your flow of questioning.

MR. QUINN: No, not at all. I am trying to create clarity and, if we haven't done that, I appreciate the additional questions. Thank you.

MR. ISHERWOOD: If I could add to that, I guess the driver behind that, why do we do that exchange, it is really because the gas and the gas supply plan without FT RAM would flow from Empress to the EDA, but because of FT RAM, by leaving that empty, you actually create credits.

The gas ultimately isn't needed in the EDA in the summertime. It is needed back at Dawn. So you would actually move it to Dawn and it is a profitable exercise to do that. It creates RAM benefits. That's why it is such a big number for the summer.

MR. QUINN: So carrying on with that theme, just to ask a follow-up question, to the extent the FT RAM program disappears and you wanted to get that gas back to Dawn, would you be able to, through exchanges, find a way to get that gas back to Dawn and create money through base exchanges?

MS. CAMERON: We would still -- in that scenario, the gas supply provides that the gas would flow -- we would purchase the gas at Empress. So without RAM, we would purchase the gas at Empress in both scenarios.

We would transport the gas to the EDA, and then we would use our STS injection service to transport that gas back to Dawn.

Because those costs are still included for ratepayers, if we transported or purchased a service to transport that gas directly from Empress to Dawn, that would only be an additional cost. There would be no offsetting revenue to offset the cost of transport directly from Empress to Dawn.

MR. QUINN: Using that scenario, Ms. Cameron, you could do what you just talked about in terms of wanting the gas at Dawn, but you could ask if you could -- if you could find a buyer in the east. If the gas is worth 40 cents more in the east, you could ask -- you could go through an exchange whereby you could sell your gas in the east to a counterparty that has value in -- the 40 cents in the east, and they would give you the gas back at Dawn. Is that not correct?

MR. ISHERWOOD: We don't sell gas. We don't arbitrage gas at all. Exchanges are just moving gas from one point to another point. We don't sell and buy. As a utility, we can only sell WACOG. So we don't ever sell gas in the EDA.

MR. QUINN: Thank you for the clarity, Mr. Isherwood, but under that same scenario, could you do an exchange that would create a revenue-generating opportunity by seeking a counterparty who has need in the east?

MR. ISHERWOOD: So our transportation and exchange revenue forecast for 2013 is at $9.1 million. That's to capture any of those one-off type of opportunities.

MR. QUINN: That's what I want to be clear about, then. If there is no FT RAM, you can still do exchanges to create revenue?

MR. ISHERWOOD: We can still use exchanges to create revenues. It is just a much smaller number. That is the 9.1.

MR. QUINN: That's the 9.1. But if you have additional capacity, which you have continued to contract for for the last number of years - and these index of customers demonstrate the ongoing long-term commitments you've made - if the FT RAM program disappears, you have now the potential for more capacity to do exchanges; is that not correct?

MR. ISHERWOOD: I would argue, as Mr. Quigley argued, that his gas supply plan for the EDA is designed to meet the conditions of the EDA, including the design day.

So I would not agree that we have excess capacity.

MR. QUINN: I didn't say excess capacity, but I think you would have to agree with me the empirical results from the last few years would demonstrate there is a cheaper way of getting gas to Dawn when you need it, and, therefore, that creates exchange opportunity. That's accurate, is it not?

MS. CAMERON: The economics of doing a capacity release and purchasing an exchange from Empress to Dawn was 100 percent dependent on RAM credits.

Without the RAM credits, we would not purchase an exchange from Empress to Dawn to transport our gas supplies.

What we would do is, if there was a party who was interested in gas in the EDA - and more particularly, locations likely to be Iroquois, to export that to the US - we would give them our gas supplies at Iroquois and accept gas from them at Dawn. That would be an exchange service, and any benefit from that would go to the S&T exchange account.

MR. QUINN: So if that pipe is not being assigned because the FT RAM program is not there, there would be more opportunity to do those types of base exchanges?

MS. CAMERON: Those opportunities exist today, and that is -- when you look at that undertaking -- I think it is J.C-4-7-9 -- and there is some amount, I think on attachment 2, that demonstrates what our base exchange revenue is, those are the exchanges or the revenue we can earn without RAM credits.

Those will continue on. They're all exchange services, and they will continue on without the RAM program.

When we refer to the $9 million that is included in 2013's forecast, that's exactly the type of transaction we are including there.

MR. ISHERWOOD: I would just add to that that is the transaction types that we have been doing since the beginning of exchanges, back in the early '90s. Nothing different.

MR. QUINN: Okay. We varied from where I was going but I think it was helpful.

I just want to turn back to the index of customer report from TCPL. And, again, I am not going to take you through the detail at this point, but we talked about the fact there is a monthly update of this report.

Who on your staff would monitor those reports, Mr. Isherwood? Would that be your manager of upstream regulation? Or would that be Patti Piett at this time, or in her group?

MR. ISHERWOOD: I guess the question would be: What exactly are you monitoring it for? They're actually reporting our activity, so we know what we're doing.

MR. QUINN: You would also want to know what the market is doing, also, would you not?

MR. ISHERWOOD: It doesn't tell you a whole lot in terms of how much capacity is being assigned away from any of these customers, whether it's Enbridge or GMI or...

MR. QUINN: If you took one report, year over year, November report one year to November report the next year, and you added up the figures to each of the delivery areas, would you not figure out how much was contracted for last year versus this year?

MR. ISHERWOOD: And how would that help us?

MR. QUINN: To know how much capacity has been taken up in the market for, in this case, long-term contracts.

MR. ISHERWOOD: I think what our gas supply plan assumes is we need FT firm contracts going to our delivery area, so our primary concern is making sure the contracts that we have underpinning our supply plan are in place.

MR. QUINN: Then if I could ask you to turn up page 7 of our compendium?

MR. SHORTS: Mr. Quinn, can I add one more point there?

When you look at these reports, the other thing you can't distinguish would be the utility activity where we had a lot of excess supply and we are actually releasing the pipe for -- and temporarily assigning it to get value for the customers.

So, as you know, we have come out of a very warm winter, so some of this value would have been the pipe that we have temporarily released and received the value from counterparties to mitigate that UDC.

MR. QUINN: I think we took - you took some undertakings in that, and we will rely on those to see what the actually effects have been, Mr. Shorts. Thank you.

So turning back to page 7 of 24, this is a representation -- it does quantify, but it is hard to get the precise numbers. But this depicts how much capacity was eligible for being released, renewed or expiring, and if you read across in the graph, what -- we'll take

November 2011 since it is relatively recent.

You can see how much was renewed and how much expired, and then the total eligible, which is a combination of the two. Is that a correct reading of the graph?

MR. SMITH: Sorry, just so -- because it is not clear from the graph, can I ask my friend to identify where the graph comes from?

MR. QUINN: From the same website the index of customers is on. This is just another summary statement that tries to reflect November 1 of each year.

I thought the panel would be familiar with that, but thank you for clarifying, Mr. Smith.

MR. SOMMERVILLE: So this is a TransCanada document?

MR. QUINN: TransCanada document that is from the website that has the index of customers. This is the summary form of it.

MR. ISHERWOOD: Can you ask the question again, please?

MR. QUINN: For any of the respective years, I am just asking your confirmation. What we're looking at is the amount of capacity that was eligible to be renewed, how much was actually renewed, and how much was allowed to expire; is that accurate?

MR. ISHERWOOD: That's accurate.

MR. QUINN: And so it breaks it down between short-haul and long-haul; correct?

MR. ISHERWOOD: Eastern short-haul and western short-haul and long-haul are the three categories.

MR. QUINN: Yes. So with this type of information that's readily available, you had again expressed the concern about you contract long-term, because it may not be available when you need it if you were to go with short-haul.

Would this type of graph not be information that would be helpful to determine how much may be available, based upon how much was renewed and how much was not renewed in each year?

MR. SHORTS: Just to clarify, Mr. Quinn, you said that we continue to contract for short-haul firm services. They might not necessarily be long-term, but I just wanted to make that clear.

You said short-haul, and I just wanted to make clear that we do contract for short-haul firm services, and they may not be long-term when those contracts initially expire.

MR. QUINN: Thank you. I'll make sure I'm precise in my words. I will be very clear, then.

You continue to contract for long-haul; this shows how much long-haul has been available to be renewed and how much has actually expired.

Would this not give an indication to your staff that, if they wanted to move to shorter-term contracts, that the potential of a longer-term contract would still be available in the next year?

MR. ISHERWOOD: I think I'm getting confused by your question, in terms of you're talking about long-haul and long-term and short-haul and short-term.

So we contract our FT services, and FT services has a one-year minimum commitment. If it requires a bill, then we have to commit to 10 years initially, then eventually gets into a one-year rolling. The majority of our contracts at this point are one-year rolling, so they're short-term, and we have a mix of long-haul and short-haul.

MR. QUINN: We asked your panel the other day why you wouldn't move to short-term firm contracts for the winter and release the long-term long-haul contracts.

And the answer, and I am paraphrasing -- Mr. Shorts was on the panel, so if I don't have this right you can correct me -- but basically the answer was: It may not be available if we want to go with the long-term long-haul. If your plan changes.

MR. SHORTS: Correct, Mr. Quinn. If we went to an ST FT-type of service instead of long-haul -- and we talked about the reasons why we don't think that is the proper way to do that -- you do have the renewal right risk, because there are no automatic renewal rights with the ST FT.

You also have the unknown availability. I mean, even TransCanada has responded in the -- I believe it was their IR No. 9, that showed that over the winter, January 9 through February 11, there were a number of days where -- in which in the EDA, ST FT was not available.

MR. QUINN: ST FT was not available?

MR. SHORTS: Correct.

MR. QUINN: Okay. Well, I will have to check the -- do you have a reference for that?

MR. SHORTS: I do.

MR. QUINN: To save us time, would you mind undertaking just to give us the reference? And I'll look that up when I --

MR. SHORTS: I believe it is Union-TC -- it was their IR No. 9, I believe.

MR. QUINN: Okay. I will take that, subject to check myself. And I want to keep moving on, respecting the time.

MR. SHORTS: The only reference I have is Union-TCPL 9 and if you -- just for your reference, Mr. Quinn, if you look, starting on page 7 of the attachment, and going forth for the few pages, next few pages, it shows where ST FT remaining is actually not available, or at zero.

MR. QUINN: Oh. Let's be clear, then. Thank you for pulling up the reference so we can be clear.

This is ST FT that would have been available for certain days of the winter that was pre-contracted?

MR. SHORTS: This is their report that says on those days there was no ST FT available.

MR. QUINN: Right. Now, TCPL rolls out its available transport, initially annually, secondarily for the entire winter; correct?

MR. ISHERWOOD: Yes. Initially in July, typically.

MR. QUINN: Yes. And the open season just closed for one-year firm service?

MR. ISHERWOOD: I'm not sure. Probably.

MR. QUINN: But after they have got what amount of contracting was taken up at that point, they go to -- the next stage is the entire winter, who would like to contract for the entire winter?

They do not -- I am looking at Mr. Shorts. Your understanding is they do not allow individual months or individual weeks to be pre-contracted at that point?

MR. SHORTS: Their first -- they first go yearly, then seasonally, and then they go down to weekly.

MR. QUINN: Right. So this shows an evolution of what happened, I believe -- I can't even see. Is there a date? December 2008, January.

So this is how it was actually contracted in 2008/2009. But to be clear, if there was actually daily capacity taken, then they would -- in today's environment, you would be able to get the entire winter before people would have access to daily, weekly or monthly capacity. Is that not right?

MR. SHORTS: Again, it depends on year to year.

This is -- again, this is just history. We wouldn't know what it would look like going forward, given some of the changes in the marketplace.

MR. QUINN: Okay. Well, for the open seasons that are out now, maybe just to move on, by way of undertaking could you provide what amount of capacity was available to your respective delivery areas for the entire winter for this year? The open season was just out for TransCanada. You would have got a copy of it. Can you just provide that for the record?

MR. SMITH: Yes, we will do that.

MR. QUINN: Thank you.

MR. MILLAR: J7.2.

UNDERTAKING NO. J7.2: TO PROVIDE THE AMOUNT OF CAPACITY AVAILABLE TO RESPECTIVE DELIVERY AREAS FOR ENTIRE WINTER OF THIS YEAR.

MR. QUINN: Now, Mr. Isherwood, we talked a lot about the release of the capacity you instruct your counterparty to deliver to a certain area, whether it be Dawn or the EDA, if it is a winter delivery and it was a contract for the EDA.

My question for you is: Is that counterparty required to undertake a firm service contract to meet their delivery obligations that Union has instructed them to take?

MS. CAMERON: When we enter into the agreement with the counterparty, it is a firm agreement that we execute between them and I, or between them and Union Gas.

And we request that we will deliver to them each and every day firm at Empress, and they will deliver to us firm each and every day at Dawn, for example, in a summer example.

There are penalties within that contract for non-performance. As well, we only enter into transactions with creditworthy parties.

MR. QUINN: So, again, my question is: Are they required to demonstrate that they have underpinning firm contracts?

MS. CAMERON: They have demonstrated by executing the contract with us that says they will meet their firm market commitments.

MR. QUINN: That isn't what I asked. Do you ask them to demonstrate to you that they have a firm contract that underpins your --

MR. ISHERWOOD: We do not police how they deliver the gas. It is up to them to deliver the gas to us as per the contract.

MR. QUINN: So the answer is you do not require them to demonstrate that they have a firm contract underpinning their obligations to you?

MR. ISHERWOOD: We do not. We do not think we need to.

MR. QUINN: You are familiar with the system reliability proceeding that Enbridge had?

MR. ISHERWOOD: At a high level, yes.

MR. QUINN: And part of the issue there was their concern about delivery obligations, their franchise not being underpinned by firm service? Is that your high level understanding?

MR. ISHERWOOD: I believe the Enbridge experience is actually it had some supply failures.

MR. QUINN: And they were concerned that contracts were not underpinned by firm service? Is that your high level understanding?

MR. ISHERWOOD: That's correct.

MR. QUINN: But Union is not concerned?

MR. ISHERWOOD: We manage the concern through the contract and the penalties and dealing with parties that we're comfortable with, and creditworthy.

MR. QUINN: But you don't require them to demonstrate to you that they have firm service underpinning their contract?

MR. ISHERWOOD: We don't police how they get there.

MR. QUINN: Thank you.

Yesterday Union provided an update -- actually, technically, it was provided to me by e-mail Tuesday night, and it was the undertaking that we were trying to go through with panel 2 from EB-2012-0087, B7.7, and Union provided an update to that. Thank you. Mr. Millar has copies of it there.

MR. MILLAR: Yes. This will be Exhibit K7.1.

EXHIBIT NO. K7.1: UNDERTAKING B7.7 FROM EB-2012-0087.

MR. MILLAR: I have copies for the Panel.

MR. QUINN: Now, clarity was provided yesterday, Ms. Cameron, in terms of how Union contracts versus how the capacity is actually utilized.

And we have the Union panel's description of the change to the note 3, which I think we will rely on that, because I don't think we can read it off the screen. Thanks, Ryan.

But I am going to just -- I am not going to focus on note 3. I just want to focus on the bottom line, "TCPL, Union, CDA, Empress to Parkway." I think that view is fine. Thank you.

What I would like to ask Union by way of undertaking, there's obviously a considerable amount of transportation exchange revenue that was made on that path.

Similar to the undertaking yesterday, could you provide a breakdown of where the gas was actually delivered by your assignees and how the amount of short-term exchange revenue was generated?

MR. SMITH: I guess before I give the undertaking, maybe we should just ask if the witnesses know the answer, and then, if they don't, we will give an undertaking.

MS. CAMERON: Can you provide a little more context for what you mean by how it is generated?

MR. QUINN: Yesterday you had said that you may have contracts to the EDA and you may instruct the counterparty for an assigned contract to deliver some months at Dawn, some months to the EDA, or sometimes to the NDA or WDA. You have a contract that goes from TCPL Empress to Parkway, and we are interested in how the exchange revenue is generated and how much exchange revenue may have been generated by assignments that drop gas off at different points along the way throughout the use of that contract.

MR. ISHERWOOD: Would it help to describe the transactions today?

MR. QUINN: Actually, I would rather, by way of undertaking, see the numbers and understand how it is generated, the difference between FT RAM and assignments. There may be some components of each, Mr. Isherwood, and I don't believe -- I don't expect you to be prepared to have that information with you today.

MS. CAMERON: As we discussed a bit today, whether we do it through an exchange or whether we do it through optimization, delivering the gas from this particular contract, diverting the gas from Parkway to some other area, was driven by the RAM program. So it's all fundamentally due to RAM that we've earned the revenue related to this contract.

I'm not sure I understand the categories by which you are wanting me to define this revenue.

MR. QUINN: How much of the capacity was assigned, to what area, and what was the resulting generation of revenue that fed into the $11 million surplus?

MR. SMITH: Yes, we will do that.

MR. QUINN: Thank you.

MR. MILLAR: J7.3.

UNDERTAKING NO. J7.3: WITH REFERENCE TO EXHIBIT K7.1, TO PROVIDE BREAKDOWN OF WHERE GAS WAS ACTUALLY DELIVERED BY ASSIGNEES AND HOW THE AMOUNT OF SHORT-TERM EXCHANGE REVENUE WAS GENERATED.

MR. QUINN: Now, again, we touched on this -- well, I'm going to shift just to M12 first.

We've talked about the uncertainty of your M12 forecast, Mr. Isherwood. You talked about risk on your pipeline. Yesterday, I think you provided some numbers in terms of there has been turnback, but there has also been what has been deemed to be a repurposing of that capacity, turnback of M12 that may have become M12X or an M12 point-to-point service. Is that a concise summary?

MR. ISHERWOOD: I think with the turnback that we've gotten since -- we've had turnback in 2011. We'll be getting some more this November and some more next November, the three years we know about.

Some of the capacity was resold in 2011, and some of that would have been M12X.

Starting with the capacity we get back in 2013, at this point in time we have no market for it. So we have been able to repurpose the '11 turnback and the vast majority of the 2012 turnback, but not the 2013.

MR. QUINN: Well, I understand that Union recently went out with the Parkway extension project, and, you know, the open season offered -- Union Gas is also conducting a concurrent open season on Dawn to Parkway system to provide capacity to the new pipeline.

You would have had opportunity to test the market and test the uptake of that capacity through that open season, would you not?

MR. ISHERWOOD: Yes, we did.

MR. QUINN: Would you be able to provide a forecast for 2013 that includes November of 2013 for the purposes of updating your M12 forecast.

MR. ISHERWOOD: So the M12 forecast would not change for 2013. The open season was for November 1 of 2014 and November 1 of 2015.

MR. QUINN: So there was not any interest generated for a contract that would start any time in calendar 2013?

MR. ISHERWOOD: That's correct.

MR. QUINN: Okay, thank you.

But we have talked about uncertainty of the TCPL RAM program and that it may - may - stop in -- it may stop in May of 2013. It may continue on. It may stop before May 2013.

Any of those are possible, Mr. Isherwood?

MR. ISHERWOOD: Until we hear of the NEB decision, that's correct.

MR. QUINN: So there is a possibility that TCPL RAM revenue may come in to Union in January of 2013?

MR. ISHERWOOD: That's possible.

MR. QUINN: Would you believe -- given that uncertainty and because it is outside the control of Union -- that it would be appropriate to have a transportation exchange deferral account reinstituted to manage that risk, for both ratepayers and for Union?

MR. ISHERWOOD: So our base forecast, which was done in November -- sorry, in the spring of 2011, assumed RAM would not continue in 2013.

So our base evidence, our core evidence talks to the fact that our exchange and transportation revenue is expected -- sorry, exchange revenue is expected to be around $9.1 million, with no deferral account around it.

We were asked, Mr. Quinn, the same question you're asking in terms of should there be a deferral account. And if I could ask you to turn to J.C-4-7-9, there were a few questions here.

One of the questions was what would we expect the FT RAM revenue to be in '13, if it were to continue.

And we provided a number of $11.6 million that was based on 2011 volume, 2011 activity, if you wish.

We also offered, at the top of page 3 of 3, two different options for the Board to consider. The second one was really to keep the current forecast of $9.1 million for exchanges and build that into rates, as per our proposal.

And option number two, which is the simpler of the two, is basically just saying: And have a deferral account in case RAM does continue on.

I would add to this answer that it would be Union's position that, in order to provide incentive, as we've had in the past before incentive regulation and before RAM, to have the deferral account have a revenue sharing of 75-25, which was historically the number we have had there.

And that would provide us incentive to continue to do the good work we're doing in FT RAM, and provide the ratepayer that benefit through that deferral account.

Option number one gets a bit more complicated, but perhaps has different benefits. It is suggesting that you could build in a forecast of the FT RAM, and the number provided here was, again, based on the 2011 activity level of $11.6 million.

And in this case, it's very key that we would have a deferral account for 100 percent protection on the downside, because of the risk that FT RAM would not continue.

But again, we would propose that, on the upside, to provide the proper signals to the utility, we would have sharing on the upside of 75-25.

Just if I could say one more thing, Mr. Quinn, there was another interrogatory that kind of touched on it, as well, just to give a complete record. And it's J.H-1-1-2.

And this provided a slightly different option for the Board to consider, as well. And this interrogatory to Board Staff is really trying to deal with how do we help deal with the impact of the rate increases in the north; the north do have higher rate increases than the south.

One of the suggestions in this IR is you could build the FT RAM benefit into the northern rates to help mitigate some of the impacts there. But once again we would ask for the downside protection at 100 percent, and earnings sharing -- or sharing on the upside, sorry, of the deferral account at 75-25.

MR. QUINN: I guess that was more fulsome answer than I had anticipated. So I want to get back to where I was going with this.

You have demonstrated to us and you say your forecast hasn't changed, that there is some risk on M12 for 2013; is that accurate?

MR. ISHERWOOD: Yes.

MR. QUINN: If that M12 capacity is available, will it sit idle, or will Union tend to find opportunity or look to find opportunity to sell C1 short-term exchanges?

MR. ISHERWOOD: We have -- we were given notice for the 2013 turnback. We always get two years' advance notice. We would have known about that November 1 of last year, or sometime late October last year.

And we have been trying to sell it since then and we will continue to try to sell it.

If it is not sold by, say, November 1 of '13, then we would try to sell it during the day on the day, over the winter.

MR. QUINN: But for the 2013 year, you have 2012 empty capacity? From November 2012 into 2013, you have empty capacity?

MR. ISHERWOOD: Very little. I think there are twenty or 30,000 gJs. The big, the big unsold capacity is starting November 1 of '13.

MR. QUINN: So your March update of your evidence would include all -- that you only have twenty to 30,000 gJs of unsold capacity?

You are demonstrating a shortfall relative to 2012 revenues of about $5 million. Would those numbers make sense to you, Mr. Isherwood?

MR. ISHERWOOD: We're just pulling up some of the evidence.

MR. QUINN: I am very conscious of time, and you had provided some of your views on the deferral accounts. Is it possible you could just take an undertaking to check the level of capacity that is not subscribed for M12 for 2013? And is your forecast still accurate, or what would the updated forecast for revenues for M12 for --

MR. ISHERWOOD: For '13 or for '12?

MR. ISHERWOOD: For 2013, the test year.

MR. SMITH: We will do that.

MR. QUINN: Thank you.

MR. MILLAR: J7.3 -- I'm sorry, J7.4.

UNDERTAKING NO. J7.4: TO CONFIRM LEVEL OF CAPACITY NOT SUBSCRIBED FOR M12 FOR 2013, AND WHETHER FORECAST IS STILL ACCURATE.

MR. QUINN: I want to touch on storage issues. I've got two more areas. Then hopefully I will be done before the break.

I have in my compendium - and I want to be specific - starting at page 8 through the next several pages, up to 15, this is actually a transcript from 2011-0038. And I should have added a reference to the top of that to make sure people had the proper context.

But again in terms of time, Mr. Isherwood, as opposed to leading you through, last year we had some discussions about encroachment of non-utility space into utility space.

And in that discussion you and I had, we were seeking reassurance that the non-utility space did not encroach upon utility space. Union took an undertaking -- first off, do you recall that conversation?

MR. ISHERWOOD: I do.

MR. QUINN: Is that a concise summary of what we were talking about?

MR. ISHERWOOD: Yes.

MR. QUINN: And at the time, and to be fair, you anticipated that it had not happened?

MR. ISHERWOOD: Yes, that's true.

MR. QUINN: And subsequently, we asked you to take an undertaking to find out that, in fact, in one of the three previous years -- which is reflected on page 16 and 17. This was the resulting undertaking from that proceeding, that demonstrated that in 2009 for the period of, well, two months, the non-utility space had exceeded its maximum capacity and therefore it encroached on the utility space?

MR. ISHERWOOD: That's correct.

MR. QUINN: Okay. And I don't think you need to turn it up, but your evidence from this year also described an 11-day overage for the non-utility in October of 2011?

MR. ISHERWOOD: Yes. So from the hearing EB-2011-0038, which was last year's proceeding, the Board had asked that we report on any overages in the future.

So we did file a section of evidence in this proceeding to deal with that.

MR. QUINN: So what we have is now in the record for two out of the last four years or half of the time, in the fall, the non-utility space has encroached on utility space; would you agree with that?

MR. ISHERWOOD: Yes.

MR. QUINN: Okay. Now, I guess what I'm trying to understand is, you know, Union has come forth with some proposals to sell non-utility space, short-term.

And I think it would be helpful if we turn up Board Staff IR J.DV-1-1-1.

There is a fairly -- sorry, do you have it, panel?

MR. ISHERWOOD: Yes.

MR. QUINN: There's a fairly long preamble, but what I want to focus on is Union's ability to tie transactions to assets.

So if you would flip over the page, Ryan, please? Okay. In answer to question (b) -- I will read it for the record:

> "Union is able to trace the individual short-term peak storage transactions and could assign the individual storage transactions as utility transactions or non-utility transactions."

Stopping there, Mr. Isherwood, is that system -- is that ability currently in place?

MR. ISHERWOOD: Yes, it is.

MR. QUINN: Given that capability, how is it that we have had, two out of the four years, significant encroachments on the utility space?

MR. ISHERWOOD: If I could just maybe explain what happened last year, that's the most current event.

MR. QUINN: Mr. Isherwood, is that what is in your evidence?

MR. ISHERWOOD: Yes.

MR. QUINN: Okay. I think I want to be fair about this. It is in your evidence, and you have come forward with an explanation.

At the same time, if you have the ability to tie transactions specifically down to the respective assets, I'm concerned, if we were to move into a world where Union was selling non-utility space in the short-term market, how would we get comfort that utility and non-utility space being commingled in transactions would actually be able to be, demonstrably to this Board, separating?

MR. ISHERWOOD: I think if I explain first what happened in October of last year, then we can deal with the proposal here.

But last year the overage actually happened during Thanksgiving weekend. So if we look at how much gas we're injecting prior to Thanksgiving weekend, it was approximately 0.1 of a pJ, or 100,000 gJs a day, a little more than that each day, for sort of the three or four days before.

We looked at the forecast over the weekend and we expected the same type of number, maybe slightly larger, to be injected. The actual injections on the weekend, instead of being 100,000 or 150,000 gJs, went over 800,000 gJs a day for three days. And it was that unusual circumstance, driven by Thanksgiving, weather, that took us over.

So when the team came back to work on the Tuesday and saw that we were over, we immediately took action and started to take gas off our system to bring that balance back in line on the -- starting on the Wednesday, and, in total, spent a little over a million dollars in transaction fees to get the balance back in line.

So it was definitely an unexpected event. It was unusual circumstances, and we reacted as quickly as we could when we got back into the office.

In terms of the proposal here, we have a very discrete amount of storage to sell, both utility space that we sell on a short-term basis if it is deemed to be excess, and we have a very discrete amount of non-utility space to sell, as well.

And today we sell all of the utility space on a short-term basis, being less than two years, and for the -- sorry, for the non-utility space --- let me start again.

For the utility space, we sell on a short-term basis, which is deemed to be less than two years, and it is typically always one year. And for the non-utility space, we sell that long-term, which is deemed two years and longer.

What we're asking for the Board's consideration on is to be able to sell non-utility space on the short-term basis, which would be typically a one-year basis.

But as I mentioned earlier, we have very discrete amounts of both to sell, so what we're asking for is: Can we sell some of our non-utility space that would otherwise be sold long term; can we sell that on a short-term basis?

So both numbers are very discrete.

MR. QUINN: Okay. I am going to parse that out just a bit. You came back over the weekend, you said, and recognized that you were over and reacted immediately.

Would you take it, subject to check, that took about a week to get your balance back to 100 percent?

MR. ISHERWOOD: The overage was I believe 1.6 pJs, which was a big number. It ran up very quickly over the weekend. So it would take, I'm going to say, days, maybe a week, to have that actually happen.

The important thing is the first transaction happened the very next day, and we worked during that week to get more gas off as the week went on.

MR. QUINN: And the utility did not charge the non-utility any penalty for that overage?

MR. ISHERWOOD: That's correct.

MR. QUINN: And you have taken it by -- there was an undertaking from the technical conference that said the 1.6 pJs multiplied by the penalty would be a penalty of $96 million?

MR. ISHERWOOD: That $96 million comes out of our rate schedule, our tariff. Actually, it is on our market price storage service tariff, which is the unregulated business.

And I would say this, though, Mr. Quinn, that that's the number that is on the tariff, and for another LDC or an ex-franchise customer we would normally work with the customer, and, to my knowledge, have not charged that to, again, a non-utility ex-franchise type customer.

MR. QUINN: Okay.

MR. ISHERWOOD: Certainly not since the NGEIR decision.

MR. QUINN: We have had a rather long conversation here, Mr. Isherwood. I am conscious of the clock, so my next question is on system integrity space.

You know that we had a discussion in the technical conference about the ability to fill the fall system integrity space in December and allow it to become part of your winter contingency space. Do you recall that conversation?

MR. ISHERWOOD: Yes.

MR. QUINN: If you check the transcript, which I am not going to go through, I had asked that you look at the possibility of filling that space in December. Unfortunately, through maybe lack of clarity in the undertaking, you did a response that was based on January.

Could I get you to actually complete the undertaking for a comparison of December as opposed to January?

MS. CAMERON: I think, Mr. Quinn, when we look at what you're asking -- so it's the -- there's no assurance that we would have capability or space in our inventory to buy the gas back in December.

The storage facility is likely still full, and we would not have capability to inject that gas.

MR. QUINN: Would that mean that your contingency space is already full, then?

MS. CAMERON: We don't use contingency space for that purpose.

MR. QUINN: Well, what I am asking, in your scenario you have created, is the contingency space full?

MS. CAMERON: Well, in the scenario we talked about - and perhaps we can walk through it to make sure we understand - we've taken 3-1/2 pJs and sold that off as storage.

You were looking to optimize the storage space, the contingency space; correct?

MR. QUINN: No. Mr. Isherwood, do you recall our conversation? I can go through in more detail if you'd like.

MR. ISHERWOOD: I wouldn't recall it exactly word for word.

MR. QUINN: So our proposition to you was that you keep 3-1/2 pJs of contingency space empty in the fall to have that flexibility, if it is a warmer than normal fall.

Then, on top of that, you have 6 pJs that you want to have full in the winter, and you keep that as separate space so that there is a total of 9-1/2 pJs of contingency space.

Our proposition to you was keep that fall contingency space available for a cold fall, but once the weather has turned and you start doing withdrawals, you could then fill in December that 3-1/2 pJs that had been set aside, and fill it with gas and have it part of the 6 pJs, so you don't have to double count your system contingency space.

So I would ask if you would take an undertaking to compare -- you gave the July price and the January price. We had asked about December and July.

So to complete the record, would you be able to take that undertaking?

MR. SMITH: I guess we could do that. Yes, we will do that.

MR. QUINN: Thank you.

MR. MILLAR: J7.5.

UNDERTAKING NO. J7.5: TO PROVIDE CONTINGENCY SPACE NUMBERS FOR DECEMBER.

MR. QUINN: The last area I want to talk about is the deferral account proposition we touched on before.

I was rereading the transcript yesterday, Ms. Elliott, and you were answering Mr. Aiken's question, so it may be in a different context, but you had touched on the deferral account and the phrase you used was:

> "There is no differentiation between utility assets and non-utility assets."

I guess my direct question to you would be: Based upon what Mr. Isherwood has said, being able to tie specific transactions, would you be able to demonstrate, in some way, to the satisfaction of this Board, that if Union were entering into non-utility short-term transactions, that there was a clear separation of the assets to the respective accounts?

MS. ELLIOTT: With respect to short-term storage space, there is a predetermined amount of excess non-utility space.

So selling that space and the revenues generated by the sales of that space are in the forecast, and to the extent that the actual revenues vary from the forecast, they would be subject to deferral.

So the variance on that volume of space is what's subject to deferral. To the extent that we sell more space short term, we're selling non-utility space that's not subject to deferral.

So we would, in the deferral account, be able to demonstrate revenues for the volume of excess utility space.

MR. QUINN: Again -- and I may turn this back to Mr. Isherwood, and then back to you, Ms. Elliott. At the start of the year when the gas supply plan is released in the spring, you have a release of assets. This is how much space we're going to need for this winter, therefore -- and we'll just use a round number. Ninety pJs is what you need for in-franchise. Just say that was the case.

There are 100 pJs of space set aside for the utility, so the excess would be 10 pJs at that point.

MR. ISHERWOOD: Right.

MR. QUINN: Through the course of the year, weather changes, things happen. You end up with some difference, and so at some point during that year in this scenario, you have now have recognized you have an additional two pJs of space, of utility space, that would not be needed for this winter.

That additional two pJs of utility space is now available to be marketed and used in some fashion.

That clarification -- with that clarification, you now have what would be not 10, but 12 pJs of utility space.

Currently, can you track the fact that you have transactions that tie to the 12 pJs of utility space?

MR. ISHERWOOD: In the example you gave, Mr. Quinn, we would only sell 10 pJs of the utility space, because to get to the extra two, you have changing weather conditions in the winter and you wouldn't be selling one-year contracts midway through the year.

MR. QUINN: Okay. Then would you use that two pJs, potentially, to do a park service?

MR. ISHERWOOD: We will sell -- short-term storage being less than a year -- more balancing-type services.

And those dollars do flow through the utility account.

MR. QUINN: They flow through the utility account. So you have the excess 10 pJs that you have at the outset. You have two more incremental pJs of utility space.

All of that goes through the utility account?

MS. ELLIOTT: All of that goes through the deferral account. If it is used for all of the balancing services, all off-peak storage, all go through the deferral account.

MR. QUINN: Which deferral account?

MS. ELLIOTT: The short-term storage and balancing deferral account, 179-70.

MR. QUINN: So that's what happens today.

Now, to the extent that you want to sell non-utility space, and let's say you have five pJs of non-utility space, you have the potential now of 17 pJs of space that could be sold for short-term space. It could be used for park and loan services, and all of the categories that go into that deferral account.

How would you propose you satisfy the Board and ultimately ratepayers that the utility space is being separated and that we are getting value back for our utility space?

MR. ISHERWOOD: Again, the two pJs that your example presents would only be sold as off-peak storage. It wouldn't be sold as peak storage.

So when we sell utility and non-utility space, both for the short-term being one year, that's two very discrete amounts, the 10 pJs you mentioned and the five pJs of non-utility. Very easy to track those two elements.

The other services we sell, which are off-peak for a week, for a month, for a couple of months, would still flow through the utility account.

MR. QUINN: Okay. Maybe to cut to the chase on this, I am asking how you would demonstrate this capability.

We now have the potential intermingling -- I say potential intermingling of non-utility and utility space, not unlike we have had some issues in the last couple of years.

If Union were desiring to go forward, as they have proposed, to sell non-utility space in the short-term market, would Union be willing to accept an audit by a Board-appointed and Union-paid for auditor that would come in on an annual basis and review to ensure that the transactions were affected in a way consistent with the deferral account?

MR. SMITH: The answer to that question is no.

But there is a deferral account proceeding. And to the extent -- every year. And to the extent that my friends have questions about the amounts that are in the deferral accounts, they're entitled to ask interrogatories in those proceedings, and to -- if they're not satisfied with the answers, to make whatever arguments in those proceedings that they want to make.

MR. QUINN: I think the concern that we're expressing, Mr. Smith, is that when we ask those questions in the deferral account proceedings, we hear the non-utility transactions are not a matter of public record. They're a separate business and we have no right to ask questions.

So I am trying to find an interim approach that would potentially allow Union to go forward with it, which it respectfully has asked for, and that's the ability to sell this non-utility space short-term.

MR. SMITH: Sorry --

MS. HARE: I think your question, Mr. Quinn, was would they be willing to accept an audit and the answer was no.

So that leaves it up to you to argue for such an audit.

MR. SMITH: Just so it is perfectly clear, Union has the ability under NGEIR to sell non-utility storage any length of time, short-term or long-term. It is not -- Union doesn't require approval at this stage to do that.

MS. HARE: Right.

MR. QUINN: Then I guess I will turn, lastly, to the exhibit that I presented --

MS. HARE: Mr. Quinn, will you be done in a few minutes?

MR. QUINN: This is the last question, actually. Thank you, and I appreciate your concern.

Mr. Millar has an exhibit that was actually from the 2011-0038 proceeding, and it is a reply submission by Union Gas, if you are accepting of that as an exhibit, Mr. Smith.

MR. SMITH: You are proposing to mark that? Yes, that's fine.

MR. MILLAR: It's K7.2. It's the reply submission of Union Gas from EB-2011-0038.

EXHIBIT NO. K7.2: REPLY SUBMISSION OF UNION GAS FROM EB-2011-0038.

[Mr. Millar passes the exhibit to Board Panel]

MR. QUINN: And if I could draw your attention to page 4 of that document, paragraph 12, it says:

> "Finally, if the Board accepts the argument advanced by CME and others and concludes that Union's ability to track its non-utility storage position is a reason to depart from the NGEIR Decision in relation to the sharing of margin on short-term transactions, then there is no need to distinguish between short-term and long-term storage at all. The logical consequence is that the categories of short-term and long-term should be abolished."

I guess my question at this point is: Is that Union's position at this time, that we are in a position to abolish the short-term and long-term categorizations of storage?

MR. SMITH: Well, if this is a factual question or Union's position, Union's position is as articulated in its evidence.

It would be perfectly defensible under NGEIR to take the position -- because this has already been granted -- that the short-term and long-term distinction should be abolished, but Union hasn't proposed that in this proceeding, and the outcome is better for ratepayers from a dollars perspective than strict application of NGEIR.

And that's what is laid out in the prefiled evidence.

MR. QUINN: I know that is what is in the prefiled evidence, Mr. Smith, but I think you missed the corollary of that, in that if -- not necessarily now, but if in the future it is better to sell the utility space, a portion of the utility space long-term, two or three years if you've got a five-year gas supply plan that says you are not going to use these 10 pJs, you could sell five of them for two or three years in the long-term market if there is a better margin.

Is it Union's position that that ought not occur?

MR. ISHERWOOD: The market research that we have done, Mr. Quinn, is highest value for storage is generally short-term, being one-year, and that is exactly the reason why we're asking to be able to change our deferral account to reflect the ability for us to sell our non-utility balances one-year.

So I don't see the day where it would be preferential to sell utility space long-term; the better value is selling it short-term.

MR. QUINN: Why do you sell non-utility space long-term, then?

MR. ISHERWOOD: Because the current accounting order accounts for two years and longer.

MR. QUINN: So before NGEIR you sold space long-term. Why did you sell space long-term?

MR. ISHERWOOD: I'm not -- sorry, I'm not that familiar with the deferral accounts treatment prior to NGEIR.

MR. QUINN: Okay. Would you agree with me that selling excess space longer-term is -- there is a way of managing your risk on the values of storage going up and down over time?

MR. ISHERWOOD: There would be some value to that.

MR. QUINN: Okay. So in this last year, you have experienced and your evidence states that you have experienced some slim margins on storage transactions, slimmer margins?

MR. ISHERWOOD: I think 2012 is a little bit better than 2011. I think it has actually gotten a little bit better.

MR. QUINN: So in 2011, you had slim margins on storage transactions?

MR. ISHERWOOD: We definitely went through a bit of a trough on storage.

MR. QUINN: Right. So if we were to suggest that, if somebody were taking care of just the utility storage, both the -- that applied to serve the customers and the excess space, and that person chose that it would be in their best interests to sell some of that space long-term to manage the risks up and down, would Union be willing to consider that as -- the opportunity, since you have the capability now to track transactions right down to the utility and non-utility assets?

MR. ISHERWOOD: I think we need to consider that at the time, Mr. Quinn. We do have the ability to track it, for sure, but our position in this case is that we would -- we're asking to be able to sell non-utility space on the short-term basis, one year.

MR. QUINN: That is what you're asking for?

MR. ISHERWOOD: Yes.

MR. QUINN: I guess we're asking you, then, can you sell utility space long term, and your answer is you are going to consider that, but in your professional experience --

MR. ISHERWOOD: It's not our position in this case.

MR. ISHERWOOD: It's not your position; okay. Thank you very much. Those are our questions.

MS. HARE: Thank you. We will take our morning break now to 11:15.

And I would like to remind parties to try to stick to their time estimates that have been provided to us. Thank you. So 11:15.

--- Recess taken at 10:56 a.m.

--- On resuming at 11:23 a.m.

MS. HARE: Thank you. Please be seated.

Mr. Brett, I think you are next for cross-examining, and I think your time estimate is 45 minutes?

MR. BRETT: Yes.

MS. HARE: Thank you.

CROSS-EXAMINATION BY MR. BRETT:

MR. BRETT: I would like to start -- good morning, panel. I would like to start with this handout that came out this morning. I think as it in response to some -- a request by Mr. Thompson. Is this in the...

Oh, I see. Okay. Well, I guess we -- I would like to see if we can get this into the record here so I can use it for cross-examination. I'm going to use it just briefly, but I want to use it as sort of a jumping-off spot.

MR. MILLAR: What document is this, Mr. Brett?

MR. BRETT: It's called "Portion of FT RAM demand charge mitigation amounts not credited to ratepayers - 2007 to 2012." It is just a handy summary, I think, of numbers that have already been agreed, but...

MS. HARE: This is a document from another proceeding; is that correct?

MR. BRETT: No, this is a document Union Gas put together.

MR. SMITH: Well, it is sort of yes, sort of no.

Mr. Thompson asked us to put some numbers together. We have put the numbers together in a way that we think is comprehensive and reflects the record.

MS. HARE: Okay. Thank you.

MR. MILLAR: We will attach an exhibit number to that. K7.3.

EXHIBIT NO. K7.3: UNION GAS DOCUMENT ENTITLED

"PORTION OF FT RAM DEMAND CHARGE MITIGATION AMOUNTS NOT CREDITED TO RATEPAYERS - 2007 TO 2012."

MR. BRETT: My questions on this are largely of an informational nature, panel, but I want to just make sure I can reconcile a couple of these numbers with numbers in other interrogatory responses.

So when you are looking at this, to start, you might turn up J4.1, which was an undertaking given earlier from Ms. Evers to Mr. Thompson. That is in the gas supply cross-examination. So that is, again, Exhibit J4.1. So you have the two things in front of you.

Do you have it?

MS. CAMERON: We have it.

MR. BRETT: Okay. As I say, I'm not going to dwell on this, but as you can see, you had a look at, I guess Mr. Thompson's numbers, and did as Mr. Smith said.

So I want you to go down to -- see the top line is the net RAM revenue or RAM-enabled revenue.

The second line is the portion that goes to -- or the second and third lines are the portion that goes to shareholders.

And then the fourth and fifth lines are lines that show specific -- how those credits were used to effect the specific objectives that benefited ratepayers, which were discussed -- for the most part discussed with the gas supply panel last week.

I want to just look at line 5, which is entitled "Released value of pipe to offset UDC."

You see I am going to look -- as an example, I will look at 2010. You see the number 6.2 there for 2010.

I want to just draw your attention to the footnotes there. And the three footnotes, 1, 2 and 3, that are set out below all pertain to this line 5. So let me just address that.

The first footnote says:

> "This is the total released value obtained for pipe releases as shown in J4.1, adjusted to reflect only TCPL releases as those values were impacted by RAM credits."

Now, if I look at J4.1 and I look at 2010, you show a released value there of 7 million 257, as against 6.2 million in this -- in K7.3.

My question is: Could you just explain the difference between the -- what you mean -- what you mean by the footnote? What's the difference between the 7,257 and the 6.2?

MR. SHORTS: Mr. Brett, the 7,257 represents the total value from all pipes we released, not just TransCanada. So that would include all pipes.

MR. BRETT: Okay.

MR. SHORTS: What we did was strip out the non-TCPL pipe release values.

MR. BRETT: Okay. That's what I thought, but that is helpful. Thank you.

And then your footnotes 2 and 3 on the same -- for the same line, while the value directly attributable to FT RAM program cannot be separated from the total value -- and I think we discussed that last week:

"This has been included to recognize that the FT RAM program has increased the value of assignments of TCPL firm transport".

So what you are saying there is the 6.2 is really the -- is the total amount of compensation that you got for the pipe, and it includes -- for want of a better word -- a conventional portion and a RAM-enabled portion; is that fair?

MR. SHORTS: It includes added intrinsic value that the RAM credits would have -- we would have received it because of the RAM credit feature.

MR. BRETT: Correct. And then the third footnote is, I think reflects something that Mr. Isherwood said yesterday, that it -- it says, "Set to zero", and this is in reference, now, to the 2007 column, line 5, 2007, you see the little footnote 3 there. It says:

"Set to zero to recognize limited use of RAM credits prior to 2008."

And I think that is just saying that, as you put it yesterday, I believe, Mr. Isherwood, the activity didn't really get cranked up until 2008; is that...

MR. ISHERWOOD: That's fair.

MR. BRETT: Okay. With respect -- the only other question that I have on the detailed numbers has to do with -- if you would turn up J3.3, which was an undertaking of Ms. Evers to Mr. Quinn, again, from the -- yes, that's it.

Then there is an attachment to that, that response. And my question -- I don't know that I need to correlate this with the K7.3, but I just want to understand the table. The attachment there shows -- first in the left-hand column shows the level of the TCPL demand charge for that month; right?

MR. SOMMERVILLE: We're not seeing an attachment for that undertaking, Mr. Brett.

MR. BRETT: Oh, I see. It is a table. It's a table.

MS. HARE: Thank you.

MR. SOMMERVILLE: Thank you.

MR. BRETT: Sorry about that. Okay. Do you have that table in front of you?

MS. CAMERON: I do.

MR. BRETT: It has three columns. The one on the left is the demand charge for TCPL by month?

MS. CAMERON: From Empress to the eastern zone, yes.

MR. BRETT: Thank you. The middle one is the total demand charges. Now, could you explain, I guess, the -- just explain the middle one to me.

MS. CAMERON: That is -- the demand charge from column A multiplied the capacity that Union held from Empress to the eastern zone.

MR. BRETT: And it was released? Is that the idea?

MS. CAMERON: No. That is just what we hold.

MR. BRETT: All right. That's what you held.

And then the net proceeds, what does that signify? That is the third column.

MS. CAMERON: That was the revenue that we earned from capacity releases. So to the extent that S&T had an opportunity and was approached by a party for us to release our Empress-to-EDA capacity, so that they could get some benefit from the RAM credits, this is the net proceeds of what we earn from that capacity release, less the costs that we incurred to get the gas supply from Empress to wherever it needed to go.

MR. BRETT: I understand. So that would have had the effect, then, of reducing the -- reducing the amounts of the demand charge, effectively; right?

Offset those demand charge amounts in column 2; is that right?

MS. CAMERON: They did not impact the demand charge. The demand charge that was paid by the ratepayers was the same, because they still got the gas, the contracted receipt point, and it was delivered where they needed it.

MR. BRETT: Right. But in terms of what the company as a whole received, the 749 effectively could be -- could be viewed as a revenue offset to the demand charges?

MR. ISHERWOOD: No. Those would be treated as regulated revenues.

MR. BRETT: The net proceeds?

MR. ISHERWOOD: Yes.

MR. BRETT: All right.

MS. TAYLOR: I'm sorry, I'm confused.

MR. BRETT: I think that's -- well, do you wish to --

MS. TAYLOR: I just need to understand. So you have a contract November 2009, the first line of this. You've got a contract with a demand charge of $33 per gJ a month for a total of 2.67 million demand charge for that quantity?

MR. ISHERWOOD: Yes, that's correct.

MS. TAYLOR: Explain to me what the net proceeds are, again, slowly and whether -- and who is paying for what and where the cost of the demand charge is.

So this net number, there is a lot of things going on in it. You said that the ratepayer is held harmless, and I am having trouble with that.

So is there anything on the record where I would understand each of the cash flows that you have that end up in the net?

MS. CAMERON: We have not provided, to this date, the details of how that value was calculated.

How the transaction is entered into is -- because of the RAM credits, a customer will approach us and ask --

MS. TAYLOR: I understand that. But you keep saying that the ratepayer is held harmless because the gas that they need is delivered at the point that they actually need it.

But I'm having trouble reconciling that with the numbers that we're seeing with the sharing and the quantum of the opportunity.

So can I get you to break out the flows that would have -- just for November of 2009, or pick whatever month you would like, just so that I understand how this transaction results, top line, offsets all of the costs such that you get a net proceed of 749,000? Could you do that?

MR. SMITH: Yes, we will do that.

MS. TAYLOR: Thank you.

MR. MILLAR: J7.6.

UNDERTAKING NO. J7.6: TO PROVIDE DERIVATION OF NET PROCEEDS, HOW THEY ARE GENERATED AND REPORTED.

MR. BRETT: Thank you. I would like you -- thank you, Ms. Chairman.

MS. TAYLOR: I apologize.

MR. BRETT: Not at all. I was going to try to do it myself, but I wouldn't have done it, as well.

MR. SOMMERVILLE: Sorry, Mr. Brett. Could we just understand the undertaking clearly?

I think what my colleague is looking for is, given the demand charge -- the demand charges, and then the net proceeds, it's the derivation of the net proceeds that is what we're interested in, precisely how those net proceeds are generated and how they are reported.

MS. CAMERON: Certainly.

MR. SMITH: Yes, we will do that.

MR. BRETT: Thank you. If I could ask you now to turn up an IR, shift gears a wee bit here, to J.D-1-16-2. That is an interrogatory, J.D, as in dairy, 1-16-2, and that is an interrogatory asked by me on behalf of my client, the Building Owners and Managers Association.

We touched on this briefly with the gas supply panel, but I would like to explore a little different aspect of it with you, and just give me a moment here, please. Okay. Sorry, about that.

What this IR response -- the IR asked about -- essentially about how the FT RAM gets started. Do we have it up here? Yes. No, we don't. What I am looking for is J.D-1-16-2. I have something else on this screen here.

Thank you. This has really to do with how did the FT RAM get started and a little bit of the substance of it, and it really consists of the -- the answer consists of two pieces of paper, two attachments. The first is a letter from TransCanada on behalf of the TransCanada task force, in effect, I think, to the NEB, under which it filed an application dated January the 16th, 2009 to make the -- to amend TransCanada's interruptible transportation toll schedule to incorporate -- well, to amend their interruptible transportation toll schedule to effectively incorporate the FT RAM credits.

Do you see that letter?

MR. ISHERWOOD: Yes, we do.

MR. BRETT: Okay. And what they're doing at this stage -- would you agree, Mr. Isherwood, what they're doing at this stage is putting the IT RAM -- sorry, putting the FT RAM program effectively formally into the TransCanada tariff?

MR. ISHERWOOD: That's correct.

MR. BRETT: And prior to that time, the FT RAM, as you pointed out a couple of days ago, started much earlier, actually, back in November 2004; correct?

MR. ISHERWOOD: The very first pilot for FT RAM began November 1st of 2004.

MR. BRETT: Right. Are you the member, by the way, are you -- Mr. Isherwood, are you now and were you over this relevant period the Union Gas rep at the Tolls Task Force?

MR. ISHERWOOD: No, I'm not. People in my group are, but I am not.

MR. BRETT: Okay. Who is, by the way?

MR. ISHERWOOD: Patricia Planting is, currently has that role.

MR. BRETT: All right. Thanks.

Now, this -- so just to summarize again, it started in 2004. It was modified, it looks in this letter, 2006 and again in 2007 for a two-year period; is that fair?

MR. ISHERWOOD: Actually, the history I would like to describe, because I think the history here is important. It was a pilot in November 1, 2004 for a one-year period. It took us to November 1, 2005, extended another year to November 1, 2006. In 2006, they did amend it and added short-term -- sorry, short-haul transportation that is linked to long haul. They added that feature to expand the benefits of FT RAM a little bit.

MR. BRETT: Can I ask you to just pause there? Because I had a question. Could you give us an example of what that amendment did?

MR. ISHERWOOD: Yes, certainly. People think of long haul as typically going from Empress to Dawn or Empress to

Toronto as a good example of long haul.

People have been known to go from Empress to Dawn with one contract, and long-haul contract, and then having a second contract going from Dawn to maybe an export point of Niagara Falls or Chippewa.

That would be a short-haul contract that the customer has that is linked really to a long-haul contract. They typically will stop in Dawn maybe for storage services or some other reason, but it is two contracts, independent contracts, that have a linkage.

MR. BRETT: So as long as they had a receipt, a common point, that kind of contractual arrangement was made eligible for FT RAM at that point?

MR. ISHERWOOD: Right.

MR. BRETT: Okay. Sorry, carry on.

MR. ISHERWOOD: That was still a one-year extension. And in 2007, another enhancement was made where STS contracts were included for RAM, as well. So to the extent it wasn't being used, it creates RAM credits.

It was in 2007 really where it became a two-year extension. So it went from a series of one-year extensions now in 2007 to a two-year extension.

MR. BRETT: Right.

MR. ISHERWOOD: Takes us to 2009, and 2009 is really the context of this letter, asking for it to become a permanent feature.

MR. BRETT: Right.

MR. ISHERWOOD: So I think the history here is important, because you can see it has never really been an established service. It's been pilot for a number of years. It is a two-year term. Then it wasn't really until 2009 where it became permanent, and then by September of 2011 it was being filed by TransCanada to terminate the service.

So it was because of that it is a very temporary -- in our view, a very temporary service. It has lots of evolution to it over its history.

MR. BRETT: Fine. As I understand it, then, the second piece of paper is the -- is really the resolution from the TransCanada Tolls Task Force that underpins that letter. In other words, would you agree with me that the way this works is -- it worked in this case is that this matter or proposal was put before the task force, the TransCanada Tolls Task Force, in September of 2008. I am looking at the little block at the top of the Tolls Task Force letter.

It was originated by Shell Energy North America; correct?

MR. ISHERWOOD: That's correct.

MR. BRETT: And then it was negotiated in the task force and it was -- finally, it resulted in what is called an unopposed resolution at the January 7th, 2009 task force meeting in Calgary.

And is that part of the sort of -- is that the procedure that -- based on that unopposed to resolution, then TransCanada was free to make a recommendation to the

Energy Board; is that right?

MR. ISHERWOOD: TransCanada can make a recommendation if it had opposed opposition, as well, but the fact it is unopposed normally is a good signal to the NEB that the market participants are in agreement.

MR. BRETT: Right. Okay. A couple of features of this proposal -- of the tolls task force proposal.

I would like you to look over at page 2 of 3 and the last paragraph there, and this is -- I want to read briefly, read out a bit of this, which gives you the sense of what the tolls task force, at least, considered the purpose of FT RAM to be:

> "RAM is a tool to mitigate unabsorbed demand charges and provides greater flexibility in order to give shippers increased confidence in contracting for long-haul FT service on the TransCanada main line. The motivation behind RAM is to promote the renewal of and incremental contracting for long-haul FT service."

Do you agree with that? That was the rationale for the original pilot, and also for this recommendation to the NEB?

MR. ISHERWOOD: I think what TCPL was concerned about was de-contracting their system, and they brought forward - or actually Shell and predecessors to Shell brought forward the FT RAM idea or concept to add to the FT service, really to try and encourage people to find enough value to maintain FT long-haul service. It was really trying to maintain their -- retain their contracts, consistent with that.

MR. BRETT: You mentioned Shell and its predecessor, because Coral Energy, a predecessor to Shell, was also the entity that brought forward the application to extend the FT RAM credit in February of 2006; right? Coral and Shell are the same company?

If I am looking at the bottom of page 1 there, of the tolls task force resolution?

MR. ISHERWOOD: Yes, that's correct.

MR. BRETT: Okay. Now, I would like you to take, if you would, and look up -- take K3.3. That's the compendium that Mr. Thompson had put together some time ago for the gas supply witness panel.

In there, I would like you to look at -- if I may, if you would turn up number 9, which is -- number 9, which is an excerpt of a transcript from the NEB proceeding, the current NEB proceeding, June 26th, 2012.

Do you want to turn that up? And I will direct you to just a couple of pages of that.

I should perhaps just ask you to confirm -- I will come back to this a bit later, but I would ask you to confirm that Union is part of a consortium of what is call the Eastern Shippers Group, involving Gaz Mét and Enbridge.

And they intervened at the OEB on this tolls case; correct?

MR. ISHERWOOD: The name of the group is the Market Area Shippers, or MAS, M-A-S, and we did intervene at the

National Energy Board on this issue.

MR. BRETT: Right. And that -- and that shippers group has taken the position -- I think this was confirmed, this was stated by the gas supply panel last week, I believe, but I would ask you: The group has taken a position that the FT RAM should be continued; correct?

MR. ISHERWOOD: That's correct.

MR. BRETT: And what this excerpt is, this is an excerpt that Mr. Thompson took from the proceedings. There were a number of cross-examinations there.

This particular excerpt is a cross-examination -- I would ask you to confirm this -- by Mr. Smith, Mr. Laurie Smith, who is the group's lawyer, of a senior TransCanada panel; correct?

If you look at --

MR. ISHERWOOD: Page 66, 67 and 68?

MR. BRETT: Yes. It starts back in page -- it starts back on page 39, and you will see there that -- and it runs actually for about 30 pages. I am only going to refer to one or two pages.

But my point being here I just wanted you to confirm that what this amounts to is Mr. Smith's cross-examination of the TransCanada toll --

MR. ISHERWOOD: That's correct.

MR. BRETT: It is on a variety of matters, but one of them is FT RAM; correct?

MR. ISHERWOOD: Correct.

MR. BRETT: What I want you to refer to is two exchanges, two particular exchanges.

The first of these is at -- the way they do it, they number the paragraphs. So if you look at paragraph 17833, and that will be -- I can probably help you with the page of that. That is page 50, page 50 of the transcript.

MR. ISHERWOOD: Yes, I have it.

MR. BRETT: Okay. And you will see that that Mr. Pohlod says as follows -- it is an exchange, a discussion about FT RAM, and Mr. Pohlod says:

> "The reason we, as TransCanada, are proposing the elimination of RAM is not related to whether shippers are opposing it or supporting it, it is related to the fact that it is not achieving its objective of encouraging FT contracting, and it is having a significant impact on main line tolls as a result of its impact on the main line's ability to generate revenue from the sale of interruptible transportation."

And then you see Mr. Smith says, your counsel says, in 17834:

> "But from the perspective of a shipper, it is succeeding in allowing long-haul shippers to alleviate the risk of unabsorbed demand charges. Isn't that true?"

And the answer Mr. Pohlod gives is rather nuanced, I suppose. He says:

> "It is clearly providing value in different ways."

Do you think -- does that exchange encapsulate, to some degree, the different perspectives of TransCanada and the shippers on this?

MR. ISHERWOOD: I think Mr. Smith's view was -- not view, but his cross-examination was around the benefit of RAM helping to mitigate unabsorbed demand charge costs from the gas supply plan.

So to the extent you have more gas than you need and you assign away capacity, as the gas supply panel testified to, the fact that FT RAM is part of the FT service, we actually get more value for that, that assignment.

So that was Mr. Smith's view.

MR. BRETT: All right.

MR. ISHERWOOD: Mr. Pohlod, I think, is saying that and other ways, as well, which we have had lots of testimony in this case today and yesterday around how an S&T perspective, you can create value beyond what the gas supply plan needs. You can optimize a plan beyond what we have in terms of the requirement to mitigate unabsorbed demand charges.

So I think they're both looking at it slightly differently.

MR. BRETT: Thank you. Do you agree with me -- well, let me just pass on here to another paragraph, 17 -- this is 17963. That would be -- that is 17963 and 17961. That is on page 61, if you turn to page 61.

Again, here Mr. Smith says, at paragraph 17961:

"And the benefit that was projected for -- which included the elimination of RAM, as well as the --"

I'm sorry, I want to go down to 17963.

And Smith says to Mr. Pohlod:

"And I guess, Mr. Pohlod, you have 70 percent of your long-haul shippers and your firm shippers saying to you, don't eliminate RAM. The risk alleviation mechanism really has allowed them to defray unabsorbed demand charges in a significant way in the past years."

Do you see that?

MR. ISHERWOOD: I do.

MR. BRETT: Now, in fact, though, most of the benefit, what I think the numbers show in the handout today -- certainly K7.3 -- I put this to you as a proposition. I would like your response. Is that, in fact, the Union -- most of the benefit from the -- most of the revenue derived from the FT RAM has really not come from a defrayal of unabsorbed demand charges.

It has come from -- at least the revenue that has accrued to the ratepayers has not come from the defrayal of unabsorbed demand charges; only a very small part of it has gone to the ratepayers from the defrayal of unabsorbed demand charges.

Is that not the case?

MR. ISHERWOOD: I think you have to look at this in the context of our current incentive regulation framework, Mr. Brett, in terms of, when it got launched in 2008, we had a stretch margin added to our transportation exchange revenue target.

And the stretch target was well above what we were forecasting for 2008 and during that period.

And in return for that, there was no deferral account attached to those regulated revenues. So the signal to us, which I think was what the signal intended, was if you can do better, you should be incented to do better and do as well as you can.

And we have been very active since 2008 in trying to find creative ways to apply the FT RAM program not only to mitigating UDC on the utility's gas supply plan, but also from an S&T optimization perspective, as well.

So to extent that we've done that, that was the intent of the incentive regulation, was to have incentives like that that we could learn and do our business differently by going through the five years.

MR. BRETT: Would you -- let me ask you this, Mr. Isherwood and panel.

What I understand to be the case, and what I think we were told last week, is so long as you had empty pipe, so long as you, Union, had empty pipe, if you released that pipe to the market and you achieved revenues from that - we'll call them RAM-enhanced revenues - that indeed those revenues would flow into the UDC deferral account and pass to the benefit of ratepayers; correct?

MS. ELLIOTT: That's correct.

MR. BRETT: On the other hand, if you had a full pipe, which appears to be the case a lot of the time based on these numbers, if you had a full pipe and you did a transaction with one of the marketing companies or whomever, but it appears from -- if you did a transaction with one of the marketing companies, say a Shell, Coral or a BP, and you earned RAM-enhanced revenues as a result of that transaction, that those revenues did not go to the UDC account; is that correct?

MS. ELLIOTT: That's correct.

MR. BRETT: They went to the S&T -- they effectively were S&T revenue; right?

MS. ELLIOTT: Yes.

MR. BRETT: And at the relevant time - that is to say 2008 through 2012 there - as you pointed out and as we have discussed, there was no S&T deferral account; correct?

MS. ELLIOTT: That's correct.

MR. BRETT: Now, let me put the proposition to you that, in effect, what you have done by the second transaction I have described is created a sort of virtual empty pipe which has permitted the large marketing companies to -- and it is a matter of agreement, of course, that with the assignment goes the FT RAM credits.

So what you have done is created a situation where the large marketing companies can earn, and have earned, enormous revenues from the FT RAM, which they then share with you in some ratio or another, depending on your particular transaction. And you call -- is that fair?

MR. ISHERWOOD: I would not classify their capability as enormous. We have no idea what the capability is.

MR. BRETT: I take your point. They could be big or small, or good or not so good.

MR. ISHERWOOD: But we would -- in the case of where we're assigning them the pipe, we would be sharing in whatever potential upside they're predicting, and we would negotiate that rate.

MR. BRETT: Right. And would you not agree that, in essence, what that transaction is or could very well be viewed as is -- well, what it is, in substance, it is a transaction that would -- that reduces or should reduce, should offset or, in Mr. Smith's words, defray the costs of long-term firm tariff service for ratepayers?

MR. ISHERWOOD: We would disagree with that, that premise.

If you go before the incentive regulation settlement, we had an account -- we had an account, the deferral account, before incentive regulation for transportation exchange and --

MR. BRETT: Yes. That's the one that goes back a long, long way.

MR. ISHERWOOD: A long, long way. We'd do the same activity in that era, the same exchanges, and it would have been shared 75/25.

The distinction here is, starting in 2008 with incentive regulation, by us adopting a higher forecast to be built into margin, which ratepayers benefitted from for the full five years, we were incented -- and, likewise, to eliminate the deferral account entirely -- we were incented to do as well as we could.

MR. BRETT: Let me ask you on that account. I don't doubt that you were given an incentive to reduce your costs, particularly your delivery costs, but we're talking about gas costs here, gas transportation costs, which are part of gas costs.

And insofar as gas costs are concerned, they are, would you not agree, of course, outside the framework of the IRM? They have nothing to do with the IRM?

MR. ISHERWOOD: Gas costs are treated as Y factors.

MR. BRETT: Right. And you do have -- you do have -- well, let me put it this way.

I take it it is clear -- and I don't think there would be any disagreement about this, but I will put it. Would you agree with me you did not ever get approval from this Board to actually characterize the revenues from these assignments when the pipe is full, if I can put it that way, as exchange revenues? You didn't come in and seek approval for that proposition, as opposed to gas cost deferrals, as opposed to reductions in the -- as opposed to reductions in the -- as opposed to revenues that would be effectively treated as reductions to transportation capacity through the QRAM process. You didn't get approval for that?

MR. SMITH: No, I don't agree with that, Mr. Brett.

MR. BRETT: Well, I am asking the witness if he has a view. I am asking him a simple question of fact. I would like him to answer the question. You can in argument characterize it however you like, Mr. Smith.

MS. HARE: Mr. Smith has an objection to the question.

MR. SMITH: I have an objection, because it is not a question of fact. It is a question of what the Board has permitted. These are services sold under a regulated rate schedule. They have been for literally decades, and they were shared.

So I don't think it is a fair question to ask the witness. That is the objection.

MR. BRETT: I think Mr. Smith's problem here is that I'm not -- I'm not accepting the assumption that these were exchange revenues. I am making the proposition that these really are gas cost offsets and, therefore, they never -- they never would have or should have gone into an S&T revenue account. They should have gone into a gas costs account.

So, in that sense -- and I am going to in a moment point to a gas supply deferral account, which I think was the appropriate account for them to go into. But that is the nature of my question. I am challenging the premise of that.

MR. SMITH: Madam Chair, I do have one other concern about this, and this is we're deep in the weeds on this point. So at that point I, you know, throw up my hands and say whatever, at some level.

But on the other hand, the utility of this cross-examination can only be to suggest that there should be some sort of correction, which we obviously wouldn't agree is an appropriate process for a 2013 rate case.

You know what we're going to say at the end of the day. But I guess I wonder about this line of cross-examination for the 2013 cost of service proceeding, but obviously we're deep into it and...

MS. HARE: Just a moment, please.

[Board Panel confers]

MS. HARE: Mr. Brett, we understand where you are going with this, but we do think that the record is adequate for you to be able to argue this issue in your submissions.

So we think you should move to another area of cross-examination.

MR. BRETT: All right. Yes. I really am only interested in 2013 at the moment. I didn't -- I don't recall making any submission about the years prior to the test year, but let me deal next with the gas cost deferral account.

Could you turn up, please, H1, tab 4, appendix A, page 1 of 7?

Do you have that?

MS. ELLIOTT: Yes.

MR. BRETT: Okay. Thank you. What I would like to do is have a look at the TCPL -- this deferral account, 179-100. I would like to just read this out to you, and in particular, focus on one or two lines. It says -- this is for TCPL tolls and fuel. This deferral account was established in 0063. We talked a little bit about that hearing the other day.

"...to record variances in the per-unit cost of firm gas purchased each month for the north and the unit cost of gas included in the gas sales rate as approved by the Board. This includes fuel on upstream pipelines, variances in TCPL tolls, the benefit derived from temporary assignment of TCPL capacity..."

I want to stop there.

The benefit derived from temporary assignment of TCPL capacity, that is, in effect -- well, what you are doing in the context of the utilization of these or the transferring of these FT RAM credits to third parties; is that fair?

MS. ELLIOTT: I think if you turn up the actual accounting order, there is different -- the description in the evidence misses a word.

MR. BRETT: Where do you have -- could you tell me just where that is?

MS. ELLIOTT: The actual accounting order for this deferral account is at Exhibit A1, tab 6, page 3 of 23.

MR. BRETT: Okay. Excuse me. I think it is also at the back of this exhibit, is it not?

No, it's not, actually. It's -- I don't have that. If you could put that up on the screen? Could you just blow that up a little bit?

MS. ELLIOTT: So it's the second grouping of accounts --

MR. BRETT: Sorry, I'm not with you yet. Would you just tell me what you are reading from, please, there?

MS. ELLIOTT: So in the second set of accounting entries...

MR. BRETT: So you are looking at the detailed accounting entry breakdown of this?

MS. ELLIOTT: Right.

MR. BRETT: All right. I am looking at the middle, the paragraph in the middle, "To record as a credit, debit."

MS. ELLIOTT: That's correct. It is the benefit of temporary assignments of un-utilized capacity. The word un-utilized requests is actually missed in the evidence, description of the account.

But it refers to credits from the assignment of un-utilized capacity. That's dealing with the UDC issue.

MR. BRETT: Now, is that the only credit account that deals with the UDC? Or is there a second one?

MS. ELLIOTT: There is a UDC deferral account.

MR. BRETT: Yes. 179-108?

MS. ELLIOTT: That's correct.

MR. BRETT: And what does that deal with? Sorry. I'm just looking at page 2 of 7 of appendix A of H-1-4.

It says this deferral account was also established -- I will introduce my own word there:

> "...in RP-2013-0063 to record the difference between the actual UDC incurred and the amount of UDC included in approved rates."

Now, I would have thought that -- I would have thought that addresses the UDC.

MS. ELLIOTT: It actually addresses the UDC incurred and the amount that is included in approved rates, but the additional transaction is the benefit of the assignments.

Now, we're actually capturing the assignment benefit in the account 179-108.

Unfortunately, it's language that is in the accounting order for 179-100, so there's maybe a little housekeeping, in terms of the accounting orders, but --

MR. BRETT: But you're --

MS. ELLIOTT: But we're capturing the incurred UDC, what's recovered from customers, as well as the benefit of assignments --

MR. BRETT: So you're --

MS. ELLIOTT: -- all in 179-108.

MR. BRETT: I'm sorry.

So in other words, when you do these assignments -- I'm going to use Mr. Shorts' language, because I think it is to the point and pithy -- if you do an assignment with an empty pipe, as he put it last week, and you get revenue for that, FT RAM-enhanced revenue, those revenues go into this account 179-108; is that correct?

MS. ELLIOTT: That's correct.

MR. BRETT: But if you get revenues -- okay. Well, I must say there is a little homework to do on the definition of the TCPL tolls and fuel, 179-110 -- 100, but that's life.

Let me -- if I may, just coming back, and I will end up with this, because I think I am about at the end of the game here. I have other stuff but I will worry about that another time.

Essentially, you -- you have been engaged in the RAM exercise in the assignments to third parties, to capitalize on RAM in a major way -- as you put it, Mr. Isherwood -- since 2008, 2008, 2009, 2010, 2011; right?

MR. ISHERWOOD: That's correct.

MR. BRETT: And you... let me put the question to you this way.

This subject that I raised of what is the appropriate destination for these revenues has never been the -- to your knowledge, has not been subject of any sort of debate or discussion at the Board in the years of the IRM; is that correct?

MR. ISHERWOOD: I'm trying to think back to all of the various deferral account hearings.

MR. BRETT: If you don't know, you just tell me you don't know.

MR. ISHERWOOD: I don't know.

MR. BRETT: I don't expect you to know all of the detail.

But I don't -- Ms. Elliott, you have been fairly close to deferral accounts historically. You seem to know just about everything about them, published or unpublished.

[Laughter]

MR. BRETT: Could you tell me, has this subject been debated, to your knowledge, in any of the deferral account clearing proceedings over the period of the IRM?

MS. ELLIOTT: Not that I'm aware of.

MR. BRETT: All right.

MS. ELLIOTT: But I don't know.

MR. BRETT: All right. I suppose no one else has a view on it. You are really more on the gas.

MR. SMITH: Can I --

[Laughter]

MR. BRETT: That's fine. Those are my questions. Thank you.

MS. HARE: Thank you, Mr. Brett.

Mr. Warren and Mr. Buonaguro, I have you down for 10 minutes each, but is that dependent of Mr. Thompson is going first? Or can either one of you go next?

MR. WARREN: I am happy to go now, or Mr. Buonaguro can go now, but I will be within the 10 minutes.

MS. HARE: Okay. Thank you. Mr. Warren, why don't you proceed, then?

CROSS-EXAMINATION BY MR. WARREN:

MR. WARREN: Panel, let me begin by apologizing profusely. I am going to go over ground that is so well tilled that it is barren. So my cross-examination will be characteristically inept, but mercifully brief.

What I want to do, if I can, is distill in one place, so that I can understand it, what we know about the amounts in certain storage and transportation accounts over the last five years and their treatment by deferral account or otherwise.

So with that background, if you could begin by turning up J.C-4-5-2, am I right in understanding that the first column on the left is the Board-approved amount, and then, as I move to my right for each of those, is the amount that was earned in each of those categories over the period, over the IRM period; is that correct?

MS. CAMERON: That's correct.

MR. WARREN: Now, am I right, Ms. Elliott, that there were no deferral accounts with respect to any of these items during the IRM period? Is that correct?

MS. ELLIOTT: There were deferral accounts with respect to lines 10 and 11 --

MR. WARREN: Okay.

MS. ELLIOTT: -- the short term storage and other balancing deferral account.

MR. WARREN: Okay. But with respect to the balance of them, there were no deferral accounts; is that correct?

MS. ELLIOTT: That's correct.

MR. WARREN: And to the extent that the revenues in items 1 through 8 exceeded the costs, a portion of that would have been shared with ratepayers as a result of the operation of the earnings sharing mechanism; is that correct?

MS. ELLIOTT: That's correct, yes.

MR. WARREN: Now --

MS. ELLIOTT: To the extent that we were in earnings sharing.

MR. WARREN: I appreciate that. Thank you for that clarification.

Now, I believe, subject to my reading of the transcript, that there is an undertaking to distinguish between the amounts that would have been earned -- that were earned by ratepayers using the earnings sharing mechanism and what would have been earned had there been deferral accounts.

But if you could just turn up, briefly, K7.3, which was the document that was introduced a few short moments ago through Mr. Brett, and if I look at item -- line 2 in that, which is headed or described as the portion paid to ratepayers through earnings sharing, there's a number 29.4 million.

What relationship, if any, does that number, 29.4 million, have with the amounts that would have been shared with ratepayers in items 1 through 8 on J.C-4-5-2? Would it be the same number or is it a different number?

MS. ELLIOTT: Exhibit K7.3 only addresses the component of line 4 on Exhibit J.C-4-5-2, the short-term transportation and exchange revenue. Within that revenue line will be revenue related to exchanges that were facilitated using FT RAM.

MR. WARREN: Thank you for that clarification.

Now, for purposes of 2013, which is why we're here today, it is Union's position there should not be any deferral accounts for items 1 through 8 on J.C-4-5-2; is that correct?

MS. ELLIOTT: That's correct, yes.

MR. WARREN: And to the extent that there are amounts embedded in rates, the ratepayers would benefit from that, but am I right that if your revenues exceed your costs, the excess will go to the shareholders, in the absence of a deferral account? Am I right about that?

MS. ELLIOTT: That's correct, yes.

MR. WARREN: Now, this may not be within your bailiwick, Ms. Elliott, but can you tell me what the rationale is for not having deferral accounts for items 1 through 8?

MS. ELLIOTT: I think as Mr. Isherwood indicated earlier, as a test year rate case, we're relying on our test year forecast for these items.

MR. WARREN: Okay. Now, if you could turn up, please, Exhibit J.H-1-10-3? I know that my friend, Mr. Aiken, asked questions about this yesterday, but I just want to make certain that -- do you have or are you going to provide an update to the actuals to the end of quarter 2? Mr. Smith is nodding his head.

MR. SMITH: I believe we gave an undertaking to that effect.

MR. WARREN: Thank you very much. That answers my question. I have just one other cluster of questions, and that requires us to turn up H3, tab 10, schedule 1.

And these questions require simply the reconciliation of some numbers on that exhibit with the one we were looking at a moment ago, which is J.C-4-5-2.

If you have those two documents in front of you, panel, there appears to be a difference in the numbers with respect to transportation. Is there a reason for that difference, the forecasts for revenue?

MS. ELLIOTT: I'm not sure we can answer that question. This is a schedule prepared by the rate design people. It might be better put to them.

MR. WARREN: Okay. Just staying with H3, tab 10, schedule 1, looking at the margin included in 2013 rates for the short-term storage and other balancing services, the 4 million, if your margin exceeds that amount, how is the excess treated, Ms. Elliott?

MS. ELLIOTT: That would be subject to deferral account 179-70.

MR. WARREN: If you could remind me what the sharing mechanism is for that?

MS. ELLIOTT: The sharing mechanism is currently 90-10.

MR. WARREN: My final questions, panel, and this -- sorry. My final question, panel, is with respect to J.H-1-10-3, and this may well not be within your bailiwick, but for the cost allocation panel.

But if you could turn that up, please, it is headed, "Allocation of 2013 S&T Transactional Margin".

It is just an anomaly. In the south delivery and storage area, rate M1, that appears to be a debit amount. Am I reading that correctly?

MS. ELLIOTT: Again, you probably should put that question to the rates design panel.

MR. WARREN: Okay.

MS. ELLIOTT: That is what the schedule is showing.

MR. WARREN: Those are my questions, and mercifully short.

MS. HARE: Thank you. Mr. Buonaguro, if you can go next, please?

CROSS-EXAMINATION BY MR. BUONAGURO:

MR. BUONAGURO: Thank you. Good afternoon, panel.

I would like to start with a couple of follow-up questions. If you can turn to J.C-4-7-9, attachment 1?

MS. CAMERON: We have it.

MR. BUONAGURO: And you were talking this morning -- I think it was with Mr. Quinn -- about the net revenue attributable to RAM benefit, in terms of if you were going to -- you had two options with respect to a deferral account relating to storage and transportation.

And one of the suggestions was that you could add $11.6 million in revenue to the deferral account -- to what was embedded in rates, sorry, and that the deferral account would track relative to that; do you remember that conversation?

MR. ISHERWOOD: Yes.

MR. BUONAGURO: And in talking about where the $11.6 million came from, I understood it was a forecast for 2013 of FT RAM-related revenue.

And it was -- you correlated it back to 2011 actuals; is that correct?

MR. ISHERWOOD: It was based on 2011 activity.

MR. BUONAGURO: Right.

MR. ISHERWOOD: But the FT RAM program, because TCPL tolls are changing, some of the opportunities will change, as well, in terms of how much you would make on each opportunity.

So it was a bit more complicated than just saying it was '11 revenue. It was actually '11 revenue adjusted for the change in TCPL's framework and rate structure for 2013.

MR. BUONAGURO: Okay. So the reason I took you to this exhibit is because this one talks about the 2011 actuals of $22 million; do you see that?

MR. ISHERWOOD: Right.

MR. BUONAGURO: You're saying that the same level of activity in 2011, if it were to occur in 2013, would produce -- wouldn't produce $22 million anymore. It probably would produce something like 11.6; is that what you're telling me?

MR. ISHERWOOD: Based on the '11 activity, that's correct.

MR. BUONAGURO: Okay. Thank you. Now, I am going to take you to J3.1, which is a very colourful graph.

I can't tell you how frustrating it is to wait for somebody else to put it up on the screen.

MR. SMITH: I can't tell you how satisfying it is.

[Laughter]

MR. BUONAGURO: Thank you. And you can -- yes, you can go right up to the graph.

Now, I asked a question about this, and my question is, I think, at J3.7, which was to add a line on the graph which talks about the -- any annual contracts which were assigned; correct?

MR. SHORTS: Correct. And that is shown in the -- that's represented by the purple line.

MR. BUONAGURO: So that is the purple line, just over 140,000 -- I think that is gigajoules per day?

MR. SHORTS: Yes.

MR. BUONAGURO: Okay. Thanks. Now, if you -- at the bottom of the graph, under one of the notes, it talks about the gas supply plan. And I can't see on the screen at the moment.

It says:

> "Note: The gas supply plan utilizes firm TCPL services (long-haul, short-haul and STS, as shown above) to meet design day obligations."

My understanding is that that is the very top sort of reddish line. Is that essentially the line -- or the graph representation of the gas supply plan?

MR. SHORTS: The red line represents the firm assets that we have to serve that design day.

MR. BUONAGURO: So is that a yes?

MR. SHORTS: Yes.

MR. BUONAGURO: Okay. Thank you.

And included in that line would be the annual contracts that the gas supply plan dictates you should enter into before the gas year? Is that --

MR. SHORTS: That would include all of those contracts, yes.

MR. BUONAGURO: Okay. And then the purple line shows the effect of what I call the optimization process, where even though the gas supply plan has told you to enter into certain contracts, for optimization purposes you've assigned certain of those contracts on an annual basis.

So they come out of the gas supply plan as one of the assets you're using; is that fair?

MS. CAMERON: The gas supply plan remains unchanged. But we did, in those two years, assign some capacity away for an annual basis.

But as you will see going forward, we didn't.

MR. BUONAGURO: No, I understand that. That's where it goes back up?

MS. CAMERON: Absolutely.

MR. BUONAGURO: The two lines meet again? Okay.

MR. ISHERWOOD: When they were assigned away, it was for the S&T optimization. The gas supply plan would still have called for the 160-plus.

MR. BUONAGURO: Thank you. Now, what I am trying to understand and why I picked annual plans in particular, what I am seeing in this graph is that the gas supply plan says you have to enter into a certain number of contracts or you have to obtain a certain number of assets in order to meet your obligations over the year.

You enter into those contracts, and then before the year even starts, you optimize by assigning some of that capacity out on an annual basis so it disappears and goes from the red line to, I guess, the purple line.

I'm trying to understand how you can do that, and why it wouldn't be that the gas supply plan couldn't anticipate the same thing if you don't need the assets. It appears on the graph that you don't need the assets even before the year starts.

How is it that that isn't contemplated in the gas supply plan? Why is it only through optimization that those assets drop off?

MR. SHORTS: Just to be clear, before the year starts, on a design day basis, we design for a 47 degree day in the EDA.

And that would be the line that would represent it at that 160, the red line.

So our design at -- our design day in the EDA would require all of those assets on that day.

MR. BUONAGURO: Right. But in actuality you assign -- I think it is 20,000 gigajoules per day of that capacity before the year starts?

MR. ISHERWOOD: Yes. So there is actually a two-year period where we did do the one-year annual assignments.

If we saw a peak day coming -- and you would know that, obviously, through weather forecasts and market forecasts -- then the S&T group would have to go out and find a way to get gas to that delivery, and there's probably four or five ways we would go about doing that, but we definitely need to go out and get something supplemental to what we already have.

That would be a cost that would be borne by the S&T group.

MR. BUONAGURO: Right. You say that is a cost that is borne by the S&T group, because -- as I understood your testimony, I think mostly from the gas supply panel -- what is charged to customer is based on the red line; is that correct?

MR. ISHERWOOD: Yes, that's correct.

MR. BUONAGURO: And then it gets very confusing.

You charge based on the red line, but then you assign some of the capacity that you are charging for. And I think you do that to take advantage of, essentially, the FT RAM credits?

MR. ISHERWOOD: Yes. All based on FT RAM credits.

MR. BUONAGURO: Right. Then that produces a net benefit, which then flows through, part of it to the shareholder and some of it to ratepayers, depending on how the sharing mechanism works in any particular year?

MR. ISHERWOOD: It is really the earnings sharing level.

MR. BUONAGURO: Okay. My question is this. Let's assume there was no FT RAM, and you assigned that capacity in the same way that you did on this graph, even though there is no FT RAM. Instead of charging customers on the basis of the red line, you charge customers based on the purple line, and then you would then -- I understand you would have to get additional assets to meet any particular demand in the year that wasn't served by the purple line, I will call it that way.

Wouldn't that be cheaper for customers?

MR. ISHERWOOD: I think the prudency, though, of the gas supply plan is to have the firm assets in place to meet the design day. And the design day, as Mr. Shorts mentioned, is 47 degrees.

So the gas supply plan is designed to meet that on a firm basis.

MR. BUONAGURO: But you didn't do that; you assigned that same capacity for two years?

MR. ISHERWOOD: And the --

MR. BUONAGURO: On an actual operating basis, to some degree, you ignore the gas supply plan?

MR. ISHERWOOD: I wouldn't say we ignored it at all. The gas supply plan was designed to meet a 47 degree day. Through optimization, the S&T group would have to go in and take action if we saw that day happening.

I would point out that starting November 1 of '11, we did go back to more normal operation in the EDA, and part of that was to recognize the fact that, you know, when you look at the optimization plan for the year, you would look at what is the risk going forward. And to be honest, it is partly driven by FT RAM uncertainty and partly driven by you have a bit more control, obviously, if you don't assign away the capacity for the whole season or the whole year.

So -- and that would be our plan going forward into this year, as well, that we would not assign away the

20,000 for the whole winter or the whole year.

MR. BUONAGURO: My understanding, I think, from what you just said and what you said earlier is that that is largely because the FT RAM availability is uncertain.

MR. ISHERWOOD: I think it's a bit of both. FT RAM, for sure, is a big part of it, but as well, you can do -- we could do optimization on a day-to-day basis, and if you see weather coming, you would just pause your optimization plan for the week or the couple of days or whatever, and let the assets work the way they're supposed to work, and then you optimize once the weather passes.

MR. BUONAGURO: Part of my question was would it be -- would it have been cheaper for customers if you had never contracted for that, in this case, 20,000 gigajoules per day and had operated around it during that period? Is that correct?

Putting aside the risk factor, I think you're saying from a gas supply point of view, I think you would say: That is not the risk that we're planning to.

But if you put that aside and take on the extra risk, would it have been cheaper?

MR. ISHERWOOD: We can't set aside the risk. As a utility, we have to serve the firm demand, the firm market.

MR. BUONAGURO: You can theoretically set aside the risk. Just so I can understand that there is a cost differential.

[Witness panel confers]

MR. ISHERWOOD: Whenever you hold fewer assets or less assets, then it will always be cheaper, but you are exposing yourself to the risk, and the risk is what creates the desire to go to the firm design.

MR. BUONAGURO: I will leave it at this, this proposition to you, to see if you have any other response, because -- the graph shows clearly, I think, that over a two-year period, despite what the design day told you to plan to, you reduced the firm capacity on an annual basis by 20,000 gigajoules per day and were able to operate like that.

I mean, I don't understand that why it is that just because FT RAM is disappearing, you suddenly have to go back to maintaining over 160,000 in this example, when it seems for two years you didn't need that extra 20,000 gigajoules per day and it seems that that might be cheaper for customers.

It just doesn't reconcile that it's necessary or not necessary simply because of the FT RAM availability.

MR. SHORTS: Just one clarification. Over this time period we did not experience a 47 degree day. So if you notice, the highest spike in '11 that was a 41 degree day, and I believe the one in 2012 was approximately a 28 degree day. So had we experienced a 47 degree day, we would have required all of those firm assets that were in the plan.

MR. BUONAGURO: But you didn't have them available, because you had assigned them?

MR. ISHERWOOD: That would have been a risk borne by the S&T group. They would have went out and found an alternate way of getting the gas.

MR. BUONAGURO: I am trying to figure out what kind of risk it is, because you would have had to go out and find alternative resources to meet the obligation, right, but it would have been an obligation -- but I think the cost of that would have still been less than having had kept the annual firm transportation over the two-year period.

[Witness panel confers]

MR. ISHERWOOD: I guess during this period we don't know what the cost was, because the event never happened. But it can get very expensive on a cold winter day. If you had a 47 degree day, it would be expensive.

MR. BUONAGURO: It just seems odd that the gas supply -- I think I sort of grouped you into the gas supply people and the optimization people, but the gas supply people I understand are clearly planning around that, I think, 47 degree day -- I guess I will call it a peak.

But the optimization people clearly are not, and I don't understand why there is a difference, because -- just because of the FT RAM credits.

MR. ISHERWOOD: I would say S&T people are planning for the peak, as well. They just have to meet the peak differently.

MR. BUONAGURO: They have a higher tolerance for risk?

MR. ISHERWOOD: No. They're confident they can use one of four or five different ways of getting gas to the area when they need it.

MR. BUONAGURO: But the gas supply people aren't?

MR. ISHERWOOD: The gas supply people are developing a plan that is based on firm assets.

MR. BUONAGURO: All right.

MR. ISHERWOOD: That are readily available, are renewable from year to year and are predictable.

MR. BUONAGURO: All right, thank you. I can leave it at that.

So I have one set of questions left, and this is from volume 6 of the transcript, which was yesterday, I believe, or -- sorry. Yes, yesterday. Pages 131 and 132.

Here you were talking with Mr. Quinn about what were called options 1 and options 2. Do you remember that conversation?

MR. ISHERWOOD: Yes.

MR. BUONAGURO: Sorry, options A and options B, I'm told. Sorry. And my questions are these. With respect to what as referred to as option A where you use extra FT credits to create value through some sort of exchange, who does the value accrue to?

MR. ISHERWOOD: If we are using FT credits to sell and exchange, that would be regulated revenue. We would classify it as exchange. It would be regulated revenue.

MR. BUONAGURO: Okay. And so it would be either part of the forecast for that type of revenue, if there is one, and then if it's not part of the forecast that is embedded in rates, it would be subject to whatever sharing was available?

MR. ISHERWOOD: It would be subject to earnings sharing at the end of the day.

MR. BUONAGURO: Okay. And then option B, with respect to option B, you talked about third parties delivering.

Would they be delivering on a firm or an interruptible basis?

MR. ISHERWOOD: It's typically a firm basis.

MR. BUONAGURO: Okay. And again under option B, where does the differential go?

MR. ISHERWOOD: It is treated exactly the same, because whether we do the assignment of the capacity or we actually do the whole mechanism ourselves, it doesn't matter do you do all the steps yourself, or do you negotiate with a marketer to do the steps on your behalf and they share in the profit. So both are exactly the same transaction, and the revenues are treated the same.

MR. BUONAGURO: So it is the same. It is treated as exchange revenue just like we discussed under option A?

MR. ISHERWOOD: It is still regulated revenue and would be contributing first to the forecast that is embedded rates, and then would contribute towards earnings sharing if we get to that point.

MR. BUONAGURO: Okay. Then, lastly, how do you determine whether you will do option A or option B in any particular scenario?

MR. ISHERWOOD: It is up to our S&T group to determine that.

We do a bit of both to diversify.

MR. BUONAGURO: Okay. So there is no -- there's no specific criteria dictating one or the other?

MR. ISHERWOOD: Other than we like to diversify. We like to do a bit of both.

MR. BUONAGURO: Thank you. Those are my questions.

MS. HARE: Thank you. We will take our lunch break now, returning at ten to 2:00.

--- Luncheon recess taken at 12:39 p.m.

--- On resuming at 1:57 p.m.

MS. HARE: Please be seated.

So, Mr. Thompson, you are up.

CROSS-EXAMINATION BY MR. THOMPSON:

MR. THOMPSON: Thank you, Madam Chair. It is always unfortunate to be the last thing on Friday standing between the Panel and the cottage, but in any event, I will try and do this expeditiously. I know you've heard a lot.

Panel, let me begin with a couple of preliminaries.

First of all, on the basis of the settlement agreement there was supposed to be an increase in the transportation service revenue of $2 million dollars for usage of the St. Clair line, as I understood it.

Is that going to be accommodated in some sort of formal amendment? Or just in the final impact statement?

MR. SMITH: It's been updated, Mr. Thompson, in the phase 2 update that we have provided, and...

MR. THOMPSON: Oh, okay. I haven't checked that. Thanks.

Then, secondly, there was an undertaking, as I recall it, to provide details of the arrangements with the assignees and their identity. This is with respect to capacity assignments that we have been discussing.

Could you give us an update on when we will see that material?

MR. SMITH: My understanding is it's been filed with the cover letter seeking confidential treatment. So it's been filed with the Board.

You're talking about the undertaking that lists the counterparties?

MR. THOMPSON: Yes.

MR. SMITH: Yes.

MR. THOMPSON: And the contracts. I had understood that we could --

MR. SMITH: There was no request for the contracts; just the list of the counterparties.

MR. THOMPSON: Oh, I'm sorry.

MS. HARE: I'm sorry, Mr. Smith, when was that filed?

MR. SMITH: It was submitted to the -- I believe to the RESS system yesterday afternoon -- sorry. Sorry, mailed to the Board yesterday.

MS. HARE: So I take it, Mr. Thompson, you haven't seen it yet?

MR. THOMPSON: I haven't seen anything. So I will wait, and I will come to the contracts in a moment.

Let me move on, then, to some of the discussions that have been taking place over the last couple of days.

Now, when we broke with the gas supply panel, we had understood -- at least I had understood -- there were four types of transactions involving FT RAM, demand charge, mitigation amounts funded by ratepayers, and one of them was the release of unused TCPL capacity to the market.

These were described at page 8 of our gas supply compendium, K3.3, so it might be handy to just have your finger on that and at the top of the page, where these -- release of TCPL unused capacity to market.

And questions were asked to give us details on each of these four types of transactions.

And with respect to the first, the exhibit that's been provided is J4.1; am I correct?

MR. SHORTS: Yes, that's correct.

MR. THOMPSON: Okay. And you should also just have at hand Exhibit K7.3, because these transactions are showing up on this exhibit, and I will come to other parts of it in a moment.

But as Mr. Brett pointed out, at line 5, you have -- you have produced in this exhibit a component of what has been provided in J4.4; correct?

MR. SHORTS: Yes.

MR. THOMPSON: And you told Mr. Brett that the amounts in J4.4 are higher than the amounts in line 5, because they involve pipe other than TCPL pipe, as I understood it.

MR. SHORTS: In J4.1.

MR. THOMPSON: Sorry, 4.1. I'm sorry.

MR. SHORTS: Yes.

MR. THOMPSON: Yes. Okay. Now, in the J4.1 response, there is a paragraph just before subparagraph (b) that says:

"If the empty pipe is TCPL capacity, when Union leaves the pipe empty, RAM credits are generated and Union's S&T department will act on market opportunities to utilize RAM credits. From 2007 to 2012, there was one month only when RAM credits of $240,000 were generated, resulting in revenues of $60,000, which flowed through to UDC ratepayers."

When I first read that, I thought what it was saying was, of all of the type 1 transactions, only 60,000 related to RAM credits.

But I take it that's a mistake? Am I misinterpreting what that paragraph means?

MR. SHORTS: That second paragraph refers to a time period in which there were some very short time periods in which we did not release the pipe for a couple of days.

To get some value, the pipe was actually not filled by gas supply. So it was left empty; that generated RAM credits, which the S&T group used to create $60,000 worth of revenue.

And that was credited to the UDC account.

MR. THOMPSON: All right. So then that 60 appears in the numbers that you have in line 5 of K7.3; am I correct?

That 60,000 is buried in those numbers somewhere? Or is it up in one of the other lines?

[Witness panel confers]

MR. THOMPSON: It's not that big a deal if you want to take an undertaking.

MS. ELLIOTT: We may need to check.

MR. THOMPSON: Okay. So I just need a number for that.

MR. SMITH: We are prepared to do that.

MR. MILLAR: J7.7.

UNDERTAKING NO. J7.7: TO CONFIRM IF THE $60,000 OF REVENUE FROM S&T GROUP APPEARS IN LINE 5 OF EXHIBIT K7.3

MR. THOMPSON: Now, when you were discussing line 5 with Mr. Brett, as I understood it, what this is is the full value of the monies that you received for assigning the TCPL pipe that was empty.

Did I understand that correctly?

MR. SHORTS: You're referring to K7.3?

MR. THOMPSON: K7.3, line 5. These numbers were the full value of --

MR. SHORTS: That's the full release value we received by assigning that TCPL pipe away.

MR. THOMPSON: Okay. And if you turn up, then, in my compendium, the gas supply compendium, at page 34, what we have here -- this is part of a Union response in the NEB proceeding.

Are you responsible for this topic in the NEB proceeding, Mr. Isherwood?

MR. ISHERWOOD: I am.

MR. THOMPSON: Okay. So at page 34, Union is describing how it values the FT RAM component of an assignment, and it says at the last sentence:

"For April 2012, the average spread was 59 cents per gJ, or 76 percent of tolls. Instead, we realized 85 percent of tolls."

So the difference between those two percentages, as I understood it, was attributable to the FT RAM feature of the contracts.

That's what I understood Union to be saying in the NEB; is that correct?

MS. CAMERON: This -- when we release the pipe, so when we release Empress-to-WDA capacity, we get a value for that pipe.

It is difficult to determine, of that value, how much the customer is paying you based on the market spread between two locations, and how much they're paying you for the value of these credits that they can use anywhere else.

And certainly each party places a different value on this. The best way that we have to try to determine what value we -- might be attributable to RAM, is to look at the value of two locations and compare the excess must be attributable. It is not an exact science, but it is the best way we have to approximate.

MR. THOMPSON: I appreciate that, and I accept that.

That's exactly what you're saying to the NEB: Our best guess is the RAM feature added, we would get 76 percent of the tolls without RAM, and we get 85 percent of the tolls with RAM. I am reading that correctly, am I, Mr. Isherwood?

MR. ISHERWOOD: That's how it reads, yes.

MR. THOMPSON: Okay. So that is telling me that about 15 percent of what was achieved on the assignment is attributable to RAM using that methodology; is that fair?

MS. CAMERON: I would say for this location, that was fair. But what we see is that that percentage does not equally apply to all pipelines.

For example, Empress to the EDA is a longer distance, has a higher toll and, thus, more credits.

So from time to time - and it's not consistent - we may see higher than 15 percent benefit on a longer path and maybe a shorter path like the WDA, so kind of think of like an eastern Manitoba -- or eastern Ontario, or far western Ontario, sorry, Kenora, a little shorter, not as many credits, not as much benefit.

It is also seasonal. So thinking there might be more value for credits in the winter or the summer depending on the needs of the customer.

So we did our best job here to approximate it, but it's not a hard and fast rule.

MR. THOMPSON: I understand that, but my point is at line 5 you haven't done that. You have put in the full value of TCPL -- the compensation that you got for assigning.

And I suggest to you the RAM portion of it is a percentage in the order of 15 to 20 percent. Would you take that subject to check?

MR. ISHERWOOD: You have no way of estimating the percentage. I think that is the point that Ms. Cameron is trying to make. One example of the NEB interrogatory was a month for a path, and, as Ms. Cameron pointed out, it is hard to determine what the exact -- it's not an exact science. It's an estimate, at best.

MR. THOMPSON: Well, you know the zone to which the pipe that was assigned was destined. So there is a spread for it in the material -- sorry, in market information.

And surely you can take what you got for it, take what you would have got on a spread, and the difference is related to RAM, not the whole.

MR. ISHERWOOD: There is no tradable spread between Empress, for example, and the NDA. There is no one valuation in the NDA as an example.

MR. THOMPSON: Fine. There is nothing to the WDA either, but they used as a surrogate Empress to Emerson.

You could do this for this line 5, but you didn't do it. So I am suggesting to you it is overstated.

MR. ISHERWOOD: I think the footnote number 2 kind of addresses that point, Mr. Thompson. It recognizes the fact that it is not an exact science. You can't separate the RAM benefit from the toll. But we do recognize that FT RAM does add value to the pipe we are releasing.

MR. THOMPSON: Right. But it is only a portion of this value. That is what I am getting at. Can we agree on that?

MR. ISHERWOOD: It is a portion.

MR. THOMPSON: Thank you. Now, the next category of transaction that was being discussed was the capacity release type of transaction.

Just to be clear on that, what that is is Union finding someone who will give it an exchange, right, and then you release your capacity? These are described -- you've got an example at JT.1, which is -- sorry, JT1.6, which is page 16 of the brief, and we were discussing that last day.

You assigned to a third party 20,000 gJs of Empress to Union EDA for one month, and the same counterparty agrees to accept Union's supply to Empress and redelivers the equivalent quantity to Dawn, and for this -- for this you pay -- well, you say a customer pays 40 cents per gJ.

Is this a Union exchange that we're talking about here?

MS. CAMERON: The customer would approach us and ask for the opportunity to have our capacity assigned to them. But in order for us to do that, we still need to find an alternate way for the gas supplies that we purchased at Empress to get to wherever its planned delivery point is.

So we could not assign the capacity away without also finding an alternate path for the gas supply that we have purchased. So the two go hand in hand.

MR. THOMPSON: All right. Well, how one describes this type of transaction I think might vary, but let me just, first of all, then take you to an exhibit that you were discussing with Ms. Taylor and Mr. Brett, as well, and that is J3.3.

This is what is described in the examples as the capacity assignment type of transaction; fair?

MS. CAMERON: Just one moment.

Yes, those are the capacity assignments.

MR. THOMPSON: Okay. And so this -- and when Ms. Taylor said there is a lot wrapped up in this transaction, she's got that bang-on, because essentially what happens is, whether it's the marketer approaches you -- that's the customer you're talking about; right?

MS. CAMERON: Yes.

MR. THOMPSON: Or whether you approach the marketer, the guts of the deal is you give the marketer the space with the FT RAM credits, and what the marketer does for you, it takes your gas in the west and it gives you the equivalent gas in the east; right?

MS. CAMERON: And we could accomplish that transaction --

MR. THOMPSON: First of all, is that right?

MS. CAMERON: Yes.

MR. THOMPSON: Okay.

MS. CAMERON: We can accomplish that transaction either through a capacity release, or through an exchange service.

MR. THOMPSON: Right. But the person that wants the exchange is Union Gas. You're not selling an exchange. You are really buying an exchange; isn't that correct?

MS. CAMERON: As an alternative --

MR. THOMPSON: Isn't that correct?

MS. CAMERON: Sorry, can you repeat the question, please?

MR. THOMPSON: You're not selling an exchange. You're buying an exchange from the marketer. You want him to take your gas in the west, and give you equivalent amount of gas in the east. Isn't that what you want?

MR. ISHERWOOD: It is actually a bundled service we're asking for from the marketer. He's delivering us the gas that we bought at Empress, delivering it to likely the WDA or the NDA in the wintertime, and Dawn in the summertime. It's a bundled package.

And, as Ms. Cameron pointed out, the alternative is we could do the whole thing ourselves and create RAM credits, and then sell in exchange. It is just -- and we do both, and we kind of mix it up to diversify. But we can certainly do it either way.

MR. THOMPSON: Well, the capacity assignment is as I described it. You want someone to take your gas in the west and give you an equivalent amount in the east; right?

MS. CAMERON: We also hold the transportation that -- we could do that on our own. So I already have the pipe -- if I can finish, so I already have the pipe that I can transport the gas from Empress to the EDA.

If the customer is looking for gas in the EDA, we can easily give them our gas supply in the EDA and they will give us in exchange some gas at Dawn.

The two transactions will result in the same gas being in the same places. It is just whether we facilitate it and you request the service to me each day, or I release the capacity to you and you can facilitate it on your own each day as you require.

MR. THOMPSON: Can I get a straight answer to my question? In the capacity assignment transaction, you want the marketer to take your gas in the west and give you an equivalent amount of gas in the east?

MS. CAMERON: We need the customer to do that in order to facilitate the transaction. We are more than comfortable proceeding with the initial path without the marketer.

MR. THOMPSON: For the purpose of that transaction, then, you assign the capacity to the marketer; right?

MS. CAMERON: That is one option that we can pursue, yes.

MR. THOMPSON: In the capacity assignment transaction, that's what you do?

MS. CAMERON: If that's the way we chose to satisfy the customer's request, yes.

MR. THOMPSON: And when you do that, there is some consideration flowing back and forth.

First of all, the marketer picks up, in this example at J3.2, 121 million of the demand charges. That's the sum of those -- sorry, that was gJs per month.

In any event, the marketer picks up all of the demand charges?

MS. CAMERON: The marketer is accountable for paying the demand charge, yes.

MR. THOMPSON: And you are getting an exchange; you're having the marketer take your gas in the west and provide an equivalent amount of gas in the east, so you're getting something.

MS. CAMERON: Which has a cost to it that we have to pay for.

MR. THOMPSON: Fine. And then that's all worked into the deal, I assume?

MS. CAMERON: Absolutely.

MR. THOMPSON: Then at the end of the day, at the shuffle, there's some net proceeds?

MS. CAMERON: Yes.

MR. THOMPSON: Okay. Am I right the net proceeds are the difference between what you have to pay under the deal and what is in the gas supply plan?

MS. CAMERON: No.

MR. THOMPSON: Well, what is it, then?

MS. CAMERON: The net proceeds -- you will see on this chart, for example, in line 1 there with November 9, the demand charge is $33.

I'm not sure exactly what that would equate to on a daily basis, but I am pretty sure that the $63 at the very bottom were -- reflect a daily demand charge of 224, subject to check.

MR. THOMPSON: Fine.

MS. CAMERON: That 224 is the cost of transporting gas from Empress to the EDA.

I would say that the average value, difference in value between gas at Empress and gas in the EDA is something much less than that.

So when someone pays -- when we are able to release the capacity, we're not -- they're not willing to pay us $2.24. It will be a much-reduced value, to reflect the current spread between Empress and the EDA.

So the value that we receive is the current market values from the Empress to the EDA, less our cost to transport gas from Empress to Dawn.

MR. THOMPSON: Okay. So it is like what you described to the NEB? You're saying that the value, it's the spread -- well, is it like what you've described to the NEB at page 34 of the material?

If you get 85 percent on the assignment, then you are making the difference from ratepayers; is that right?

MS. CAMERON: Making the difference from ratepayers? Sorry, I don't understand that reference.

MR. THOMPSON: The ratepayers are paying you 2.24; right?

MR. ISHERWOOD: The ratepayers are paying for the contracts that we had in the gas supply plan at the TCPL tariff toll. That's what was in the plan, and that's what they would pay.

MR. THOMPSON: Fine. And you get rid of everything and you get 85 percent of the tolls, in this example, and you get your gas moved from --

MR. ISHERWOOD: I think these are totally different transactions.

This is more in terms of trying to mitigate gas supply length, compared to the bundled type of assignment we were talking about a few minutes ago.

Those are very different transactions.

MR. THOMPSON: All right. There is an undertaking that this is all going to be detailed, and I guess I will wait for that, but I assume there is a contract that goes with this?

MS. CAMERON: Yes.

MR. THOMPSON: And could we -- and is it a standard form contract you have with marketers?

MS. CAMERON: There is a -- it is already included in an IR response.

MR. THOMPSON: This is the contract with the marketers?

MS. CAMERON: Yes.

MR. THOMPSON: Okay. Well, just give me that reference, if you wouldn't mind, and I will deal with it offline.

MS. CAMERON: It is attachment 3 to J.C-4-7-10.

MR. THOMPSON: Maybe we do have it, then. So it is in the book. My apologies. I thought I would have this book memorized.

MS. CAMERON: You have talked a lot about J.C.4-7-10, but perhaps not this particular attachment.

MR. THOMPSON: All right. Well, maybe it isn't in -- anyway, it's there.

What page is that, sorry, in the book?

[Mr. Quinn passes document to Mr. Thompson]

MR. THOMPSON: Okay. Sorry.

All right. Well, I haven't read that and so I will just deal with it later.

But that may help us understand the undertaking response that's coming, I suppose, will it? Detailing how this is all derived?

MR. ISHERWOOD: It should.

MR. THOMPSON: Will the contract help us understand the undertaking response that is coming to Ms. Taylor's question about the net proceeds are calculated?

MR. ISHERWOOD: Yes, it should.

MR. THOMPSON: Thank you.

MR. ISHERWOOD: It should show you the commercial side of it.

MR. THOMPSON: All right. Thanks. Okay. So that's the capacity assignment piece.

Another piece that was discussed was the -- the load balancing fee topic, and that, I understand, is dealt with at Exhibit J3.2.

MR. SHORTS: Yes, that's correct.

MR. THOMPSON: And my understanding is that the -- in this type of transaction, the RAM credits were used to reduce LBA fees and the benefit of those reduced fees flowed through to ratepayers?

MS. CAMERON: That's correct.

MR. THOMPSON: And so the -- then we find, then, we find that at line 4 of Exhibit K7.3. These numbers you have there stem from J3.2?

MS. CAMERON: That's correct.

MR. THOMPSON: Okay. And so at lines 4 and 5 are numbers that flow through the gas supply deferral accounts; have I got that straight?

MS. ELLIOTT: Yes, that's correct.

MR. THOMPSON: All right. Thanks. Okay. Then the other cases that were being discussed were -- just to put this in context -- were the numbers that -- if we go to page 6 of the brief, we have at line 3 numbers described as "RAM optimization."

And there's been discussion as to what these transactions are all about, and I would like to just follow up on that, because if we go to page 17 of the brief, which is -- has an example of RAM optimization, and if we flip back to the previous page, we have essentially the same transaction that is described as a base exchange.

Have I got that straight?

MS. CAMERON: That's correct.

MR. THOMPSON: Okay. And in the base exchange, as I understand it, this is something that's incremental to your gas supply plan and it's not supported in any way by RAM credits.

This is the old way of doings things; is that right?

MS. CAMERON: That is the current way of doing things, as well.

MR. THOMPSON: Okay. The old way and the current way. So this would be a customer coming to you to help him with

-- it with an exchange; is that right?

MS. CAMERON: Yes.

MR. THOMPSON: So the customer says, what? Will you take my gas at Dawn and give me an equivalent amount of gas at Niagara?

MS. CAMERON: Yes.

MR. THOMPSON: And you say: Yes, I'll do that for 35 cents?

MS. CAMERON: We negotiate a price, yes.

MR. THOMPSON: Okay. And then you say:

"Union serves this exchange with TCPL IT transportation."

What does that mean?

MS. CAMERON: We would need to get the gas from Dawn to Niagara, and to do so we require some amount of transport on TransCanada, specifically from a location called Kirkwall, near Brantford, to get to Niagara Falls.

So that's a pipe owned by TransCanada, and to ship on that pipe we would incur an incremental cost to do so.

That cost, the cost to transport, would be offset by the revenue earned from the exchange.

MR. THOMPSON: All right. So this is all incremental to your gas supply plan?

MS. CAMERON: Yes.

MR. THOMPSON: Okay. And then we go to RAM optimization, so what is the difference?

MS. CAMERON: The difference is the transaction is identical. The customer still approaches Union Gas, says:

I have a need for gas at Niagara Falls. I can give you my gas at Dawn on the same day.

We enter into the same negotiation for the value of the service. In this case it was 35 cents. We still need to use TransCanada IT service to transport the gas from Kirkwall to Niagara Falls.

The difference is the cost of that transportation would be offset by the RAM credits that we have otherwise -- have already generated.

MR. THOMPSON: So you are using FT RAM amounts, demand charge mitigation amounts, provided by ratepayers to increase the margin in this transaction from 17,961 to 189,784?

MS. CAMERON: It's not related to the demand charge mitigation. We have created credits. We have adjusted the way our gas was delivered to create credits and are using those credits to fund the cost of exchanges.

MR. THOMPSON: Okay, fine. I won't argue with it. But it is increasing the margin from 17,000 to 189,000 and change?

MS. CAMERON: Yes.

MR. THOMPSON: And all of that 189,000 is going to revenues. It is not going through any deferral accounts?

MR. ISHERWOOD: That's right.

MR. THOMPSON: All right. So those types of transactions, then, are in -- on our K7.3, they're in line 1; correct? Line 1 comes from the page we were just looking at previously, page -- I think it is 6 at line --

MS. CAMERON: I believe it is line 5 from attachment 2 of the J.C-4-7-9. And, yes, those are the revenues that come from exchanges that were funded in some part by RAM.

MR. THOMPSON: Okay. And that is a bundle. On page 6 of my brief, that includes capacity assignments and this RAM optimization stuff; right?

MS. CAMERON: Yes.

MR. THOMPSON: And RAM optimization is at line 3, and it really started in 2009 and has been ramping up ever since?

MS. CAMERON: Yes.

MR. THOMPSON: All right.

MS. CAMERON: And the difference between RAM optimization and capacity assignments is whether we provide in an exchange, so we sold a Dawn to Niagara service, or we assigned our capacity to a customer and they facilitated the exchange themselves or the transportation themselves.

MR. THOMPSON: Now, so that example involved a customer coming to you. Now, there seems to be another case of RAM optimization, and I say that because of what you provided in the National Energy Board.

And so if you go to -- if you go to page 31 of the brief, at the top of the page, it says:

> "In 2008 Union began to use the RAM program by applying available RAM credits earned on empty FT pipe to transport Empress supplies to various delivery areas to meet market demands for customers."

Just stopping there, I am reading that to mean transport Union's Empress supplies. Am I right?

MS. CAMERON: That's correct.

MR. THOMPSON: Okay. And so this isn't -- this isn't an exchange transaction. This is a different way of carrying in your own supplies to market?

MS. CAMERON: That's correct.

MR. THOMPSON: And then you go on in this material that you provided to the Board -- and just backing up, what I understand you're doing is you look at the cost of doing this as per plan, firm FT, long-haul, STS and all the rest, and then you look at: What if I leave my pipe empty and use my IT credits to get it there, because I'm not stuck with delivery points and all the rest, and, if it's cheaper, I will do the latter; is that fair?

MS. CAMERON: I don't know about the connotation with cheaper, but certainly we will look for opportunities.

We've talked a little bit about the Empress to CDA optimization where we would -- rather than deliver gas to the CDA, we would follow the plan and deliver the gas to the WDA, drop that gas off early and create some amount of credits.

Those credits would be used to fund some amount of exchanges that we transact at a different time.

MR. THOMPSON: Well, what I'm driving at is, in this RAM optimization number at line 3 on page 8, there are the customer-type examples that you have described in the undertaking response, technical conference undertaking response, and then there are these other examples where you are actually using IT to move your own gas, rather than the assets that you have in the plan?

MS. CAMERON: And to be clear, when we use IT -- so in the example where we're transporting gas, we have a contract to transport gas from Empress to the CDA. We chose to use IT to transport that gas from Empress to the WDA. We incur an incremental transportation cost to do that. There is IT costs associated with that, where we use the RAM generated, the RAM credits from leaving the pipe empty, to fund the IT costs.

Any RAM credits left after paying for the IT transport are what we use to fund the exchanges.

MR. ISHERWOOD: I think it is important to note, though, that the example we were using this morning, as well, is, in that long-haul pipeline where it is going to the EDA, we may stop the flow and just keep it in the NDA or WDA, but the path between Empress and those two points would still be firm.

We're not necessarily using IT capacity in the examples we were using this morning or just mentioned. It is still firm pipe, and we still get the gas EDA needs to the EDA on a firm basis.

MR. THOMPSON: Well, I am just interested in -- I don't want to get sidetracked, firm, interruptible and all the rest. You're using IT that is available because you have decided to empty the FT -- sorry, you are using RAM credits to support the IT because of FT that you have decided to leave empty?

MR. ISHERWOOD: So the example I just gave where we leave the gas in the WDA, we're using the same contract to go from Empress to the WDA, still firm, not far. But we do create credits on the path -- the rest of the path that we're not using. We use those in other transactions.

MR. THOMPSON: But in the NEB response, it appears that this type of transaction that you have described at the top of page 31 is something that is being used considerably, because you say at the bottom of page 31 that you have used more than 200 pJs of IT that was paid for by these RAM credits.

If you go over to page 35, you will see that displayed at line 6 for the years 2007 to 2012.

[Witness panel confers]

MR. THOMPSON: So this is not an exchange. It is using IT to move your own gas?

MS. CAMERON: That's correct.

MR. THOMPSON: All right. And would it be possible to tell us how much, at line 3 on page 6, involves that type of RAM optimization transaction? Would it be most of it? And I am happy to have an undertaking, if that is the best way to do it.

MR. SMITH: Why don't we do it by way of undertaking?

MR. MILLAR: J7.8.

UNDERTAKING NO. J7.8: TO PROVIDE HOW MUCH OF FIGURE AT ATTACHMENT 2 OF J.C-4-7-9, LINE 3, PAGE 6 INVOLVES RAM OPTIMIZATION TRANSACTION.

MR. THOMPSON: Thank you. And so when we shake this all down, this brings me to K7.3 -- well, just before I do that, there is one other area that I wanted to get clarified, and that's at page 5 of my compendium. It is attachment 1 to J.C-4-7-9.

You will see at line 3 there is a number "RAM credits generated"? And if you take it, subject to check, the total of those dollars over to 2011 inclusive is $93.6 million, I believe; would you take that, subject to check?

MS. CAMERON: I will accept that, subject to check.

MR. THOMPSON: And what is that?

MS. CAMERON: That is the value of transportation that we could use on TransCanada, but you will see that that does not translate into a dollar-for-dollar result.

So the revenue earned is not a dollar-for-dollar exchange for the credits generated.

MR. THOMPSON: Right. So line 1, then, is -- when you say "net revenue attributable to RAM benefits" that's net of what?

MS. CAMERON: As we had talked about, to the extent that we will leave some amount of our firm capacity empty -- so going back to Mr. Isherwood's Empress-to-EDA example -- if we leave our Empress-to-EDA capacity empty in the summer and we need to purchase an Empress-to-Dawn exchange to get that gas to Dawn in the summer, where it was destined to go, there is a cost associated with that.

So this net revenue reflect the costs of finding alternate transportation arrangements, plus the benefit that we would have got from the created credits to use for other exchanges.

MR. THOMPSON: All right. You have a bunch of stars -- well, sorry.

So Mr. Quinn was trying to find out where the STS costs and all of that stuff went, or where they turn up, but the total is 93.6 for 2011 for RAM credits generated and the net is about 53.1; would you take that, subject to check?

MS. CAMERON: Sorry, for 2011?

MR. THOMPSON: To 2011, at line 1, I totalled the cumulative amounts to be 53.1 million.

MS. CAMERON: For line 1?

MR. THOMPSON: For line 1, to the end of 2011.

MS. CAMERON: Okay. I will accept that, subject to check.

MR. THOMPSON: And the RAM credits generated for the same period, I totalled to be 93.6, and you took that subject to check.

So there is a difference of about $40 million, big picture, and you're saying that is going to cost for something?

MS. CAMERON: Not... There is a cost to purchase the alternate transportation, which is offset here, so we will use our credits for that.

So they don't generate a revenue directly.

And not -- if you have 2.24 of credits, you might not be able to get 224 of value.

For example, when we use the -- an example earlier today of the Empress-to-EDA capacity, while the toll is 2.24 and you would get something around 2.24 of credits, the customer may only pay you $1.25 for that. So that is part of where you're not going to get a dollar-for-dollar result.

MR. THOMPSON: All right. So I understand that.

I think what you're telling me is not all that $40 million is cost. Part of it is the discount, and then there may be some costs that come off the discount?

MS. CAMERON: Yes.

MR. THOMPSON: Okay. So then back to page 6, there is a line 4 called "Other" which is positive in two years and negative in three years.

Is that representing costs that you are talking about? If not, what is "Other"?

MS. CAMERON: "Other" reflects DOS MN revenues, and the costs to buy the third -- to buy the alternate transportation arrangements.

MR. THOMPSON: And how much is DOS MN revenues? Could you give me that by undertaking?

I understood you to say this service is discontinued?

MS. CAMERON: Yeah, it --

MR. ISHERWOOD: It only showed up in '08 and '09.

MR. THOMPSON: So would those two numbers positive be that revenue, roughly, or --

MR. ISHERWOOD: Part of it.

MR. THOMPSON: Could I ask you to provide by way of undertaking the part that's DOS MN?

MR. SMITH: Yes, we will do that.

MR. THOMPSON: Thank you.

MR. MILLAR: J7.9.

UNDERTAKING NO. J7.9: TO PROVIDE DOS MN PORTION OF REVENUE.

MR. THOMPSON: Okay. Fine. So I think I have the numbers straight now.

So if I could just go -- take you to K7.3, what we have at line 1 is coming from line 5 on page 6; correct?

MS. CAMERON: Correct.

MR. THOMPSON: And what we have at line 2 stems from Exhibit J.E-3-5-1, which shows -- and you might want to just put that up on the screen so people can track this.

What this interrogatory displays is the portion of overearnings in each year, or revenue sufficiencies in each year, and then the portion that's retained by you and the portion allocated to customers based on the earnings sharing formula; fair? Is that your understanding of it?

MS. ELLIOTT: Yes.

MR. THOMPSON: Okay. And so what we've done -- and Union has corrected my numbers, but we've derived from this exhibit, J.E-3-1, the portion of the RAM revenue that is flowed through to earnings sharing, flowed through to ratepayers through earnings sharing, and that is shown at line 2.

Would you take that, subject to check?

MS. ELLIOTT: Yes.

MR. THOMPSON: And that totals 29.4, as shown in column 7.

And the difference, then, 37.9 million at column 7, is the portion of FT demand charge -- I call them mitigation amounts, not yet credited to ratepayers; correct?

That's what the number is?

MR. SMITH: Well, it says "Portion paid to shareholder."

I don't know what the "not yet credited to ratepayers" means.

MR. THOMPSON: Well, that is my heading of the chart. You folks put your own buzzwords in there, and I am putting mine back.

[Laughter]

MR. SMITH: It's a silly game.

MR. THOMPSON: Anyway, we know what the number is. You've got it and it is ours, is my point.

[Laughter]

MR. SMITH: Well...

MR. THOMPSON: Then underneath that, underneath that we have these other two types of transactions, where the value of the RAM credits has actually flowed through to ratepayers through the deferral account. But those two -- well, anyway, that is what they are; fair?

MS. ELLIOTT: Yes.

MR. THOMPSON: All right. Okay. Now, I just want to touch on another part of Exhibit J4.2. It is the attachment that I want to check on.

You had some discussion about this with Mr. Quinn, and he was referring to some monthly reports that TransCanada releases; do you recall that, dealing with the assigned capacity?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Okay. So what I'm -- and there was some discussion about what you've done for the balance of the gas year 2012, and then what you are planning for 2012/'13.

Do you recall that discussion?

MR. ISHERWOOD: Yes.

MR. THOMPSON: And so what I'm -- what I took from the discussion is this. If we go to the last column down there, lines 17, 18, 19 and 20, and if we just put in boxes there for the rest of the months for 2012, so that would be for June, July, August, September, October, are you with me so far?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Okay. What I took from the discussion is that you could today fill in the numbers that have been assigned for each of those lines. Am I correct?

[Witness panel confers]

MR. ISHERWOOD: To the extent that we've fully completed the optimization plan, then we could fill in the boxes, and we think we have, but there may still be small pieces here and there.

MR. THOMPSON: All right. Well, would I be correct --

and if not, perhaps you could undertake to do this, is to fill in the lines, But would I be correct that for the months June and July at least, the number at line 17 is 117,796?

MS. CAMERON: Subject to check, yes.

MR. THOMPSON: And the number at line 18 is 40,000?

MS. CAMERON: Subject to check, yes.

MR. THOMPSON: And the number at line 19 is 60,000 -- Sorry, 69,000?

MS. CAMERON: Sixty-nine, yes, subject to check.

MR. THOMPSON: And the number at line 20 is 8,796?

MS. CAMERON: Subject to check.

MR. THOMPSON: And would I be correct that unless there's some unexpected turn of events, those numbers will carry right through till October of 2008?

MS. CAMERON: Subject to check, yes.

MR. SMITH: Sorry, do you mean carry forward to 20 --

MS. CAMERON: They would go to October.

MR. THOMPSON: I was looking at the top column there.

MR. SMITH: 2012.

MR. THOMPSON: 2012. Thank you, Mr. Smith.

What would I do without you?

[Laughter]

MR. THOMPSON: Now.

MR. SMITH: I really don't know.

[Laughter]

MR. THOMPSON: Then in terms of -- and if we reproduce the same box with additional lines for '12, '13 down below, I understood the discussion to be we're not sure yet what we're going to do?

MS. CAMERON: We have not done any capacity assignments for the winter for EDA.

MR. THOMPSON: But are these assignments evergreen? In other words, if you don't do anything, they carry on month to month?

MS. CAMERON: No.

MR. THOMPSON: Okay, just asking.

[Laughter]

MR. THOMPSON: And so when you decide in your own minds how long RAM is likely to continue, will there be assignment-type decisions being made before November 2012? In other words, will these numbers appear once again in the winter 2012/2013 scenario?

MS. CAMERON: So as you look at last winter, we didn't do any assignments to the EDA for the winter last year.

MR. THOMPSON: Right.

MS. CAMERON: I'm not sure that we will do any for this winter. We certainly haven't planned any to date.

That will be, in some part, due to customer demand, as well as our own appetite for doing assignments versus providing exchange service on a daily basis.

MR. THOMPSON: I see that, but for the CDA you did them, and for the NCDA you did them, and I am assuming you will do them again, if RAM continues.

MS. CAMERON: It will depend on customer demand for the service. Once again, customer demands are tied to the

FT RAM program, and, as it continues to be some uncertainty, that will -- that will impact demand for the service.

MR. THOMPSON: But when you say "customer", you're talking about a marketer --

MS. CAMERON: Yes.

MR. THOMPSON: -- coming to you and saying, I want your space and I will move your gas from A to B, or whatever?

MS. CAMERON: Yes.

MR. THOMPSON: It's not Joe Q customer in Ontario that you are waiting on. You are waiting on the marketers?

MS. CAMERON: Somebody outside our franchise area.

MR. THOMPSON: Okay. Now, the next thing I wanted to take you to is in our brief. It's pages 96 and 97, and this may be for Mr. Isherwood or Mr. Shorts, or I don't know who.

This is an excerpt from your 2010 deferral accounts clearance case. In that particular case, Union discovered that it had charged ratepayers more than it should have for gas costs in prior years, and it brought that forward in 2010 to post the amount that had been overcharged to the 2010 deferral account.

Would you take that subject to check?

MS. ELLIOTT: We had determined that we had not refunded the correct amount of UDC as a result of not capturing the toll changes that took place in our rates, and we corrected that in the 2010 deferral disposition proceeding.

MR. THOMPSON: Well, isn't that what I said? Overcharging and not refunding is one in the same.

MS. ELLIOTT: The customers' rates reflected the updated TCPL tolls. The error was in the calculation of the deferral account. We did not credit the deferral account with the amount the customer had actually paid.

MR. THOMPSON: Right. But the point is that it went back some years, two-and-a-half years, I believe, and the remedy that Union proposed and everybody accepted, including the Board, was, We'll just do an entry in the deferral account in the current year to correct for that situation.

That's what happened; is that fair?

MS. ELLIOTT: We were correcting a calculation error in the deferral account, and we did that retroactively to when the error occurred.

MR. THOMPSON: All right. Well, I won't argue with you about what its characterization is.

It won't surprise you that that's what we think should happen here with respect to the $37 million and some odd, because we say that is gas costs.

Now, that then brings me to the next area, which relates to the examination-in-chief that you provided the other day. It is Exhibit K6.4, and you were doing this in a pre-emptive strike on my ex-franchise revenue witness panel package.

Now, I just want to understand what it is you are trying to say in your examination-in-chief. As you know, we characterize these FT RAM demand mitigation amounts as gas supply charge items that should be credited to ratepayers, and I take it that you are characterizing them as something else. And what is the something else that you characterize them as?

MR. ISHERWOOD: We characterize them as regulated revenues.

MR. THOMPSON: Regulated revenues?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Okay. And do you characterize them as --

MR. ISHERWOOD: I should back up. The FT RAM credits by themselves are not regulated revenues, but the S&T transactions stemming from them are the regulated revenues.

MR. THOMPSON: All right. There was a lot of discussion about history in your examination-in-chief, and it started with -- at page 1 of your K6.4, where there was a definition of "exchange".

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And this is an exchange being described as between party A and party B, and Union facilitating that exchange. That is what I take from the description.

MR. ISHERWOOD: This is Union's definition of "exchange"; that's correct.

MR. THOMPSON: All right. But it involves a third party, third party's gas, not Union's gas.

It is not Union seeking an exchange. It is the third party seeking the exchange; fair?

MR. ISHERWOOD: In this definition, Union Gas is giving gas to a party in a location, and we're getting the party B's gas at another location.

So we are actually exchanging the party B's gas from one location to another.

MR. THOMPSON: This evidence dates back to May 2003, I believe. The interrogatory response is August.

Then at pages 2 and following, there is a description in your in-chief binder from that case, describing how transactional services were conducted at that time; is that fair?

MR. ISHERWOOD: Sorry, which page are you on, Mr. Thompson?

MR. THOMPSON: Page 2.

MR. ISHERWOOD: And 3?

MR. THOMPSON: "Union forecasts assets to meet its in-franchise demands."

MR. ISHERWOOD: Yes.

MR. THOMPSON: And it goes on:

> "Any remaining assets are used to support the sale of transactional services."

It talks about the gas supply plan at line 22, and over on page 3, at line 3, it says:

> "There will be few, if any, firm assets to support transactional services on a future plan basis."

Then at lines 5 and 6, it says that:

"Incremental firm assets will tend to be available as a result of both weather and market variances."

In other words, it depends on weather and market and other conditions before you could do transactional services in those days. That's the way it was looked at?

MR. ISHERWOOD: I would agree with that. So prior to FT RAM program, that is exactly how transportation exchanges were being accounted for.

And going forward in 2013, if FT RAM does end and terminate, then it would be back to this type of operation.

MR. THOMPSON: But the FT RAM-type transaction, where you actually adopt a different plan from your gas supply plan, that didn't emerge until well after this case; I think you said it was 2008 or later?

MR. ISHERWOOD: That primarily emerged in 2008.

MR. THOMPSON: Okay. And in terms of the dollar amounts that you were forecasting for this type of activity, if you go to page 6 -- in the prefiled evidence, you're making the case this is a declining area, and at page 6, you noted -- sorry, it is noted in the decision under "Transportation and Exchange" that your actual for 2002, 12.5, 2003, 5.8 and 2.5.

So this decline was being painted at that time, right? This is where you thought it was going?

MR. ISHERWOOD: This is back in 2004, that's correct.

MR. THOMPSON: And nobody knew any differently at that time; correct?

MR. ISHERWOOD: Correct.

MR. THOMPSON: And in the 2007 case, your forecast was $2.1 million for this kind of activity.

MR. ISHERWOOD: That was actually a margin number, not a revenue number. That's an important distinction.

MR. THOMPSON: All right. Well, in any event, your margin number was -- forecast was 2.1.

In your evidence-in-chief, you have these deferral account items, 10, 11, 12 and 13, and I took it from the evidence-in-chief that what you are saying is these FT-type RAM transactions are covered by these deferral accounts. And they were closed, and therefore, ratepayers, you're out of luck.

Am I understanding the company's position correctly?

MR. ISHERWOOD: Our position is the activities we're doing since 2008 are very consistent with what was done prior to the incentive regulation.

The only difference is the FT RAM program was added to an FT service as an enhancement to the service.

Otherwise, the transactions are very similar.

MR. THOMPSON: I understand that, but is the company saying that they are covered or they would have been covered by these particular deferral accounts, and since they were closed, ratepayers are out of luck?

MR. ISHERWOOD: I think it is a feature or definition of the incentive regulation settlement that we went through, where our margin forecast for the storage -- sorry, the transmission exchange activity was actually increased from the 2 million to 6.9 million.

And that was a risk that was added to Union Gas, and that was a benefit that was added to the ratepayers.

And our objective during incentive regulation was to do as well as we could in that account, and any success we had would ultimately be shared through the earnings sharing mechanism, and not at the service level or deferral account level.

MR. THOMPSON: No, but the consideration for the four million or 4.3 was the closure of these accounts.

FT RAM was never, in evidence, discussed. I doubt that you even knew about it. Certainly ratepayers didn't, and I don't think the Board knew about it.

But the consideration of four was with respect to the closure of these deferral accounts. So what I am trying to find out: Are you saying these FT RAM credits fall within the ambit of these deferral accounts?

Because if you aren't, then I can move on.

MR. ISHERWOOD: The activity that resulted from FT RAM -- we were able to do transportation exchange activity -- would, prior to the incentive regulation, would have fallen into these accounts.

And it is for that reason we consider them to be traps and exchange revenue, regulated revenue, and shared at the earnings level and not at the service level.

MR. THOMPSON: All right. Well, maybe I can get you to agree with this.

Certainly this activity, the RAM-type activity, does not, I suggest to you, does not fall within the ambit of the deferral accounts at 11, 12 and 13. One is "other S&T services," which is the name changes and that kind of thing. 174 is -- at page 12 is "supplemental load balancing," and 13 is "heating value."

The only account that I think could possibly apply is 179-69. Is that the one you say applies?

MR. ISHERWOOD: In my testimony earlier in the day, we had talked about what happens if FT RAM continues in 2013 and beyond.

And in our evidence, in some interrogatories I had pointed to, we talked about there being a potential for the Board, at their choosing, to pick several different options in terms of reinstating a deferral account around FT RAM.

And I would assume, subject to Ms. Elliott's confirmation, it would be an account similar to this.

MR. THOMPSON: I don't think I have an answer to my question.

Do you say the FT RAM optimization transactions fall inside or outside the ambit of account 179-69?

MS. ELLIOTT: When 179-69 was effective, it captured all of the transportation and exchange revenues or the variances in those revenues between the actual and the Board-approved.

That account was eliminated in 2008.

MR. THOMPSON: So what's the answer to my question?

MS. ELLIOTT: Exchange revenues, prior to 2008, would have been -- variances in exchange revenues would have been captured in this account.

MR. THOMPSON: Actually, what it says is "between actual net revenues for transportation and exchange services."

Can I put in there, parenthetically, "provided by Union"?

MS. ELLIOTT: Yes. It's a Union deferral account. It would be Union's revenues. It would be revenues from services provided by Union.

MR. THOMPSON: To the extent, as we have discussed, the marketers are giving you an exchange, and to the extent you are using IT not for an exchange but to move your own gas to points east, your own western gas, I suggest to you those activities clearly do not fall within the ambit of exchange services, by definition, provided by Union, and secondly, they were unknown at the time.

MR. ISHERWOOD: I think as we described earlier, Mr. Thompson, when we do optimization around the FT RAM program, we have two options.

One is to do a bundled package, if you wish, with a marketer, where we actually get a net revenue coming back.

Or, secondly, we can actually optimize it ourselves and sell in exchange.

And we consider those two things to be equivalent.

MR. THOMPSON: Well, would you agree with me you really had little, if any, idea about the RAM benefits that you could extract at the time that those accounts were eliminated?

MR. ISHERWOOD: I think I go back to the beginning of the incentive regulation, and the intent or the purpose of it was to give the utility some flexibility to create new services to find new ways to earn revenue.

And I would give the Union Gas team some credit in terms of how they have been able to maximize the ability to earn revenue on that program.

And to the extent that RAM continues in 2013 and beyond, subject to having some sort of deferral account around RAM, that would be to the benefit of the ratepayer. That was the whole extent of incentive regulation, find new ways of doing business.

MR. THOMPSON: I don't think you answered my question. I'm suggesting you knew little, if anything, about this back in 2007 and that the light went on later. And if you would turn up page 32 of my brief, again, this is something you say in a response in the TransCanada case, middle of the page:

> "It has taken Union and the other market participants several few years to gain experience with the RAM program and to fully understand to realize its full benefit."

I might put that in other words, but that is what you said in the TransCanada case; fair?

MR. ISHERWOOD: That is my last response, as well. I'm saying the Union Gas team has been very creative in finding ways to move gas and optimize the gas supply plan and earn those revenues. It is consistent with that paragraph.

MR. THOMPSON: Okay. Then in terms of the history, just to do this quickly, because I am trying to keep within my allotted time, you have your compendium that dealt with parts of it.

I just wanted to quickly, if I could, take you through Exhibit K6.5. This all relates to the history. I assume you folks have had a chance to look at this?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Okay. And so at the first page, what we have is the Natural Gas Regulation in Ontario, Natural Gas Forum Report, and I have included there the excerpts from the Board's report dealing with deferral accounts.

And that is one of the things you referenced in subsequent filings; fair?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And then at page 8, what we have attached is -- and this was in the 2005-0520 case. This was the proposal initially made to close certain S&T accounts, and we find that at the bottom of page 9 and over at the top of page 10 of my brief.

MR. ISHERWOOD: Yes.

MR. THOMPSON: Is that fair?

The settlement agreement in that case you will find starting at page 12, and at page 21 the arrangement was, in that case, that the S&T -- see at the top of the page the S&T deferral accounts will remain in operation until the NGEIR proceeding determines otherwise?

MR. ISHERWOOD: I believe the Board had actually sent a letter to participants suggesting that this issue be moved to NGEIR.

MR. THOMPSON: Okay. Well, we had the good sense to agree with that.

[Laughter]

MR. THOMPSON: In any event, then we get to -- my next document is the NGEIR case, where this issue came up. And at page 24, there's a description of some submissions on the point, and at page 25 the Board concludes that they will be maintained and reviewed until -- sorry, part of the process for setting the incentive regulation mechanism; fair?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Now, in that NGEIR case, I had an exhibit that I wanted to just get marked for the record, if I might.

Sorry, I will come back to that. Let's get this out of the way.

Then we have the next -- the next document is the proposals in the incentive regulation case. Starting at page 27 is Union's evidence, and I think this is in your compendium, as well, at page 29.

You have the proposal to eliminate these deferral accounts; fair?

MR. ISHERWOOD: Fair.

MR. THOMPSON: And there is another passage at page 33 of the brief that deals with that proposal, other deferral accounts. I think it is related.

Then following that, at page 34, we have the settlement agreement in that case; right?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: At page 36, you will see the agreement to the elimination of the four accounts.

Then at page 38 - you mentioned this in your examination-in-chief - 4.3 million was added to the 2.6 million embedded in rates for a total of $6.9 million?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: You indicated in-chief that your base exchange revenues that you are forecasting this year, at about $9.1 million, have been on average that level over the years?

MR. ISHERWOOD: Yes. There is an interrogatory that actually shows the base revenue from exchanges back during the last five years, and 9.1 is at the higher end of the range, but, yes.

MR. THOMPSON: But remember this included closure of other deferral account balances, and they had to have some value.

Can you provide, by way of undertaking, the total amounts for the S&T revenues margin for the years '4, '5 and '6 - that is actual, and so it should reflect -- I'm hoping it will reflect what flowed through the deferral account.

Can that be done?

MS. CAMERON: Sorry, could you repeat the question, please?

MR. THOMPSON: Yes. I'm just trying to get the actual numbers for exchange revenues for the years 2004, 2005, 2006.

MS. CAMERON: Just one moment, please.

MR. ISHERWOOD: I will point out the 4.3 is -- I've said this a couple of times, but it is a margin, not a revenue. Revenue is higher than that.

MR. THOMPSON: Well, fine. Then give me the margins.

MS. CAMERON: Actually, Mr. Thompson, in our original filed evidence, so Exhibit C1, tab 3, page 12, we did provide the exchange revenue for 2006. We didn't provide 2004 or 2005.

In 2006, the revenue was $2.6 million.

MR. THOMPSON: Fine. Then the other items that should be added to that, though, are the amounts as of 2006 - and I would like it back to 2004 - related to deferral account 179-73, 179-74, and 179-89.

Can those amounts be provided by way of undertaking?

MR. SMITH: There is no doubt we can get the numbers. I guess I'm struggling with the relevance of it, but we will get the numbers.

MR. THOMPSON: Thank you.

MR. MILLAR: J7.10.

UNDERTAKING NO. J7.10: TO PROVIDE ACTUAL NUMBERS FOR EXCHANGE REVENUES FOR THE YEARS 2004, 2005, AND RELATED TO DEFERRAL ACCOUNT 179-73, 179-74, AND 179-89 FOR 2004, 2005 AND 2006.

MS. HARE: Mr. Thompson, can you give me a time estimate?

MR. THOMPSON: Ouch. I can try and do it in 15 minutes, if that is --

MS. HARE: I am wondering, then, if we should take a short break of ten minutes.

MR. THOMPSON: Okay.

MS. HARE: Okay. So we will return in ten minutes.

--- Recess taken at 3:15 p.m.

--- On resuming at 3:31 p.m.

MS. HARE: Thank you. Please be seated.

So, Mr. Thompson, if you could resume, please?

MR. THOMPSON: Thank you, Madam Chair.

Just quickly, Mr. Isherwood, just to finish off the -- identifying the documents in this K6.5, we are at page 41.

That's a description of the "non-authorized overrun, must nominate service." Would you agree?

MR. ISHERWOOD: That was a description of the DOS MN for the first year of it, yes.

MR. THOMPSON: All right. Well, does anything turn on that? Is --

MR. ISHERWOOD: It did change the second year. I mentioned that this morning.

MR. THOMPSON: Am I correct that this service is not in any way supported by FT RAM credits?

MR. ISHERWOOD: It was independent of FT RAM.

MR. THOMPSON: All right. Thank you.

Now, in terms of the proceeding in that case, there is

-- at page 46, there is one interrogatory that was -- addressed it.

Then I have attached the CME argument, the excerpt at page 49, where we asked a question, and at page 50, there is Union reply argument responding.

And then at page 52 and following, the Board's decision.

Would you take that, subject to check?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And then following that, there is an exhibit that was filed by Union in a subsequent case, again in response to an interrogatory describing FT RAM and MS-DOS -- or, sorry, DOS MN, excuse me?

MR. ISHERWOOD: This is page 62?

MR. THOMPSON: Page 62, yes.

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And in the response here, you talk about Union extracting value from FT RAM.

I suggest to you the value is there, and it is provided by ratepayers who paid the demand charges. You didn't extract anything; you took the value that the program provided. Would you agree?

MR. ISHERWOOD: I would not.

MR. THOMPSON: You would not?

MR. ISHERWOOD: I would not agree, no.

MR. THOMPSON: Well, all right.

MR. ISHERWOOD: As I mentioned, I think FT RAM got developed -- at Union Gas, at least -- from the people that were in the market.

So it is actually a feature of FT service on TransCanada that we were able to find ways to create the value.

MR. THOMPSON: All right. Well, I will leave that for argument.

Going forward, if I might, in terms of the balance of 2012, I am just looking at K7.3, where we have the forecast at 14.2 for the year. That came from an exhibit we referenced previously.

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And where are we year-to-date with FT RAM?

MR. ISHERWOOD: I believe that is an earlier undertaking we have taken to provide that number

MR. SMIOTH: It is.

MR. THOMPSON: If it goes for 12 months, do you have a current forecast of how much it will be?

MR. ISHERWOOD: There was an interrogatory we had answered that, if it went for 12 months, we would add approximately $3.6 million to the original forecast over a 12-month period.

Our forecast right now for 2012 included only as far as October 31 of FT RAM. So if it does go the extra two months, which at this point in time it looks like it will, we had said it would be about $3.6 million.

MR. THOMPSON: So another 3.6 for an added two months? Is that what you're saying?

MR. ISHERWOOD: Relative to the original -- relative to the original forecast, that's correct.

MR. THOMPSON: All right. But going back to the discussion we had about the assignments -- and we could fill in the numbers for the balance of the year -- I assume these FT RAM amounts get booked monthly, based on those assignments? Is that the way it works?

MS. ELLIOTT: The revenue gets recorded monthly as the deals are executed, yes.

MR. THOMPSON: Well, I'm just trying to get my head around a realistic forecast for 2012, on the assumption FT RAM goes to year-end. Could you add that to the undertaking that you are providing?

MR. ISHERWOOD: I think the undertaking is to provide the actual results till the end of June of this year, I believe.

MR. SMITH: That's right.

MR. THOMPSON: Could we add, then, a forecast for the balance of the year, assuming FT RAM continues for the balance of the year?

MR. SMITH: Yes, we will do that.

MR. THOMPSON: Do I need a separate number to that, or can that just be added to the previous undertaking?

MR. SMITH: We should give it a separate number.

MR. MILLAR: J7.11.

UNDERTAKING NO. J7.11: TO PROVIDE A FORECAST FOR THE BALANCE OF 2012, ASSUMING FT RAM CONTINUES FOR THE BALANCE OF THE YEAR.

MR. THOMPSON: Now, in -- looking at 2013 -- and I would ask you to consider this on an assumption. Assume that these amounts will be classified as gas cost reductions, the FT RAM credit amounts that Union realizes.

And my question is: If that happens, will Union continue to engage in the activities that it has been engaging in previously?

In other words, if there is nothing in it for the shareholder, are you going to down tools?

MR. ISHERWOOD: I think the testimony I gave this morning, Mr. Thompson, was that our proposal was if the Board so decided, that there would be a deferral account around the transportation exchange revenue, with protection on the downside and 75-25 sharing on the upside.

And there are a couple of different combinations of doing that.

MR. THOMPSON: My question is a different one.

Assume they're classified as gas costs, gas cost reductions. In which case, you wouldn't ordinarily get anything.

My question is: Will you continue to engage in these transactions to reduce the cost of gas? That is really what I am asking.

MR. ISHERWOOD: I think in that case -- and I am not sure how the mechanics would work, Mr. Thompson, but I would still suggest there would be some sharing of some kind.

MR. THOMPSON: What you're saying is you need, the company needs an incentive to do this, even if they're classified as gas costs. That is what I hear you saying.

MR. ISHERWOOD: I think it is a different part of our business. It is the S&T group that does the transactions, and in order to get them focussed on these transactions, then I think there is an appropriate sharing.

MR. THOMPSON: Well, isn't that an answer yes to my question? You need an incentive to do it?

MR. ISHERWOOD: I would strongly suggest we need incentive.

MR. THOMPSON: All right. Your incentive is suggested as 25 percent?

MR. ISHERWOOD: Yes.

MR. THOMPSON: Would you take 10?

[Laughter]

MR. SMITH: Are we back in the settlement conference, Mr. Thompson? The answer is no.

MR. THOMPSON: Moving on. Thank you.

With respect to other storage and transportation issues, I wonder if you could just put up J.C-4-5-2 again, attachment 1.

This was a document Mr. Warren was talking about.

And just looking at M12 transportation, the actuals 2011, 138,273; 2010, 142 million 421; and then 2013, a very significant drop.

And there's been discussion about that with others, about repurposing the pipe and that kind of thing.

Do you agree that Union has considerable flexibility under C1, short-term transportation, to repurpose the pipe?

MR. ISHERWOOD: I think, just to clarify the table, we have a new product called M12X transportation, which some customers have chosen to convert for M12 to M12X.

So for the purpose of this chart, we have actually broken it out, but for the purpose of looking at M12 revenue I think it would be more appropriate to add those two lines together.

So 2011 would be roughly 139.6.

2012 is going to be 138, almost 139 million.

And then 2013 would be 135 million.

MR. THOMPSON: All right. And big picture, there's about a $4 million decrease there that some might question, but I think I will just leave it as that and move on, because of time.

My next topic is St. Clair/Bluewater. There's been a considerable discussion about this. And these facilities are being paid for by in-franchise ratepayers, as I understand it; is that correct?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And can these facilities be used to meet the transportation requirements of Union's unregulated storage business? They are a connection to Michigan, are they not?

MR. ISHERWOOD: Yes, they are.

MR. THOMPSON: Okay. And the context that I have in mind here is that Union Gas Limited had contracted on Dawn-Gateway, as I recall it, for 100,000 gJs per day. And the costs of that contract were going to be allocated to its unregulated S&T business. Have I got that straight?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: Okay. And Union maintained throughout the Dawn-Gateway odyssey that it needed that service and it wanted the project to continue. Have I got that straight?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And so my question is: Can Union get the service that it needs from Bluewater and St. Clair, and, if so, where in the record is it that we see what the Union unregulated entity is going to be paying for that service?

MR. ISHERWOOD: Yes. Service that the unregulated business would need would be on the St. Clair pipeline, not Bluewater. So it would be on the St. Clair pipeline.

MR. THOMPSON: Okay. Well, fine. But is there anything in the record showing revenues from the unregulated business for using that line to get to Michigan?

MR. ISHERWOOD: That line was, until recently, taken out of regulation effectively through deferral accounts and such.

Going forward, we would allocate the cost of using that line to in-franchise customers.

MR. THOMPSON: I know that, but you needed 100 to get to Michigan for the unregulated S&T business. You didn't get Dawn-Gateway.

I am drawing the conclusion there is a possibility you're going to use St. Clair to do the same thing.

MR. ISHERWOOD: I agree with you.

MR. THOMPSON: Pardon?

MR. ISHERWOOD: I did agree with you.

MR. THOMPSON: So where is the revenue related to that usage?

MR. ISHERWOOD: The revenue is not in the forecast. Again, the forecast was done in the spring of 2011. But as I mentioned, we would include that revenue going forward.

MR. THOMPSON: Well, is that the 2 million we're talking about?

MR. ISHERWOOD: No. No, the 2 million is just S&T activity.

MR. THOMPSON: Okay. Well what is, then, the revenue that is not there yet?

MR. ISHERWOOD: I have not done the calculation.

MR. THOMPSON: Well, would you mind? Is it going to appear in 2013?

MR. ISHERWOOD: It will appear this coming winter when we bring -- we do use storage in Michigan. So as we bring that gas back in next winter, over the winter/spring, it will show up then.

MR. THOMPSON: All right. Could we have an undertaking, then, to provide an estimate of that revenue?

MR. ISHERWOOD: Sure.

MR. MILLAR: J7.12.

UNDERTAKING NO. J7.12: TO PROVIDE ESTIMATE OF REVENUE FROM UNREGULATED BUSINESS.

MR. THOMPSON: Now, the other use of transmission in the evidence, there -- as I understand it, Union affiliates, related parties, Heritage, Sarnia pool, Tipperary, take transportation service from Union Gas Limited, the regulated utility?

MS. CAMERON: Yes.

MR. THOMPSON: And my understanding is they are taking service on interruptible contracts, but they don't get interrupted; is that correct?

MS. CAMERON: We haven't had the occasion to interrupt them, yes.

MR. THOMPSON: So could you just give us by way of undertaking the -- what impact it would have on the revenue requirement if each of those contracts for services were firm rather than interruptible.

MR. SMITH: Yes, we will do that.

MR. MILLAR: J7.13.

UNDERTAKING NO. J7.13: TO IMPACT ON REVENUE REQUIREMENT IF INTERRUPTIBLE CONTRACTS FOR SERVICES WERE FIRM.

MR. THOMPSON: Now, utility storage optimization, there's been discussion of Union's encroachment on utility storage. Do you recall that?

MR. ISHERWOOD: Sorry, I missed the beginning.

MR. THOMPSON: Union's non-utility or unregulated encroaching on utility storage.

MR. ISHERWOOD: Last October?

MR. THOMPSON: Yes. You had that discussion with Mr.

Quinn.

MR. ISHERWOOD: Yes, yes.

MR. THOMPSON: Now, if that happened to a customer, what would they have to pay for overrunning their space?

MR. ISHERWOOD: As I mentioned this morning, from a non-utility customer perspective, we've not actually invoiced the penalties that would be incurred.

There's two different numbers in our tariff that we have published on the web, the MPSS, market pricing storage service. Off peak cost would be $6.00 per gJ. On peak cost, being August, I believe, to mid-November or mid-December, I think it is, is $60.00.

MR. THOMPSON: So could you give us by way of undertaking what the penalty would be to the unregulated storage business for that overrun that occurred last October?

MR. ISHERWOOD: Mr. Quinn already asked that question. It is already on the record.

MR. THOMPSON: Oh, I'm sorry.

MR. QUINN: JT1.12.

MR. THOMPSON: I must have fallen asleep.

Now, you had this discussion with Mr. Quinn about optimizing utility and non-utility storage, and I think I will just leave it there.

Ms. Elliott, you are back with us again, are you, on the finance, I hope?

MS. ELLIOTT: I am, yes.

MR. THOMPSON: Okay. Well, I've got some questions unaccounted for gas and intra period WACOG, but I will leave that for your next appearance. Thank you very much, Madam Chair.

MS. HARE: Thank you. Mr. Millar, you have some questions?

CROSS-EXAMINATION BY MR. MILLAR:

MR. MILLAR: Yes. Thank you, Madam Chair. I have a bit of a grab bag, panel, so I apologize if I skip around.

You will recall you had a discussion yesterday with Mr. Cameron, and you touched on it again today with Mr. Thompson, regarding the St. Clair line and the Bluewater line. Do you recall that?

MR. ISHERWOOD: Yes.

MR. MILLAR: I just want to make sure I have the facts right on these lines. These are both lines that cross the St. Clair River; is that correct?

MR. ISHERWOOD: Yes.

MR. MILLAR: Union or its affiliate owns the St. Clair line; is that right?

MR. ISHERWOOD: The actual river crossing portion, that's true.

MR. MILLAR: Is it Union or an affiliate?

MR. ISHERWOOD: St. Clair Pipelines.

MR. MILLAR: Okay. And it leases the Bluewater line?

MR. ISHERWOOD: As currently. The lease has been terminated by the actual owner, and that lease terminates next January.

MR. MILLAR: That was my next question. So the lease is being terminated by the owner?

MR. ISHERWOOD: Yes.

MR. MILLAR: So you do not have an option to renew that lease?

MR. ISHERWOOD: We do not. We are in the process of building a brand new pipeline because of that.

MR. MILLAR: That answers my question. Thank you.

Yesterday, I believe it was you, Mr. Isherwood, in your discussion with Mr. Smith in his examination-in-chief, I don't know if you have the transcript handy. This is the day 6 transcript. I can read you some portions of it just to make sure you recall the conversation.

He asked you about the impact of Marcellus shale on Dawn. Do you recall that?

MR. ISHERWOOD: Yes.

MR. MILLAR: I am looking at page 91, 92, 93 of the transcript.

Then if you look at page 92, you discussed that you were getting some increased turnback of capacity at Dawn.

Just for my information and for the clarity of record, what is "turnback"?

MR. ISHERWOOD: So customers that have contracts that are rolling year to year - i.e., they're no longer in the primary term - they have the right to turn back or return the capacity to the utility if they no longer need it.

On the M12, which is our main transmission service, the north period is two years. So we have lots of notice they may not want their capacity. So we would have gotten notice in October of 2010 for people turning back capacity November 1st of 2012, for example.

MR. MILLAR: The bottom line is, when that happens, you get less revenue, to put it simply?

MR. ISHERWOOD: That's right.

MR. MILLAR: You discussed the risk associated with that I guess at the bottom of 92, 93. You say:

"And in terms of what's going to happen between '14 and '19, the number that's exposed is very large. The number that we think is high-risk, though, is probably another 800,000 gJs a day of capacity."

Do you see that?

MR. ISHERWOOD: That's correct.

MR. MILLAR: I just want to reconcile that with some of the things we heard from your previous cost of capital panel to make sure there is no inconsistency here.

We have heard probably a half a dozen times in one form or another throughout this proceeding that Union is not facing any additional business risk. You would have heard that through this proceeding; is that fair?

MR. ISHERWOOD: I haven't read that transcript from that panel.

MR. MILLAR: There were some IRs I believe, as well, and the witness testimony alluded to the same thing. Are you familiar with that being Union's position?

MR. ISHERWOOD: Yes, I am. But I think I would add that in this particular case, on this one issue, there is potentially some risk, and I went on in the same discussion with Mr. Smith that we also have some growth opportunities of potentially another pJ.

So those two balance off, maybe slightly towards the turnback. That's what keeps me awake at night, but we definitely have a balance between growth and turnback.

MR. MILLAR: So although there may be increased risk in one area, it is more or less offset by some opportunities in another area?

MR. ISHERWOOD: Yes, potentially.

MR. MILLAR: That doesn't change the company's position with respect to whether or not there is any increased business risk?

MR. ISHERWOOD: It does not.

MR. MILLAR: Thank you. Skipping along, somebody had a discussion earlier today with Mr. Buonaguro about design day demands, and you looked at that chart.

I don't know that you need to pull it up, but I understood from that that your design day at least I think for the EDA, and you can correct me if I am wrong, is a 47 degree day; is that correct?

MR. SHORTS: That's correct.

MR. MILLAR: When was that value set?

MR. SHORTS: The design day for the north is based, as Mr. Quigley said, on a one-in-50-years, so the coldest temperature in that area in the previous 50 years. So that's been -- been the design day for quite a while in the EDA.

MR. MILLAR: So there would have been a day within the last 50 years where it was minus -- I guess it is 18 plus 47? Is 18 where you start for the degrees?

MR. SHORTS: 18 is the base, yes, and your math is probably better than mine.

MR. MILLAR: I assure it is not.

MR. SHORTS: There was at least one 47 degree day in the last 50 years, yes.

MR. ISHERWOOD: That would be minus 29.

MR. MILLAR: Minus 29? Okay. Sorry, you don't happen to know when the minus 29 degree day was?

MR. SHORTS: I believe it was in 1981, 47.1. I don't have any more detail other than 1981, sorry.

MR. MILLAR: So it's been a while?

MR. SHORTS: Yes.

MR. MILLAR: Have you made any updates to how you do your design day -- I don't want to call it calculation, but you determine the design day, based on your weather methodology, which shows a slow but steady increase in temperatures? Does that feed into your design day calculations?

MR. ISHERWOOD: I believe it is based on the actual coldest day in the last 50 years, so it would probably be independent of that.

MR. MILLAR: How did you determine 50 years? Is that some industry standard? Or is that something Union arrived at?

MR. ISHERWOOD: It's been our standard for a number of years. It may be industry. I don't know.

MR. MILLAR: You use 50 days (sic) for all of your zones?

MR. SHORTS: No, it is different for each of the zones, and it's different for the south.

MR. MILLAR: Why is that?

MR. SHORTS: That's traditionally, I would say -- and again, I am speculating to a certain degree, but based upon the Centra, or the history, that is how Centra had continued to do theirs throughout the north.

Union south is a 44 degree day.

MR. ISHERWOOD: Sorry, was your question on the 50 years or on the actual degree days?

MR. MILLAR: It was on the 50-year standard, as opposed to the actual degree days.

MR. SHORTS: Oh, sorry. In the north, yes, it is 50 degrees.

MR. MILLAR: And the south?

MR. SHORTS: Fifty -- sorry, let me rephrase that. In the north, it is the coldest temperature experienced in the last 50 years.

MR. MILLAR: What about in the south?

MR. SHORTS: In the south it is a 44 degree day.

MR. MILLAR: And that is historic, taken over from -- as far as you know?

MR. SHORTS: As far as I know.

MR. MILLAR: Have you had a look at these standards recently? Is there any reason to think you might be overestimating the proper number of degrees?

MR. SMITH: Sorry. I just caution that Matt Wood, who will be coming up on the Parkway panel and has responsibility for facilities will have an understanding of this topic.

MR. MILLAR: Thank you, Mr. Smith. Given the lateness of the day, I will move on.

I just want to follow up on something Mr. Brett asked you earlier, purely by way of clarification.

He asked you about -- you were speaking about deferral account 179-100. Do you recall that?

Indeed, I think that is at Exhibit A1, tab 6, page 5, a description of that account. Again, A1, tab 6, Page 5.

Do you recall that discussion with Mr. Brett?

MS. ELLIOTT: Yes.

MR. MILLAR: I am going from memory here so I may be mistaken, but I understood you to say that there was an error in the description of that account; is that right?

MS. ELLIOTT: There's a section of the accounting order that talks about the accounting for the benefit of assignments of un-utilized capacity.

We're actually doing that accounting in the UDC accounting -- in the UDC deferral account. So the error is more of a housekeeping, moving that section from 179-100 to the UDC deferral account, which I think is 179-108.

MR. MILLAR: So something is in the wrong house, essentially?

MS. ELLIOTT: Yes.

MR. MILLAR: In terms of, practically, how you are recording amounts into those accounts, are you currently doing it as the description of the account states? Or the proper way, if I can call it that?

In other words, are you putting them in their correct house or are you putting them in the wrong house currently, because of the description of the account?

MS. ELLIOTT: We're putting -- we're putting the benefit of the assignment of un-utilized capacity in the UDC deferral account, which, in my view, would be the correct account for it, not 179-100.

MR. MILLAR: Although if you were to follow -- I'm not saying you are doing something wrong, but just to be clear, 179-100 says those amounts should go in that account.

MS. ELLIOTT: Yes.

MR. MILLAR: You are proposing to tidy that up as part of this application?

MS. ELLIOTT: Yes.

MR. MILLAR: It is a zero-sum game, in any event?

MS. ELLIOTT: That's correct, yes.

MR. MILLAR: Thank you. Could I ask you to turn to Exhibit H1, tab 1, I think page 8? I understand these are -- this binder was updated just the other day, if I am not mistaken.

I've got some questions about the use of utility transportation assets for the provision of non-utility storage service.

We may not have the right page here, and if we can't find it, I think I can probably just jog your memory from my notes.

Yes. There's some discussion about the Heritage Pool, you see there? I've got some different numbers in my notes here. I think there may have been an update to this, but regardless, the numbers aren't terribly important.

I understand that you restated your revenue deficiency by what looks like $60,000 here, to recognize the use of regulated transmission assets by Union's unregulated storage operation at the Heritage Storage Pool; is that correct?

This is an offset to the revenue requirement?

MR. SMITH: Mr. Millar if I could just ask, is this the old H binder or the new H binder?

MR. MILLAR: Well, I think we have the old H binder on the screen.

My understanding is the number is now 57,000, as opposed to 60,000. The exact number isn't important.

Maybe I can ask if there is just an offset to the revenue requirement for fifty to $60,000 for use of the regulated transmission assets by Union's unregulated storage operation.

MS. ELLIOTT: That would be my understanding of this evidence, although you might want to speak to Mr. Tetreault directly about it.

MR. MILLAR: Have I got the wrong panel for these questions?

MS. ELLIOTT: Yes.

MR. MILLAR: Ah, perfect.

Ms. Cameron, there was a lengthy discussion with you on this topic in the technical conference. Maybe that is why we assumed it was for this panel.

I want to make sure I am not missing the correct people. We have questions about the extent to which the non-utility side of the business uses utility transportation assets. I am hearing that is not for this panel.

MR. ISHERWOOD: I think the actual use would be this panel. Some of the cost treatment would be, potentially, Mr. Tetreault.

MR. MILLAR: I see. Well, let me go a little further, and if this is a dead end you can let me know.

Ms. Cameron, you will recall there was a fairly lengthy discussion about the extent to which Union, the non-utility side uses utility transportation assets for its storage services; do you recall that?

MS. CAMERON: Yes.

MR. MILLAR: And essentially the answer was you don't use utility assets, or you use very -- or you very seldom or very slightly use utility transportation assets; is that correct?

MS. CAMERON: Yes.

MR. MILLAR: And my understanding was this 57,000 or $60,000 for the Heritage Storage Pool is the only instance of you using utility assets for non-utility storage?

MR. ISHERWOOD: I think the other example that Mr.

Thompson brought forward would also apply, where we have non-utility storage activities in Michigan, and we're using the St. Clair line to bring that gas back to Dawn.

MR. MILLAR: Okay. So you are using utility assets for that?

MR. ISHERWOOD: Yes.

MR. MILLAR: Are there any other examples of you doing that?

MR. ISHERWOOD: I guess the Tipperary Pool up in Huron County would also be using regulated assets, as well, but they're paying an M16 charge for those assets -- or for that use of that asset.

MR. MILLAR: Does that count as an offset to the revenue requirement, as well?

MR. ISHERWOOD: It would.

MR. MILLAR: And this is reflected in your current revenue requirement?

MR. ISHERWOOD: Yes. There has been a contract in place for a number of years.

MR. MILLAR: And the Michigan situation you were discussing with Mr. Thompson, whatever revenues are accrued for that are counted against the revenue requirement?

MR. ISHERWOOD: They will be. They're not in the forecast at this point, but I committed that they would be going forward.

MR. MILLAR: That is what you were just speaking about with him? Okay.

Are there any other examples, either currently or that you can foresee for 2013?

MR. ISHERWOOD: Nothing that is not already built into the forecast.

The Airport Pool is also unregulated; it is a joint venture with AltaGas, but they also have an M16 contract that has been built into the forecast.

The only one that's not in the forecast is the use of the St. Clair line.

MR. MILLAR: Generally, I think in the technical conference you indicated that non-utility storage business ill mostly use third-party transportation services to move gas; is that correct?

In other words, that is how you get around using utility assets?

MR. ISHERWOOD: We just listed a bunch that are using utility assets.

MR. MILLAR: But otherwise?

MR. ISHERWOOD: Otherwise it would be third-party exchanges.

MR. MILLAR: Okay. Again, I am conscious of the time.

Undertaking JT1.11, I'm not sure you need to pull this up, but if it is there, that's good.

You noted that when -- you noted that when your utility operations have excess transportation capacity on any contract, that capacity is auctioned off and any revenues accrued from the auction are credited to the benefit of ratepayers. Is that correct? That is done through the UDC deferral account?

MR. ISHERWOOD: I'm not sure what's on the screen is reflective of your question, but --

MR. MILLAR: You can confirm that is the case?

MR. ISHERWOOD: Sorry, I was reading the screen. I missed the question.

MR. MILLAR: I'm sorry. When you have excess transportation capacity on a contract, it is auctioned off and the revenues are credited to the benefit of ratepayers through the UDC deferral?

MR. ISHERWOOD: To the extent we have excess gas and we want to mitigate that excess, then we would assign away the capacity.

MR. MILLAR: And I understand that the non-utility business does not bid for that capacity; is that correct?

MR. ISHERWOOD: That's correct.

MR. MILLAR: And I think I know why, but could you give me an explanation as to why not?

MR. ISHERWOOD: It is typically the wrong path. So the capacity we're assigning or auctioning off is things like Empress to EDA, or on Vector from Chicago to Dawn, or Panhandle up from the Gulf up to Ojibway.

MR. MILLAR: If the path was the right one, though, you wouldn't bid, either. I understand you never bid on it?

MS. ELLIOTT: We never bid on it. The one path we talked about at the technical conference was the Vector path from Chicago to Dawn.

And the non-utility or unregulated business has its own contract to go from Washington 10 to Dawn, so we use that contract.

MR. MILLAR: So it is practical reasons, not a concern you would be sort of bidding for your own services?

MR. ISHERWOOD: It would be a little odd.

MR. MILLAR: Okay. But is that part of the reason, or is it simply that you never have need for that?

MR. ISHERWOOD: I would say we -- well, never is a long time.

MR. MILLAR: So there is no firm policy against you bidding on that capacity?

MR. ISHERWOOD: There is no practice to do it, that's for sure.

MR. MILLAR: Okay. But no written policy forbidding you from doing it?

MR. ISHERWOOD: No.

MR. MILLAR: Thank you. Mr. Thompson touched on storage encroachment, and I have a couple of follow-up questions there from a slightly different angle.

Mr. Isherwood, you or others on the panel are doubtless familiar with the EB-2011-0038 case. That was one of the earnings sharing cases. Is anyone on the panel familiar with that? There has been quite a lot of discussion of that case, and, indeed, I think extracts of the decision are already on the record.

MS. CAMERON: Yes, we are familiar.

MR. MILLAR: I understand in 2009, both October and November, you did encroach on some utility space; is that correct?

MR. ISHERWOOD: That's correct.

MR. MILLAR: And in the Board's decision, without necessarily getting into it, the Board ordered you to monitor these situations to let us know when that happened?

MR. ISHERWOOD: Yes.

MR. MILLAR: And it did happen again in October of 2011; is that correct?

MR. ISHERWOOD: That's correct.

MR. MILLAR: And that is shown in -- I think it is C1, tab 6, appendix A. You don't have to pull that up, but that is on the record.

MR. ISHERWOOD: Correct.

MR. MILLAR: I understand, from your discussion with Mr. Thompson, Union doesn't pay any compensation for using that utility storage, do you?

MR. ISHERWOOD: No. We treat it in the same way we would treat an ex-franchise customer. So if an ex-franchise customer overran our storage, we would work with them. As long as their intent was to correct the situation as soon as they could, then we would not charge them the penalty, either.

MR. MILLAR: So there is no -- ratepayers did not accrue any revenue to their favour because of those encroachments?

MR. ISHERWOOD: Not from that encroachment, no.

MR. MILLAR: And you are not proposing that there be any -- Mr. Thompson talked about a penalty, but I am talking more of a charge for usage. You're not proposing that Union's non-utility side would pay any amount for such encroachments in the future?

MR. ISHERWOOD: No, we are not proposing that. I think we took very quick corrective action and got back into balance fairly quickly.

MR. MILLAR: Let's assume for a moment that there was no excess storage space available on the utility side and you had to find an alternative place to put the gas.

How much -- can we get a ballpark figure of how much that would cost? I know it depends on volumes and how much space you need, et cetera, but surely there is a market cost for something like that.

MR. ISHERWOOD: In the incident that happened last October, we overran by 1.6 pJs, and when we got back from the Thanksgiving weekend, we actually did several different deals that moved 2 pJs off of our system to get back into balance.

And to move that 2 pJs off our system cost us $1.1 million.

MR. MILLAR: That is helpful. Thank you.

So it is certainly of assistance to you to have this non- -- if there is excess non-utility -- pardon me, utility space, it is certainly of assistance to you to be able to use that?

MR. ISHERWOOD: Our intent is not to use it.

MR. MILLAR: Yes, but you have?

MR. ISHERWOOD: Absolutely. And that is our intent going forward, as well.

MR. MILLAR: And if you couldn't use it, there would be some cost to you to find an alternate place to --

MR. ISHERWOOD: There was a cost last fall.

MR. MILLAR: Thank you.

Do you recall in the Board's decision, I can pull it up if necessary on the screen, but the Board sort of referred to this practice as an insurance policy to allow you to have this sort of a backstop for your non-utility storage? You could -- or at least you had the practice of encroaching on utility storage.

Do you recall that?

MR. ISHERWOOD: Sort of.

MR. MILLAR: Do you agree with that characterization?

MR. ISHERWOOD: Well...

MR. MILLAR: An insurance policy?

MR. ISHERWOOD: I guess insurance policy, you would normally be paying for the policy.

MR. MILLAR: That was going to be my next question.

MR. ISHERWOOD: And that's why my testimony even last year was we would typically be monitoring our position, and, if we anticipated getting into a difficult position or overrun, we would take action before it actually happened.

And that's what I tried to explain this morning. The circumstances around the Thanksgiving weekend last fall is just such a rapid change in injections that it was unpredicted.

MR. MILLAR: Are there insurance policies for this type of thing?

MR. ISHERWOOD: Not that I know of.

MR. MILLAR: So you wouldn't want to hazard a guess on a pricing scheme if you were to seek insurance instead of having the ability to use -- to encroach on utility space?

MR. ISHERWOOD: I think the one suggestion, and it might have been Mr. Quinn -- I can't remember which IR it was, but we do have -- on the utility assets, we do sell off-peak storage services that are intended to be very short term, a few weeks, a few days.

And we call it hub service, but it is basically readily available in the market, and people move gas in and out of the hub service pretty quickly and pretty frequently.

MR. MILLAR: That might be a comparable --

MR. ISHERWOOD: And I think what we said in our IR, or we certainly talked about, is it is not something we have ever done in the past, considered that to be a service available to us. But from an unregulated point of view, it may be a value to the unregulated business and a value to the regulated business.

MR. MILLAR: There would be a cost associated with that?

MR. ISHERWOOD: The base cost to use it is around 10 cents.

MR. MILLAR: Ten cents per?

MR. ISHERWOOD: Per gJ. There are lots of other parameters around it in terms of time, and that sort of thing, but 10 cents is sort of the entry level.

MR. MILLAR: I won't press you further on it here, given the lateness of the day, but that is helpful. Thank you.

I think I just have one area left. I've got some questions about the short-term storage and margin-sharing account. Would this be the right panel for that?

Ms. Elliott, you are our expert on all DBA matters. Why don't I start and you can tell me if I have the wrong place?

MS. ELLIOTT: Yes.

MR. MILLAR: Could I ask you to turn up Exhibit J.DV-1-1-1?

And probably attachment 1 is what I am going to be referring to, but just for some of the background on this, I understand that Union's previous practice was to sell its non-utility storage space on a long-term basis and to sell its excess utility space on a short-term basis; is that right?

MS. ELLIOTT: That's correct.

MR. MILLAR: And your new proposal is to sell both long-term and short-term storage from non-utility storage space, while continuing to sell only short-term storage from excess utility storage space; is that right?

MS. ELLIOTT: That's correct.

MR. MILLAR: So there would be some overlap for what you are selling on the utility and non-utility side; in other words, you will be selling short-term from both?

MS. ELLIOTT: Yes.

MR. MILLAR: And, as I understand it, under this new scenario, the total margins received from the sale of all short-term storage will be allocated to the ratepayer and shareholder based on the utility and non-utility share of the total quantity of peak short-term storage sold each calendar year; is that right?

MS. ELLIOTT: Yes.

MR. MILLAR: And that's a mouthful. So we asked you to run through an example of that, which is the table we see before us now; is that right?

MS. ELLIOTT: Yes.

MR. MILLAR: And before I get to the table, can you help me with the rationale for the change? Why are you changing the policy? Is it just because you can? For example, why did you not sell short-term on the non-utility side previously?

MR. ISHERWOOD: Actually, the NGEIR decision did allow us to sell non-utility space both short-term and long-term. The limiting factor for us today is really the wording of the deferral account.

So our request is to have a change in the wording of the deferral account to allow us to be able to sell non-utility space, short-term and long-term.

MR. MILLAR: Yes, I understand what you're requesting. I am just wondering why you are changing your -- why?

MR. ISHERWOOD: Just because it gives us more flexibility. As I mentioned this morning, typically the short-term market can be a little higher priced than long-term market.

MR. MILLAR: You get more revenues?

MR. ISHERWOOD: Potentially more revenue, but it diversifies verifies your portfolio, as well, with some short-term and some long-term.

MR. MILLAR: Okay. I would like to go through this attachment 1 just to make sure we understand exactly how it works.

So in the example, I understand you have 10 petaJoules of excess utility storage space. And that is what you see at line 2? No, sorry, not line 2. Line 6? Pardon me.

MR. ISHERWOOD: Yes.

MR. MILLAR: So that's the amount you have for -- of the excess utility storage?

MR. ISHERWOOD: That's correct. In this example.

MR. MILLAR: And 10 is close to -- I understand it fluctuates from year to year, but 10 is --

MR. ISHERWOOD: Close.

MR. MILLAR: -- a decent approximation of what it will be actually?

MR. ISHERWOOD: Yes.

MR. MILLAR: At lines 6 and 7, you show -- I guess you're showing in this example at line 2 the total sales of 13 petaJoules?

MR. ISHERWOOD: Correct.

MR. MILLAR: Then you go down to line 6 and 7, 10 of that comes from the utility, excess utility, and the other three would be from the non-utility?

MR. ISHERWOOD: That's correct.

MR. MILLAR: So in other words, you take all 10 or whatever is available from the utility side first; is that correct?

MR. ISHERWOOD: No. What the proposal would be, we would sell during the year the 10 pJs and the three pJs, and come with a total revenue from the 13, and then divide that revenue three-thirteenths, if you will, to non-utility and ten-thirteenths to the utility.

MR. MILLAR: Maybe I can ask this a different way.

Will you prioritize the sale of excess utility storage? In other words, will you sell that before you sell the non-utility short-term storage?

MR. ISHERWOOD: We will sell it intermingled, but the pricing would be the average of the year.

MR. MILLAR: So would we ever see a situation where you sell, for example, 10 non-utility versus three utility?

MR. ISHERWOOD: I think because we're using an average price, it doesn't really matter what the order is.

MS. CAMERON: Perhaps I could just add, we would sell all of the non-utility as short-term storage.

So the short-term peak storage sold would be always greater than the excess utility storage space. So it would always be greater than line 5, always more than 10.

MR. MILLAR: Sorry, I didn't -- could you say that again?

MS. CAMERON: Of the short-term peak storage sold --

so if you think of -- in this example we said it was 13 here on line 2.

MR. MILLAR: Yes.

MS. CAMERON: And the excess utility was 10.

MR. MILLAR: Yes.

MS. CAMERON: We would always sell more than 10. It is 10 or greater.

MR. MILLAR: But does the 10 come from the excess utility side? Or it could come from --

MS. CAMERON: Yes.

MR. MILLAR: Whenever you sell more than 10, at least 10 of it, you will have sold all of the utility side?

MS. CAMERON: Yes.

MR. MILLAR: Okay. Okay. Thank you very much.

Thank you, panel. Those are my questions.

MS. HARE: Ms. Taylor has one short question.

QUESTIONS BY THE BOARD:

MS. TAYLOR: I think it is for Mr. Isherwood.

When you were talking about the encroachment that you had last year over Thanksgiving, and that there was a cost or a penalty of $1.1 million to rectify the entire situation --

MR. ISHERWOOD: Yes.

MS. TAYLOR: -- where did that go?

MR. ISHERWOOD: Because we were faced with an excess length, and we always try to get -- we always are conscious of what happens on October 31st. That is considered to be our peak storage volume, on October 31st. In theory, that is the transition from fall into winter.

So we needed to get the gas off our system, not only for that week and that month, but into November, late November or even into December.

So we had to pay third-party marketers and other folks that would have capacity either at Dawn or Michigan or somewhere else, to take it off of our system and off of our account.

MS. TAYLOR: Sorry. What I meant was who paid the penalty? Is it --

MR. ISHERWOOD: I'm sorry, the S -- the S&T business would have paid it.

MS. HARE: Sorry, who paid it?

MR. ISHERWOOD: The S&T unregulated business would pay it.

MS. HARE: Thank you. Redirect, Mr. Smith?

MR. SMITH: I don't have to ask my first question.

RE-EXAMINATION BY MR. SMITH:

MR. SMITH: I had a question about -- I have a number of questions, but let's just start about a question with the Sarnia Pool.

I understand that the transportation contract in relation to Sarnia and perhaps some of the other pools is interruptible, as opposed to firm; is that correct?

MR. ISHERWOOD: That's correct.

MR. SMITH: And why is that?

MR. ISHERWOOD: Customers always have a choice of if they want interruptible or firm capacity.

And in some cases, if firm is not readily available, they would have to pay an aid-to-construct to get firm, and it is an economic decision they make in terms of firm versus IT. It is a customer choice.

MR. SMITH: Mr. Fay, we haven't heard from you for a while. I will ask you a question.

There was some discussion yesterday about compression, as it relates to the Dawn-to-Dawn TCPL service; do you recall that?

MR. FAY: Yes, I do.

MR. SMITH: And when is compression required in the circumstance where you are taking gas from Vector?

MR. FAY: To facilitate the TransCanada service from Dawn-to-Dawn TCPL, we diverted -- we were diverting volume 700-pound gas from Vector to the Great Lakes for delivery.

As a result of that, it displaces volumes from storage, which meant that there was a required compression to go from the storage to the 700-pound level, to replace that volume.

MR. SMITH: Thank you, Mr. Fay.

Mr. Isherwood, you were asked a question by Mr. Quinn about selling excess utility space. And just pausing there, I just want to make sure for the record we have the right terminology.

By "excess utility space" what space are you are referring to?

MR. ISHERWOOD: The Board has set aside 100 pJs of space for in-franchise use, and each year when we do our gas supply plan, we calculate how much space they will need based on the current loads of the system or the forecasted loads of the system.

And every year it changes a little bit. We had talked about 10 pJs being kind of a round number, but it can be e11, 12 pJs. It depends on the market, the markets.

So it is actually setting aside full hundred, only needing 98 -- or, sorry, 88 or 87, you would have 12 or 13 or some number like that excess.

MR. SMITH: Okay. And the non-utility is the amount over the 100 pJs.

MR. ISHERWOOD: Non-utility is the amount above 100.

MR. SMITH: Just returning to my question, you were asked a question about whether you would sell the excess utility space long-term; do you recall that?

MR. ISHERWOOD: I do.

MR. SMITH: Now, in fairness, you indicated you would consider it.

Can you just -- hopefully this isn't too soon -- tell us what you think might be the advantages or disadvantages of doing that?

MR. ISHERWOOD: Of selling it long-term?

MR. SMITH: Yes.

MR. ISHERWOOD: The disadvantage is the Board has set aside the 100 pJs, and to the extent that the gas plan for this year is indicating you only need 88 or 89, we wouldn't want to sell that space longer-term, in that it would be unavailable in year 2 or 3 or 4 in case the gas supply plan changed or a new customer came on or a new power plant came on.

It has been set aside for in-franchise customers, and we can manage that by going yearly; it becomes more difficult to managing it going multiple years.

MR. SMITH: Mr. Isherwood, Mr. Thompson in his cross-examination indicated the distinction between exchanges done by Union and those done by a marketer; do you recall that?

MR. ISHERWOOD: I do.

MR. SMITH: And what, if any, distinction -- well, first of all, do you agree that there is a distinction? And what, if any, distinction do you draw?

MR. ISHERWOOD: An exchange done by Union Gas or an exchange done by a marketer would be the same transaction.

MR. SMITH: Why do you say that, sir?

MR. ISHERWOOD: The definition of the exchange that we even presented in the very opening examination-in-chief talks about party A and party B.

So whether we're party A or the marketer is party A, it is the same transaction.

MR. SMITH: And what about the gas flows?

MR. ISHERWOOD: In terms of gas flows?

MR. SMITH: Yes.

MR. ISHERWOOD: So in terms of an exchange, it can be -- we can be selling exchange where we're using an exchange to move the gas for a third party, or we can be buying an exchange in terms of wanting to move gas from point A to point B ourselves.

So we can either be a buyer or a seller; it's still an exchange.

MR. SMITH: Ms. Elliott, you were asked a question by -- you were asked a question by I believe it was Mr. Brett, about the deferral account, various deferral account proceedings, and if FT RAM had ever been mentioned.

I am going to show to you Exhibit A from EB-2009-0101 and Exhibit B, tab 1, schedule 4, and ask if this refreshes your recollection at all.

Well, I'm sorry, I don't have copies of Exhibit B, tab 1, schedule 4, so I will just provide it to Ms. Elliott.

[Mr. Ripley passes documents to Ms. Elliott]

MR. SMITH: We do have copies, I'm sorry.

[Mr. Ripley passes documents to Board Panel]

MR. SMITH: I would just ask you to describe what is described at the bottom of Exhibit B, tab 1, schedule 4.

MS. ELLIOTT: There is a description at the bottom of that response to an interrogatory that describes the use of the FT RAM mechanism to provide exchange services in -- this is the 2008 deferral disposition proceeding.

MR. SMITH: And, Mr. Isherwood, do you agree with the description that is set out in Exhibit B, tab 1, schedule 4?

MS. HARE: Should we give this an exhibit number now?

MR. SMITH: I would ask that it be marked as an exhibit.

MR. MILLAR: K7.4. That is Exhibit B, tab 1, schedule 4 from the EB-2009-0101 proceeding.

EXHIBIT NO. K7.4: EXHIBIT B, TAB 1, SCHEDULE 4 FROM THE EB-2009-0101 PROCEEDING.

MR. SOMMERVILLE: You will ensure that the other parties get a copy of this?

MR. SMITH: Absolutely. Absolutely.

MR. SOMMERVILLE: Thank you.

MR. ISHERWOOD: Can you repeat your question, please?

MR. SMITH: Oh, I just asked whether you agreed with the description at Exhibit B, tab 1, schedule 4 of the efforts made by Union at that time.

MR. ISHERWOOD: I do.

MR. SMITH: Okay. Can I ask that Exhibit J3.1 be put up? This is a question, I think, for Mr. Shorts. Just looking at the purple line and the green line -- I'm just making sure I have the right lines.

Looking at the purple line and the green line, how do you -- how do you meet in the gas supply plan what is represented at the 140,000 gJs per day?

MR. SHORTS: What you will notice there is we are using -- on a day in which we had a 140,000 gJ need, we would be counting on the long-haul FT pipe. We would also be counting on STS withdrawals, and we would also need to count on the long-haul -- sorry, the short-haul firm pipe.

MR. SMITH: And what is your reaction to a suggestion to use STFT or IT?

MR. SHORTS: Because we're still needing to serve a firm load, we certainly would not look to an STFT type of service to provide that.

MR. SMITH: Just a brief indulgence, if I may.

Those are all of my questions. Thank you.

MS. HARE: Thank you. Thank you very much, witnesses, for your testimony. It was very helpful. You are now excused.

We will stand down until Tuesday the 24th. Mr. Smith, is it your intention to bring the finance panel next --

MR. SMITH: Yes.

MS. HARE: -- or Parkway?

MR. SMITH: Yes, we will call the finance panel. I think we are going to get into -- we will, based on the estimate, be into the Parkway panel, and that will continue, based on current estimates, into Wednesday.

MS. HARE: Good. Thank you very much.

MR. SMITH: For Mr. Ross's benefit, I believe the intention was then, at the Board's request, we would have TCPL heard thereafter so we would be back to back?

MS. HARE: That's right.

MR. SMITH: Thank you.

MS. HARE: That's acceptable?

MR. ROSS: Yes.

MS. HARE: Yes. Okay, thank you. Safe travels back.

--- Whereupon the hearing adjourned at 4:28 p.m.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit C1, Tab 3, Table 4

Please update the status of the TCPL FT-RAM Program.

Response:

The status of the TCPL FT-RAM program will be determined in TCPL's Restructuring and Tolls Proceeding which is now before the National Energy Board (RH-003-2011). Within its application, TCPL has proposed that the FT-RAM program be discontinued effective January, 2013.

Union, as part of the Market Area Shippers group has submitted evidence supporting its continuation.

UNION GAS LIMITED

Answer to Interrogatory from
TransCanada PipeLines Limited ("TCPL")

Reference: Exhibit C1, Tab 3, pg 12, lines 5-6 "The single biggest factor contributing to growth in exchange revenue was the utilization of the TCPL FT RAM program starting 2008."
Exhibit C1, Tab 3, pg 11, lines 13-14 "The 2012 forecast assumes the TCPL FT RAM program will be eliminated on November 1, 2012. A full year impact of FT RAM program being discontinued is reflected in 2013."
Exhibit D1, Tab 1, pg 3, line 2

Preamble: TransCanada has applied to the National Energy Board to eliminate the RAM feature of TransCanada's FT service and Union and others have filed evidence in support of retaining RAM. Due to the uncertainty thus surrounding FT RAM, and the impact of potential FT RAM revenues on the Short-Term Transportation and Exchanges Revenue Forecast, TransCanada seeks to better understand the historical and forecast amount of revenue attributable to FT RAM and how the uncertain future of FT RAM will be managed by Union with respect to the 2013 rates.

a) Please provide the following historical information, for November 2007 to March 2012, by month:

   i) Total revenue attributable to FT RAM, in dollars.

   ii) Average revenue attributable to FT RAM, in $/GJ.

b) Please provide the following forecast information, for the months of April 2012 through to December 2012, by month:

   i) Total revenue attributable to FT RAM, in dollars.

   ii) Average revenue attributable to FT RAM, in $/GJ.

c) In the event FT RAM is not discontinued as of November 1, 2012, please describe how Union will alter the Short-Term Transportation and Exchange Revenue forecast for 2012-2013 for the purposes of establishing rates.

d) Please provide the amount of FT RAM credits, in dollars, that Union has generated by month since November 2007.

e) Please provide a monthly breakdown of the Exchange Revenue shown in Exhibit C1, Tab 3 Table 4 into the following categories:

   i) Use of Union's upstream transportation capacity to provide exchange services to third parties.

   ii) Net revenue generated from capacity releases

   iii) Revenue obtained as a result of TCPL's FT RAM program.

   iv) Other

   v) Total exchange revenue.

f) Please explain how the 2013 Exchange Revenue forecast is treated in determining Union's revenue requirement.

g) Please explain how any variance between actual and forecast 2013 Exchange Revenue is allocated between Union shareholders and Union ratepayers.

Response:

a) Please see Attachment 1, lines 1 and 2.

b) Please see Attachment 1, lines 1 and 2.

c) For 2012, Union forecasted revenue of $14.2 million attributable to RAM, assuming the RAM program was eliminated November 1, 2012. If TCPL's RAM program is not eliminated on November 1, 2012, Union's 2012 forecast of exchange revenue attributable to RAM would increase by $3.6 million to $17.8 million. For 2012, exchange revenues, including those associated with RAM, are subject to Union's EB-2007-0606 earnings sharing mechanism.

   If TCPL's RAM program is not eliminated on November 1, 2012, Union's 2013 revenue forecast attributable to RAM would be $11.6 million. The forecast of $11.6 million assumes the structure and parameters of TCPL's RAM program does not change materially, and is based on actual 2011 activity. The 2013 revenue decreases compared to the 2012 forecast are due to expected TCPL toll reductions, price anomaly corrections, and turnback of some of Union's capacity on TCPL.

   For 2013, there are two primary options to manage the possibility of TCPL's RAM program continuing beyond 2012:

1. Increase the S&T forecast to include revenue of $11.6 million and create a deferral account to manage the difference between the forecast revenue and the actual revenue attributable to RAM; or,

2. Maintain the current S&T forecast and create a deferral account to manage the difference between the forecast revenue and the actual revenue attributable to RAM.

d) Please see Attachment 1 Table 1, line 3.

e)
   i. Please see Attachment 2 Table 2, line 1.
   ii. Please see Attachment 2 Table 2, line 2.
   iii. Please see Attachment 2 Table 2, line 3.
   iv. Please see Attachment 2 Table 2, line 4.
   v. Please see Attachment 2 Table 2, line 6.

f) The exchange revenue forecast of $9.1 million for 2013 is included as a reduction to delivery rates. Please see Union's S&T transactional margin included in the 2013 in-franchise rates at Exhibit H3, Tab 10, Schedule 1, Updated.

g) Union will retain the variance, positive or negative, between the 2013 forecast and actual exchange revenues, subject to the earnings sharing mechanism associated with Union's incentive regulation framework.

Impact of RAM Program *
$ Millions **

Line No.		2007	2008	2009	2010	2011	2012 Forecast
1	Net Revenue Attributable to RAM Benefit ***	$ 0.4	$ 5.0	$ 14.0	$ 11.7	$ 22.0	$ 14.2
2	Net Revenue ($/GJ)****	$ 0.01	$ 0.03	$ 0.09	$ 0.08	$ 0.16	$ 0.11
3	RAM credits generated	$ 1.1	$ 16.7	$ 14.5	$ 31.8	$ 32.2	n/a

* Includes STS and FT RAM
** Unless otherwise noted
*** Union's approximation of exchange revenue related to the RAM program. This is a subset of Net Exchange Revenue.
**** Net Revenue ($/GJ) calculated using Union's contracted quantities eligible for STS and FT RAM.

Components of Net Exchange Revenue
$Millions

Line No.		2007	2008	2009	2010	2011	2012 Forecast	2013 Forecast
1	Base exchanges	$ 3.0	$ 6.6	$ 6.5	$ 8.0	$ 9.7	$ 6.9	$ 9.1
	RAM Revenue:							
2	Capacity Assignments	0.4	3.1	10.2	10.7	14.4	1.4	-
3	RAM Optimization *	-	0.0	2.8	4.7	9.6	13.7	-
4	Other	-	1.9	1.0	(3.7)	(2.0)	(0.9)	-
5	Subtotal **	$ 0.4	$ 5.0	$ 14.0	$ 11.7	$ 22.0	$ 14.2	-
6	Total Net Exchange Revenue	$ 3.40	$ 11.60	$ 20.50	$ 19.70	$ 31.70	$ 21.1	$ 9.1

* Union's approximation of exchange revenue related to the RAM program. Includes
** Net revenue attributable to RAM benefits.

UNION GAS LIMITED

Answer to Interrogatory from
TransCanada PipeLines Limited ("TCPL")

Reference: Exhibit C1, Tab 3, pg 12, lines 5-6 "The single biggest factor contributing to growth in exchange revenue was the utilization of the TCPL FT RAM program starting 2008."
Exhibit C1, Tab 3, pg 11, lines 17-19 "Exchange revenue is comprised of activity using Union's upstream transportation capacity to provide exchange services to third-parties. It also includes net revenue generated from pipe releases or revenue from TCPL's FT RAM program."

Preamble: TransCanada requires more information about Union's Exchange Revenues to be able to determine if the 2013 Short Term Transportation and Exchanges Revenue Forecast is appropriate.

a) Please provide a detailed description of how Union obtains revenue as a result of FT RAM.

b) Please provide sample agreements of each type of transaction that results in the FT RAM revenue as described in reference 1 and 2.

c) Please provide, by month since 2008, quantities of FT capacity that Union has assigned to other counterparties that generated Exchange revenue or otherwise reduced Union's transportation costs. For each assignment, please provide the quantity, assignee, toll, and path of the transport assigned.

d) Please explain how Union exchanges gas between points on the Union system and points on the TransCanada system.

e) Please explain what transportation service is used to affect the exchange and how Union determines what to charge for the service.

f) Are exchanges done on a firm basis or an interruptible basis?

Response:

a) Union recognizes the benefit of the RAM Program in three general ways.

First, when balancing supply for its system customers, Union periodically has excess TCPL capacity that Union releases in the market. Union sees higher value for that capacity due to the RAM feature. All proceeds from that released capacity, including those higher proceeds earned as a result of the RAM Program, are returned directly to system customers to offset Unabsorbed Demand Charges (UDC).

Second, prior to November, 2007, Union used the RAM program primarily to fund a base minimal level of Interruptible Transportation (IT) to manage LBA fees in its northern delivery areas. Union expects this base level of IT to continue, regardless of the RAM program.

Third, starting in 2007, Union realized benefits of the RAM Program when optimizing its transportation portfolio. Union began to assign various long-haul firm transportation assets on a monthly, seasonal and annual basis in order to realize some of the value the market placed on TCPL pipe as a result of the RAM program. Since Union continued to purchase supply at Empress, alternative arrangements were required to deliver these supplies to Union's market once the capacity was assigned.

In 2008, Union began to use the RAM program by applying available RAM credits earned on empty FT pipe to transport Empress supplies to various delivery areas to meet market demands for customers. The flexibility to apply RAM credits to any path allowed Union to deliver supply to franchise customers across multiple delivery areas, such as the MDA, WDA, NDA, SSMDA, NCDA, CDA, EDA and SWDA. In addition, these credits could be used alone, or in combination with, other assets to serve exchanges to customers outside Union's franchise area. The credits earned via the RAM program are one of the resources Union employed to serve our customers.

b) Union's standard exchange agreements are included as Attachments 3 and 4 and can be found on Union's website at: http://www.uniongas.com/storagetransportation/resources/pdf/standardcontracts/Confirmation_Exchange.pdf for interruptible agreements and http://www.uniongas.com/storagetransportation/resources/pdf/standardcontracts/EnhancedExchangeAgreement.pdf for firm agreements.

c) Please see Attachment 1 and 2. Attachment 1 reports capacity assignments by month and by zone from November, 2007 which are related to RAM. It does not include any capacity assignments to Union's franchise customers. Attachment 2 shows TCPL tolls also by month and by zone from November 2007.

Union has not identified assignees as that information is commercially sensitive.

d) Union exchanges gas between Dawn and points east or west of Parkway by utilizing TCPL's interruptible transportation services as well other TCPL services such as diversions of firm contracts.

e) Interruptible services provided by TCPL are used to effect the exchange. When negotiating with customers for exchange services, Union includes in its considerations the basis differentials between points of receipt and delivery and the costs of providing the service.

f) Exchanges are done on both a firm and interruptible basis.

Capacity Assignments*

GJ/d

Line No.	Receipt Point	Delivery Area	Winter 07/08					Summer '08						
			Nov '07	Dec '07	Jan '08	Feb '08	Mar '08	Apr '08	May '08	June '08	Jul '08	Aug '08	Sept '08	Oct '08
1	Empress	Eastern Zone	-	35,000	35,000	35,000	35,000	65,753	80,753	60,753	60,753	60,753	65,753	65,753
2	Empress	Northern Zone	-	-	-	-	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000
3	Empress	Western Zone	-	-	-	-	-	-	-	-	12,000	12,000	8,000	5,000

Line No.	Receipt Point	Delivery Area	Winter 08/09					Summer '09						
			Nov '08	Dec '08	Jan '09	Feb '09	Mar '09	Apr '09	May '09	June '09	Jul '09	Aug '09	Sept '09	Oct '09
4	Empress	Eastern Zone	28,000	48,000	48,000	48,000	48,000	77,556	97,556	97,556	108,556	108,556	108,556	97,556
5	Empress	Northern Zone	8,000	8,000	8,000	8,000	8,000	-	-	-	-	40,000	-	30,000
6	Empress	Western Zone	-	-	-	-	-	-	-	-	-	-	-	20,000

Line No.	Receipt Point	Delivery Area	Winter 09/10					Summer '10						
			Nov '09	Dec '09	Jan '10	Feb '10	Mar '10	Apr '10	May '10	June '10	Jul '10	Aug '10	Sept '10	Oct '10
7	Empress	Eastern Zone	80,000	80,000	80,000	80,000	80,000	92,832	92,832	92,832	92,832	92,832	92,832	92,832
8	Empress	Northern Zone	20,062	20,062	-	-	-	-	30,000	40,000	40,000	40,000	40,000	20,000
9	Empress	Western Zone	-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Receipt Point	Delivery Area	Winter 10/11					Summer 11						
			Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11	May '11	June '11	July '11	Aug '11	Sept '11	Oct '11
10	Empress	Eastern Zone	60,000	60,000	60,000	60,000	60,000	60,000	96,796	110,000	110,000	110,000	110,000	110,000
11	Empress	Northern Zone	-	-	-	-	-	40,000	40,000	49,000	49,000	49,000	49,000	49,000
12	Empress	Western Zone	-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Receipt Point	Delivery Area	Winter 11/12					Summer 12	
			Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12
13	Empress	Eastern Zone	74,796	60,000	60,000	60,000	80,000	117,796	117,796
14	Empress	Northern Zone	-	-	-	-	-	40,000	48,500
15	Empress	Western Zone	-	-	-	-	-	-	-

* not including capacity assignments to Union's franchise customers

100% Load Factor Posted Tolls

$C/GJ

Line No.	Receipt Point	Delivery Area	Winter 07/08					Summer '08						
			Nov '07	Dec '07	Jan '08	Feb '08	Mar '08	Apr '08	May '08	June '08	Jul '08	Aug '08	Sept '08	Oct '08
1	Empress	Eastern Zone	1.03032	1.03032	1.09000	1.09000	1.09000	1.31000	1.31000	1.39999	1.39999	1.39999	1.39999	1.39999
2	Empress	Northern Zone	0.79389	0.79389	0.83269	0.83269	0.83269	1.02310	1.02310	1.09338	1.09338	1.09338	1.09338	1.09338
3	Empress	Western Zone	0.51804	0.51804	0.55056	0.55056	0.55056	0.67581	0.67581	0.72208	0.72208	0.72208	0.72208	0.72208
			Winter 08/09					Summer '09						
			Nov '08	Dec '08	Jan '09	Feb '09	Mar '09	Apr '09	May '09	June '09	Jul '09	Aug '09	Sept '09	Oct '09
4	Empress	Eastern Zone	1.39999	1.39999	1.19000	1.19000	1.19000	1.19000	1.19000	1.19000	1.19000	1.19000	1.19000	1.19000
5	Empress	Northern Zone	1.09338	1.09338	0.91313	0.91313	0.91313	0.91313	0.91313	0.91313	0.91313	0.91313	0.91313	0.91313
6	Empress	Western Zone	0.72208	0.72208	0.59425	0.59425	0.59425	0.59425	0.59425	0.59425	0.59425	0.59425	0.59425	0.59425
			Winter 09/10					Summer '10						
			Nov '09	Dec '09	Jan '10	Feb '10	Mar '10	Apr '10	May '10	June '10	Jul '10	Aug '10	Sept '10	Oct '10
7	Empress	Eastern Zone	1.19000	1.19000	1.63808	1.63808	1.63808	1.63808	1.63808	1.63808	1.63808	1.63808	1.63808	1.63808
8	Empress	Northern Zone	0.91313	0.91313	1.25894	1.25894	1.25894	1.25894	1.25894	1.25894	1.25894	1.25894	1.25894	1.25894
9	Empress	Western Zone	0.59425	0.59425	0.81513	0.81513	0.81513	0.81513	0.81513	0.81513	0.81513	0.81513	0.81513	0.81513
			Winter 10/11					Summer 11						
			Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11	May '11	June '11	July '11	Aug '11	Sept '11	Oct '11
10	Empress	Eastern Zone	1.63808	1.63808	1.63808	1.63808	2.24290	2.24290	2.24290	2.24290	2.24290	2.24290	2.24290	2.24290
11	Empress	Northern Zone	1.25894	1.25894	1.25894	1.25894	1.74219	1.74219	1.74219	1.74219	1.74219	1.74219	1.74219	1.74219
12	Empress	Western Zone	0.81513	0.81513	0.81513	0.81513	1.13287	1.13287	1.13287	1.13287	1.13287	1.13287	1.13287	1.13287
			Winter 11/12					Summer 12						
			Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12					
13	Empress	Eastern Zone	2.24290	2.24290	2.24290	2.24290	2.24290	2.24290	2.24290					
14	Empress	Northern Zone	1.74219	1.74219	1.74219	1.74219	1.74219	1.74219	1.74219					
15	Empress	Western Zone	1.13287	1.13287	1.13287	1.13287	1.13287	1.13287	1.13287					

[Union Gas Logo]

[HUB___B_____]
[SA_____]
[Agreement Date]

Confirmation

Exchange

Attention: [Shipper Rep]

This Exchange Confirmation ("**Confirmation**") incorporates all of the terms and conditions of the Interruptible Service Hub Contract ([HUB___]) between Union Gas Limited ("**Union**") and [Shipper Name] ("**Shipper**") dated [Latest Amendment Date] (the "**Contract**"). All terms and conditions contained in the Contract, and any Schedules referenced by the Contract as amended from time to time, shall apply to this Confirmation, unless specifically set forth herein. In the event of any conflict or inconsistency between the terms and conditions of this Confirmation and those of the Contract, the terms and conditions of this Confirmation shall prevail.

Confirmation terms and conditions:

Service Type: Interruptible	
Term Start: [start date]	**Term End:** [end date]
Receipt Point (to Union): [receipt point]	**Delivery Point (to Shipper):** [delivery point]
Minimum Quantity: [Quantity] GJ/day ([converted] MMBtu/day)	**Maximum Quantity:** [Quantity] GJ/day ([converted] MMBtu/day)
Fuel: [fuel %] – up to [Quantity] GJ/day ([converted]mmbtu/day) at [location]	
Nominations: Must be received [hours] before the [window] nomination window	
Rate: Shipper agrees to pay Union $[Commodity Rate] [Currency]/[UOM] ([Converted Rate] [Currency] /[Converted UOM] which will be invoiced as utilized.	

If on any day Shipper fails to deliver the Authorized Quantity to any of the above noted Receipt Point(s), Shipper agrees to pay $0.1500000/GJ ($0.1582584/MMBtu) multiplied by the difference between the Authorized Quantity and the actual quantity delivered at the Receipt Point ("**Delivery Shortfall**") for every day that the Delivery Shortfall, or any portion thereof, remains, plus any verifiable costs incurred by Union that are directly attributable to Shipper's failure to deliver the Delivery Shortfall. Union retains the right to replace the Delivery Shortfall at any time throughout the period that the Delivery Shortfall, or any portion thereof, remains and Shipper shall use due diligence to deliver the Delivery Shortfall to Union promptly at the Receipt Point or Dawn (Facilities), as decided at Union's discretion. Should Union choose to replace the Delivery Shortfall, Shipper agrees to pay Union's costs to replace such gas at the Receipt Point or Dawn (Facilities), as decided at Union's discretion, plus an additional 25% of such costs.

If on any day, Shipper fails to accept the Authorized Quantity at any of the above noted Delivery Point(s) Shipper agrees to pay $0.1500000/GJ ($0.1582584/MMBtu) multiplied by the difference between the Authorized Quantity and the actual quantity accepted ("**Receipt Shortfall**") for every day that the Receipt Shortfall, or any portion thereof, remains, plus any verifiable costs incurred by Union that are directly attributable to the Shipper's failure to accept the Receipt Shortfall.

Shipper and Union agree that each party shall use reasonable efforts in order to balance as nearly as possible the quantity exchanged on a daily basis and to resolve any imbalances in a timely manner.

[Union Gas Logo]

All quantities will be converted to GJ for billing purposes. Conversion: 1 MMBtu = 1.055056 GJ.

This Confirmation may be signed and sent by facsimile or other electronic communication and this procedure shall be as effective as signing and delivering an original copy.

Please acknowledge your agreement to all of the above terms and conditions by signing and sending this Confirmation to Union Gas Limited at fax: (519) 358-4064 or email to both:
[email address of S&T Account Manager] and Storage.Transportation@uniongas.com.

Failure to provide a signed copy of this Confirmation to Union, or failure to object in writing to any specified terms in this Confirmation, within two business days of receipt of this Confirmation will be deemed acceptance of the terms hereof.

[Electronic Signature]	______________________________
[S&T Account Manager]	[Shipper Name] *Authorized Signatory*

[Union Gas Logo]

[HUB___E___]
[SA_____]
[Month day, year]

(Note: This document shell is for obligated firm Agreements; interruptible and other less firm Agreements are also available; please contact your Account Manager.)

Attention: [Shipper Rep]

Enhanced Exchange Service Agreement

This Enhanced Exchange Service Agreement ("**Agreement**") incorporates all of the terms and conditions of the Interruptible Service Hub Contract ([HUB___]) between Union Gas Limited ("**Union**") and [Shipper Name] ("**Shipper**") dated [Latest Amendment Date] (the "**Contract**"). All terms and conditions contained in the Contract, and any Schedules referenced by the Contract, as amended from time to time, shall apply to this Agreement, unless specifically set forth herein. In the event of any conflict or inconsistency between the terms and conditions of this Agreement and those of the Contract, the terms and conditions of this Agreement shall prevail.

Agreement terms and conditions:

Service Type: [Firm]	
Term Start: [start date]	**Term End:** [end date]
Receipt Point (to Union): [receipt point]	**Delivery Point (to Shipper):** [delivery point]
Firm Exchange Quantity: [Quantity] GJ/day ([converted] MMBtu/day)	
Minimum Quantity: [Quantity] GJ/day ([converted] MMBtu/day)	**Maximum Quantity:** [Quantity] GJ/day ([converted] MMBtu/day)
Fuel: [fuel %] - [Quantity] GJ/day ([converted]mmbtu/day) at [location]	
Nominations: Must be received [hours] before the [window] nomination window.	
Rate: Shipper agrees to pay Union, a demand charge of $[Demand Charge] [Currency] which shall be invoiced in [#] equal monthly instalment(s).	

Shipper is obligated to deliver the Firm Exchange Quantity to the above noted Receipt Point(s), each and every day. If on any day Shipper fails to deliver the Firm Exchange Quantity to any of the above noted Receipt Point(s), Shipper agrees to pay $3.0000000/GJ ($3.1651680/MMBtu) multiplied by the quantity of gas not delivered to Union ("**Delivery Shortfall**"). In addition, should Union choose to replace such Delivery Shortfall, Shipper agrees to pay Union's costs to replace such gas at the Receipt Point or Dawn, as decided at Union's discretion, plus an additional 25% of such costs. If Union chooses not to replace such gas, Shipper agrees to pay $0.1500000/GJ ($0.1582584/MMBtu) for every day that the Delivery Shortfall, or any portion thereof, exists. Union retains the right to replace the Delivery Shortfall at any time throughout the period that the Delivery Shortfall, or any portion thereof, remains and Shipper shall use due diligence to deliver the Delivery Shortfall to Union promptly at Receipt Point or Dawn, as decided at Union's discretion.

Shipper is obligated to accept the Firm Exchange Quantity at the above noted Delivery Point(s) each and every day. If on any day, Shipper fails to accept the Firm Exchange Quantity at any of the above noted Delivery Point(s), Shipper agrees to pay $3.0000000/GJ ($3.1651680/MMBtu) multiplied by the quantity of gas not accepted ("**Receipt Shortfall**"), plus the verifiable costs

[Union Gas Logo]

incurred by Union that are directly attributable to the Shipper's failure to accept the Receipt Shortfall.

Shipper and Union agree that each party shall use reasonable efforts in order to balance as nearly as possible on a daily basis and to resolve any imbalances in a timely manner.

All quantities will be converted to GJ for billing purposes. Conversion: 1 MMBtu = 1.055056 GJ.

This Agreement may be signed and sent by facsimile or other electronic communication and this procedure shall be as effective as signing and delivering an original copy.

Please acknowledge your agreement to all of the above terms and conditions by signing and sending this Agreement to Union Gas Limited at fax: (519) 358-4064 or email Storage.Transportation@uniongas.com with a copy to [email address of S&T Account Manager] or mail to **Union Gas Limited, 50 Keil Drive North, P.O. Box 2001, Chatham, ON, N7M 5M1, Attention: S&T Contracting.**

[Union Representative] (519) 436-____
Account Manager, Union Gas Limited

Acknowledged and Accepted
this ______ day of [Month, year]

[SHIPPER]
Authorized Signatory

____

UNION GAS LIMITED
Authorized Signatory

____

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-Housing Providers of Ontario ("FRPO")

Ref: Exhibit C1, Tab 3, page 11-13

We require additional information about Union's Exchange Revenue forecast.

a) Is Exchange Revenue derived entirely from the use of Union's contracted capacity on upstream transporters, or does it also involve the use of Union's own transmission assets?

b) For each year from 2010 through 2013, please provide the actual or forecast net revenue from upstream transportation capacity release or assignment, by pipeline.

c) For each year from 2010 through 2013, please provide the actual or forecast net revenue from third-party exchanges.

d) For each year from 2010 through 2013, please provide the portion of the total net revenue from third-party exchanges that resulted from the TCPL FT RAM program.

Response:

a) Exchange revenue is generated using capacities on upstream transportation assets as well as Union's own transmission assets.

b) Please see the response at Exhibit J.C-4-7-9 e).

c) Please see the response at Exhibit J.C-4-7-9 e).

d) Please see the response at Exhibit J.C-4-7-9 e).

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-Housing Providers of Ontario ("FRPO")

Ref: Exhibit C1, Tab 3, page 11

Union states "In order to mitigate this trend, TCPL introduced the Firm Transportation Risk Alleviation Mechanism ("FT RAM") program. This program gives firm shippers of long-haul capacity (or short-haul capacity linked to long-haul capacity) credits for any capacity left unutilized. These credits can then be spent, in the same month upon which they are earned, on any interruptible service on TCPL's system. The program was designed to encourage shippers to remain contracted on TCPL's system."

Since the purpose of FT-RAM is to mitigate the cost of holding long-haul transportation capacity, please provide:

a) Union's explanation of why the net revenues generated from RAM are streamed to Exchange Revenue as opposed to being recognized as a credit to the cost of long-haul TCPL service that is charged to customers.

b) The specific Board approval of a Union Gas request for this treatment of FT-RAM credits.

Response:

a) Net revenues generated from RAM are recorded as Exchange Revenue since this is the service type under which they are contracted and sold.

   Union's use of the RAM program was based on Union's IR mechanism per EB-2007-0606 and was further confirmed in the Board's Decision on Union's 2009 Rates Application per EB-2008-0220. The IR mechanism defined the parameters for earnings sharing, the principles of which were confirmed in practice in the EB-2008-0220 with respect to the DOS-MN service. Union applied these approved parameters to revenues generated through the RAM program.

   Specifically, in EB-2008-0220, the Board agreed that "benefits resulting from transactions to optimize transportation capacity…are recognized as part of Union's regulated S&T transactional activity", and that "the forecast margin for [this] activity included in rates was increased significantly in the 2007 rates settlement agreement". This provided "ratepayers with a fixed level of benefits from S&T transactional activity, and provided Union with a strong incentive to exceed that level of fixed benefit. Union is at risk for achieving the forecast results and is only rewarded if the net benefits exceed the threshold incorporated in rates".

In its decision, the Board stated "ratepayers have been already credited with an amount intended to reflect the transactional services activity of the company. Any additional revenues which may be occasioned by the new TransCanada [DOS-MN] service will not accrue under this heading, but may lead to earnings sharing distribution. In the Board's view this is a fair approach that is consistent with the general architecture of the IRM plan and the Settlement Agreement."

b) In Union's view, the RAM program provides comparable revenue opportunities to the DOS MN program and it is appropriate to account for these revenues in the same way.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref: Pages 2 and 3

In what years did TCPL offer an FT RAM credit? Were Union's FT RAM revenue subject to the Earnings Sharing Agreement in each year over the recent IRM period? Please discuss, showing amounts of FT RAM credits in each year. If not, why not? Please discuss fully. Were the FT RAM credits Z-factors for each IRM year during which Union participated in them? Please discuss.

Response:

Please see Attachment 1 for a timeline of what years TCPL offered RAM credits. Please see the response at Exhibit J.C-4-7-1 c).

Please see the response at Exhibit J.C-4-7-9 d) for the amount of RAM credits generated by year. RAM credits do not meet the Z-factor criteria in Union's current IRM.

TransCanada
In business to deliver

TransCanada PipeLines Limited
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1

Tel: (403) 920-2046
Fax: (403) 920-2347
Email: murray_sondergard@transcanada.com

January 16, 2009

National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta
T2P 0X8

Filed Electronically

Attention: Ms. Claudine Dutil-Berry, Secretary

Dear Ms. Dutil-Berry:

Re: TransCanada PipeLines Limited ("TransCanada")
Amendments to TransCanada's Canadian Mainline Transportation Tariff

TransCanada hereby files an application with the National Energy Board ("Board") pursuant to Section 60(1)(b) of the *National Energy Board Act* for an order or orders approving certain amendments to TransCanada's Mainline Transportation Tariff's Interruptible Transportation ("IT") Toll Schedule. The proposed amendments were presented to the Tolls Task Force ("TTF") and were unopposed by the TTF in Resolution 04.2009, FT-RAM, STS-RAM and STSL-RAM Permanent Tariff Feature, voted on January 7, 2009.

TTF Resolution 04.2009 describes amendments to the IT Toll Schedule to add the current Risk Alleviation Mechanism ("RAM") for Firm Transportation ("FT") Service, Storage Transportation Service ("STS") and Storage Transportation Linked Service ("STS-L") as permanent features of the Mainline transportation services.

The FT-RAM pilot was originally approved by the Board in a letter dated July 15, 2004 as a feature of FT service for a one year period commencing November 1, 2004 per TTF Resolution 02.2004. The FT-RAM pilot was subsequently extended for a period of one year by the Board in a letter dated September 6, 2005 as per TTF Resolution 20.2005 and again by the Board in a letter dated April 21, 2006 as per TTF Resolution 05.2006. Modifications to apply the FT-RAM pilot to short-haul contracts were made effective April 1, 2006 by Board Order TG-1-2006, and in accordance with the Board's decision in RHW-2-2005.. In a letter dated March 2, 2007, the Board approved an additional two-year extension of the FT-RAM pilot commencing November 1, 2007 as per TTF Resolution 03.2007 and extended the FT-RAM pilot to include Storage Transportation Service (STS-RAM) and Storage Transportation Service Linked (STSL-RAM) for a two-year term commencing November 1, 2007 as per TTF Resolution 02.2007.

During the various RAM pilot periods, the mechanism has been used by a broad spectrum of shippers including producers, producer/marketers, LDCs and end-users TransCanada notes that use of the RAM mechanism does not limit the service entitlements of current FT service.

In support of its application, TransCanada attaches for the Board's information blacklined and clean copies of the IT Toll Schedule and a copy of TTF Resolution 04.2009. TransCanada proposes that these changes become effective November 1, 2009.

Should the Board require additional information, please contact Stella Morin at (403) 920-6844 or stella_morin@transcanada.com.

Yours truly,

Original Signed by

Murray Sondergard
Director, Regulatory Services

Attachments

cc: Tolls Task Force (on-line notification)
Mainline Customers (on-line notification)

2008 TOLLS TASK FORCE ISSUE	
Date Accepted As Issue: September 4, 2008	**Resolution:** 04.2009
Date Issue Originated: September 4, 2008	**Sheet Number:** 1 of 3
Issue Originated By:	Shell Energy North America (Canada) Inc.
Individual to Contact: Tomasz Lange	**Telephone Number** (403) 216-3580

ISSUE: FT-RAM, STS-RAM and STSL-RAM Permanent Tariff Feature

RESOLUTION:

The TTF agrees to the addition of the current FT - Risk Alleviation Mechanism (FT-RAM), STS-RAM and STSL-RAM pilots, to the TransCanada tariff as permanent features of the transport services effective November 1, 2009 as per the attached black lined IT Toll Schedule.

BACKGROUND:

On May 6, 2004 the TTF approved, as an unopposed resolution, the initial FT-RAM pilot (Resolution 02.2004) for a one-year period beginning November 1, 2004. The initial pilot program was adopted as a flexibility feature of long-haul FT contracts only. Long-haul FT contracts are those contracts, which have a primary receipt point originating from Empress or Saskatchewan.

On August 3, 2005 the TTF approved, as an unopposed resolution, an extension of the FT-RAM pilot for an additional one-year term commencing November 1, 2005 and ending October 31, 2006 (Resolution 20.2005).

On February 24, 2006 the NEB approved an application by Coral Energy Canada (now Shell Energy North America (Canada) Inc.) for modifications to the FT-RAM pilot effective April 1, 2006 and ending October 31, 2006, to extend FT-RAM credits to short-haul contracts, which when combined with a long-haul contract create a continuous long-haul contract (Board Order TG-1-2006 in RHW-2-2005 proceeding).

The short-haul and long-haul contracts must be held by the same shipper and must share a common location; i.e. the receipt point of the short-haul contract must be the same as the delivery point of the long-haul contract. For example, a Dawn to EDA short-haul contract when combined with a long-haul contract from Empress or Saskatchewan to SWDA if held by the same shipper, effectively results in a long-haul contract to EDA. In keeping with the intent of the FT-RAM Pilot of encouraging firm long-haul contracts, FT-RAM credits will be granted on the full path or both contracts.

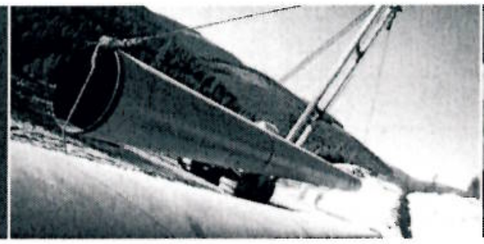
On April 5, 2006 the TTF approved, as an unopposed resolution, an extension of the FT-RAM pilot, as modified by the NEB in the RHW-2-2005 decision, for an additional one-year period commencing November 1, 2006 and ending October 31, 2007 (Resolution 05.2006).

On February 9, 2007 the TTF approved, as an unopposed resolution, an extension of the FT-RAM pilot for an additional two-year term commencing November 1, 2007 and ending October 31, 2009 (Resolution 03.2007)

Also on February 9, 2007 the TTF approved, as an unopposed resolution, a new RAM pilot for Storage Transportation Service and Storage Transportation Service Linked (STS-RAM and STSL-RAM) for a two-year term commencing November 1, 2007 and ending October 31, 2009 (Resolution 02.2007). On July 4, 2007 the TTF approved, as an unopposed resolution, tariff language for the STS-RAM and STSL-RAM pilot (Resolution 08.2007). STS service was originally designed to work in combination with LDC held long-haul FT service on TransCanada and with market storage. It was designed to allow LDCs to meet seasonal and daily fluctuations in market demand while maintaining their long-haul service at a high load factor. STS shipper must hold long-haul FT. The flow of gas and the capacity rights are virtually identical under STS and STSL. The only difference is that under STS, the long-haul contract is held by the LDC, whereas under STSL, the end-users and marketers hold the long-haul contract.

RAM is a tool to mitigate unabsorbed demand charges and provides greater flexibility in order to give shippers increased confidence in contracting for long-haul FT service on the TransCanada Mainline. The motivation behind RAM is to promote the renewal of and incremental contracting for long-haul FT service. During the various pilot periods, the mechanism has been used by a broad spectrum of shippers including producers, producer/marketers, LDCs and end-users. The mechanism will not limit the service entitlements of current FT service.

VOTING RESULTS:



Unopposed resolution at the January 7, 2009 TTF meeting in Calgary.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref:

Please provide a schedule showing the impact on earnings and revenue requirement of Union's past participation in TCPL's FT RAM program, for each of the IRM years, including 2012.

Response:

Please see the response at Exhibit J.C-4-7-9, Attachment 1.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref: Exhibit A2, Tab 1, Schedule 1, Page 25, Table 5

Please explain what incremental revenue was realized in 2008, 2009, 2010, and 2011 through the use of FT RAM credits. How much of the revenue shown on line 3 is due to FT RAM? Will that revenue reoccur in 2012?

Response:

Please see the response at Exhibit J.C-4-7-9, Attachment 1, line 1.

UNION GAS LIMITED

Answer to Interrogatory from
Building Owners and Managers Association ("BOMA")

Ref: Page 11

What are the remaining terms and volumes of each of the contracts from Dawn-Kirkwall line?

Response:

Customer Name	Quantity (GJ)	Start Date	End Date	
TransCanada PipeLines Limited	125,297	01-Nov-94	31-Oct-15	(1)
Enbridge Gas Distribution Inc.	32,123	01-Apr-04	31-Mar-14	
KeySpan Gas East Corporation d/b/a National Grid	138,600	01-Nov-07	31-Oct-18	
TransCanada PipeLines Limited	146,560	01-Nov-08	31-Oct-14	(2)
TransCanada PipeLines Limited	533,191	01-Nov-08	31-Oct-14	(3)
Thorold CoGen L.P. by its General Partner Northland Power Thorold Cogen GP Inc.	49,500	01-Sep-09	31-Aug-29	
TransCanada PipeLines Limited	53,440	01-Nov-10	31-Oct-13	(4)
Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc.	31,746	01-Nov-11	31-Oct-16	
Dynegy Gas Imports, LLC	38,306	01-Nov-08	31-Oct-15	
Enbridge Gas Distribution Inc.	35,806	01-Nov-10	31-Oct-14	
National Fuel Gas Distribution Corporation	10,791	01-Nov-10	31-Oct-17	
National Fuel Gas Distribution Corporation	15,904	01-Nov-10	31-Oct-20	

(1) Quantity reduces to 62,602 GJ effective November 1, 2012.
(2) Quantity reduces to 13,336 GJ effective November 1, 2013.
(3) Quantity reduces to 158,003 GJ effective November 1, 2012.
(4) Quantity reduces to 0 GJ effective November 1, 2013.

UNION GAS LIMITED

Undertaking of Mr. Quinn
To Mr. Isherwood

Please provide an actual numeric example of each of the categories to show how net revenue is calculated; to show all the costs associated with the transaction.

Below are the three categories that support Exchange revenue.

Base Exchange:

Example: Union sells Dawn-Niagara exchange for 20,000 GJ/d for one month at $0.35/GJ. Union serves this exchange with TCPL IT transportation.

Revenue from Dawn-Niagara Exchange	$217,000
Cost from Dawn-Niagara Exchange	
IT Cost	180,476
Fuel Cost	6,448
Pressure Charge	12,115
Total Cost	199,039
Net Revenue	$17,961

Capacity Assignment:

Example: Union assigns to a third party 20,000 GJ/d of Empress-Union EDA capacity for one month. The same counterparty also agrees to accept Union's supply at Empress and redelivers the equivalent quantity to Dawn. Customer pays Union $0.04/GJ. In this example, prior to the capacity assignment, the gas is not required in the EDA and would have been transported to Dawn for storage using TCPL STS service.

Revenue from pipe release	$240,000
Costs from pipe release	-
Net Revenue	$240,000

RAM Optimization:

Example: Union sells Dawn-Niagara exchange for 20,000 GJ/d for one month at $0.35/GJ. Union serves this exchange with TCPL IT transportation funded by RAM credits.

Revenue from Dawn-Niagara exchange	$217,000
IT minimum charge	8,643
Fuel Cost	6,448
Pressure Charge	12,115
Total Costs	27,206
Net Revenue	$189,784

UNION GAS LIMITED

Undertaking of Mr. Quinn
To Mr. Shorts

To the extent that Union has FT RAM revenue, please provide capacity assignments or the costs associated with any of the capacity if netted against those revenues?

The capacity assignments included in Attachment 1 of J.C-4-7-10 are all temporary assignments. These assignments include 2 types of transactions – capacity assignments for unabsorbed demand charge (UDC) mitigation and capacity assignments related to FTRAM activities.

In the case where Union has assigned capacity to mitigate UDC, Union does not purchase the supply associated with the pipe capacity, and any revenue earned from the capacity assignment is credited to ratepayers.

In the case where Union has assigned capacity related to FTRAM activities, Union continues to purchase the supply attributable to the assigned capacity and utilizes exchanges or interruptible transportation to deliver the gas supply to Union's franchise (see examples at exhibit JT1-6). There is no change to transportation charges. Any associated revenue from the assignments, less the costs of exchanges or interruptible transportation are reflected in the net revenue from FTRAM. This is included at Exhibit JC-4-7-9, Attachment 2.

UNION GAS LIMITED

Undertaking of Mr. Quinn
To Ms. Evers

Please indicate how much it was funded and what came back as recovery for ratepayers for period November 2009 to March 2012.

All Interruptible Transportation (IT), except the mandatory minimum charge, used to offset Load Balancing Agreement (LBA) fees comes back as recovery for ratepayers since it was funded by RAM credits. For the period January 2007 – March 2012, the amount of IT funded by RAM credits for the benefit of ratepayers was:

	$000's
2007	$320.0
2008	$550.3
2009	$121.4
2010	$224.1
2011	$552.3
2012	$261.6 (1)

(1) Data for YTD March, 2012

UNION GAS LIMITED

Undertaking of Mr. Quinn
To Ms. Evers

On a monthly basis, please provide demand cost associated with assigned contracts and proceeds from commercial transactions for this assignment, and show for each month how much went to offset UDC, how much went to reduce cost of transport and how much flowed to S&T revenues.

For the period November, 2009 – March, 2012, there were no capacity assignments of Eastern Zone transportation for purposes of mitigating supply position (UDC). Union purchased all of the planned supply for the Eastern Zone, and the demand charge for the related transportation capacity was charged to ratepayers.

The capacity releases for the Eastern Zone reflected in Exhibit J.C4.7.10 were initiated by S&T. S&T made alternative arrangements to deliver the purchased supply to Union's market and all proceeds from the capacity releases and costs from the alternative arrangements are captured in exchange revenue.

Demand charges and net proceeds by month are in the table below.

		Demand Charge ($/GJ/mo)	$000's Demand Charges	$000's Net Proceeds
Nov-09		$ 33.37571	$ 2,670	$ 749
Dec-09		$ 33.37571	$ 2,670	$ 807
Jan-10		$ 47.77094	$ 3,822	$ 582
Feb-10		$ 47.77094	$ 3,822	$ 452
Mar-10		$ 47.77094	$ 3,822	$ 461
Apr-10		$ 47.77094	$ 4,435	$ 800
May-10		$ 47.77094	$ 4,435	$ 826
Jun-10		$ 47.77094	$ 4,435	$ 804
Jul-10		$ 47.77094	$ 4,435	$ 827
Aug-10		$ 47.77094	$ 4,435	$ 822
Sep-10		$ 47.77094	$ 4,435	$ 806
Oct-10		$ 47.77094	$ 4,435	$ 827
Nov-10		$ 47.77094	$ 2,866	$ 555
Dec-10		$ 47.77094	$ 2,866	$ 377
Jan-11		$ 47.77094	$ 2,866	$ 551
Feb-11		$ 47.77094	$ 2,866	$ 345
Mar-11		$ 47.77094	$ 2,866	$ 428
Apr-11		$ 47.77094	$ 2,866	$ 599
May-11		$ 63.84842	$ 6,180	$ 1,011
Jun-11		$ 63.84842	$ 7,023	$ 1,253
Jul-11		$ 63.84842	$ 7,023	$ 1,295
Aug-11		$ 63.84842	$ 7,023	$ 1,301
Sep-11		$ 63.84842	$ 7,023	$ 1,260
Oct-11		$ 63.84842	$ 7,023	$ 1,290
Nov-11		$ 63.84842	$ 4,776	$ 1,811
Dec-11		$ 63.84842	$ 3,831	$ 1,092
Jan-12		$ 63.84842	$ 3,831	$ 1,171
Feb-12		$ 63.84842	$ 3,831	$ 1,346
Mar-12		$ 63.84842	$ 5,108	$ 2,071

UNION GAS LIMITED

Undertaking of Mr. Brett
To Ms. Evers

Please provide how much spent for 2009 to 2012 for interruptible transportation using FT RAM credits.

All Interruptible Transportation (IT) that was used by the utility for operational purposes was to offset Load Balance Agreement (LBA) fees. The level of this IT spending that was funded using RAM credits for 2007-2012 (YTD March) can be found at Exhibit J3.2.

Please see Exhibit J.C-4-7-9, Attachment 1 for the total RAM credits generated from 2007 to 2011. Union has generated $9.7 million in RAM credits from January 1, 2012 to March 31, 2012.

UNION GAS LIMITED

Undertaking of Mr. Buonaguro
To Ms. Evers

Please quantify capacity assignments done on a monthly basis, a seasonal basis, and an annual basis.

Please see the Attachment.

Filed: 2012-07-18
EB-2011-0210
Exhibit J3.6
Attachment

Capacity Assignments*
GJ/d

Line No.	Receipt Point	Delivery Area		Winter 07/08					Summer '08						
				Nov '07	Dec '07	Jan '08	Feb '08	Mar '08	Apr '08	May '08	June '08	Jul '08	Aug '08	Sept '08	Oct '08
1	Empress	Eastern Zone	TOTAL	-	35,000	35,000	35,000	35,000	65,753	80,753	60,753	60,753	60,753	65,753	65,753
2			Monthly		35,000	35,000	35,000	35,000	13,000	28,000	8,000	8,000	8,000	13,000	13,000
3			Seasonal						52,753	52,753	52,753	52,753	52,753	52,753	52,753
4	Empress	Northern Zone	TOTAL	-	-	-	-	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000
5			Seasonal						5,000	5,000	5,000	5,000	5,000	5,000	5,000
6	Empress	Western Zone	TOTAL	-	-	-	-	-	-	-	-	12,000	12,000	8,000	5,000
7			Monthly									12,000	12,000	8,000	5,000

Line No.	Receipt Point	Delivery Area		Winter 08/09					Summer '09						
				Nov '08	Dec '08	Jan '09	Feb '09	Mar '09	Apr '09	May '09	June '09	Jul '09	Aug '09	Sept '09	Oct '09
8	Empress	Eastern Zone	TOTAL	28,000	48,000	48,000	48,000	48,000	77,556	97,556	97,556	108,556	108,556	108,556	97,556
9			Monthly		20,000	20,000	20,000	20,000	9,556	29,556	29,556	40,556	40,556	40,556	29,556
10			Seasonal						40,000	40,000	40,000	40,000	40,000	40,000	40,000
11			Annual	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000
12	Empress	Northern Zone	TOTAL	8,000	8,000	8,000	8,000	8,000	-	-	-	-	40,000	-	30,000
13			UDC										40,000		30,000
14			Seasonal	8,000	8,000	8,000	8,000	8,000							
15	Empress	Western Zone	TOTAL	-	-	-	-	-	-	-	-	-	-	-	20,000
16			UDC	-	-	-	-	-	-	-	-	-	-	-	20,000

Line No.	Receipt Point	Delivery Area		Winter 09/10					Summer '10						
				Nov '09	Dec '09	Jan '10	Feb '10	Mar '10	Apr '10	May '10	June '10	Jul '10	Aug '10	Sept '10	Oct '10
17	Empress	Eastern Zone	TOTAL	80,000	80,000	80,000	80,000	80,000	92,832	92,832	92,832	92,832	92,832	92,832	92,832
18			Seasonal	20,000	20,000	20,000	20,000	20,000	32,832	32,832	32,832	32,832	32,832	32,832	32,832
19			Annual	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
20	Empress	Northern Zone	TOTAL	20,062	20,062	-	-	-	-	30,000	40,000	40,000	40,000	40,000	20,000
21			UDC							30,000	40,000	40,000	40,000	40,000	20,000
22			Monthly	20,062	20,062										
23	Empress	Western Zone		-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Receipt Point	Delivery Area		Winter 10/11					Summer 11						
				Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11	May '11	June '11	July '11	Aug '11	Sept '11	Oct '11
24	Empress	Eastern Zone	TOTAL	60,000	60,000	60,000	60,000	60,000	60,000	96,796	110,000	110,000	110,000	110,000	110,000
25			Monthly							36,796	50,000	50,000	50,000	50,000	50,000
26			Annual	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
27	Empress	Northern Zone	TOTAL	-	-	-	-	-	40,000	40,000	49,000	49,000	49,000	49,000	49,000
			UDC							5,000					
28			Monthly						40,000	35,000	49,000	49,000	49,000	49,000	49,000
29	Empress	Western Zone	TOTAL	-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Receipt Point	Delivery Area		Winter 11/12					Summer 12	
				Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12
30	Empress	Eastern Zone	TOTAL	74,796	60,000	60,000	60,000	80,000	117,796	117,796
31			Monthly	74,796	60,000	60,000	60,000	80,000		
32			Seasonal						117,796	117,796
33	Empress	Northern Zone**	TOTAL	-	-	-	-	-	42,000	50,500
			UDC							2,000
34			Monthly							8,500
35			Seasonal						40,000	40,000
36	Empress	Western Zone**	TOTAL	-	-	-	-	33,340	30,000	33,430
37			UDC	-	-	-	-	33,340	30,000	33,430

* not including capacity assignments to Union's franchise customers
** updated

UNION GAS LIMITED

Undertaking of Mr. Thompson
To Ms. Evers

For 2007 to 2012, please provide flow through to ratepayers of capacity-release-type transactions, LBA fees transactions, capacity assignment cases not already filed, and other RAM optimization transactions.

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a) As described at Exhibit J.C.4-7-10, page 2, paragraph 1, where Union releases unutilized pipe to the market due to excess supply to the plan, any value received for the pipe is credited to ratepayers to offset UDC costs. The chart below provides the total UDC costs incurred, the released value of the pipe, and the net UDC costs that were charged to ratepayers.

$000's	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 (YTD May)**
UDC Costs Incurred	$5,202	$12	$3,273	$9,645	$834	$3,814
Released Value	($4,016)	$0	($1,338)	($7,257)	($309)	($2,847)
Net UDC Costs	$1,186	$12	$1,935	$2,387	$525	$967

Releasing the pipe to the market to obtain value is Union's preferred approach. However, as described at Transcript, Day 3, page 10, lines 21-25, in some instances, the pipe may be unutilized for a term that is less than a month or there may not be market value for the pipe.

If the empty pipe is TCPL capacity, when Union leaves the pipe empty, RAM credits are generated and Union's S&T department will act on market opportunities to utilize RAM credits. From 2007 to 2012, there was one month only when RAM credits of $240,000 were generated resulting in revenues of $60,000 which flowed through UDC to ratepayers.

b) As described at Exhibit J.C.4-7-10, page 2, paragraph 2, the benefit to ratepayers for RAM credits used to fund a base minimal level of interruptible transportation to manage LBA fees is provided at Exhibit J.3.2.

c) As described at Exhibit J.C.4-7-10, page 2, paragraphs 3 and 4, S&T revenue generated for optimizing the transportation portfolio by assigning long-haul firm transportation and utilizing the RAM program is provided at Exhibit J.C-4-7-9, Attachment 2.

UNION GAS LIMITED

Undertaking of Mr. Thompson
To Ms. Hodgson

Please provide breakdown of assignments in J.C-4-7-10, Attachment 1, page 10 of the compendium, between the EDA, CDA and the NCDA.

Please see the Attachment.

Eastern Zone Capacity Assignments*
GJ/d

Line No.	Receipt Point	Delivery Area		Winter 07/08					Summer '08						
				Nov '07	Dec '07	Jan '08	Feb '08	Mar '08	Apr '08	May '08	June '08	Jul '08	Aug '08	Sept '08	Oct '08
1	Empress	Eastern Zone	TOTAL	-	35,000	35,000	35,000	35,000	65,753	80,753	60,753	60,753	60,753	65,753	65,753
2			EDA	-	-	-	-	-	13,000	20,000	-	-	-	5,000	5,000
3			CDA	-	35,000	35,000	35,000	35,000	52,753	52,753	52,753	52,753	52,753	52,753	52,753
4			NCDA	-	-	-	-	-	-	8,000	8,000	8,000	8,000	8,000	8,000

Line No.	Receipt Point	Delivery Area		Winter 08/09					Summer '09						
				Nov '08	Dec '08	Jan '09	Feb '09	Mar '09	Apr '09	May '09	June '09	Jul '09	Aug '09	Sept '09	Oct '09
5	Empress	Eastern Zone	TOTAL	28,000	48,000	48,000	48,000	48,000	77,556	97,556	97,556	108,556	108,556	108,556	97,556
6			EDA	-	-	-	-	-	9,556	29,556	29,556	40,556	40,556	40,556	29,556
7			CDA	20,000	40,000	40,000	40,000	40,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
8			NCDA	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000

Line No.	Receipt Point	Delivery Area		Winter 09/10					Summer '10						
				Nov '09	Dec '09	Jan '10	Feb '10	Mar '10	Apr '10	May '10	June '10	Jul '10	Aug '10	Sept '10	Oct '10
9	Empress	Eastern Zone	TOTAL	80,000	80,000	80,000	80,000	80,000	92,832	92,832	92,832	92,832	92,832	92,832	92,832
10			EDA	20,000	20,000	20,000	20,000	20,000	32,832	32,832	32,832	32,832	32,832	32,832	32,832
11			CDA	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
12			NCDA	-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Receipt Point	Delivery Area		Winter 10/11					Summer 11						
				Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11	May '11	June '11	July '11	Aug '11	Sept '11	Oct '11
13	Empress	Eastern Zone	TOTAL	60,000	60,000	60,000	60,000	60,000	60,000	96,796	110,000	110,000	110,000	110,000	110,000
14			EDA	20,000	20,000	20,000	20,000	20,000	20,000	20,000	33,000	33,000	33,000	33,000	33,000
15			CDA	40,000	40,000	40,000	40,000	40,000	40,000	68,000	68,204	68,204	68,204	68,204	68,204
16			NCDA	-	-	-	-	-	-	8,796	8,796	8,796	8,796	8,796	8,796

Line No.	Receipt Point	Delivery Area		Winter 11/12					Summer 12	
				Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12
17	Empress	Eastern Zone	TOTAL	74,796	60,000	60,000	60,000	80,000	117,796	117,796
18			EDA	-	-	-	-	20,000	40,000	40,000
19			CDA	66,000	60,000	58,000	58,000	58,000	69,000	69,000
20			NCDA	8,796	-	2,000	2,000	2,000	8,796	8,796

* not including capacity assignments to Union's franchise customers

UNION GAS LIMITED

Undertaking of Ms. Elliott
To Mr. Aiken

Please update chart at J.DV-2-2-1, Attachment 1, to exclude impact of FT RAM.

Please see the Attachment.

Union Gas Limited
Summary of Transportation and Exchange Services
For the Years Ending December 31

Line No.	Particulars ($000's)		Actual 2010 (a)	Actual 2011 (b)	Forecast 2012 (c)	Forecast 2013 (d)
	Transportation and Exchange Services Previously Account #179-69					
1	Net Revenue (Excluding FT-RAM Revenue)	(1)	21,400	22,245	17,986	20,186
2	Less: Costs (Excluding Costs Applicable to FT-RAM Revenue)		11,592	7,792	7,671	6,448
3	Gross Margin		9,808	14,453	10,315	13,738
4	Less: Board Approved Margin in Rates		6,883	6,883	6,883	13,738
5	Hypothetical Deferred Margin	(2)	2,925	7,570	3,432	-

Note:
(1) Revenue less direct costs to provide exchange services.
(2) Margin would have been subject to earnings sharing.

UNION GAS LIMITED

Undertaking of Ms. Elliott
To Mr. Aiken

Please add to Attachment 1 the same type of information that would have been in accounts 179-73 and 179-74 for the 2010 through 2013 period.

Please see the Attachment.

Union Gas Limited
Summary of Transmission-Related Transactional Services
For the Years Ending December 31
($000's)

Line No.	Particulars		Actual 2010 (a)	Actual 2011 (b)	Forecast 2012 (c)	Forecast 2013 (d)
	Transportation and Exchange Services Previously Account #179-69					
1	Net Revenue	(1)	33,100	44,245	32,186	20,186
2	Less: Costs		12,557	9,965	9,040	6,448
3	Gross Margin		20,543	34,280	23,146	13,738
4	Less: Board Approved Margin in Rates		6,883	6,883	6,883	13,738
5	Hypothetical Deferred Margin	(2)	13,660	27,397	16,263	-
	Other S&T Services Previously Account #179-73					
6	Revenue		1,072	1,092	1,067	1,067
7	Less: Costs		75	76	75	75
8	Gross Margin		997	1,016	992	992
9	Less: Board Approved Margin in Rates		853	853	853	992
10	Hypothetical Deferred Margin	(2)	144	163	139	-
	Other Direct Purchase Services Deferral Account Previously Account #179-74					
11	Revenue		1,928	1,063	2,000	2,000
12	Less: Costs		1,311	782	1,360	1,360
13	Gross Margin	(3)	617	281	640	640
14	Less: Board Approved Margin in Rates		2,000	2,000	2,000	640
15	Hypothetical Deferred Margin	(2)	(1,383)	(1,719)	(1,360)	-

Notes:
(1) Revenue less direct costs to provide exchange services.
(2) Margin would have been subject to earnings sharing.
(3) Reduction in Other Direct Purchase Services due to return to system.

UNION GAS LIMITED

Undertaking of Ms. Cameron
To Mr. Quinn

Please advise where Union directed annualized assignment of gas for each month between November 2009 and March 2012; to multiply the demand charge to the Eastern Zone versus where the gas was directed, and to advise the difference in cost between those places for any of those months; and if there is a difference, if any of the Eastern Zone gas has been directed to another zone, to provide the difference in demand charge between the respective zones, and to multiply that by the number of units delivered for that month.

The attachment provides the contracted delivery areas applicable to annual capacity assignments of Empress to EDA transportation.

In all months, Union purchased supplies at Empress on behalf of sales services customers. Union also met the custom requirements in each delivery areas as planned.

With respect to capacity assignments, Union arranged for delivery of the gas supplies to another location in its franchise having regard to customer need and gas supply planning. For example, in November 2009, the EDA capacity was used to serve Union's WDA.

The net value of this transaction represents the difference in demand charges between the Empress to EDA toll and the toll to the delivery point (for November, 2009 the delivery point was Empress to WDA), as shown in Column M. The actual value Union received for this transaction, net of incremental costs, is shown in Column N. The transactions using Empress to EDA capacity are a subset of the optimization of Eastern Zone capacity as described in J7.6. The net proceeds represent regulated revenue and were dependent upon the RAM program.

Even with the change in the delivery point, Union met all the demands in the EDA. Using November 2009 as an example, the deliveries of 20,000 GJ/d to the WDA reduced the need for STS withdrawals from Dawn to Union WDA. This resulted in incremental gas supplies of 20,000 GJ/d at Dawn. These additional gas supplies at Dawn were delivered to the EDA using STS withdrawals from Dawn to Union. This series of transactions facilitated the transfer of gas supplies from WDA to Dawn to EDA and met the consumption requirements in the EDA.

Filed: 2012-08-01
EB-2011-0210
Exhibit J6.5
Attachment

Empress to EDA Annual Capacity Assignments

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Redelivery Point (GJ/d)				Demand Charge ($/GJ/mo)				Demand Charge ($000's)				Difference in Demand Charges ($000's)	Net Proceeds* ($000's)
	WDA	NDA	SWDA (Dawn)	TOTAL	WDA	NDA	SWDA (Dawn)	EZ (EDA)	WDA	NDA	SWDA (Dawn)	EZ (EDA)		
Nov-09	20,000			20,000	$ 16.70445	$ 25.63374	$ 28.08670	$ 33.37571	$ 334	$ -	$ -	$ 668	$333	$76
Dec-09	20,000			20,000	$ 16.70445	$ 25.63374	$ 28.08670	$ 33.37571	$ 334	$ -	$ -	$ 668	$333	$69
Jan-10	20,000			20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 476	$ -	$ -	$ 955	$480	($87)
Feb-10	20,000			20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 476	$ -	$ -	$ 955	$480	($28)
Mar-10	20,000			20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 476	$ -	$ -	$ 955	$480	($32)
Apr-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$234
May-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$241
Jun-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$238
Jul-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$242
Aug-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$238
Sep-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$240
Oct-10			20,000	20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ -	$ -	$ 796	$ 955	$160	$242
									Subtotal: Impact of Annual Capacity Assignment ($000's):				$3,223	$1,674
Nov-10	10,000	10,000		20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 238	$ 367	$ -	$ 955	$350	$168
Dec-10	10,000	10,000		20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 238	$ 367	$ -	$ 955	$350	$120
Jan-11	10,000	10,000		20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 238	$ 367	$ -	$ 955	$350	$176
Feb-11	10,000	10,000		20,000	$ 23.79107	$ 36.72520	$ 39.79320	$ 47.77094	$ 238	$ 367	$ -	$ 955	$350	$115
Mar-11	10,000	10,000		20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ 323	$ 497	$ -	$ 1,277	$458	$197
Apr-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$191
May-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$204
Jun-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$196
Jul-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$203
Aug-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$209
Sep-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$203
Oct-11			20,000	20,000	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ 1,078	$ 1,277	$199	$197
									Subtotal: Impact of Annual Capacity Assignment ($000's):				$3,253	$2,179
**Nov-11				-	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ -	$ -	$0	$0
Dec-11				-	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ -	$ -	$0	$0
Jan-12				-	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ -	$ -	$0	$0
Feb-12				-	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ -	$ -	$0	$0
Mar-12				-	$ 32.29092	$ 49.65158	$ 53.88793	$ 63.84842	$ -	$ -	$ -	$ -	$0	$0

* Net Proceeds represents net revenue from the capacity release/exchange transaction, less incremental costs incurred as a result of the transaction.
** No annual or seasonal assignments of Empress-EDA capacity were completed for the winter of 2011/2012.

UNION GAS LIMITED

Undertaking of Mr. Gardiner
To Mr. Aiken

Please produce calculations showing how DOS MN Revenue generation was determined and ratepayers were kept whole in these transactions, and how Dawn reference price was established.

For the winter of 2008-2009, Union used the DOS-MN service to replace planned purchases at Dawn with gas supply purchases at Empress. The reference price at Dawn was established using the market price at which Union would have purchased the gas at Dawn for December, 2008 through to March, 2009. This would have been the Dawn price on the same day the Empress purchase for the same time period was made.

The DOS-MN service was not effective until November 15, 2008. By this time, Union had already completed the planned purchases at Dawn for November supplies.

The DOS-MN service was an example of where Union was able to optimize the overall Gas Supply plan by buying an exchange (in this case, Empress to Dawn).

The following table illustrates how the DOS-MN impact was calculated for December, 2008 through to March, 2009:

	$/GJ	**$Millions**
Purchase at Dawn	$8.128	$14.2
Purchase at Empress Empress – Dawn Fuel Empress – Dawn Commodity Landed Cost at Dawn	$6.986 $0.260 $0.086 $7.332	 $12.8
Net Benefit	$0.796	$1.40

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Quinn

With reference to Exhibit K7.1, please provide breakdown of where gas was actually delivered by assignees and how the amount of short-term exchange revenue was generated.

Please see the Attachment.

The attachment outlines the delivery locations related to assignments of Empress to Parkway (CDA) capacity for 2011. For all capacity assignments, Union continued to purchase supplies at Empress. As part of the transaction, Union enters into an exchange with the same counterparty to redeliver the gas to an alternate location in Union's franchise area. The net revenue reflects the value of the entire transaction, which is comprised of the capacity release less the cost of the alternate transportation arrangement. A detailed description and example of the net revenue generated from this type of transaction can be found at J7.6. The revenue attributable to the Empress to Parkway capacity releases is included in the attachment.

The balance of the revenue of $11.3 million earned from Empress-Parkway optimization was due to exchanges from RAM optimization. These types of exchanges were described at hearing transcript Volume 6, Page 130 Line 21 to Page 131 Line 26. In this case, Union leaves the Empress to Parkway Firm Transportation (FT) pipe empty, and then uses interruptible transport to move Union's gas supply from Empress to a delivery location. Union manages the incremental cost of the interruptible transportation through the use of RAM credits generated from the empty Empress to Parkway pipe. Any remaining RAM credits are used to facilitate incremental exchange activity.

The exchange transactions which are supported through RAM optimization are reviewed on a daily, weekly and monthly basis for weather, Union market requirements, and market opportunities to optimize RAM credits. In addition, since Union has retained the capacity, in the event of higher risk days where interruptible transportation may be cut, supplies can be transported on the firm transportation contract to the appropriate market area. For example, on a cold day in January, Union would forgo the generation of RAM credits and flow Empress supplies on a firm basis using the Empress to Parkway transportation capacity.

All net proceeds, regardless if earned via a capacity assignment/exchange transaction or an exchange from RAM optimization, are dependent upon Union's proactive use of the RAM program and are reflected as regulated exchange revenue.

Empress - Parkway (CDA) Capacity Assignments for 2011

GJ/d	Redelivery Point WDA	NDA	SWDA (Dawn)	TOTAL	Net Proceeds* ($000's)	
Jan-11	20,000	20,000		40,000	$	450
Feb-11	20,000	20,000		40,000	$	290
Mar-11	20,000	20,000		40,000	$	306
Apr-11			40,000	40,000	$	408
May-11			68,000	68,000	$	716
Jun-11			68,204	68,204	$	761
Jul-11			68,204	68,204	$	787
Aug-11			68,204	68,204	$	787
Sep-11			68,204	68,204	$	761
Oct-11			68,204	68,204	$	787
Nov-11			66,000	66,000	$	1,722
Dec-11	30,000	30,000		60,000	$	1,241

* Net proceeds represent net revenue from capacity release/exchange transaction, less incremental costs incurred as a result of the transaction.

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Brett

Please provide derivation of net proceeds, how they are generated and reported.

The demand charge outlined in J3.3 represents the TCPL demand charge for the Eastern Zone (EZ). Since ratepayers require this supply, it is purchased at Empress and delivered to Union's market areas, and accordingly, the TCPL demand charge continues to be paid by ratepayers. The net proceeds described in Exhibit J3.3 are the net proceeds generated by optimizing this capacity. The net proceeds are comprised of two components.

1) The value received from third parties for the capacity assignment, net of the cost of the exchange to redeliver Union's supply to its markets (eg. Dawn in the summer; WDA or NDA in the winter). The net value of this transaction is captured in the exchange agreement with the third party. An example of this exchange agreement can be found at J.C-4-7-10 Attachment 3.
2) The incremental cost incurred as a result of moving gas to different market areas, if applicable. For example, as a result of a release of Empress to EDA capacity, Union may incur incremental STS withdrawal charges to serve the EDA market.

Example: November, 2009

In November, 2009, Union assigned 80,000 GJ's of Eastern Zone (EDA & CDA) capacity.

Union continued to buy commodity to fill in the pipe at Empress and to flow this supply to Union's market. Ratepayers were charged the Eastern Zone toll of $33.37571/GJ/month, or approximately $1.10/GJ/day, as if the gas landed in the Eastern Zone, consistent with the gas supply plan. This equates to $2.67 million for the month for the transport. This is the same amount ratepayers would have paid regardless if the capacity assignment was transacted or not. This payment is fixed and is not part of the Net Proceeds calculation found in Exhibit J3.3.

Exchange Revenue Impact:
S&T assigned Eastern Zone capacity to third parties and transacted an exchange with these same parties to redeliver the capacity to the NDA (40,000 GJ/d) and WDA (40,000 GJ/d). For this combined transaction, the third parties paid Union $0.31/GJ for quantities redelivered to the WDA and $0.545 for quantities redelivered to the NDA. Since the net value of the capacity assignment and the exchange were combined into one transaction, Union is unable to determine the exact value of each independent component. However, a comparison can be made between this net value and the difference in the tolls between the Eastern Zone and where the gas was redelivered, as shown in the table below:

Example: November, 2009 $/GJ/d	NDA Redelivery 40,000 GJ/d	WDA Redelivery 40,000 GJ/d
TCPL Eastern Zone transportation demand charge	$1.10	$1.10
Redelivery area transportation demand charge	$0.84	$0.55
Toll Difference between market areas	$0.26	$0.55
Third Party Assignment/Exchange net value	$0.31	$0.545
Exchange Revenue ($'s)	$372,000 (1)	$654,000
	Total Exchange Revenue:	$1,026,000

In this example, the above table illustrates the exchange revenue of $0.31/GJ (NDA redelivery) and $0.545/GJ (WDA redelivery) is very close to the toll differences between market areas. The market would have considered this toll difference when valuing the transaction.

For the month of November 2009, the total exchange revenue from the NDA and WDA redeliveries is $1,026,000. Deducted from this are incremental costs incurred as a result of the transaction (e.g. STS withdrawal costs) of $277,000 to derive the net proceeds of $749,000. These net proceeds are captured as the Capacity Assignment component of Net Revenue attributable to RAM benefit as reported at Exhibit J.C-4-7-9.

Alternatively, a similar transaction could have been completed had Union retained the capacity. S&T could have left the Empress-Eastern Zone capacity empty, earning RAM credits of $1.10/GJ (2). Using the NDA as an example, S&T could have flowed the supply purchased at Empress to the NDA, using RAM credits of $0.84/GJ (2). The 'excess' RAM credits of $0.26/GJ (2) could then have been used to fund other S&T exchanges. The proceeds from these exchanges (net of any incremental costs) would be captured as the RAM Optimization component of Net Revenue attributable to RAM benefit as reported at Exhibit J.C-4-7-9.

Regardless of which option would have been chosen, the operational result (gas purchased at Empress and delivered to Union's delivery areas) and the ability to earn an economic benefit would be identical. Both options are a direct result of S&T taking action to optimize the gas supply plan due to the existence of the RAM program. The resulting revenues are treated as regulated Transportation and Exchange revenue.

(1) Exchange revenue example calculation: 40,000 GJ/d * 30 days * $0.31/GJ = $372,000
(2) The daily demand charge of $1.10/GJ for Eastern Zone and $.84/GJ for NDA was used as RAM calculation for ease of comparison to capacity release example.

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Thompson

Please provide how much of figure at Attachment 2 of J.C-4-7-9, line 3, page 6 involves RAM optimization transaction.

Line 3, Page 6 is entirely RAM Optimization transactions. These transactions are described in more detail at J7.3.

The revenues on Line 3, Page 6 are entirely driven by the RAM.

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Thompson

Please provide DOS MN portion of revenue.

DOS-MN revenue included in “Other” is as follows:

2009: $1.1 million

2010: $0.2 million

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Thompson

Please provide actual numbers for exchange revenues for the years 2004, 2005, and related to deferral account 179-73, 179-74, and 179-89 for 2004, 2005 and 2006.

Union Gas Limited
Deferral Account Balances
2004-2006

		Balance ($000's)			
		Transportation & Exchange Services	Other S&T Services	Other Direct Purchase Services	Heating Valve
Year	Docket	179-69	179-73	179-74	179-89
2004	EB-2005-0211	(7,603)	(413)	(887)	(2,175)
2005	EB-2006-0057	(3,404)	(427)	(749)	(2,709)
2006	EB-2007-0598	(4,004)	(390)	(373)	(2,405)

EB-2011-0210

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act*, 1998, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2013.

UNION GAS LIMITED

("Union")

DIRECT EXAMINATION COMPENDIUM

EX-FRANCHISE REVENUE

UNION GAS LIMITED

Answer to Interrogatory
from Northern Cross Energy Limited

Reference: Exhibit C1, Tab 3, page 8

Question

a) Please explain the nature and mechanics of an exchange. How is an exchange different from a swap?
b) With respect to the Ashfield storage pool, would Union enter into an exchange agreement for gas received by Union at the Ashfield storage pool connection to the Union system in exchange for gas delivered to Northern Cross Energy at Dawn? If not, why not?
c) What are the rates charged by Union for exchange services?

Answer

a) The reference given refers to an exchange. A reference to swaps is not found in this evidence. Typically an exchange refers to a physical transaction and a swap refers to a financial transaction as described below.

An exchange is a contractual agreement where party 'A' agrees to give physical gas to Party 'B' at one location and Party B agrees to give physical gas to Party 'A' at another location. Either Party 'A' or Party 'B' may agree to pay the other party for this service. An exchange can only happen between a point on Union's system and a point off of Union's system. The exchange must also happen on the same day at the same time.

A swap is a financial contract where Party 'A' agrees to 'swap' a floating price obligation for a fixed price obligation with Party 'B'. Party 'A' is swapping price uncertainty (the obligation under a floating priced contract) for price certainty (the obligation to pay a fixed price.) Physically gas does not flow between the two parties.

b) No, see part (a).

c) Exchanges are at negotiated rates.

Witness: David Dent / Steve Poredos
Question: July 24, 2003
Answer: August 7, 2003
Docket: RP-2003-0063

Long Term Peak Storage Premium

Particulars ($000's)	Actual 2002	Forecast 2003	Forecast 2004
Long Term Peak Storage			
Long Term Market Revenue	$18,660	$23,173	$33,531
Long Term Cost Based Revenue	13,491	13,022	15,979
Long Term Market Premium	$ 5,169	$ 9,806	$17,552

3. TRANSACTIONAL SERVICES FORECAST

Union offers a range of short-term transactional services including transportation, short term peak storage, balancing services, exchanges, Hub2Hub™, exchanges, name changes & redirections, and Ontario Production services.

FORECAST METHODOLOGY

Union forecasts the assets required to meet its in-franchise demands through the gas supply planning process. The Gas Supply Plan for 2004 is discussed at Exhibit D1, Tab 1. Ex-franchise firm requirements are then added to the in-franchise requirements and any remaining assets are used to support the sale of transactional services.

The Gas Supply Plan is based on the corporate forecast of general service and contract customer demand forecasts described at Exhibit C1, Tabs 1 and 2. The Gas Supply Plan allocates the required assets to provide annual and peak day capacity for in-franchise demands. With a balanced gas supply portfolio, which meets the forecast in-franchise and ex-franchise firm demands, there will be few, if any, firm assets available to support transactional services on a future planned basis. Thus, firm assets made available historically on an actual basis are not guaranteed to be available on a future planned basis with a balanced portfolio. Incremental firm assets tend to be available as a result of both weather and market variances. Under these circumstances S&T transactional revenues may be higher or lower than forecast.

Over the last few years, the level of S&T transactional revenue has been impacted by warmer weather and favourable market pricing conditions. In addition, certain TCPL services (e.g. FT make-up, AOS) that were approved and in place for 2002 only provided transactional revenue opportunities in 2002 and are no longer available. For 2003 and 2004, the Gas Supply Plan reflects a balanced or "normal' asset utilization forecast.

The actual assets available for S&T transactional services will change on an ongoing basis dependant upon actual weather and market factors including the amount of direct purchase switching, T-Service switching, in-franchise growth, changes in customer use, market prices, and customer demand for S&T services. Union's forecast for S&T transactional services for 2003 and 2004 reflects normal market and operating conditions.

The S&T transactional services market has declined dramatically over the last few years. The following summarizes some of the key market factors that will reduce the opportunities to generate transactional service revenues at the same levels as have been generated over the last few years:

- The fallout from the Enron failure has significantly reduced the number of counter parties who contract for these services, and many of the traditional counter parties no longer exist.
- The remaining counter parties have reduced abilities to transact due to more onerous credit requirements being imposed by all market participants. This offsets both the level of the opportunities for transactional services and the cost. As an example, Union has seen a reduction of nearly 60% in title transfer activity at the Dawn hub from the last quarter of 2001 to the first quarter of 2003.
- Reduced summer/winter price differentials for natural gas have reduced year to year peak storage values from the historically high level in 2002 of approximately \$1.50/GJ to \$0.45/GJ to \$0.75/GJ for 2003. Storage values change constantly during the year and are in general based on the summer/winter price differentials on the forward price curve.
- Forecast high commodity values are also expected to reduce natural gas demands in industrial and power generation markets in Canada and the US, thereby reducing ex-franchise transactional opportunities that have been available over the past few years.

Given the above impacts, Union prepared its transactional services forecast by considering logical "blocks" of services. Services have been grouped together in "blocks" where they have similar characteristics, are complementary, and/or are substitutes for one another. The following sections review the forecast for each of these "blocks" of services.

4

RP-2003-0063
EB-2003-0087
EB-2003-0097

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, storage, and transmission of gas for the period commencing January 1, 2004.

BEFORE: Paul B. Sommerville
Presiding Member

Art Birchenough
Member

DECISION WITH REASONS

March 18, 2004

5

Union stated that long term market revenue from the long term peak storage market would increase from the 2002 actual level of $18.7 million to forecast levels of $21.8 million in 2003 and $34.5 million in 2004 respectively. The long term market premium represents $5.2 million of this amount in 2002 and was forecast to represent $8.6 million and $20.6 million, respectively, for 2003 and 2004. Union attributed the increases in revenues and premiums to its expectation "that existing M12 contracts will renew under C1 market based rates as outlined above."

Transactional & Other Services Forecast

There are three components of this forecast. These are transportation and exchange revenues, balancing service block revenues, and other S&T services revenues. Short term services included in the forecast are transportation, peak storage, balancing services, exchanges, Hub2Hub™, name changes and redirections, and Ontario Production services.

Transportation and Exchange Revenues

Union's S&T transportation and exchange revenues for actual 2002 and updated forecast 2003 and 2004 are $12.5 million, $5.8 million and $2.5 million respectively. The corresponding deferred margins are $5.0 million, -$1.2 million and -$0.3 million respectively. The revenue minus costs yields the gross margin, while the gross margin minus the approved forecast yields the deferred margin.

Union stated that with a balanced gas supply portfolio that meets forecast in-franchise and ex-franchise demands, few firm assets are available on a planned basis to support these services. Asset availability is mainly influenced by weather and market variances. The latter variances include the amount of direct purchase switching, T-service switching, in-franchise growth, changes in customer use, market prices, and S&T demand. While actual results depend on actual weather conditions experienced, Union's forecast assumes normal conditions.

6

Union cited the following reasons for the decline in the S&T market:

1. a reduction in the number of potential counterparties following the Enron failure;

2. the imposition of more onerous credit requirements on remaining counterparties, reducing the number of transactions;

3. a decrease in peak storage value from $1.50/GJ in 2002, to between $0.45/GJ and $0.75/GJ in 2003, due to reduced summer/winter price differentials for gas; and

4. the expectation that high forecast commodity prices will reduce transactional services demand in the industrial and power generation markets.

Balancing Service Block Revenues

Union's balancing service revenues and deferred margins decreased from $37.1 million in 2002 to a forecasted 2003 and 2004 of $13.4 and $7.5 million respectively. The corresponding deferred margins were $12.3 million in 2002, decreasing to forecast 2003 and 2004 levels of $3.7 million and $1.5 million respectively.

Union attributed the decreased margins on this block for 2003 and 2004 to a number of events in 2002, which are unlikely recur in 2004 including:

1. historically high value of storage in 2002;

2. incremental gas loan revenues due to favourable market conditions in 2002;

3. comparatively lower seasonal loan activity in 2003 due to prior warmer than normal weather; and

7

4. incremental balancing activity in 2002 due to weather variations.

Other S&T Service Revenues

Union's other S&T Services revenue for actual 2002 and updated forecast 2003 and 2004 are $3.8 million, -$0.3 million and $0.9 million respectively. The corresponding deferred margins are $0.3 million, -$2.3 million and -$1.0 million respectively.

Union, in explaining the decline in these revenues, noted that it managed jointly with Encana a Hub2Hub™ service, whereby a customer delivers gas at the Alberta Energy Company price point ("AECO") hub and simultaneously receives gas at Dawn, so the service is a substitute for transportation. Union realized $3.1 million of revenue in 2002, and is forecasting $0.6 million in revenue for both 2003 and 2004. In response to an interrogatory, Union indicated that it agreed to wind down the service over 2003 and 2004 at Encana's request.

Position of the Parties

Intervenors expressed concerns about the appropriateness of Union's approach to embedding forecast S&T margins and long-term storage premiums into rates, including variance account treatment.

Numerous intervenors took the position that Union's proposed sharing ratios should be adjusted to provide a higher proportion for the ratepayer and less for the shareholder, including Kitchener, FONOM, LPMA, CAC, IGUA, CME, Schools and VECC.

Union's Position

Union asked the Board to accept its 2004 forecast of incremental S&T revenues of $20.8 million. Union noted that the Board has approved a 75:25 sharing for S&T transactional revenues since EBRO 499 and the same sharing proportion for the total of S&T revenues and the long-term storage premium since RP-1999-0017.

8

Union took the position that to embed a greater fraction of the forecast margins into rates would expose Union to an inappropriate level of risk, and not reflect the Board's statements regarding incentive levels. Union submitted that if any percentage of the 2004 deferred margins were put into rates, the S&T and market premium deferral accounts should record positive or negative variations shared 75:25 in favour of the ratepayer.

Union proposed to embed the 1999 forecast of S&T margins in rates with any additional margin shared 75:25. Should the Board decide to embed more of the 2004 forecasted margins in rates, Union requested that 75% of the forecast be put in rates with a symmetric deferral treatment, shared 75:25 in favour of the ratepayer, of any variances.

Board Findings

The Board continues to support the methodology approved in EBRO 499 with respect to embedding forecast S&T margins and the Long-Term storage premium in base rates on a 90:10 basis. However, in this regard and in respect of its finding above, amounts to be embedded apply to forecast 2004 amounts, not to EBRO 499 forecasts that were approved for the 1999 test year.

The Board finds that symmetrical variance account treatment of these revenues is appropriate to hold ratepayers and Union harmless from deviations between actual margins earned and those embedded in rates. The Board further accepts that any such variances be shared 75:25 in favour of the ratepayer.

4.4 OTHER ISSUES

There are two other issues falling into this section. The first of these relates to the concerns expressed, particularly by FONOM et al relating to storage allocations to the Northern and Eastern Operations area, while the second relates to Union's changes in presentation in successive rates cases, with respect to classifications of such items as S&T revenues and customer supplied fuel.

9

UNION GAS LIMITED

Accounting Entries for
Transportation and Exchange Services
Deferral Account No. 179-69

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No. 570 Storage and Transportation Revenue
Credit	-	Account No. 179-69 Other Deferred Charges - Transportation and Exchange Services

To record, as a credit (debit) in Deferral Account No. 179-69, the difference between actual net revenues for Transportation and Exchange Services including C1 Interruptible Transportation, Energy Exchanges, M12 Transportation Overrun, M12 and C1 Non-Loss-of-Critical-Unit Protected Firm Transportation, M12 Limited Firm/Interruptible Transportation and C1 Firm Short Term Transportation, and the net revenues forecast for these services as approved by the Board for rate making purposes.

UNION GAS LIMITED

Accounting Entries for
Other S&T Services
Deferral Account No. 179-73

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No. 570 Storage and Transportation Revenue
Credit	-	Account No. 179-73 Other Deferred Charges - Other S&T Services

To record, as a credit (debit) in Deferral Account No. 179-73, the difference between actual net revenues for Other S&T Services including Hub2Hub™ , Offsystem Capacity, Redirection/Name Changes, Ontario Production and other S&T services and the net revenues forecast for these services as approved by the Board for rate making purposes.

11

UNION GAS LIMITED

Accounting Entries for
Other Direct Purchase Services
Deferral Account No. 179-74

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No. 570 Storage and Transportation Revenue
Credit	-	Account No. 179-74 Other Deferred Charges - Other Direct Purchase Services

To record, as a credit (debit) in Deferral Account No. 179-74, the difference between actual net revenues for Supplemental Load Balancing (T1 and R1) and T1 Storage Inventory Demand Charge and the net revenues forecast for these services as approved by the Board for rate making purposes.

UNION GAS LIMITED

Accounting Entries for
Heating Value
Deferral Account No. 179-89

This account is applicable to the Northern and Eastern Operations of Union Gas Limited. Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No.179-89 Other Deferred Charges - Heating Value
Credit	-	Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-89, the difference between the actual heat content of the gas purchased and the forecast heat content included in gas sales rates.

Debit	-	Account No. 179-89 Other Deferred Charges - Heating Value
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-89, simple interest on the balance in Deferral Account No. 179-89. Interest will be computed monthly on the opening balance in said account at the short term debt rate as approved by the Board.

Union Gas Limited
Incentive Regulation Proposal
Prefiled Evidence

14

1. As approved by the Board in the EB-2005-0520 Decision with Reasons dated June 29, 2006 Union will be splitting the M2 rate class into two rate classes (M1 and M2) (see Appendix B for the excerpt from Union's evidence and the Board Decision). The effect of this split will be included in the January 1, 2008 rate order.

2. Union requested pre-approval to change rates effective January 1, 2008 to incorporate incremental capital and O&M costs required to implement the Bill-Ready phase of the GDAR. There was complete settlement of this issue in the Settlement Agreement (see Appendix C for the excerpts from Union's evidence and the Settlement Agreement). As such, Union will adjust 2008 base rates accordingly effective January 1, 2008 and include this adjustment in the 2008 rate order. Should there be any changes to the timing of the implementation of the Bill-Ready phase; Union will address the impact on base rates once a decision is made by the Board.

3. In the EB-2005-0520 and EB-2005-0551 proceedings, Union requested that five S&T deferral accounts (179-70, 179-72, 179-69, 179-73 and 174-74) be eliminated. In EB-2005-0520, Exhibit C1, Tab 3, Union stated that it agreed with the Board's direction that, "in a true IR framework, there should be no earnings sharing, and transactional services revenues should not receive special treatment" (page 24). Union further stated that it, "believes that the elimination of S&T transactional service deferral accounts in 2007 is consistent with and supports the Board's direction to reduce deferral accounts and eliminate earnings sharing mechanisms as part of transitioning

15

to an IR framework." The Board specified on page 112 of the EB-2005-0551 Decision with Reasons that the proposed elimination of the three transmission-related accounts should be considered as part of a comprehensive review that includes all deferral accounts under an incentive regulation mechanism. Therefore, Union is requesting the elimination of the following three deferral accounts (Transportation Exchange Services Account (179-69), Other S&T Services Account (179-73) and Other Direct Purchase Services Account (174-74)) beginning January 1, 2008. Board staff supported the elimination of the three deferral accounts in the Board Staff paper (page 22). The Long-Term Peak Storage Services Account (179-72) is discussed in Section 5.8.3 below.

4. DSM is discussed in Section 5.8.2

Weather Normalization Method

Union proposes that the 20-year declining trend weather forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates. This would result in an estimated impact to rates of approximately $7 million.

This adjustment would produce greater symmetry in weather risk (i.e. colder weather being as likely to occur as warmer weather.) Using the current 55% 30-year average and 45% 20-year declining trend blended method ("55/45 blend") represents a substantial risk to the company. The use of the 30-year average has a bias toward exceeding the actual number of heating degree days ("HDDs"). Forecasting the HDDs through use of the

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2007-0606

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission and storage of natural gas, effective January 1, 2008;

DECISION

Union Gas Limited ("Union") filed an Application on May 11, 2007 under section 36 of the *Ontario Energy Board Act, 1998*, S.O. c.15, Sched. B, as amended, for an order of the Ontario Energy Board approving or fixing a multi-year incentive rate mechanism to determine rates for the regulated distribution, transmission and storage of natural gas, effective January 1, 2008.

On January 3, 2008 Union filed a Settlement Agreement in this matter which is attached as Schedule "A". On January 8, 2008 the Board heard submissions on the Union Settlement Agreement. The parties who participated in the Settlement Agreement are set out in Schedule "B".

The Settlement Agreement is comprehensive although there are three unresolved matters that will proceed to a hearing. They are: (1) the commodity risk management program (written argument only) (2) the treatment of customer additions under incentive regulation and (3) whether tax changes resulting from changes to federal and/or provincial legislation and/or regulations qualify as a 2007 base rate adjustment and as a Z factor in years 2008 and beyond. The parties to the Settlement Agreement accepted that the Settlement Agreement is not contingent on the outcome of any of these contested matters.

17

The parties agree that the deferral accounts listed in Appendix B (including LRAM and SSM) will continue during the IR plan.

The parties further agree to the elimination of the following four deferral accounts:

Transportation Exchange Services Account (179-69)

Other S&T Services Account (179-73)

Other Direct Purchase Services Account (179-74)

Heating Value Account (179-89)

The parties agree that the disposition of Y factor amounts will be in accordance with existing Board approved allocation methods and allocators.

The following parties agree with the settlement of this part of the issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties take no position on this part of the issue: Coral, EGD, GEC, PP, PWU, TCPL.

All parties except GEC and PP agree that there should not be a Y factor relating to customer additions during the term of the IR plan.

The following parties agree with the settlement of this part of the issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties do not agree with the settlement of this part of the issue: GEC and PP.

The following parties take no position on this part of the issue: Coral, EGD, PWU, TCPL.

Evidence References:
1. B/T1 p.37-39.
2. C1.10, C3.19, C3.22, C4.12, C20.1, C20.2.
3. L/T1/S2, L/T3.

18

UNION GAS LIMITED

Answer to Interrogatory from
Association of Power Producers of Ontario ("APPrO")

TransCanada DOS-MN

Question:

On or about November 7, 2008, TransCanada filed an application with the National Energy Board to implement a Dawn Overrun Service - Must Nominate ("DOS-MN") whereby for the balance of the current winter TransCanada will receive gas at Empress and redeliver such volumes at Dawn. The cost for such service is the FT commodity toll, thus shippers avoid the normal demand charge that otherwise would apply. Certain shippers had the right to their pro-rata of this service. Please indicate if Union has taken its pro-rata share of this service and, if so, whether the full benefits of this service will flow through the Y factor transportation costs.

Response:

Yes. Union contracted for its pro rata share of DOS-MN. Union offered a portion of its pro rata share to customers with TCPL assignments. Some of these customers accepted the DOS-MN capacity assignment.

Union is not treating any benefit associated with the use of the DOS-MN as a Y factor. Any benefit from the use of DOS-MN over the term of the incentive regulation framework will be used to contribute to the S&T transactional margins already included in infranchise delivery rates, and will form part of the Union's regulated earnings.

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008- 0220

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2009.

BEFORE: Pamela Nowina
Presiding Member and Vice Chair

David Balsillie
Member

Paul Sommerville
Member

DECISION WITH REASONS

INTRODUCTION

Union Gas Distribution Inc. ("Union") filed an Application on September 26, 2008 with the Ontario Energy Board ("Board") under section 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Sched. B), as amended, for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2009.

The Board assigned file number EB-2008-0220 to the Application and issued a Notice of Application dated October 27, 2008.

should reflect that reduction unless and until a decision in the motion to vary has been rendered displacing or altering it.

The Board will make every effort to ensure that the motion to vary is considered as expeditiously as reasonable. It is our expectation that the motion can be considered and disposed of prior to the approval of the rate order reflecting 2009 rates. In that case the Board would seek to reflect in the rate order any variance arising from Union's motion.

The Filing of 2007 Financial Information

In its submission, IGUA objected to Union's reluctance to file 2007 actual financial information. The Settlement Agreement referenced above provided for the filing of a variety of materials by Union through the course of the IRM plan. The Board considers the informational filing requirement to be a key element of the Settlement Agreement and the IRM framework. The specific dispute highlighted by IGUA concerns the position taken by Union that because the Settlement Agreement requires it to file information arising "during the IR plan", that 2007 financial information does not qualify.

The Board considers Union's position to be inconsistent with the spirit of the Settlement Agreement and contrary to a reasonable application of its terms. Accordingly, the Board directs to Union to file by April 1, 2009, as part of the materials mandated by the Settlement Agreement, 2007 actual financial information.

Upstream Transportation Changes

Union noted that pursuant to the Settlement Agreement ratepayers were credited with a fixed amount reflecting a forecast performance of its transactional services business. Union also noted that the increased capacity that is associated with the Dawn Overrun Service may have benefits for ratepayers pursuant to the earnings sharing mechanism that continues in place. In other words, ratepayers have been already credited with an amount intended to reflect the transactional services activity of the company. Any additional revenues which may be occasioned by the new TransCanada service will not accrue under this heading, but may lead to earnings sharing distribution.

The Board finds Union's explanation with respect to this concern, which was raised by IGUA in its submissions, to be convincing. In the Board's view this is a fair approach

21

that is consistent with the general architecture of the IRM plan and the Settlement Agreement.

IMPLEMENTATION

Given current timing, the Board anticipates that the 2009 rates, effective January 1, 2009, will be implemented commencing with the first billing cycle on or after April 1, 2009.

Union is directed to file a draft rate order within 7 calendar days of the issuance of this decision. Intervenors shall have 7 calendar days to respond to Union's draft order. Union shall respond within 7 calendar days to any comments by intervenors.

COSTS

A decision regarding cost awards will be issued at a latter date. Eligible intervenors claiming costs should do so as directed below.

The Board hereby directs:

1. Intervenors eligible for cost awards shall file with the Board and forward to Union their respective cost claims within 25 days from the date of this Decision.

2. Union may file with the Board and forward these intervenors any objections to the claimed costs within 32 days from the date of this Decision.

3. Intervenors, whose cost claims have been objected to, may file with the Board and forward to Union any responses to any objections for cost claims within 39 days of the date of this Decision.

4. Filings are to be in the form of two hardcopies and one electronic copy in searchable PDF format at boardsec@oeb.gov.on.ca and copy Union Gas Limited.

Union shall pay any Board costs of, and incidental to, this proceeding upon receipt of the Board's invoice.

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

AND IN THE MATTER OF an application filed by Union Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2013.

CANADIAN MANUFACTURERS & EXPORTERS ("CME") COMPENDIUM OF DOCUMENTS EX-FRANCHISE REVENUE WITNESS PANEL

OTT01\5171554\v1

Ontario

Natural Gas Regulation in Ontario:

A Renewed Policy Framework

Report on the Ontario Energy Board

Natural Gas Forum

March 30, 2005

As described above, the benefits of efficiencies can be shared with customers in two ways – during the term of the plan, through the adjustment mechanism, and in the base rates for the subsequent plan. With robust rebasing, all of the efficiency improvements achieved during the term of a plan would be built into the base rates for the subsequent plan. In this way, shareholders retain the benefits of any efficiency gains (that is, any achieved over and above the productivity factor) during the term of the initial plan, and all of the benefits flow to customers during the term of subsequent plans.

During rebasing, the Board will be particularly interested in determining whether the efficiency improvements achieved by the utility are temporary or sustainable, and it will expect to receive a thorough analysis of this issue. For example, the Board will be interested in the relationship between operation, maintenance and administration costs and capital expenditures, the timing of capital expenditures and the associated impacts on shareholders and customers. The Board will also expect to see, during the plan's term, measures that are designed to improve the utility's productivity on a sustained basis – not temporary, unsustainable budget cuts. The Board's determination of the new base rates and forward plan will reflect its assessment of all of these factors. The Board also cautions that it will take an unfavourable view of sudden and significant increases in costs at the time of rebasing, unless thoroughly justified.

Earnings Sharing Mechanisms

Earnings sharing mechanisms (ESMs) are sometimes employed in incentive-based ratemaking schemes to provide for the sharing of earnings in excess of a pre-established level between the utility's shareholders and ratepayers, usually during the term of the plan. That is, ESMs are intended to return some of the productivity improvements to ratepayers during the term of the plan.[6] ESMs are generally tied to the utility's return on equity (ROE), although the specific features of the ESM may vary from plan to plan. The features include the level at which sharing takes place, the ratio of sharing between shareholders and ratepayers and whether the ESM is symmetrical (that is, whether it

[6] In this discussion, the Board is not referring to the earnings sharing associated with transactional services, storage and transportation services or demand-side management.

applies when earnings are both above and below the target ROE). The issues we address here are whether there should be an ESM in the IR plans and, if so, what form it should take.

Stakeholders' Views

Stakeholders were divided on this issue. A number of stakeholders, primarily customer groups, were of the view that an ESM assures customers that they will benefit from the productivity gains made by the utilities. For example, the Consumers Council of Canada and the Vulnerable Energy Consumers Coalition suggested that earnings sharing could be incorporated into a COSR framework over a multi-year period. London Property Management Association and Wholesale Gas Service Purchasers Group made the point that an asymmetrical ESM applicable only to earnings above the target ROE would provide utilities with a significant incentive to increase efficiencies.

Union and Enbridge took the view that a symmetrical ESM could be developed around a benchmark ROE.

Others took the view that an ESM should not be adopted, because it would reduce the efficiency incentives of a PBR plan.

The Board's Conclusions

Customers can benefit from productivity improvements during the term of an IR plan in two ways: through the productivity factor in the price adjustment mechanism and/or through an ESM. If the productivity factor is low, customers may be dissatisfied with the expected level of benefits, and may view earnings sharing as an appropriate means by which to realize benefits within the plan's term. Stakeholders may also rely on an ESM as a way to mitigate the effects of an incorrect or uncertain productivity factor (which may be the result of utilities and stakeholders not having the same information).

In addition to the benefits that would accrue during the plan's term, customers could also benefit from productivity improvements through robust rebasing at the beginning of the next plan, as has already been described.

The regulatory challenge is to provide strong incentives to promote efficiency, while at the same time achieving customers' acceptance of the IR plan by ensuring that the benefits of the efficiencies flow to them. In the Board's view, ESMs would reduce the utility's productivity incentives and introduce a potentially costly additional regulatory process – results that are not in accordance with the Board's criteria for the regulatory framework. The Board recognizes that, without an ESM, the determination of the adjustment factor will be particularly important to ensure that customers benefit from productivity gains during the plan's term. For this reason, as noted earlier in this report, the Board has concluded that a generic hearing should be held to determine the annual adjustment mechanism.

The Board views the retention of earnings by a utility within the term of an IR plan to be a strong incentive for the utility to achieve sustainable efficiencies.

The Board does not intend for earnings sharing mechanisms to form part of IR plans.

The Term of the Plan

Stakeholders' Views

On the issue of the optimal term for the ratemaking plan, stakeholders were generally divided into two camps – customer groups generally favoured short terms of two to three years, while the utilities and the School Energy Coalition (SEC) favoured longer terms of five years or more.

Union submitted its view that the term of a plan should be long enough to provide the utility with incentives to pursue productivity improvements, and noted that the "payoff" for some productivity improvement measures may not be realized for some time. In recognition of these factors, the minimum term of plans approved in some jurisdictions is five years, with some terms as long as 10 years.

The Industrial Gas Users Association (IGUA) suggested that the term be one of the elements negotiated by the parties. IGUA indicated a preference for a shorter term, but said that a longer term may be acceptable if provision were made for an automatic review or reopening of the issue under defined circumstances. SEC proposed an initial five-year term, subject to a single off-ramp. SEC also proposed that, at the end of four years and before any rebasing application, the Board hold a hearing to determine whether it would be appropriate to extend the incentive plan for a further period of up to five years or to require a rebasing exercise.

The Board's Conclusions

The Board's view, shared by most stakeholders, is that the current system of annual rate cases is inefficient – it is costly and time consuming. The challenge for the Board is to implement a regulatory model that contains incentives for utilities to make productivity improvements and that reduces the annual regulatory burden, while ensuring both that customers benefit from productivity improvements and that an appropriate level of transparency is maintained. The Board believes that IR plans must contain longer rate-approval periods to ensure an incentive for utility shareholders to make productivity improvements and to benefit from them.

The Board expects that the term of IR plans will be between three and five years. The Board's view is that three years represents the minimum term that may be expected to give rise to productivity incentives, and its preference is for a plan of five years. The Board is reluctant to approve a term greater than five years at this time, given the importance of ensuring that productivity gains are passed on to customers in subsequent periods. The term of the plan will be determined in the generic hearing on the annual adjustment mechanism.

The Board is of the view that a plan should not be reopened during its term except for the most compelling reasons. Off-ramps are addressed below.

Off-Ramps, Z-Factors and Deferral or Variance Accounts

Various mechanisms can be established as part of the overall ratemaking framework, but designed to operate outside the plan itself. An *off-ramp* is a pre-defined set of conditions under which the plan would be terminated before its end date, usually because of some unforeseen event. A *z-factor* provides for a non-routine rate adjustment intended to safeguard customers and the utility against unexpected events outside of management control. *Deferral accounts* are formalized accounts that track an amount that cannot be forecast. *Variance accounts* are formalized accounts that track a variance around a forecast. These mechanisms are often called risk-mitigation tools, as they create a regulatory "buffer" against unforeseen circumstances.

Stakeholders' Views

Most stakeholders advocated limits on the use of off-ramps, z-factors and deferral or variance accounts. In their view, these mechanisms inappropriately mitigate the utility's risk in an incentive-based system. In general, customer groups would like to see utilities assume more risk by consenting to PBR agreements that eliminate deferral or variance accounts, as well as any side agreements that shelter the utility from unforeseen events. It is recognized that a balance exists between eliminating these mechanisms and allowing shareholders to reap the benefits of good performance. Striking this balance was viewed as more in keeping with the objectives of incentive-based ratemaking.

Union, on the other hand, argued that off-ramps are designed to protect both customers and the utility, and that customers benefit from being served by a financially viable utility. In Union's trial PBR, off-ramps were restricted to a serious decline or significant improvement in Union's financial position. Enbridge's view was that deferral or variance accounts and z-factors provide justifiable regulatory relief from cost elements beyond the control of management.

The Board's Conclusions

The Board's view of off-ramps, z-factors and deferral or variable accounts is guided by the need for an appropriate balance of risks and rewards in the incentive regulation model. As stated earlier, the Board believes that it is appropriate for the utility's shareholders to retain all earnings during the plan's period. The Board believes that this is a very strong incentive. The Board also believes that, as a balancing factor, the utility should assume an appropriate level of business and financial risk.

In the Board's view, an appropriate balance of risk and reward in an IR framework will result in reduced reliance on deferral or variance accounts, and reliance on off-ramps or z-factors in limited, well-defined and well-justified cases only.

Service Quality Monitoring

When a regulated utility seeks cost-saving (efficiency) initiatives under an incentive plan, there is a danger that the quality of service experienced by its customers will suffer. The Board has identified appropriate quality of service as one of its criteria for the ratemaking framework. Service quality indicators (SQIs) have been used in Ontario, but they have been limited to measures such as telephone response time, emergency response and pipeline corrosion surveys. The issue before the Board is how a service quality framework should be developed and regulated.

Stakeholders' Views

Stakeholders generally agreed that quality of service is an important matter. Union suggested that SQIs should relate to those aspects of the utility's service that are important to customers, and that SQI targets should be derived from the historical performance levels of the utility. Enbridge also generally supported SQIs, noting that they provide assurance that operating efficiencies are not achieved at the expense of either customer service or the safe operation of the distribution system.

Union maintained that performance rewards and penalties would be inappropriate. In its view, SQIs are intended to ensure that minimum standards are maintained in an

C1 Short Term Transportation and Exchange Services

Short term transportation and exchange revenues exceeded the Board approved amount by $5.1 million, as shown at line 14. The primary driver of the $5.1 million revenue increase was higher demands and service value due to a colder than normal winter.

M12 Transportation Overrun

M12 Transportation overrun revenues exceeded the Board approved amount by $4.8 million, as shown at line 15. Union does not forecast M12 transportation overrun revenues, since ex-franchise customers can use Union's system differently each year. Union does not expect customers to elect to use overrun services over the long run. To the extent customers have a long term need, Union would expect customers to contract appropriately for long term services.

4.0 S&T Deferral Account Proposal

Union began selling short term storage services to ex-franchise customers at market based rates under the C1 rate schedule in 1989. The first transactional S&T deferral account, which captured positive variances from the Board Approved forecast was approved by the Board in 1993, as part of the E.B.R.O. 476-03 ADR Settlement Agreement and related Board Decision. In that Decision, the Board also approved a 75/25 sharing of the fiscal 1995 deferral account balance between ratepayers and the utility respectively, which had also been agreed to in the ADR Settlement Agreement. This division of deferred margin was to recognize "Union's role in developing opportunities and facilitating arrangements under the proposed account" (page 4 of the E.B.R.O. 476-03 ADR Settlement Agreement). Any future disposition of margins in the deferral account was left to a future determination of the Board. In the E.B.R.O. 486 Decision, the Board reaffirmed a 75/25 sharing of deferred margin. The sharing of deferred margin on a 75/25 basis continued through subsequent rates applications and Decisions. In the E.B.R.O. 499 proceeding, the Board accepted an ADR Settlement Agreement that shared forecast margin on a 90/10 basis between ratepayers and Union respectively. Prior to that proceeding, the entire forecast of S&T transactional service margin went to the ratepayers' benefit.

In Union's last rates application (RP-2003-0063) the Board approved a 90/10 sharing of forecast S&T transactional service margin and a 75/25 sharing of any deferred S&T transactional service margin in favour of ratepayers. The Board also extended the 75/25 sharing to variances where the actual S&T transactional service margin is below forecast, thereby providing symmetrical treatment of positive and negative variances from forecast.

Union is proposing that S&T transactional service margin variances in 2005 and 2006 continue to be subject to deferral, consistent with the Board's RP-2003-0063 Decision.

Union is proposing to eliminate the S&T transactional service deferral accounts effective January 1, 2007 and to include the total forecast of S&T transactional service revenues (margins) in the determination of rates, consistent with the treatment of all other forecast revenues, including S&T core services revenues (i.e. no 90/10 sharing). Union's proposal would eliminate all margin sharing associated with both the forecast and any variances experienced on an actual basis relative to the forecast.

Union's proposal to eliminate the S&T transactional services deferral accounts is consistent with and supports the Board's policy direction as outlined in its NGF policy paper dated March 30, 2005, to move to an Incentive Regulation ("IR") framework. The Board made several references to its views on earnings sharing mechanisms in its NGF report including the following:

1. *"Board does not intend for earning sharing mechanisms to form part of IR plans"* (Pg. 28)
2. *"an appropriate balance of risk and reward in an IR framework will result in reduced reliance on deferral or variance accounts"* (Pg. 31).

The current S&T transactional service regulatory framework includes deferred accounts and a revenue sharing mechanism. Union agrees with the Board that, in a true IR framework, there should be no earnings sharing, and transactional services revenues should not receive special treatment. Union believes that the elimination of S&T transactional service deferral accounts in 2007 is consistent with and supports the Board's direction to reduce deferral accounts and eliminate earnings sharing mechanisms as part of transitioning to an IR framework. This position is also consistent with Union's stated NGF position (in its November 10, 2004 submission) that S&T deferral accounts should be eliminated.

Union requires an appropriate balance of risks and rewards in order to manage weather variances, in-franchise customer annual usage, and increasing competition for S&T services within an IR framework. The forecast of S&T revenue is no different than the forecast of any other source of revenue. All other revenues are considered as part of the rate setting process and the utility bears the risk of variances relative to forecast levels.

Union has advanced this proposal in this proceeding because there may not be another opportunity or forum to deal with this issue prior to the beginning of the proposed IR framework (January 1, 2008). This proposal provides consistency with the Board's IR policy statements. Union's proposal has been reflected in its 2007 forecast, with the forecast 2007 S&T transactional margin of $36.5 million included in the revenues used to determine 2007 rates. The evidence of Mark Kitchen, filed at Exhibit H, updates the margin estimate identified above to reflect the allocation of costs from the 2007 cost allocation study when it is completed. This is consistent with the existing rate making treatment with the exception that there would be no 90/10 sharing of the 2007 forecast, which is also consistent with Union's proposal to eliminate the deferral accounts.

5.0 Storage Market Premiums

The position that Union outlined in its November 10, 2004 NGF submission was that the market premium derived from offering storage services at market rates should flow to Union as the owner of the underlying storage assets. This position was based on Union's view that the storage

EB-2005-0520

UNION GAS LIMITED

SETTLEMENT AGREEMENT

May 15, 2006

TABLE OF CONTENTS

List of Appendices:

EB-2005-0520

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is for the consideration of the Ontario Energy Board ("the Board") in its determination, under Docket No. EB-2005-0520, of Calendar 2007 rates for Union Gas Limited ("Union"). By Procedural Order No. 1 dated February 24, 2006, the Board scheduled a Settlement Conference to commence May 1, 2006. The Settlement Conference was duly convened, in accordance with Procedural Order No. 1, with Mr. Ken Rosenberg as facilitator. The Settlement Conference proceeded until May 12, 2006.

Attached as Appendix A to the Agreement is the Board's Issues List which was issued through Procedural Order No. 3 dated March 22, 2006. The Agreement identifies the issues on the Board's list for which agreement has been reached. The Agreement is supported by the evidence filed in the EB-2005-0520 proceeding.

Each of the issues identified below falls within one of the following three categories:

1. an issue for which there is complete settlement, because Union and all of the other parties who discussed the issue either agree with the settlement or take no position,
2. an issue for which there is partial settlement, agreed to by Union and a majority of parties but one or more parties do not agree with the settlement,
3. an issue for which there is no settlement.

For the purposes of this Agreement, the term "no position" may include both parties who were involved in negotiations on an issue but who ultimately took no position on that issue and parties who were not involved in negotiations on that issue at all.

It is acknowledged and agreed that none of the completely settled provisions of this Agreement is severable. If the Board does not, prior to the commencement of the hearing of the evidence in EB-2005-0520, accept the completely settled provisions of the Agreement in their entirety, there is no Agreement (unless the parties agree that any portion of the Agreement the Board does accept may continue as a valid Agreement).

It is further acknowledged and agreed that parties will not withdraw from this Agreement under any circumstances except as provided under Rule 32.05 of the Ontario Energy Board's Rules of Practice and Procedure.

For greater certainty, the parties further acknowledge and agree that these conditions apply to settled issues in respect of which they are shown as taking no position.

It is also acknowledged and agreed that this Agreement is without prejudice to parties re-examining these issues in any other proceeding.

The parties agree that all positions, information, documents, negotiations and discussion of any kind whatsoever which took place or were exchanged during the Settlement Conference are strictly confidential and without prejudice, and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Agreement.

The role adopted by Board Staff in Settlement Conferences is set out on page 5 of the Board's Settlement Conference Guidelines. Although Board Staff is not a party to this Agreement, as noted in the Guidelines, "Board Staff who participate in the settlement conference are bound by the same confidentiality standards that apply to parties to the proceeding".

The evidence supporting the agreement on each issue is set out in each section of the Agreement. Abbreviations will be used when identifying exhibit references. For example, Exhibit B1, Tab 4, Schedule 1, Page 1 will be referred to as B1/T4/S1/p1. There are Appendices to the Agreement which provide further evidentiary support. The structure and presentation of the settled issues is consistent with settlement agreements which have been accepted by the Board in prior cases. The parties agree that this Agreement and the Appendices form part of the record in the proceeding.

The following parties participated in the Settlement Conference:

Canadian Manufacturers & Exporters ("CME")

City of Kitchener ("CCK")

Consumers Council of Canada ("CCC")

Coral Energy Canada Inc. ("Coral")

Enbridge Gas Distribution Inc. ("EGD")

Energy Probe Research Foundation ("Energy Probe")

FONOM & the Cities of Timmins and Greater Sudbury ("FONOM & the Cities")

Industrial Gas Users Association ("IGUA")

London Property Management Association ("LPMA")

Low-Income Energy Network ("LIEN")

Ontario Association of Physical Plant Administrators ("OAPPA")

Ontario Energy Savings L.P. ("OESLP")

School Energy Coalition ("SEC")

Sithe Global Power Goreway ("Sithe")

Superior Energy Management ("SEM")

TransAlta Cogeneration L.P. and TransAlta Energy Corp. ("TransAlta")

TransCanada PipeLines Limited ("TCPL")

Vulnerable Energy Consumers Coalition ("VECC")

Wholesale Gas Services Purchasers Group ("WGSPG")

OVERVIEW

In support of the need for a rate increase, Union identified factors that have an impact on its current and expected business environment, either affecting Union directly, by increasing Union's costs, or indirectly by changing Union's throughput and corresponding revenues from customers. These factors included the impacts of high energy prices, conservation and demand management, foreign exchange, weather, workforce demographics, cost pressures which exceed the general rate of inflation and the investment climate and available investment opportunities. These factors also included the financial and business risks posed by Union's current equity ratio and the impact this will have on Union's ability to raise capital. The rate adjustments that result from this Settlement Agreement will allow the company to make investments to serve new and existing customers, to maintain the integrity of Union's system, including business support processes, and meet all compliance requirements during 2007.

The revenue deficiency reduction for 2007 which the parties have agreed to is approximately $61.110 million. After excluding incremental DSM budget costs for 2007 of approximately $9.000 million, Union's revenue deficiency claim for 2007 is $85.827 million. With this settlement, the revenue deficiency Union will recover in its 2007 rates will be approximately $24.717 million. (See Appendix E)

The 2007 revenue deficiency of $24.717 million represents an increase of approximately 2.7% over current approved delivery, storage and transportation rates. (See Exhibit H3, Tab 1, Schedule 1 for delivery, storage and transportation revenue at current rates.) It is the overall revenue deficiency reduction of $61.110 million and its component parts which constitutes the consideration for the intervenors' acceptance of Union's budgets and forecasts for 2007 as more particularly described below.

In consideration for the overall revenue deficiency reduction of $61.110 million and the total revenue increases component there of $14.000 million described in Sections 2.4 and 2.5, the parties accept that Union's 2007 Contract demand forecasts of volume of 9,276,704 10^3 m^3 and delivery revenue of $115.021 million are reasonable and that the forecast revenue consequences of this forecast are reasonable.

The following parties agree with the settlement of this issue: CME, FONOM & the Cities, CCK, CCC, Energy Probe, IGUA, LPMA, LIEN, SEC, VECC, WGSPG

The following parties take no position on this issue: Coral, EGD, OAPPA, OESLP, Sithe, SEM, TransAlta, TCPL

Evidence References:
1. C1/T2; C1/SS1-SS6/Addendum; C3-C6/T2/S1-S6
2. J1.20, J1.21, J1.22, J1.23, J1.24, J6.18, J13.01, J13.11, J13.12, J14.35, J14.39, J14.40, J14.41, J14.43, J29.11, J30.03, J30.04, J30.05

2.4 IS THE PROPOSED TOTAL 2007 STORAGE AND TRANSPORTATION (S&T) REVENUE FORECAST APPROPRIATE?

(Complete Settlement)

The parties accept Union's 2007 S&T Core services revenue forecast of $121.138 million (C1/SS7 Addendum, line 9(k)). The parties agree that Union's 2007 Short Term Storage Services revenue forecast shall be increased by $12.0 million from $1.794 million as proposed by Union (C1/SS7 Addendum, line 11(k)) to $13.794 million. This increase will result in Union's 2007 Total Transactional Services revenue forecast increasing by $12.0 million from the $60.885 million as proposed by Union (C1/SS7 Addendum, line 17(k)) to $72.885 million. The parties agree that, with this adjustment, Union's 2007 Storage and Transportation (S&T) Revenue forecast is reasonable.

The parties acknowledge that the S&T forecast accepted in this agreement includes revenues associated with providing storage services to ex-franchise customers at market based rates. Further, the parties acknowledge that the appropriateness of charging rates that exceed cost for storage services provided by Union to ex-franchise customers and the appropriateness of the continuation of S&T deferral accounts will be addressed in the Natural Gas Electricity Interface Review proceeding (EB-2005-0551). (The S&T deferral accounts will remain in operation for such revenues unless the EB-2005-0551 proceeding determines otherwise.) Consequently, the outcome of the EB-2005-0551 proceeding may vary the S&T revenue forecast accepted in this agreement.

The following parties agree with the settlement of this issue: FONOM & the Cities, CCK, CCC, EGD, Energy Probe, IGUA, LPMA, LIEN, SEC, TransAlta, VECC, WGSPG

The following parties take no position on this issue: CME, Coral, OAPPA, OESLP, Sithe, SEM, TCPL

Evidence References:
1. C1/T3; D1/T1; C1/SS7/Addendum; C3-C5/T1/S1/Addendum; C3-C5/T1/S2/Addendum; C6/T1/S1-2; C3-C6/T4/S1-4; C5/T4/S1A;
2. J1.25, J1.26, J1.27, J1.28, J1.29, J3.13, J3.14, J3.15, J3.16, J5.02, J6.20, J6.21, J13.01, J13.13, J13.14, J13.15, J14.36, J14.37, J14.39, J14.42, J21.10, J25.01, J29.12, J29.13, J29.14, J29.15

2.5 Is the proposed total 2007 Other Revenue Forecast appropriate given that it represents a decrease from the 2005 estimate?

(Complete Settlement)

The parties agree that Union's 2007 Other Revenue forecast shall be increased by $2.0 million from the $22.434 million proposed by Union (C1/SS8/line 9(k)) to $24.434 million. This revenue will be attributed to the Mid Market Transactions component of the Other Revenue forecast shown at C1/SS8/line 6(k). The parties agree that, with this adjustment, Union's Other Revenue forecast is reasonable.

Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

EB-2005-0551

NATURAL GAS ELECTRICITY INTERFACE REVIEW

DECISION WITH REASONS

November 7, 2006

7.5 STORAGE AND TRANSPORTATION SERVICE DEFERRAL ACCOUNTS

The deferral accounts at issue in this proceeding are the following:

- Short-Term Storage and Other Balancing Services Account (179-70)
- Long-Term Peak Storage Services Account (179-72)
- Transportation Exchange Services Account (179-69)
- Other S&T Services Account (179-73)
- Other Direct Purchase Services Account (174-74)

On March 15, 2006, the Board notified Union and the intervenors that Union's proposal to eliminate the five deferral accounts, made as part of the rate application EB-2005-0520, had been moved to this proceeding. The relevant evidence from EB-2005-0520 was re-filed in this proceeding.

Union explained that of the five accounts in question, the storage accounts (179-70 and 179-72) are directly related to the storage forbearance issue, while the remaining three transmission accounts (179-69, 179-73 and 174-74) are not directly related to the storage forbearance issue.

Union proposed to eliminate the Short-Term Storage and Other Balancing Services Account (179-70) and Long-Term Peak Storage Services Account (179-72) on the basis that these accounts would no longer be necessary if the Board decides to forbear from regulating ex-franchise storage service sales.

Union also proposed to eliminate the other three transmission-related deferral accounts (179-69, 179-73 and 179-74). Union advanced two reasons for this proposal. First, Union stated that the forecast of S&T revenue should not be treated any differently than the forecast of any other source of revenue. Second, Union submitted that its proposal is consistent with the Board's policy direction, as outlined in its Natural Gas Forum Report, that in an incentive regulation framework there should be no earnings sharing and transactional services revenues should not receive special treatment. Union also expressed concern that there may not be another opportunity or forum to deal with this issue prior to the beginning of the proposed incentive regulation framework.

Most intervenors took the position that the storage related accounts (179-70 and 179-72) should continue if the Board determines that it will not refrain from regulating the prices of ex-franchise storage sales services. However, intervenors also acknowledged that if the Board were to forbear from regulating the prices of ex-franchise storage services, then these accounts would no longer be needed and under those specific circumstances should be eliminated. For example, the Board Hearing Team argued that under forbearance, gas utilities' shareholders will be bearing the risk associated with storage transactions in the ex-franchise market and any premium or shortfalls should accrue to the shareholder.

With respect to the transmission-related deferral accounts (179-69, 179-73 and 179-74), most intervenors were of the view that these accounts should not be eliminated because transmission will remain a regulated service. LPMA/WGSPG supported the objective of reducing the number of variance and deferral accounts but took the position that a comprehensive review of all such accounts should be undertaken as part of the incentive regulation mechanism that is still to be determined. Many intervenors adopted the LPMA/WGSPG position.

The Board Hearing Team supported Union's proposal. It argued that because transactional transportation services are part of the gas utility's monopoly service, these revenues should be treated no differently than any other regulated revenue.

Board Findings

With respect to the storage related accounts (179-70 and 179-72), most intervenors were of the view that the resolution of this issue depends on whether the Board refrains from regulating ex-franchise storage. The Board has determined that it will refrain from regulating rates in this area. However, we have also concluded that there should continue to be a sharing of the premium arising from short-term storage transactions, for both Union and Enbridge, and that there should be a phase-out of the sharing of the premium arising from Union's long-term storage transactions. Accordingly, the Board concludes that the accounts should be maintained for now. As outlined in sections 7.1 and 7.3, we have determined that the gas incentive ratemaking process is the best place in which to determine the precise implementation of these findings.

With respect to the transmission-related accounts, there was general acknowledgement that the issue related to the structure of the incentive regulation framework and not the issue of storage regulation. Union was concerned that this proceeding would be the only opportunity to deal with its proposal before the introduction of incentive regulation. The Board does not agree. On September 11, 2006, the Board issued a letter indicating its intent to establish a consultation process to use in relation to the development of the gas incentive regulation framework. This process is specifically designed to address issues about the framework prior to the commencement of incentive regulation for natural gas utilities. The Board finds that the proposed elimination of these three transmission-related accounts should be considered as part of a comprehensive review that includes all deferral accounts under an incentive regulation mechanism.

The Board therefore concludes that all of the accounts will be maintained and will be reviewed as part of the process for setting the incentive regulation mechanism for natural gas utilities.

INCENTIVE REGULATION

EXHIBIT LIST

Exh.	Tab	Sch.	Contents
A			ADMINISTRATION
	1		Exhibit List
	2		Application
B			PRE-FILED EVIDENCE
	1		Union Incentive Regulation Evidence - page 16 updated August 2, 2007
	2		Supplemental Weather Normalization Evidence
C			INTERROGATORIES
	1		Board Staff
	2		APPrO
	3/16/33		BOMA/LPMA/WGSPG
	4		CCC
	5		Coral
	7		Direct Energy
	9		Enbridge
	10		Energy Probe
	11		GEC
	13		IGUA
	15		Kitchener
	17		OAPPA
	20		Pollution Probe
	22		Power Workers' Union
	23		School Energy Coalition
	27		TransAlta
	28		TCE
	32		VECC

Union Gas Limited
Incentive Regulation Proposal
Prefiled Evidence

7. Administer Z factor rate adjustments outside of the price cap as described in Section 5.9.

5.0 PROPOSAL PARAMETERS

5.1 Base Rates

Union's 2007 rates will set the base for the IR term. These base rates meet the Board's requirements for a robust set of cost-based rates, based on a thorough and transparent review (page 25, NGF Report). As detailed below, adjustments yet to be made to the 2007 base rates include:

- Items from previous Board Decisions
    1. Splitting the M2 rate class into two rate classes (M1 and M2)
    2. Adjustments for the 2008 GDAR capital costs
    3. Treatment of S&T deferral accounts
    4. Demand Side Management ("DSM")
- A one time adjustment to reflect the 20-year trend weather normalization method

Items from Previous Board Decisions

Union will be required to implement the outcomes of previous Board Decisions during the plan term. In 2008, Union will be implementing changes to rates based on the Board Decisions in the EB-2005-0520 (2007 cost of service proceeding) and EB-2005-0551 Natural Gas Electricity Interface Review ("NGEIR") proceedings.

1. As approved by the Board in the EB-2005-0520 Decision with Reasons dated June 29, 2006 Union will be splitting the M2 rate class into two rate classes (M1 and M2) (see Appendix B for the excerpt from Union's evidence and the Board Decision). The effect of this split will be included in the January 1, 2008 rate order.

2. Union requested pre-approval to change rates effective January 1, 2008 to incorporate incremental capital and O&M costs required to implement the Bill-Ready phase of the GDAR. There was complete settlement of this issue in the Settlement Agreement (see Appendix C for the excerpts from Union's evidence and the Settlement Agreement). As such, Union will adjust 2008 base rates accordingly effective January 1, 2008 and include this adjustment in the 2008 rate order. Should there be any changes to the timing of the implementation of the Bill-Ready phase; Union will address the impact on base rates once a decision is made by the Board.

3. In the EB-2005-0520 and EB-2005-0551 proceedings, Union requested that five S&T deferral accounts (179-70, 179-72, 179-69, 179-73 and 174-74) be eliminated. In EB-2005-0520, Exhibit C1, Tab 3, Union stated that it agreed with the Board's direction that, "in a true IR framework, there should be no earnings sharing, and transactional services revenues should not receive special treatment" (page 24). Union further stated that it, "believes that the elimination of S&T transactional service deferral accounts in 2007 is consistent with and supports the Board's direction to reduce deferral accounts and eliminate earnings sharing mechanisms as part of transitioning

to an IR framework." The Board specified on page 112 of the EB-2005-0551 Decision with Reasons that the proposed elimination of the three transmission-related accounts should be considered as part of a comprehensive review that includes all deferral accounts under an incentive regulation mechanism. Therefore, Union is requesting the elimination of the following three deferral accounts (Transportation Exchange Services Account (179-69), Other S&T Services Account (179-73) and Other Direct Purchase Services Account (174-74)) beginning January 1, 2008. Board staff supported the elimination of the three deferral accounts in the Board Staff paper (page 22). The Long-Term Peak Storage Services Account (179-72) is discussed in Section 5.8.3 below.

4. DSM is discussed in Section 5.8.2

Weather Normalization Method

Union proposes that the 20-year declining trend weather forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates. This would result in an estimated impact to rates of approximately $7 million.

This adjustment would produce greater symmetry in weather risk (i.e. colder weather being as likely to occur as warmer weather.) Using the current 55% 30-year average and 45% 20-year declining trend blended method ("55/45 blend") represents a substantial risk to the company. The use of the 30-year average has a bias toward exceeding the actual number of heating degree days ("HDDs"). Forecasting the HDDs through use of the

Table 3
Union's Proposed PCIs by Service Group

	Recent GDPIPI Trend	X Factor Excluding Stretch and AU	Adjusted AU Factor	Net X Factor	PCI
General Service	1.86	0.74	-1.12 [5]	-0.38	2.24
All other	1.86	0.74	0.00	0.74	1.12

5.8 Y FACTOR

Y factor items are those components of a utility's rate structure adjusted by something other than the IR index formula, and are treated as periodic pass-through items. Management typically has little or no control over these items. Union proposes the following Y factor items:

- Cost of gas and upstream transportation
- DSM cost increases and other affects (e.g. throughput affects)
- Elimination of long-term storage deferral account
- Other deferral accounts

5.8.1 Cost of Gas and Upstream Transportation

The cost of gas supply, upstream transportation and gas supply related balancing will continue to be passed through to customers through the Quarterly Rate Adjustment Mechanism ("QRAM"), including the prospective disposition of gas supply related deferral accounts.

[5] Summary COS AU -0.72 divided by Union's general service 2005 revenue share 0.644.

The NGF Report identified that the Board will develop guidelines through a consultation process to standardize the QRAM process across gas utilities. Union expects that the Board will complete this process during the price cap plan term. If necessary, Union will modify the meth used to establish commodity prices to reflect any changes approved by the Board as a result of that process.

5.8.2 DSM

In 2006, the Board convened a generic proceeding to address a number of common issues related to DSM activities for natural gas utilities (EB-2006-0021). During the three phases of that proceeding the following were developed: i) generic plan parameters, ii) input assumptions, and iii) a specific plan for each utility. As agreed to in the Partial Settlement agreement, and as confirmed by the Board in its August 25, 2006 Decision, Union's 2007 DSM budget of $17.0 million will be increased to $18.7 million beginning January 1, 2008 and to $20.6 million beginning January 1, 2009. In addition, the DSMVA, LRAM and SSM deferral accounts will continue throughout the three-year term of the DSM plan (2007-2009). Consequently, Union's rates for 2008 and 2009 should be adjusted for the increase in the annual DSM budget and future rates will be adjusted for the disposition of any DSM-related deferral account balances.

5.8.3 Long-Term Peak Storage Services Account (179-72)

Union will be increasing its share of long-term storage transaction margins by increments of 25% starting in 2008. The Board approved the phase-out of long-term margin sharing in its EB-2005-0551 Decision with Reasons, Section 7.3, dated November 7, 2006 (see Appendix H for the excerpt from the Board Decision). Therefore, Union's rates for 2008-2011 will be adjusted to reflect this phase-out.

5.8.4 Other Deferral Accounts

There will be no additions to the deferral accounts established in the base year unless an account is established in another Board proceeding or an item would otherwise qualify as a Z factor during the price cap plan term. If an item like permit fees (discussed in Section 5.9) qualifies as a Z factor, it would be logical that this item would also qualify for a deferral account. A deferral account may be required until rates can be adjusted to incorporate the adjustment. A deferral account may also be required in instances where it takes longer than a year to quantify the annualized impact accurately.

5.9 Z FACTOR

A Z factor provides for rate adjustments intended to safeguard customers and the gas utility against unexpected costs that are outside of management's control and therefore not included in the proposed price cap. A Z factor is any amount that satisfies the four criteria summarized in Table 4:

EB-2007-0606

UNION GAS LIMITED

SETTLEMENT AGREEMENT

January 3, 2008

4.3 IF SO, HOW SHOULD THE IMPACT OF CHANGES IN AVERAGE USE BE APPLIED (E.G., TO ALL CUSTOMER RATE CLASSES EQUALLY, SHOULD IT BE DIFFERENTIATED BY CUSTOMER RATE CLASSES OR SOME OTHER MANNER)?

(Complete Settlement)

See 4.1 above and 12.3.1 below.

Evidence Reference:
1. B/T1, p. 36-37.
2. C1.8, C1.9, C13.5, C32.13, C32.14, C32.17.
3. L/T1/S2.

5 Y FACTOR

5.1 WHAT ARE THE Y FACTORS THAT SHOULD BE INCLUDED IN THE IR PLAN?

(Partial Settlement on the treatment of any temporary revenue deficiencies associated with customer additions; Complete Settlement on the remainder of the issue.)

The parties agree that identified Y factors will not be adjusted by the price cap index but will be passed through to rates.

Items that will be treated as Y factors are:

- Upstream gas costs
- Upstream transportation costs
- Incremental DSM costs (as determined in EB-2006-0021 and in any subsequent DSM proceeding) and volume reductions
- Storage margin sharing changes (as determined in EB-2005-0551)

The parties agree that the deferral accounts listed in Appendix B (including LRAM and SSM) will continue during the IR plan.

The parties further agree to the elimination of the following four deferral accounts:

Transportation Exchange Services Account (179-69)

Other S&T Services Account (179-73)

Other Direct Purchase Services Account (179-74)

Heating Value Account (179-89)

The parties agree that the disposition of Y factor amounts will be in accordance with existing Board approved allocation methods and allocators.

The following parties agree with the settlement of this part of the issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties take no position on this part of the issue: Coral, EGD, GEC, PP, PWU, TCPL.

All parties except GEC and PP agree that there should not be a Y factor relating to customer additions during the term of the IR plan.

The following parties agree with the settlement of this part of the issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties do not agree with the settlement of this part of the issue: GEC and PP.

The following parties take no position on this part of the issue: Coral, EGD, PWU, TCPL.

Evidence References:
1. B/T1 p.37-39.
2. C1.10, C3.19, C3.22, C4.12, C20.1, C20.2.
3. L/T1/S2, L/T3.

5.2 WHAT ARE THE CRITERIA FOR DISPOSITION?

(Complete Settlement)

See 5.1 above.

Evidence References:
1. C3.20, C3.21, C11.04.

6 Z FACTOR

6.1 WHAT ARE THE CRITERIA FOR ESTABLISHING Z FACTORS THAT SHOULD BE INCLUDED IN THE IR PLAN?

(No Settlement on whether tax changes resulting from changes to federal and/or provincial legislation and/or regulations thereunder qualify as a Z factor in years 2008 and beyond; Complete Settlement on all other aspects of the issue.)

The parties agree that Z factors generally, have to meet the criteria established in Union's evidence, i.e.,

1. the event must be causally related to an increase/decrease in cost;
2. the cost must be beyond the control of the utility's management, and not a risk for which a prudent utility would take risk mitigation steps;
3. the cost increase/decrease must not otherwise be reflected in the price cap index;
4. any cost increase must be prudently incurred; and
5. the cost increase/decrease must meet the materiality threshold of $1.5 million annually per Z factor event (i.e., the sum of all individual items underlying the Z factor event).

If a proceeding is instituted before the Board, before the term of this IR plan expires, in which changes to the methodology for determining return on equity is requested, then all parties

14 ADJUSTMENTS TO BASE YEAR REVENUE REQUIREMENTS AND/OR RATES

14.1 ARE THERE ADJUSTMENTS THAT SHOULD BE MADE TO BASE YEAR REVENUE REQUIREMENTS AND/OR RATES?

(No Settlement on the risk management component of this issue or the amount of taxes payable by Union as a result of tax changes resulting from changes to federal and/or provincial legislation and/or regulations thereunder; Complete Settlement on all other aspects of the issue.)

All parties agree that only the following additional adjustments (other than those adjustments otherwise set out in this Agreement) should be made to reduce the 2008 base revenue requirement and/or 2008 rates prior to the application of the price cap index:

1.	Increase to S&T revenues/margin	$4.3 million*
2.	Deferred tax drawdown	$1.9 million
3.	Reduction to regulatory cost budget	$1.0 million
4.	Phase II GDAR costs that will not be incurred	$1.6 million **

* This adjustment has been made to reflect the elimination of certain S&T revenue deferral accounts, described in 5.1 above. The parties agree that 100% of this amount will be allocated to in-franchise customers, as described in Exhibit D/T1, p. 7 of Union's evidence.

** This adjustment to base rates is being made as a result of the Board's decision to amend the GDAR to treat bill ready distributor-consolidated billing in the same manner as split billing and gas vendor-consolidated billing as described in the Board's December 11, 2007 letter, attached as Appendix D. Union notes that these costs were incorporated into the 2008 interim rates approved by the Board. They will be eliminated from rates when final 2008 rates are implemented.

When implementing final 2008 rates, Union will calculate what the final 2008 rates need to be to reflect all of the adjustments referenced in this Agreement and the Board's findings on those issues that are proceeding to hearing had they been implemented prospectively January 1, 2008. Differences between what was charged to customers during the period interim 2008 rates were in place and what should have been charged had final 2008 rates been in place will be recovered/rebated either as a one-time charge/credit or over the remainder of 2008 in rates.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties take no position on this issue: Coral, EGD, GEC, PP, PWU, TCPL.

Evidence References:
1. B/T1 p.10, B/T2, B/T3, B/T4.
2. C1.19, C1.20, C3.2, C3.3, C3.9, C3.27, C3.28, C10.2, C10.3, C10.4, C10.5, C10.6, C10.7, C10.8, C15.7, C15.8, C15.9, C15.10, C13.11, C13.12, C13.13, C13.14, C23.44, C23.45, C23.46, C23.52, C23.53, C28.1, C32.1, C32.3, C32.18, C32.19, C32.24.
3. JTA.6, JTA.8, JTA.10, JTA.12, JTA.13, JTA.16, JTA.17, JTA.18, JTA.19, JTA.22, JTA.23, JTA.25, JTA.26, JTA.27, JTA.32, JTA.37, JTA.38, JTA.39, JTA.41, JTA.42, JTA.46, JTA.47, JTA.50.

There is no settlement of the commodity risk management component of this issue but all parties have agreed that the Board should deal with commodity risk management by way of written submission and that no oral evidence is required.

There is no settlement of the base rate adjustments that flow from the amount of taxes payable by Union as a result of tax changes resulting from changes to federal and/or provincial legislation and/or regulations thereunder.

14.2 IF SO, HOW SHOULD THESE ADJUSTMENTS BE MADE?

(Complete Settlement)

The parties agree that the base rate adjustments in 14.1 will be implemented effective January 1, 2008. These adjustments will be allocated as follows:

1. increases to S&T revenues / margin ($4.3 million) will be allocated in proportion to the allocation of 2007 approved in-franchise revenue less DSM, upstream transportation, compressor fuel, unaccounted for gas and storage (as identified in Exhibit D/T3/Schedule 2);
2. deferred tax drawdown ($1.9 million) will be allocated in proportion to the allocation of 2007 deferred tax drawdown;
3. reduction to regulatory cost budget ($1.0 million) will be allocated in proportion to the allocation of 2007 administrative and general expenses; and
4. reduction to GDAR implementation cost ($1.6 million) was to be an increase so that this increase will simply not be implemented.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, Energy Probe, IGUA, Jason Stacey, Kitchener, LPMA, OAPPA, SEC, Sithe, Timmins, TransAlta, Union, VECC, WGSPG.

The following parties take no position on this issue: Coral, EGD, GEC, PP, PWU, TCPL.

Evidence References:
1. C3.32, C3.33, C3.34, C13.11, C13.12, C13.13, C13.14, C23.47, C32.2.
2. D/T1 p.7.
3. JTA.5.

TransCanada
In business to deliver

Important Contract Documents Attached
Immediate Attention Required

Subject: **New FT Service Feature:**
Dawn Authorized Overrun – Must Nominate ("DOS-MN")

Company:
Fax:

Attention:

TransCanada requires 165 TJ of incremental service deliveries to the Dawn area in order to address the capacity short-fall for Short-Haul Firm Transportation ("Short-Haul FT") from Dawn this winter.

In 2003, TransCanada was able to offer increased Short-Haul FT transportation capacity from Dawn, above TransCanada's firm Dawn capacity contracted on Union ("Union M12 TBO"), through the use of its integrated system. Specifically, receipts of gas under Short-Haul FT contracts at Dawn would be offset by deliveries of gas under Long-Haul contracts to the Dawn area. At the same time, Empress receipts of gas under those Long-Haul contracts would be transported through TransCanada's Northern Ontario Line to meet deliveries under Short-Haul FT contracts east of Parkway. Use of the integrated system in this manner enabled TransCanada to meet Shipper demand for increased Short-Haul FT capacity from Dawn at the lowest possible cost. This approach reduced the requirement for additional Union TBO capacity while making use of spare capacity on TransCanada's Northern Ontario Line.

Use of the integrated system in this manner requires that sufficient quantities of Long-Haul gas be nominated to the Dawn area to offset the quantity of gas received under Short-Haul FT contracts at Dawn that is in excess of TransCanada's Union M12 TBO capacity. Due to non-renewals of some Long-Haul FT contracts to Dawn effective November 1, 2008 and considering historical nomination patterns, TransCanada projects that there will be insufficient Long-Haul quantities nominated to the Dawn area on some days of the 2008/09 Winter Season to effect the physical exchange of gas on the integrated system. TransCanada would, therefore, be unable to meet its obligations under Short-Haul FT contracts.

To obtain the required incremental deliveries to Dawn, TransCanada is making available a total of 165 TJ/d of capacity from Empress to the Dawn area ("DOS-MN Capacity"). It is offered as a service enhancement feature for FT, FT-NR, FT-SN and STS shippers ("Firm Shippers") pro rata based on each Firm Shipper's demand charge commitment to the system this winter. Firm Shippers have an option of accepting their pro rata share of DOS-MN Capacity ("DOS-MN

Entitlement"), or not. If they accept their DOS-MN Entitlement they must commit to nominate and flow their full DOS-MN quantity each day. This DOS-MN feature is intended to address the capacity short-fall issue for winter only and will expire as of March 31, 2009.

The first part of the enclosed package details the DOS-MN features in a Q&A format. The second part of the enclosed package contains the DOS-MN Contract & Exhibit "A" and Assignment of Entitlement – DOS-MN form. Please carefully review this package and contact us with any questions:

Analyst - Norma Marchet	**Office: (403) 920-6258 Cell: (403) 831-8361**
Analyst - Minh Nguyen	**Office: (403) 920-5804 Cell: (403) 835-8463**
Manager - Barbara Miles	Office: (403) 920-5780 Cell: (403) 831-9151
Supervisor - Vincent Thebault	Office: (403) 920-5840 Cell: (403) 835-8572

Regards,

Barbara Miles,
Manager, Contracts and Billing

Attachments: STFT Non-Standard Service Contract & Exhibit "A" and Assignment of Entitlement – DOS-MN form

New FT Service Feature:
Dawn Authorized Overrun– Must Nominate ("DOS-MN")

1. What are the details of the DOS-MN feature?

- DOS-MN Entitlement may be accepted, assigned or declined.
- If accepted, the full DOS-MN contract quantity must be nominated, authorized and flowed each day.
- Term: November 15, 2008 - March 31, 2009
- Receipt Point : Empress
- Customer may select one of four Delivery Points: Union SWDA, Enbridge SWDA, Dawn Export or St. Clair
- No Diversion rights
- No Alternate Receipt Point (ARP) rights
- No FT-RAM or short haul FT-RAM linkage
- No Renewal Rights
- Firm Service Priority in the event of curtailment

2. What is the cost?

- The Toll will only be the FT Commodity Toll in effect during the Service Period that may be amended from time to time by the National Energy Board, for the applicable path.
- Pressure Charges at the Delivery Point (if applicable)
- Fuel: In-kind
- GST (if applicable)

3. What are my options and what do I need to do by 12:00 PM (noon) Calgary time on November 10, 2008?

OPTION 1: If I wish to accept my DOS-MN Entitlement?

Execute a DOS-MN Contract and return to TransCanada specifying on the Exhibit A:

- **Select one option in Boxes 1 - 2:**
  Box 1: Accept the stated Minimum Daily Quantity, **or**
  Box 2: Accept the stated Minimum Daily Quantity plus reallocation/assigned entitlement quantities up to a maximum quantity of your choice (not to exceed 165 TJ/day).
- **Select one Delivery Point** (One of Union SWDA, Enbridge SWDA, Dawn Export or St. Clair).
- **Select GST Zero Rate:** Yes or No (Yes only allowed at Dawn Export or St. Clair)
  Note: Selecting Yes for GST Zero Rate instructs TransCanada that the gas is being exported and to set the GST Rate to 0%.

OPTION 2: If I wish to assign my DOS-MN Entitlement to another Shipper(s)?

Only need to complete, execute and return the Assignment of Entitlement - DOS-MN form.

PLEASE NOTE: Assignment of your DOS-MN Entitlement is permanent (cannot be reverted) and Shipper gives up all rights to their DOS-MN Entitlement.

OPTION 3: If I don't want my DOS-MN Entitlement?

You do not need to do anything. Firm Shippers that do not return an executed DOS-MN Contract to TransCanada by 12:00 PM (noon) Calgary time on November 10, 2008 will be deemed to have rejected their DOS-MN Entitlement and such capacity will be reallocated to those Firm Shippers willing to accept additional DOS-MN Capacity on a pro rata basis.

Note: If Shipper accepts an allocation it can subsequently be assigned to a third party on or after November 22, 2008.

4. What is the timeline for DOS-MN?

- **Wednesday November 5th**

TransCanada will provide each Firm Shipper with a Contract, Exhibit "A" stating their DOS-MN Entitlement and an Assignment of Entitlement - DOS-MN form.

- **Monday November 10th**

By 12:00 PM (noon) Calgary time each Firm Shipper must return their executed DOS-MN Contract and Exhibit "A" or Assignment of Entitlement - DOS-MN form, or TransCanada will deem that the Firm Shipper has rejected their DOS-MN Entitlement and the capacity will return to the pool for reallocation.

- **Tuesday November 11th**

TransCanada will determine each Firm Shipper's final allocation of DOS-MN Capacity and return the Exhibit "A" stating the Shipper's final allocation of DOS-MN Capacity and new nomination group number.

- **Friday November 14th**

Shipper Nominations due by Timely Window 11:00 AM Calgary time. Note that Shipper will be required to re-nominate each month.

- **Saturday November 15th**

Flows start 09:00 CCT

5. Where do I send my executed documents?

Fax the executed DOS-MN Contract with a completed Exhibit "A" or the completed and executed Assignment of Entitlement - DOS-MN form to TransCanada:

FAX: (403) 920-2343

6. Who can I call if I have questions?

Analyst - Norma Marchet	**Office: (403) 920-6258 Cell: (403) 831-8361**
Analyst - Minh Nguyen	**Office: (403) 920-5804 Cell: (403) 835-8463**
Manager - Barbara Miles	Office: (403) 920-5780 Cell: (403) 831-9151
Supervisor - Vincent Thebault	Office: (403) 920-5840 Cell: (403) 835-8572

7. What is the allocation methodology used to determine DOS-MN Entitlement?

On November 5, 2008 TransCanada will provide each Firm Shipper with a statement of their share of DOS-MN Entitlement determined as follows:

Firm Shipper's DOS-MN Entitlement = Firm Shipper's Revenue x DOS Allocation Factor

Where:

1. DOS-MN Allocation Factor = 165 TJ/d / Total Firm Shipper Revenue
2. Total Firm Shipper Revenue = sum of all Firm Shipper's Revenue
3. Firm Shipper's Revenue = Σ (Daily Demand Toll * MDQ * Days)
   (i.e., sum of demand charge revenue to be paid by a shipper under all of their firm service contracts this winter)
4. Daily Demand Toll = current FT, FT-SN, FT-NR or STS Monthly Demand Toll x 12 / 365
5. MDQ = Contract Demand specified in each Firm Service Contract
6. Days = the number of days that a Firm Contract is in effect during the DOS-MN term
   (i.e., from November 15, 2008 to March 31, 2009 inclusive)
7. Firm Shipper's DOS-MN Entitlement will be deemed to be zero if the calculated quantity is less than 1 GJ.

For questions concerning the allocation methodology please contact:
Zafir Samoylove Office: (403) 920-6831 Cell: (403) 831-9052

UNION GAS LIMITED

Answer to Interrogatory from
Association of Power Producers of Ontario ("APPrO")

TransCanada DOS-MN

Question:

On or about November 7, 2008, TransCanada filed an application with the National Energy Board to implement a Dawn Overrun Service - Must Nominate ("DOS-MN") whereby for the balance of the current winter TransCanada will receive gas at Empress and redeliver such volumes at Dawn. The cost for such service is the FT commodity toll, thus shippers avoid the normal demand charge that otherwise would apply. Certain shippers had the right to their pro-rata of this service. Please indicate if Union has taken its pro-rata share of this service and, if so, whether the full benefits of this service will flow through the Y factor transportation costs.

Response:

Yes. Union contracted for its pro rata share of DOS-MN. Union offered a portion of its pro rata share to customers with TCPL assignments. Some of these customers accepted the DOS-MN capacity assignment.

Union is not treating any benefit associated with the use of the DOS-MN as a Y factor. Any benefit from the use of DOS-MN over the term of the incentive regulation framework will be used to contribute to the S&T transactional margins already included in infranchise delivery rates, and will form part of the Union's regulated earnings.

Question: December 9, 2008
Answer: December 16, 2008
Docket: EB-2008-0220

EB-2008-0220

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2009.

ARGUMENT OF CANADIAN MANUFACTURERS & EXPORTERS ("CME")

December 31, 2008

Borden Ladner Gervais LLP
World Exchange Plaza
100 Queen Street
Suite 1100
Ottawa ON K1P 1J9

Peter C.P. Thompson, Q.C.
Vincent J. DeRose
Counsel for CME

TABLE OF CONTENTS

D. Y Factor Adjustments

(a) Upstream Transportation Costs

33. In Exhibit B2.2, Union indicates that it has contracted for what CME understands to be some cheaper upstream transportation made available by TCPL. The interrogatory response states "Union is not treating any benefit associated with the use of the DOS-MN as a Y Factor." CME questions why reductions in upstream transportation costs are not being flowed through to the benefit of Union's ratepayers.

34. CME requests that Union explain in its Reply Argument why these cost reductions in upstream transportation are not being passed through to ratepayers as part of the upstream transportation costs Y Factor.

(b) Storage Margin Sharing Changes

35. In Exhibit B3.5, Union reports that the actual 2007 long term peak storage revenues were $32.22M, compared to the $21.405M forecast embedded in base rates, for a variance of $10.817M. The response indicates that, as a result of the Board's Decision in EB-2008-0154, ratepayers will be credited with an additional $5.917M for 2007 as part of the 2008 deferral account disposition. CME questions why ratepayers should have to wait until the 2nd quarter of 2009 to receive the balance of their 2007 share of storage premiums.

36. CME also considered whether the $21.405M forecast embedded in rates is materially low, and considered making a submission to the effect that the amount embedded in base rates for storage margin sharing in 2009 be increased.

28. By letter dated December 19, 2008, the Board indicated that Union should file a motion to vary if it wished to change the third condition of approval established in EB-2008-0304. Union filed a motion to vary the EB-2008-0304 Decision in this respect on January 7, 2008. Accordingly, while that issue is outstanding, it would be inappropriate and premature to implement any rate change based on this condition.

Y Factor Adjustments

29. Intervenors either accepted Union's evidence or did not provide comment with respect to the proposed Y factor adjustments.

30. In addition, CME and IGUA invited Union to comment on the treatment of the revenues from the DOS-MN service offered by TCPL.

31. The DOS-MN service is part of Union's transportation portfolio that is available for optimization through S&T transactional activity. Benefits resulting from transactions to optimize transportation capacity have historically been and will, in the future, continue to be recognized as part of Union's regulated S&T transactional activity. The forecast margin from this type of transactional activity has long been recognized in the determination of rates.

32. The forecast margin from all S&T transactional activity included in rates was increased significantly in the 2007 rates settlement agreement. This margin was further increased in the incentive regulation settlement agreement when certain deferral accounts were eliminated (IR settlement agreement, p.33). The entire updated forecast was included in the determination of rates in 2008 for the benefit of ratepayers. The net result of these changes was to provide ratepayers with a fixed level of benefits from S&T transactional activity through the incentive regulation period, and to provide Union with a strong incentive to exceed that level of fixed benefit. Union is at risk for achieving the forecast results and is only rewarded if the net benefits exceed the threshold incorporated in rates.

33. Actual results for the year will be included in Union's determination of utility earnings, and will be subject to any earnings sharing, thereby providing the potential for further ratepayer benefit.

Long-Term Peak Storage Margin

34. Union confirms that rate payer credit related to 2008 long-term peak storage margins will be disposed of as part the 2008 deferral disposition proceeding.

Average Use Factor

35. Intervenors either accepted Union's proposal or did not provide comment with respect to the average use factor. Accordingly, Union's proposals for the AU factor should be accepted.

Annual Adjustment to General Service Monthly Charges

36. Intervenors either accepted Union's proposal or did not provide comment with respect to the general service monthly charge adjustments. Accordingly, Union's proposals for these adjustments should be approved.

Other Rate Schedule Changes

37. Intervenors either accepted Union's proposal or did not provide comment with respect to the other rate schedule changes. Accordingly, Union's proposals should be accepted.

Recovery of Rate Changes from January 1, 2009

38. Intervenors either accepted Union's proposal or did not provide comments with respect to the approval of rates effective January 1, 2009 and the recovery of rate changes from between the implementation date and January 1, 2009. Accordingly, these rate changes should be approved.

Conclusion

39. In conclusion, Union asks the Board to issue a rate order effective January 1, 2009 to reflect the proposed changes in rates as submitted by Union in this proceeding.

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008- 0220

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

AND IN THE MATTER OF an Application by Union Gas Limited for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas effective January 1, 2009.

BEFORE: Pamela Nowina
Presiding Member and Vice Chair

David Balsillie
Member

Paul Sommerville
Member

DECISION WITH REASONS

INTRODUCTION

Union Gas Distribution Inc. ("Union") filed an Application on September 26, 2008 with the Ontario Energy Board ("Board") under section 36 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Sched. B), as amended, for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas, effective January 1, 2009.

The Board assigned file number EB-2008-0220 to the Application and issued a Notice of Application dated October 27, 2008.

The Board granted intervenor status to the Consumers Council of Canada ("CCC"), the Industrial Gas Users Association ("IGUA"), the Energy Probe Research Foundation ("Energy Probe"), the Vulnerable Energy Consumers Coalition ("VECC"), the School Energy Coalition ("SEC"), the Association of Power Producers of Ontario ("APPrO"), the Ontario Association of Physical Plant Administrators ("OAPPA"), Ontario Power Generation, Sithe Global Canadian Power Services Limited, Jason Stacey, Ontario Energy Savings L.P., TransCanada Pipelines Limited, TransCanada Energy Limited, the London Property Management Association ("LPMA"), Kitchener Utilities ("Kitchener"), Canadian Manufacturers and Exporters ("CME"), Direct Energy Marketing Limited, ECNG Energy L.P., Enbridge Gas Distribution Inc., and Hydro One Networks Inc.

On November 28, 2008 the Board issued Procedural Order No.1 which set the dates for the filing of interrogatories, interrogatory responses, submissions and argument for the written proceeding.

On December 10, 2008 Union filed a Notice of Motion seeking an order declaring Union's rates interim effective January 1, 2009 on the basis that the proceeding timetable did not contemplate the Board's issuance of a 2009 rate order in time for January 1, 2009 implementation. On December 16, 2008 the Board issued an order making Union's rates in effect as at January 1, 2009 interim.

THE APPLICATION

Union said that the rates proposed under the Incentive Rate Mechanism ("IRM") for 2009 were determined in accordance with the Board approved EB-2007-0606 Settlement Agreement and Addendum (collectively the "Settlement Agreement"). The topics covered in Union's evidence included the 2009 Inflation and Productivity Factors, Y and Z factor Adjustments, Average Use Adjustments and Annual Adjustments to General Service Monthly Charges as defined in the Settlement Agreement

Union's proposals and requested approvals included:

- An increase of $1.00 in the monthly fixed charge (from $17.00 to $18.00) for the residential classes M1 and Rate 01 on a revenue neutral basis;

- A specification that under Delayed Payment the monthly late payment charge of 1.5% equates to an effective annual interest rate of 19.56%;
- Maintenance of existing deferral/variance accounts;
- Unchanged miscellaneous non-energy charges;
- Y factor amounts of $1.84 million for DSM and $5.351 million for the reduction in the in-franchise ratepayers share of long-term storage margins;
- General Service class Average Use of Gas adjustments for 2009;
- 2009 Inflation Factor of 1.54% and a 1.82% productivity factor used to calculate the proposed rates; and
- Z factor adjustment of the costs associated with the conversion to International Financial Reporting Standards ("IFRS") for recovery in rates.

Union also noted in the Application that it had filed a motion for review and variance of the Board's EB-2007-0606 decision, dated July 31, 2008, related to treatment of tax changes and risk management. The Board heard the Motion, under docket EB-2008-0292, and issued its decision on December 10, 2008. Union, in its Argument-in-Chief dated December 19, 2008, recognised that the proposed 2009 rates, as originally filed, would have to be adjusted downward to reflect the Board's decision.

Subsequent to the filing of interrogatory responses, Union, by way of a letter dated December 18, 2008, advised the Board that its proposed Average Use adjustment was in error. Union confirmed that the draft rate order which Union will file following the Board's decision will incorporate the correct calculation.

THE ISSUES

CCC, SEC, IGUA, CME, Board Staff, APPrO, LPMA, Kitchener and VECC filed submissions. Except for the following, the submissions accepted Union's evidence or remained silent on non-contentious matters.

Parties questioned Union's proposed Z factor treatment of IFRS costs. Union described the conversion to IFRS as a Canadian Accounting Standards Board requirement that all publicly accountable enterprises adopt IFRS in place of Canadian Generally Accepted Accounting Principles. Union forecasted the conversion costs (pre-tax) to be $1.511 million in 2009, $1.510 million in 2010, $.691million in 2011 and $.497 in 2012. For the most part, the intervenors took issue with the appropriateness of using forecasted rather than actual costs and the assertion that the $1.5 million Z factor threshold was met each year.

Other issues raised by intervenors included Union's reluctance to file the schedules pertaining to its 2007 actual financial results as required by the Settlement Agreement and Union's failure to implement the Board's direction in EB-2008-0304 decision to reduce 2009 rates by $1.3 million. In EB-2008-0304 Union sought the Board's leave for a proposed transfer in controlling interest and reorganization.

IGUA and CME also asked Union to comment on and explain Union's treatment of TransCanada Pipelines' new "Dawn Overrun Service-Must Nominate ("DOS-MN"). DOS-MN was described as a cheaper transportation service. IGUA and CME questioned why Union considered DOS-MN as related to Storage and Transportation Revenue rather than Upstream Transportation. Under the Settlement Agreement, Upstream Transportation costs are considered as Y factor adjustment items, and, as such, their cost impact flows through to rates. In instances when Upstream Transportation costs decrease, ratepayers would benefit, and, correspondingly, ratepayers would bear the costs when the costs increase. Under the Settlement Agreement variances in Storage and Transportation Revenue items do not flow through to rates.

Board Findings

International Financial Reporting Standards

Union is proposing Z factor treatment of IFRS costs. On this basis, Union is seeking to recover in rates, starting in 2009, the revenue requirement impact of the costs Union forecasts to incur associated with the transition to IFRS. The forecasted conversion costs are summarized in Table 1.

Table 1: IFRS Conversion Costs

(in millions)	2008	2009	2010	2011	2012
Capital Investment	$ .592	$ 1.334	$ .263	-	-
Annual Carrying Cost *	$ .086	$ .363	$ .581	$ .595	$ .497
Operating & Maintenance	$ .882	$ 1.148	$ .929	$ .096	-
Total Annual (pre-tax) Cost	$ .968	$ 1.511	$ 1.510	$ .691	$ .497
* comprised of depreciation and interest					

Source: Exhibit A-1 p6 table 1

Union indicated, in its response to interrogatory B5.1, that the forecasted Operating and Maintenance costs include expenses for consulting, additional staff, project management administration and audit fees. A component of the consulting and the project management expenses will be shared equally with Union's Canadian affiliate, Westcoast. In this regard, Union stated that its share of the costs in 2008, 2009 and 2010 would be $.0578 million, $.222 million and $.0788 million respectively, which are subcomponents of the OMA.

Parties, for the most part, questioned the appropriateness of Union's proposed Z factor treatment for three reasons. First, costs were being claimed for recovery in years where the annual costs did not meet the $1.5 million Z factor threshold. Second, the amount proposed for recovery was based on forecasted rather than actual costs. Third, when the annual threshold was exceeded, it was by a small amount. These three concerns highlighted the need to examine the forecasted cost components, including timing, and the basis of any cost sharing with Union's affiliates. In the event that the Board approved Union's proposal, many parties advocated the establishment of a variance account to capture differences between forecasted and actual costs.

In order to succeed in its proposal, Union must demonstrate that its claim for Z factor treatment conforms with the terms of the Settlement Agreement of January 3, 2008. Section 6 of that Settlement Agreement defines the criteria that govern consideration of Z factors. Most notably for our consideration of Union's proposal is the requirement that:

> *"...the cost increase/decrease meets the materiality threshold of $1.5 million annually for Z factor event (ie. the sum of all individual items underlying the Z factor event). "*

There are two components of this definition which are directly relevant to Union's proposal.

First is the requirement that the Z factor is to be considered on an annual basis. Union's proposal would extend Z factor treatment of expenses associated with IFRS transition to 2009, 2010, 2011 and 2012. In the Board's view it is premature to consider the application of Z factor treatment to any cost increases associated with IFRS transition to any year beyond 2009. If Union believes that Z factor treatment is appropriate for 2010, or any of the other years of the IRM plan, it must make application year by year.

Second is a requirement that the cost increase or decrease meet the materiality threshold of $1.5 million. In this case Union has asserted that the costs associated with the transition to IFRS accounting methodology in 2009 would amount to barely $11,000 over the materiality threshold of $1.5 million. This is a very slender margin.

In advancing a claim for Z factor treatment for a category of increased cost, the Board expects an applicant to provide convincing and compelling evidence supporting the proposal. Of course the most compelling evidence for Z factor treatment is the actual expenditures associated with the category of expense. That is not available here. Instead Union has provided forecast costs associated with the transition. Although Union's evidence stated that Ernst and Young LLP ("E&Y") assisted in the development of the forecast, Union did not provide any documentation authored by E&Y in its evidence.

The forecast also includes the proposed 50/50 split of some of the associated cost as between Union and its relevant affiliate Westcoast, discussed earlier. Union's evidence outlined the rationale for the 50-50 sharing of these costs based on the assets of the companies involved. Although these shared elements are small, we note that the extent to which the annual threshold is exceeded is less than these amounts. This may be a reasonable method to allocate the costs. However, due to the absence of any detailed evidence on the nature of the costs, the Board cannot determine if the allocation is appropriate.

In the Board's view, Union has not provided convincing and compelling evidence in support of its claim for Z factor treatment. Given that its proposal is based exclusively on forecasts of costs it is incumbent upon the applicant to provide as full and as convincing a record as possible supporting these forecasts. It is a meaningful burden, which reflects the extraordinary nature of Z factor treatment and is coloured in part by the very slender margin by which Union's own projection exceeds the threshold.

Accordingly the Board denies Union's application for Z factor treatment for the costs associated with the transition to IFRS accounting.

Given this finding, it is unnecessary for the Board to consider any other ground urged upon it by the intervenors which may have the effect of disqualifying Union's proposal.

Implementation of the Board's Decision in EB-2008-0304

Under docket EB-2008-0304, Union had applied to the Board for leave to transfer the voting shares of Union to a limited partnership, contemplated as a Nova Scotia unlimited liability company, the entire interest in which would be held by Westcoast Energy Inc. In the decision approving the re-organization, the Board made the approval subject to the condition that Union's rates will be reduced effective January 1, 2009 to reflect $1.3 million in savings related to the redemption of preferred shares that had been identified in the proceeding.

A number of intervenors in this proceeding submitted that Union had failed to follow this direction and that Union's proposed 2009 rates should be adjusted to reflect this ratepayer credit. Union responded that since it had filed a Motion to vary the EB-2008-0304 decision, it would be inappropriate and premature to implement any rate change concerning the $1.3 million in savings.

The Board acknowledges that Union has filed a motion for the review and variance of the Board's EB-2008-0304 decision. The Board has assigned file number EB -2009-0022 to this motion. The Board also acknowledges Union's earlier correspondence which indicated that the reorganization underpinning the Board's decision and which gave rise to the requirement that a $1.3 million reduction in the revenue requirement be reflected in the 2009 rates has not been implemented.

However, as of the date of this decision, the Board's order requiring the reduction in revenue requirement for 2009 rates stands. Accordingly, the 2009 revenue requirement should reflect that reduction unless and until a decision in the motion to vary has been rendered displacing or altering it.

The Board will make every effort to ensure that the motion to vary is considered as expeditiously as reasonable. It is our expectation that the motion can be considered and disposed of prior to the approval of the rate order reflecting 2009 rates. In that case the Board would seek to reflect in the rate order any variance arising from Union's motion.

The Filing of 2007 Financial Information

In its submission, IGUA objected to Union's reluctance to file 2007 actual financial information. The Settlement Agreement referenced above provided for the filing of a variety of materials by Union through the course of the IRM plan. The Board considers the informational filing requirement to be a key element of the Settlement Agreement and the IRM framework. The specific dispute highlighted by IGUA concerns the position taken by Union that because the Settlement Agreement requires it to file information arising "during the IR plan", that 2007 financial information does not qualify.

The Board considers Union's position to be inconsistent with the spirit of the Settlement Agreement and contrary to a reasonable application of its terms. Accordingly, the Board directs to Union to file by April 1, 2009, as part of the materials mandated by the Settlement Agreement, 2007 actual financial information.

Upstream Transportation Changes

Union noted that pursuant to the Settlement Agreement ratepayers were credited with a fixed amount reflecting a forecast performance of its transactional services business. Union also noted that the increased capacity that is associated with the Dawn Overrun Service may have benefits for ratepayers pursuant to the earnings sharing mechanism that continues in place. In other words, ratepayers have been already credited with an amount intended to reflect the transactional services activity of the company. Any additional revenues which may be occasioned by the new TransCanada service will not accrue under this heading, but may lead to earnings sharing distribution.

The Board finds Union's explanation with respect to this concern, which was raised by IGUA in its submissions, to be convincing. In the Board's view this is a fair approach that is consistent with the general architecture of the IRM plan and the Settlement Agreement.

IMPLEMENTATION

Given current timing, the Board anticipates that the 2009 rates, effective January 1, 2009, will be implemented commencing with the first billing cycle on or after April 1, 2009.

Union is directed to file a draft rate order within 7 calendar days of the issuance of this decision. Intervenors shall have 7 calendar days to respond to Union's draft order. Union shall respond within 7 calendar days to any comments by intervenors.

COSTS

A decision regarding cost awards will be issued at a latter date. Eligible intervenors claiming costs should do so as directed below.

The Board hereby directs:

1. Intervenors eligible for cost awards shall file with the Board and forward to Union their respective cost claims within 25 days from the date of this Decision.

2. Union may file with the Board and forward these intervenors any objections to the claimed costs within 32 days from the date of this Decision.

3. Intervenors, whose cost claims have been objected to, may file with the Board and forward to Union any responses to any objections for cost claims within 39 days of the date of this Decision.

4. Filings are to be in the form of two hardcopies and one electronic copy in searchable PDF format at boardsec@oeb.gov.on.ca and copy Union Gas Limited.

Union shall pay any Board costs of, and incidental to, this proceeding upon receipt of the Board's invoice.

DATED at Toronto, January 29, 2009

ONTARIO ENERGY BOARD

Original Signed By

Pamela Nowina
Presiding Member and Vice Chair

Original Signed By

David Balsillie
Member

Original Signed By

Paul Sommerville
Member

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, page 11

Question:

Union stated that new market opportunities, in part, account for the increase in short-term transportation and exchange revenues.

a) Please describe the nature and characteristics of these new market opportunities.

Response:

Over the last number of years, end use customers have been decontracting firm long haul transportation capacity in favour of recontracting shorter term short haul transportation and commodity purchases at Dawn. This reflects in part a desire by end use customers for shorter term contracts and a lower long term transport contract commitment and related financial exposure.

The increased demand for shorter term short haul services has provided Union with the opportunity to sell increased transportation and exchange services into the market. These services are for terms as short as one day. As described in Exhibit A, Page 7 of 29, lines 10 to 15, to both respond to and support this increased market demand and provide the customer support for these transactions, Union increased its Chatham-based sales staff by two positions in 2008, refocused the contract and customer support staff and initiated process and IT systems changes. The overall objective was to capitalize on these opportunities and optimize and market Union's assets and related services.

Union also focused on further optimizing its upstream supply portfolio. Union was able to extract value from new services introduced by upstream transportation providers in excess of what was achieved historically. An example of these new services includes TCPL's Firm Transport Risk Alleviation Mechanism (FT-RAM), Storage Transportation Service Risk Alleviation Mechanism (STS-RAM), and Dawn Overrun Service – Must Nominate (DOS-MN). These new services provided increased opportunities for transportation and exchange transactions in the market. These opportunities were also influenced by favourable market conditions experienced in 2008.

Response to B7.7 Attachment 2

Route	Point of Supply	Point of Delivery	Actual UDC as a Percentage of Route Total (%)	Actual Percentage Used for Optimization (%)	Amount of Short-Term Transportation and Exchange Revenue ($000s Cdn)		Amount of S&T Transportation and Exchange Revenue in Rates ($Cdn)
(A)	(B)	(C)	(D)	(E)	(F)		(G)
Dawn	Dawn	Dawn	N/A	N/A	N/A		NOTE 1
Vector	Chicago	Dawn	0%	4%	29		
Trunkline/Panhandle	Trunkline Field Zone	Ojibway	8%	51%	20		
PEPL FZ-MichCon-St Clair	Panhandle Field Zone	Dawn	0%	0%	-		
Panhandle Longhaul	Panhandle Field Zone	Ojibway	13%	0%	14		
Alliance/Vector	CREC	Dawn	0%	13%	208		
TCPL SWDA (1)	Empress	Dawn	N/A	N/A	N/A		
TCPL Union CDA	Empress	Parkway	0%	95% (3)	11,277	(2)	

Sources for Assumptions:

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

Union's Analysis Completed: May 2012

Note 1 Embedded in rates is a level of transportation and exchange revenue of $11.4 million. This figure cannot be broken out between transportation and exchanges or by transportation path.

Footnotes
(1) not a contract in Union's portfolio
(2) approximation
(3) All supplies for Empress-Parkway contract continued to be purchased at Empress. All supplies were transported to Union's markets.
In the winter, supplies not delivered to Parkway were primarily delivered to Union's northern markets, depending on the month, weather, and market factors. Since the supplies did not arrive at Parkway and it generated RAM credits, the revenue was included as optimization.
In the summer, supplies not delivered to Parkway were delivered primarily to Dawn. Since the supplies did not arrive at Parkway and it generated RAM credits, the revenue was included as optimization.
This level of optimization is dependent upon TCPL's RAM program.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit A, page 11

Question:

Union stated that new market opportunities, in part, account for the increase in short-term transportation and exchange revenues.

a) Please describe the nature and characteristics of these new market opportunities.

Response:

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