REF: Exhibit A, Tab 1, page 6

DSM Costs Included in 2014 Rates

At Exhibit A, Tab 1 page 6 Union sets out the following with respect to the inclusion of DSM amounts in 2014 rates:

> 4.2 DSM Budget Changes
>
> Consistent with the Board-approved Agreement filed in Union's 2012-2014 DSM Proceeding (EB-2011-0327), Union proposes to include a DSM budget of $32.049 million in 2014 rates. This represents an increase of $0.408 million based on an inflation factor of 1.29% multiplied by the DSM budget of $31.641 million included in 2013 rates. Union has allocated the 2014 DSM program costs to rates based on the planned expenditures by rate class in 2014 with the exception of the program costs attributable to Low-income DSM programming. Low-income DSM program costs are recovered from all rate classes in proportion to the amount of rate base each rate class is allocated in Union's Board-approved cost study. The allocation to rate classes can be found at Working Papers, Schedule 11.

At Working Papers, Schedule 11, Union sets out the calculation of the of the DSM Budget to be included in 2014 rates for each rate class, beginning from an 2013 Approved DSM Budget which is then escalated using the Inflation Factor as set out in the Board-approved Agreement in EB-2011-0327.

1) DSM Impacts
   a) Please confirm that the DSM Budgets that are included in 2014 rates are exclusive of any SSM, LRAM, DSMVA, or any other amounts other then the Board approved (by rate class) 2014 DSM Budget. If that is not the case, please describe how such amounts have impacted on the 2014 DSM Budget amounts to be included in rates on a rate class by rate class basis.
   b) Please confirm that amounts other then the 2014 DSM Budget, including but not limited to amounts relating to SSM, LRAM and the DSMVA, whether related to 2014 or to years prior to 2014, have been or will be determined in proceedings other then this rate proceeding, and to the extent such amounts have been or will be found to be owing to or owed by ratepayers they have been or will be calculated and refunded/recovered outside of base rates. If that is not the case, please describe how such amounts have impacted on

the calculation of the 2014 DSM Budget to be included in 2014 rates on a rate class by rate class basis.

c) Please expand Working Papers, Schedule 11 to show the Calculation of the 2013 DSM Budget as it was included in 2013 rates, the 2012 DSM Budget as it was included in 2012 rates, the 2011 DSM Budget as it was included in 2011 rates, the 2010 DSM Budget as it was included in 2010 rates, the 2009 DSM Budget as it was included in 2009 rates, the 2008 DSM Budget as it was included in 2008 rates and the 2007 DSM Budget as it was included in 2007 rates, all on a rate class by rate class basis. For each year in the expanded Schedule please indicate a reference for the OEB approval for the DSM Budget and the allocation of that Budget to each rate class.

Change in Allocation of Costs to M4, M5 (Firm) and M5 (Interruptible) Rate Classes

Attached to this interrogatory are three documents (found in Schedule 1 to these IR's):

Attachment A: A comparison prepared by OGVG of the allocation of Rate Base amounts and Revenue Requirement amounts to the M5 (Firm), M5 (Interruptible) and M4 Classes as between the evidence in EB-2005-0520 Exhibit G3, Tab 2, Schedule 2 and the evidence in EB-2011-0210 Exhibit G3, Tab 2, Schedule 2.

Attachment B: A table comparing the revenue requirement allocated to the M5 rate classes (both Firm and Interruptible) as between EB-2005-0520 and EB-2011-0210, with comments explaining the drivers of material changes in allocated amounts, provided to OGVG by Union Gas in response to concerns about the changes in allocated amounts over the course of the 2007 to 2013 rate years.

Attachment C: A series of questions and responses between OGVG and Union Gas following up on the issue of the changes in allocated amounts in the M4 and M5 (both interruptible and Firm) rate classes between the 2007 and 2013 rate years.

These documents were exchanged between OGVG and Union Gas in an effort to help OGVG understand the changes in allocation of rate base and revenue requirement amounts within the M5 (Firm), M5 (Interruptible) and M4 classes between the 2007 and 2013 rate years.

2) Increased Allocation to M5 Rate Class

a) Please confirm that Attachment B is an accurate comparison of the M5 (both Firm and Interruptible) rate classes as between the 2007 and 2013 rate classes. If there are any changes required in order to make the Attachment accurate please provide an updated copy.

b) Please provide a table in the form similar to Attachment B for the M4 rate class.

c) Please confirm that the responses provided by Union Gas at Attachment C are accurate. If there are any changes required in order to make the Attachment accurate please provide an updated copy.

d) At attachment 1 the Responses in Attachment C, line 4, although the table shows a 0% change in the amount of "Other Rate Base" amounts allocated to the M5 rate classes when taken together, there is a material shift in the costs as between the Firm and Interruptible classes. Please describe the driver of this shift in allocation (or the causes of the increase in one rate class and the decrease in the other if the changes are not related to a shift between the two classes).

e) OGVG understands from the responses in Attachment C that the only change in allocation methodology that affected the allocation of costs to the M4 and M5 (both Firm and Interruptible) rate classes was the change in the service replacement cost allocator, and that the remaining changes relate either to:

i) changes in distribution design day demands,

ii) changes in the forecast number of customers within the classes,

iii) changes to the forecast delivery volumes, or

iv) increases in the amounts being allocated (including a material increase related to the DSM Program costs being allocated to the M5 rate class).

Using the changes in i) through iv) and any other factors that we may have not described, please show the calculations that reconcile the significant increase in rate base allocated and revenue requirement attributed to the M5 rate class and the resulting rates.

REF: SCHEDULE 2 TO THESE INTERROGATORIES

3) Please provide Union's policy for establishing financial security for contract customers.
   a) Please confirm this policy is not approved by the Board.
   b) Please describe how an existing or potential customer may access this policy.

4) Please provide all internal Union correspondence to the management and agents responsible for contract negotiation that address the contracting practice including but not limited to:
   a) need for aid-to-construction
   b) establishing minimum annual volume
   c) need to secure firm contracting
   d) availability of additional capacity from the line in the next five years

REF: SCHEDULE 2 - UNION LETTER OF AUGUST 8, 2013

Preamble: Union's letter states on page 2: "The capital cost of the new line has been unitized in a manner that will enable a proportionate share of the cost to be attributed to growers based on the capacity for the number of acres the customer is requesting. For ease of communications, we equated the volume capacity to an equivalent usage per acre because acres are a common point of reference from the perspective of the growers. The unitized cost is $9000 / $ 18000 per acre for interruptible or firm service respectively, and is applied to all growers... In March Union updated the forecasted attachments and the forecasted distribution costs. The net result was a forecasted PI of 1.18.

5) Please file the complete economics package that provides the forecasted attachments broken down by residential, commercial and industrial classes by year of attachment or contract upgrade and the costs associated with the project.
   a) Hypothetically, if all the forecasted attachments and upgrades paid the upfront per acre unitized cost prior to obtaining service during the forecast period, please provide the sum of money that would be collected by forecast year?
   b) In this same hypothetical example, if the payments were made and the volumes forecasted were consumed, please provide the resulting profitability index of the project.
   c) Beyond the forecasted attachments and upgrades in the economics, please provide Union's forecast by year for the rest of the market served by this pipeline.

d) Please provide the profitability index for this pipeline if these additional loads were added to the approved economic analysis (i.e., without the hypothetical upfront payments described in a)).

6) Please provide Union's policy for establishing minimum annual volumes for contract customers prior to 2013.
   a) For contracts signed in conjunction with the Leamington Line project in 2013, please provide any analysis Union undertook to ensure that the minimum annual volumes contracted for were below a forecasted annual consumption for reasonably warm winter for the customer. Please describe how recent improvements in energy efficiency for new or expanded facilities were incorporated into the analysis.
   b) If that analysis was not undertaken, would it be Union's position that the customer is responsible to consume the minimum annual volume or compensate Union for the under-consumption? If so, how is the amount of compensation calculated?
   c) If the answer to b) is yes, would Union return additional margins generated from that same customer if the next year was considerably colder than normal resulting in actual consumption above forecast?

REF: SCHEDULE 2 - UNION LETTER OF DECEMBER 5, 2013

7) Please confirm that, for projects that have a PI greater than 1, EBO 188 does not prescribe the practice of upfront capital contributions or minimum annual volumes as a condition of access to the additional capacity.

8) Please provide the incremental total hourly demand, for each firm and interruptible increases, for each year of the first five years of the project.
   a) How were those hourly demands generated (i.e., by historical hourly demand by acre, historical annual demand by acre converted to hourly).
   b) Please confirm or correct the following statements that:
      i) that the pipeline would be designed to meet the firm load on a 44 Degree Day

ii) that the pipeline would be designed to meet the firm and interruptible load on a 35 Degree Day

9) Please provide specifics on the pipeline:
   a) Length and diameter of pipeline
   b) Minimum inlet and maximum outlet pressure of the pipeline
   c) Please clarify the statement "the pipeline project has the firm capacity to provide 48,633m3/hr and an additional 10,300 m3/hr of interruptible capacity.
   d) Please provide the annual hourly load growth forecasted by year for the next five years for the Leamington system served by this pipeline.
   e) Based upon the hourly loads for the forecasted attachments and additional hourly loads identified in d), please specify the remaining capacity available for additional potential customers in year 6 and beyond.
   f) If that answer is zero, what is Union's intended reinforcement plan at that juncture?

SCHEDULE 1

OGVG IRS EB-2013-0365
Schedule 1
Attachment “A”

RATE CASE	Rate Class	M5F	M5I	M4
EB-2005-0520	Rate Base	3,662	29,286	52,966
	Rev. Req't	1,374	8,996	26,743
EB-2011-0210	Rate Base	889	46,151	54,682
	Rev. Req't	957	18,113	19,203

REFERENCE UNION G3 TAB 2 SCH 2

Note: This version is corrected relative to the original provided to Union by OGVG, the correct proceeding cite and the correct rate base allocation have been updated and highlight in yellow in this version

OGVG IRS EB-2013-0365
SCHEDULE 1 ATTACHMENT B

Comparison of M5 revenue requirement - EB-2005-0520 to EB-2011-0210

REVENUE REQUIREMENT SUMMARY	2007 BA Cost Allocation Study			2013 BA Cost Allocation Study			Difference		% Change		
	Total	M5 - F	M5 - I	Total	M5 - F	M5 - I	M5 - F	M5 - I	M5 - F	M5 - I	Comments
RATE OF RETURN ON RATE BASE	7.93%	7.93%	7.93%	7.32%	7.32%	7.32%	-0.61%	-0.61%	-8%	-8%	
RATE BASE	3,377,197	3,754	28,861	3,712,759	890	45,144	(2,864)	16,283	-76%	56%	Service Replacement Cost allocator update
RETURN ON RATE BASE	267,921	298	2,290	271,756	65	3,304	(233)	1,015	-78%	44%	
OPERATING EXPENSES											
TOTAL COST OF GAS	1,147,433	148	704	707,860	50	2,777	(98)	2,073	-66%	295%	Sales service gas supply costs
LOCAL STORAGE	1,697	0	0	1,520	0	0	0	0			
UNDERGROUND STORAGE	44,058	75	415	22,808	8	259	(67)	(156)	-90%	-38%	
TRANSMISSION	38,676	37	108	30,242	5	20	(31)	(88)	-86%	-81%	
DISTRIBUTION (Southern Ontario)	36,890	41	513	39,246	11	828	(30)	315	-73%	61%	Service Replacement Cost Allocator update
DISTRIBUTION (Northern Ontario)	18,263	0	0	22,097	0	0	0	0			
GENERAL OPERATING AND ENGINEERING	34,093	74	346	39,121	45	533	(29)	188	-39%	54%	
SALES PROMOTION AND MERCHANDISE	34,435	80	744	40,318	316	3,424	235	2,679	294%	360%	DSM - EB-2011-0327 Settlement Agreement
DISTRIBUTION CUSTOMER ACCOUNTING	64,826	58	139	57,276	18	125	(40)	(14)	-68%	-10%	
ADMINISTRATIVE AND GENERAL	117,258	167	1,003	158,663	341	2,790	174	1,787	104%	178%	Increase in DSM and increase in Admin and General Costs
TOTAL OPERATING EXPENSES	1,537,629	680	3,971	1,119,149	794	10,756	114	6,785	17%	171%	
DEPRECIATION EXPENSE	178,503	242	1,360	196,091	64	2,270	(178)	911	-73%	67%	Based on rate base allocation -- see Service Replacement C
ACCUMULATED DEFERRED TAX DRAWDOW	(16,565)	(19)	(111)	(15,169)	(4)	(147)	15	(36)	-79%	33%	
TAXES											
CAPITAL TAX	8,612	10	74	0	0	0	(10)	(74)	-100%	-100%	
PROPERTY TAX	60,059	69	527	63,272	20	974	(49)	447	-71%	85%	Based on rate base allocation -- see Service Replacement C
INCOME TAX	37,530	42	321	31,531	8	383	(34)	63	-82%	20%	
TOTAL TAXES	106,201	121	922	94,803	28	1,357	(93)	436	-77%	47%	
TOTAL REVENUE REQUIREMENT	2,073,689	1,322	8,431	1,666,630	947	17,540	(374)	9,109	-28%	108%	

Return and Tax	1,451
Depreciation	911
DSM	2,679
DSM and ADMIN	1,787
Cost of gas	2,073
	8,901

Per the Board's EB-2011-0210 Decision, the revenue to cost ratio could not fall below the revenue to cost ratio in EB-2005-0520. As a result, Union increased the recovery to move the revenue to cost ratio from the proposed level of 0.746 to the 2007 Board-approved level of 0.824.

osts

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UNION GAS LIMITED

Question 1:

The total column in the Tab 5 tables for SERVREPLCOSTS seem to be out by a factor of 1,000 (000). Please confirm this is a presentation error or please help us understand the difference.

Response:

The 2007 Board-approved cost allocation factor for service replacement costs is provided in dollars ($), as compared to the 2013 Board-approved cost allocation factor for service replacement costs, which is provided in thousands of dollars ($000's). The difference in units does not impact the allocation of costs.

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Question 2:

What drove the increase in % allocations for M5I and M4?

Response:

As described in EB-2011-0210, Exhibit H1, Tab 1, page 39 (July 13 Updated), Union updated the service replacement cost information used to determine its service replacement cost allocator when preparing the 2013 cost allocation study. Union conducted an extensive review of the service length, size and type of pipe for the contract rate customers. The review also recognized any changes in the forecasted customers from 2007 to 2013.

The total 2007 and 2013 Board-approved service replacement cost allocation factors are provided below in Table 1. The Rate M4 service replacement costs increased from $1.789 million to $3.921 million and the interruptible Rate M5 service replacement costs increased from $2.002 million to $4.254 million.

Table 1
Service Replacement Costs
2007 Board-Approved vs. 2013 Board-Approved Cost Allocation Study

Line		2007		2013		Variance	
No.	Rate Class	($000's)	%	($000's)	%	($000's)	%
		(a)	(b)	(c)	(d)	(e)=(c-a)	(f)=(d-b)
1	Rate M1	1,149,059	96.45%	1,350,119	93.53%	201,060	(2.92%)
2	Rate M2	26,593	2.23%	31,837	2.21%	5,244	(0.03%)
3	Rate M4	1,789	0.15%	3,921	0.27%	2,132	0.12%
4	Rate M5 - F	233	0.02%	35	0.00%	(198)	(0.02%)
5	Rate M5 - I	2,002	0.17%	4,254	0.29%	2,252	0.13%
6	Rate M7 - F	3,197	0.27%	4,846	0.34%	1,649	0.07%
7	Rate M7 - I	14	0.00%	613	0.04%	599	0.04%
8	Rate M10	2	0.00%	1	0.00%	(1)	0.00%
9	Rate T1/T2 - F	7,183	0.60%	39,313	2.72%	32,130	2.12%
10	Rate T1/T2 - I	1,320	0.11%	8,564	0.59%	7,244	0.48%
11	Total	1,191,391	100.00%	1,443,503	100.00%	252,112	0.00%

Based on the results of the service replacement cost review, the average service replacement cost for Rate M4 and Rate M5 per customer increased by $24,873 and $13,224, respectively. The average service replacement cost per service for Rate M4 and Rate M5 increased by $10,610 and $6,195, respectively. The calculation of the average service replacement cost is provided in Table 2.

The increase in the average cost is driven by various factors, including the changes in the composition of customers in each rate class, the increase in the total service lengths (measured in meters) and the increase in the replacement costs. The replacement costs are based on the estimated cost to replace the service, which includes the type of service (plastic or steel) and diameter of the pipe.

Table 2
2013 and 2007 Board-Approved Rate M4 and Rate M5 Average Service Replacement Cost

	Rate M4			Rate M5		
Particulars	2007	2013	Variance	2007	2013	Variance
	(a)	(b)	(c)=(b-a)	(d)	(e)	(f)=(e-d)
Service Replacement Costs ($)	1,788,931	3,920,882	2,131,951	2,235,199	4,289,237	2,054,038
Number of Customers	194	115	(79)	133	143	10
Number of Services	390	258	(132)	176	227	51
Service Length (m)	22,379	30,837	8,457	23,883	36,984	13,101
Average Service Replacement Cost:						
$ per Customer (line 1/line 2)	9,221	34,095	24,873	16,806	30,030	13,224
$ per Service (line 1/line 3)	4,587	15,197	10,610	12,700	18,895	6,195

UNION GAS LIMITED

Question 3:

Even with those changes, there still seems to be a disproportionate increase in rate base/revenue requirement to M5. If you or someone could provide us with an explanation of how this occurs that speaks to the drivers, we would appreciate it.

Response:

Please see Attachment 1 for a summary of the cost changes in Rate M5. The attachment compares the 2013 Board-approved revenue requirement to the 2007 Board-approved revenue requirement. Union has identified the following cost increases to Rate M5.

a) Union South Distribution Plant, Depreciation Expense and Operating Expenses

The Rate M5 allocation of Union South distribution plant, depreciation expense, and operating expenses has increased by more than 50 percent since the 2007 cost allocation study (Attachment 1, line 3, line 9 and line 15).

The increase in these distribution costs is primarily driven by the increase in the allocation of distribution-demand related costs to Rate M5. The total Rate M5 Union South distribution net plant increased by $13.396 million, of which $12.876 million is demand-related (Attachment 1, column i), line 1 and line 3). The total Rate M5 Union South distribution depreciation expense and operating expenses increased by $0.727 million and $0.285 million respectively, of which $0.702 million and $0.235 million is demand-related (Attachment 1, column i), line 7, line 9, line 12 and line 15).

The Union South distribution demand-related costs are allocated to Union South in-franchise rate classes in proportion to the distribution design day demands. The 2007 and 2013 interruptible Rate M5 design day demands have increased from 2,607 10^3m^3 to 3,755 10^3m^3 per day. As a result of this increase, the Rate M5 portion of distribution design day demands increased from 5% to 8%. The change in the distribution design day demands from the 2007 to the 2013 Board approved cost allocation study is provided in Table 1.

Table 1
Distribution Design Day Demands
2007 Board-Approved vs. 2013 Board-Approved Cost Allocation Study

Line No.	Rate Class	2007 (10^3m^3)	%	2013 (10^3m^3)	%	Variance (10^3m^3)	Variance %
		(a)	(b)	(c)	(d)	(e)=(c-a)	(f)=(d-b)
1	Rate M1	26,952	51%	28,724	58%	1,772	7%
2	Rate M2	10,363	20%	9,650	20%	(713)	0%
3	Rate M4	3,068	6%	2,727	6%	(341)	0%
4	Rate M5 - F	203	0%	51	0%	(152)	0%
5	Rate M5 - I	2,607	5%	3,755	8%	1,148	3%
6	Rate M7 - F	1,566	3%	585	1%	(981)	(2%)
7	Rate M7 - I	160	0%	-	0%	(160)	0%
8	Rate T1/T2 - F	6,229	12%	2,883	6%	(3,346)	(6%)
9	Rate T1/T2 - I	1,586	3%	944	2%	(642)	(1%)
10	Total	52,734	100%	49,319	100%	(3,415)	0%

The increase in interruptible Rate M5 design day demands is a result of the increase in the interruptible Rate M5 forecast number of customers and delivery volumes, as shown in Table 2.

Table 2
2013 Board-approved Number of Customers and Delivery Volumes

Line No.	Rate Class	2007	2013	Variance
		(a)	(b)	(c)=(b-a)
	Number of Customers			
1	Rate M5 - F	50	31	(19)
2	Rate M5 - I	83	112	29
3	Total	133	143	10
	Delivery Volumes			
4	Rate M5 - F	67,353	17,385	(49,968)
5	Rate M5 - I	337,281	516,392	179,111
6	Total	404,634	533,778	129,144

b) DSM Program Costs (Sales and Promotion Operating Expenses)

The sales and promotion operating expenses shown at Attachment 1, line 16, include DSM Program costs. The total Rate M5 sales and promotion increase is $2.915 million, of which $2.683 million is DSM-related. The allocation of DSM Program costs to Rate M5 reflects the EB-2011-0327 Settlement Agreement filed on January 31, 2012.

c) General Operating and Administrative Expenses

General operating and engineering costs and administrative and general (A&G) costs are allocated in proportion to other costs in the cost allocation study.

The distribution-related general operating and engineering costs are allocated to Rate M5 based on distribution plant. Since the total distribution plant allocation to Rate M5 increased (as described in part a), the allocation of these general operating and engineering costs also increased. The total general operating and engineering expenses allocated to Rate M5 increased by $0.159 million (Attachment 1, line 17).

A&G costs are allocated in proportion to other O&M in the cost allocation study. The allocated Rate M5 total O&M has increased since 2007, primarily due to the inclusion of DSM costs in the 2013 Board-approved cost allocation study (as described in part b). The total Board-approved A&G costs have also increased from $117 million to $159 million since 2007, which increases the total costs allocated to all rate classes including Rate M5. As a result of these increases, the allocation of A&G costs to Rate M5 has increased by $1.961 million in 2013 compared to the 2007 Board-approved cost allocation study (Attachment 1, line 18).

Attachment 1
Rate M5 Revenue Requirement Comparison
2013 vs. 2007 Board-Approved Cost Allocation Study

Line No.	Particulars ($000's)	2007 M5 - F	2007 M5 - I	2007 Total	2013 M5 - F	2013 M5 - I	2013 Total	Variance (2013 less 2007) M5 - F	M5 - I	Total	%
		(a)	(b)	(c)=(a+b)	(d)	(e)	(f)=(d+e)	(g)=(d-a)	(h)=(e-b)	(i)=(f-c)	(j)=(i/c)
	Union South Distribution Net Plant										
1	Demand-Related	1,352	17,362	18,714	421	31,170	31,590	(931)	13,807	12,876	69%
2	Customer-Related	558	3,684	4,243	53	4,710	4,763	(505)	1,025	520	12%
3	Total Union South Distribution Net Plant	1,910	21,047	22,957	473	35,880	36,353	(1,437)	14,833	13,396	58%
4	Other Rate Base [(1)]	1,844	7,814	9,658	416	9,264	9,681	(1,428)	1,451	23	0%
5	Total Rate Base	3,754	28,861	32,615	890	45,144	46,034	(2,864)	16,283	13,419	41%
6	Total Return and Taxes	399	3,100	3,500	89	4,514	4,603	(311)	1,414	1,104	32%
	Union South Distribution Depreciation Expense										
7	Demand-Related	59	756	815	20	1,497	1,517	(39)	740	702	86%
8	Customer-Related	31	202	233	3	255	258	(28)	53	26	11%
9	Total Union South Distribution Depreciation Expense	90	958	1,048	23	1,752	1,775	(67)	794	727	69%
10	Other Depreciation Expense	153	401	554	41	518	559	(111)	117	5	1%
11	Total Depreciation Expense	242	1,360	1,602	64	2,270	2,335	(178)	911	733	46%
12	Cost of Gas	148	704	852	50	2,777	2,827	(98)	2,073	1,975	232%
	Union South Distribution O&M										
13	Demand-Related	38	487	525	10	750	760	(28)	263	235	45%
14	Customer-Related	3	26	29	1	78	79	(2)	52	50	174%
15	Total Union South Distribution O&M	41	513	554	11	828	839	(30)	315	285	51%
	Other O&M										
16	Sales and Promotion	80	744	824	316	3,424	3,739	235	2,679	2,915	354%
17	General Operating & Engineering	74	346	420	45	533	578	(29)	188	159	38%
18	Administrative and General	167	1,003	1,170	341	2,790	3,131	174	1,787	1,961	168%
19	Other O&M	170	661	831	31	404	435	(138)	(257)	(396)	(48%)
20	Total O&M	532	3,267	3,799	744	7,979	8,723	212	4,712	4,924	130%
21	Total Revenue Requirement	1,322	8,431	9,752	947	17,540	18,487	(374)	9,109	8,735	90%

Notes:
(1) Other rate base includes net plant excluding Union South distribution plant (line 1), working capital, and accumulated deferred taxes.

UNION GAS LIMITED

Question 4:

Lastly, how does Union's cost allocation process differentiate allocation factors for Interruptible customers versus Firm customers.

Response:

Union's cost allocation methodology differentiates interruptible customers from firm customers in the allocation of transmission demand-related and storage space and deliverability costs. Union excludes interruptible customers from the allocation of these costs based on the design criteria of these systems. For example, the Dawn-Parkway system and storage deliverability are designed to meet firm peak load on design day and therefore, the cost allocation only includes the firm demands.

Union includes the interruptible customer loads in designing the distribution system and therefore, includes the interruptible customer demands in the allocation of distribution demand-related costs. Union also includes the number of interruptible customers and delivery volumes in the allocation of customer-related costs and commodity-related costs.

SCHEDULE 2

Ontario Greenhouse Vegetable Growers
32 Seneca Road
Leamington, Ontario
N8H 5H7
(519) 326-2604 / 1-800-265-6926
(519) 326-7842 Fax
www.ontariogreenhouse.com

June 28th, 2013

Mr. Dave Simpson
GM In-franchise Sales & Marketing Customer Care
Union Gas Ltd.
50 Keil Drive North
Chatham, ON
N7M 5M1

RE: Leamington Expansion Project - Comber Line Reinforcement

Dear Mr. Simpson,

We are in receipt of Union's letter of May 6th in response to our letter of April 8th. We thank Union Gas and those copied for your invitation to participate at the Ontario Energy Board so we may better understand natural gas matters that affect our members. We have been accepted as an intervenor by the Board in your upcoming 2012 Earnings Sharing and Deferral Account disposition proceeding and intend on staying actively involved in this and future proceedings. We trust that our participation will be mutually beneficial in creating greater satisfaction for our members and your customers.

We respect that Union Gas has been actively trying to address the growing need for natural gas to supply our members in the Leamington and Kingsville area. We thank the company for meeting with our members at the Open House last summer to provide information and respond to inquiries on the Comber Line Reinforcement. Your presence was welcomed. In spite of this, we have not received any updates regarding your Ontario Energy Board ("Board") approval and your expected timelines for project completion. We would respectfully request an update on your Board decision, including any pertinent changes to your application that affect our members, and your expected timelines for project construction and completion.

We also understand that you have been communicating with our members with a view to establishing contracts to support the project. Union's letter refers to needing economic feasibility through "long term contractual obligations or financial contributions". While your response to our request for an update on the Board decision may speak to this matter, at this time we feel it necessary that to gain a more complete understanding of the contracting process so that we may better serve our members. We fully respect Union's need to enter into equitable binding arrangements to provide the company with a reasonable expectation of meeting its rate of return on the project. However, it is essential that our members fully comprehend the contracting process to avoid any confusion in the future. We also want to ensure that the financial commitments of this process do not become a barrier to accessing the service that Union's franchise rights provide.

We appreciate the outreach offer provided by Union in their letter encouraging growers to contact account representatives for more information. While a direct member to account representative interaction may answer some questions, we feel that in some instances a unified sector wide response may be more appropriate. Information gathered in this manner should result in a mutually beneficial contracting process and significantly reduce confusion amongst growers involved in the project. To that end, we have recently provided members with some questions to ask their account representatives. To ensure that we know Union's official position on these topics we request that Union provide us answers to the following questions in writing:

1) How does Union calculate the minimum annual volume stipulated in the contract? Please provide the formula and process that is used.

2) If based upon the consumption history of a greenhouse operation, how has Union taken into account any conservation measures applied in the existing or contemplated future operations?

3) What would happen if winter weather was very warm and the operation did not consume the minimum volume in the contact?

4) During the primary term of the contract, what are the grower's obligations to Union for the minimum annual volume in the event of:

    a. Selling the business

    b. Closing the business

5) We have heard that Union is seeking credit upfront to keep a place in the queue for the pipeline capacity. If that is correct, does Union publicize the queue and the capacity committed versus remaining capacity available?

6) If credit is provided with the contract for future capacity rights, are these rights to the capacity transferrable to a third party? If so, what are the conditions and what happens to the credit provided? If not, what happens to the credit if the capacity is not needed?

We trust that you understand the importance of this project to our members and their businesses. Given that we are approaching Canada Day and are almost half-way to our next Canadian winter, we would respectfully request a prompt response to our inquiry to ensure that our members can benefit from your service this year.

George Gilvesy
General Manager, Ontario Greenhouse Vegetable Growers

cc: Don Taylor, OGVG
Justine Taylor, OGVG
Steve Baker, Union Gas
Mark Kitchen, Union Gas

uniongas
A Spectra Energy Company

July 18, 2013
Mr. George Gilvesy
General Manager
Ontario Greenhouse Vegetable Growers
32 Seneca Road
Leamington, ON
N8H 5H7

RE: Leamington Expansion Project – Comber Line Reinforcement

Dear Mr. Gilvesy

Union has reviewed the letter you sent on behalf of the Ontario Greenhouse Vegetable Growers ("OGVG"), dated June 28, 2013. Based on the content of the letter, Union has summarized the letter into the following items:

1. Update regarding the Leamington Expansion Pipeline Project (Board file EB-2012-0431)
2. Understanding of the contracting process as it relates to OGVG members
3. Written response to the six questions contained in the June 28 letter

1. Update regarding the Leamington Expansion Project (Board file EB-2012-0431)

Union received Ontario Energy Board (the "Board") approval on March 28, 2013 to proceed with a leave to construct approximately 8.5 km of a 12" natural gas pipeline starting on the Townline Road north of South Middle Road and continuing south along Lakeshore Road 245 and then on the abandon railroad corridor south of Count Road 8. The pipeline will end at the County Road 14 station.
Union began construction on May 27, 2013 with a target in-service date of November 2013. At this time, there are no changes to the application as approved by the Board.

2. Understanding of the contracting process as it relates to OGVG members

As you may be aware, prior to the initiation of the Leamington Expansion Project, Union had received a number of requests for natural gas service from greenhouse growers in Leamington, Kingsville, Mersea Township and Gosfield South Township. These requests came from new greenhouse operations, greenhouses that operate on fuels other than natural gas, and from growers who wanted to switch from interruptible service to firm natural gas service. To determine the level of interest in natural gas service, Union held an open season to allow growers and other users of natural gas with the opportunity to express their interest in natural gas service. "Open Season" is an industry term. It is a process which is used to allow customer an opportunity to bid for services that Union believes there is a market need for. As part of the open season package, Union provides the customers with a description of the service, the expected parameters for the service, which would include, but not be limited to: quantities, contract term length, one-time charges, and conditions precedent. In some case, as with the Leamington Expansion, there may be a need to build facilities to support the open season, and Board approval may be required based on the results of the open season.
The open season for the Leamington expansion was well received and provided Union with a clear understanding of the potential growth in the greenhouse market for the area.

A total of 509 acres of greenhouse capacity was identified through the open season process. The acreage is a mix of new firm and interruptible acreage as well as conversion from interruptible to firm service. It was this identified acreage that supported Union's facilities application.
As with all project expansions, to insure that all project costs are recovered from customers who are requesting natural gas service, customers may be required to provide Contributions In Aid of Construction, also called an "aid to construct". An aid to construct is required when the projected natural gas load revenues are less than the projected costs over the life of the new facilities. In the case of the Leamington Expansion project, there was an aid to construct required to maintain the economic feasibility for the project. This economic feasibility test expansion projects is prescribed by the Board.
As a result, greenhouse growers who are requesting natural gas service as part of the Leamington Expansion Project are required to provide an aid to construct to recover the costs to build facilities. The project has identified that the aid for this project is $18,000.00 per acre for firm natural gas service and $9,000.00 per acre for interruptible natural gas service. The aid to construct requirement can be satisfied in two ways:

1. Pay a one time up front lump sum payment. A customer choosing this option would then sign a one year gas distribution contract; or
2. Spread the payment of the aid to construct over a longer term with the greenhouse grower executing a contract with Union, committing to an annual volume of gas that will recover the required aid. Should the grower choose this alternative, a minimum annual volume (MAV) is negotiated with the customer that will ensure that the amount of aid is fully recovered over the term of the contract. The length of the term will vary depending on the MAV volumes the customer is committing to.

3. Written response for the six question contained in the June 28 letter

Responses to Questions

1. **How does Union calculate the minimum annual volume (MAV) stipulated in the contract? Please provide the formula and process that is used.**

   A: There is no formula for the minimum annual volume. For each contract rate class, the "floor" for the MAV would be the minimum volume required to qualify for the rate class. For example, the current M4 rate class has a minimum qualifying annual volume of 700,800 m3, but the contracted MAV would be 146 times the Contracted Demand. The minimum qualifying volume for the M5 rate is 700,000 m3. As of January 1, 2014, the minimum volume required to qualify for contract rate in the M4 (firm capacity) and M5A (interruptible capacity) rate classes will be reduced to annual volume requirement of 350,400 m3 and 350,000 m3 respectively.
   An MAV may be negotiated with any contract rate customer based on a number of factors. For the Leamington Expansion project, negotiated MAV's have been put in place to insure that the capital costs for the project are fully recovered. With the Leamington Expansion Project, it was identified that customer would need to contribute and aid in order for the project to be economically feasible. Customers can pay the aid as one lump sum, or the amount of the aid can be spread out by committing to an annual volume over a contract term. By doing so, the aid is recovered over the term of the contract as long as the customer meets the agreed to annual volume of consumption. This is identified as the minimum annual volume (MAV).

2. **If based upon the consumption history of a greenhouse operation, how has Union taken into account any conservation measures applied in the existing or contemplated future operation?**

A: The MAV is not solely based on historical consumption. The MAV is the amount that a customer is committing to either consume and pay for through usage, or pay for if not consumed. Historical usage is a measure Union and the customer can refer to assess if the business is likely to use similar volume going forward. Union does not take into account any conservation measures applied when determining the need for an MAV.

Since the MAV has a floor based on the minimum volume requirement for the rate class, if the resulting existing or future conservation measures were to cause the annual volume to be below the qualifying level for the rate class, the customer would no longer qualify for contract rate and would be moved to the applicable rate class.

If the conservation measures do not impact rate class eligibility, then the MAV would be reviewed at the contract anniversary date and any negotiated change may be incorporated into the contract.

3. **What would happen if winter weather was very warm and the operation did not consume the minimum volume in the contract?**

A: The MAV is the minimum amount of volume that must be consumed during the term of the contract. Should the contracted minimum annual volume requirement not be met, the applicable charges would be applied, as outlined in the signed gas distribution contract. The charge will be the quantity of the MAV shortfall multiplied by the applicable charge as specified in the rate schedule. The charge would be billed in the first month following the end of the contract year (Section 5 of the Gas Distribution Contract).

4. **During the primary term of the contract, what are the grower's obligations to Union for the minimum annual volume in the event of:**
   a. **Selling the business**
   b. **Closing the business**

A: Any contract for natural gas service is between Union and the customer. These contractual agreements are not assignable without consent from Union.
If a grower were to sell their business during the term of the contract, the obligations for the entire contract will be dependent on the type of sales agreement put in place between the buyer and the seller as well as Union's agreement to assign any contract to the buyer. Since each sale can be unique, two simplified scenarios are presented below:
Scenario 1: Purchaser only buys the assets from the grower, with no obligations to any existing contracts.
- In this scenario, the current holder of the contract (the grower) would be responsible for all obligations of the contract. With regards to the MAV, the grower would be responsible for any deficiency volumes resulting from the existing distribution contract.

Scenario 2: Purchaser buys all assets and liabilities from the grower. The purchaser assumes all obligations of the growers existing contracts, subject to Union consent to the assignment of the contract(s) to the purchaser

- In this scenario, the purchaser would be responsible for all obligations of the contract, including the MAV.

Closing the Business: If the business is closed during the term of the contract, the grower is still responsible for all obligations of the contract.

5. **We have heard that Union is seeking credit upfront to keep a place in the queue for the pipeline capacity. If that is correct, does Union publicize the queue and the capacity committed versus remaining capacity available?**

   A: There is no queuing for distribution pipeline capacity.

   With regards to the Leamington Expansion project, since construction has commenced and the pipeline will be in service by November 2013, Union now needs to contract with those growers who expressed interest in taking natural gas service associated with the expansion. From the expressions of interest, growers have been approached to confirm the exact number of acres that are either new to natural gas service (firm or interruptible) or will be converting from interruptible natural gas service to firm service. In both instances, a contract will need to be entered into. All gas distribution contracts go through a number of approvals within Union, and one of those approvals is a review of the customer's financial viability. Based on contract parameters (i.e. MAV, estimated annual usage, and contracted demand), payment history, financial statements, internal credit ratings and in the case of the Leamington Expansion Project and defined in #2 above, any aid to construct amount that the customer has committed to, Union will determine the amount of unsecured credit to extend to a customer – this is known as the unsecured credit limit. If the unsecured credit limit is sufficient to cover the expected financial exposure to Union, then no financial assurance is requested and the contracting process will continue. However, if the unsecured credit limit is not sufficient, then financial assurance will need to be provided to cover the difference between the unsecured credit limit and the expected financial exposure. Financial assurances can be in the form of a cash deposit, letter of credit, or parental guarantee if there is a qualifying parent company with sufficient credit available. The need for financial assurance is one of the conditions in Section 2 of the gas distribution contract.

6. **If credit is provided for future capacity rights, are these rights to the capacity transferrable to a third party? If so, what are the conditions and what happens to the credit provided? If not, what happens to the credit if the capacity is not needed?**

   A: Financial Assurance is not requested for future capacity rights.
   Should any customer be required to provide financial assurance to Union, as may be required for the gas distribution contract, Union reviews the customer's credit limit on an annual basis to determine if the limit is sufficient to cover the expected financial exposure to Union. Should the unsecured credit limit be

increased to a level that allows any provided financial assurance to be reduced or eliminated, the amount of the financial assurance will be returned to the customer.

We hope that this addresses the questions you had regarding the Leamington Expansion and look forward to meeting in person with you soon to address any follow up questions you may have.

Sincerely,

Directory, Residential Commercial Sales
Union Gas Limited

Ontario Greenhouse Vegetable Growers
32 Seneca Road
Leamington, Ontario
N8H 5H7
(519) 326-2604 / 1-800-265-6926
(519) 326-7842 Fax
www.ontariogreenhouse.com

July 22nd, 2013

Ms. Jackie Caille
Director, Residential Commercial Sales
Union Gas Ltd.
50 Keil Drive North,
Chatham, ON N7M 5M1

RE: Leamington Expansion Project - Comber Line Reinforcement

Dear Ms. Caille,

Thank you for your letter of July 18th.

While we have clarity on some points, one of the fundamental premises of your letter is: "In the case of the Leamington Expansion project, there was an aid to construct required to maintain the economic feasibility for the project."[1] We recall that Union had initially informed the growers that an aid would be required. However, we have come to understand that Union has subsequently informed the Board that the overall project aid is not, in fact, required and the Board relied on that in providing its approval.[2]

It is our understanding that while Union has the right to establish the appropriate security for credit risks or seek aid from individual customers for additional customer service facilities that are not profitable; Union does not have the right to use the previous project aid-to-construction estimate to:

1) Secure an upfront cash deposit nor
2) Establish a minimum annual volume to secure aid-to-construction over the 10 year contract.[3]

We trust that our interpretation is correct but seek your concurrence on our understanding as this point is extremely critical to our members having an effective understanding of their position in negotiating a bi-lateral contract. To that end, it is our intent, with your confirmation of the above point, to summarize the answers we have received from Union. We would send that summary to Union for its concurrence. Upon receiving Union's concurrence that we have the facts straight, the summary would be provided to our members and, presumably Union's contract representatives.

Your expedited response to this letter would promote effective communication and contracting for this much needed project and reduce our need to seek clarification from the Ontario Energy Board.

Sincerely,

George Gilvesy
General Manager, Ontario Greenhouse Vegetable Growers

[1] Union Response Letter dated July 18th, page 2, paragraph 2.
[2] EB-2012-0431 Decision and Order dated March 28, 2013, page 5.
[3] Union Response Letter, page 2, response 1, second paragraph

August 8, 2013

Mr. George Gilvesy
General Manager
Ontario Greenhouse Vegetable Growers
32 Seneca Road
Leamington, ON
N8H 5H7

RE: Leamington Expansion Project – Comber Line Reinforcement

Dear Mr. Gilvesy

Thank you for your letter of July 22nd.

As follow up to our July 31st meeting, Union agreed to clarify my letter of July 18th and in particular the circumstances where aid is required and my response to your question 2.
In question 2, part of my response was…

"As a result, greenhouse growers who are requesting natural gas service as part of the Leamington Expansion Project are required to provide an aid to construct to recover the costs to build facilities. The project identified that the aid for this project is $ 18,000.00 per acre for firm natural gas service and $9,000.00 per acre for interruptible natural gas service. The aid to construct requirement can be satisfied in two ways:

1. *Pay a one time up front lump sum payment. A customer choosing this option would then sign a one year distribution contract: or*
2. *Spread the payment of the aid to construct over a longer term with the greenhouse grower executing a contract with Union, committing to an annual volume of gas that will recover the required aid. Should the grower choose this alternative, a minimum annual volume (MAV) is negotiated with the customer that will ensure that the amount of the aid is fully recovered over the term of the contract. The length of term will vary depending on the MAV volumes the customer is committed to."*

In my letter, I used the term "aid" to describe the financial commitment that a grower wishing to connect to the new facilities may make to cover the allocated costs. I apologize for any confusion that this terminology may have caused and appreciate the opportunity to have met with you Ms. Taylor, Mr. Taylor and Mr. Quinn to clarify the process to determine "aid" and the individual calculations that would occur specific to each grower. Per your request, Union has summarized our discussion from that day as follows.
In our meeting of July 31st Mr. Hockin described the methodology for the aid calculation and the circumstances where an aid would or would not apply. To review, an "aid" is required when the net present value (NPV) of the revenue is less than the NPV of the costs. In this respect the aid is a shortfall of revenue in comparison to the costs. Union will determine the costs (as described below), and the customer will determine level and length of term for the revenue stream, subject to a maximum term of 10 years. The customer will choose the minimum annual volume (MAV) and the number of years for the contract. This is the revenue stream that is discounted to a

net present value to compare to the costs. Subject to meeting the qualifying requirements of the rate schedule, the choice of term and volume is a decision made by the customer.

The determination of whether an aid is required is done using a common methodology and applied on a customer specific basis using customer specific costs and revenues. The Leamington Expansion Project is a new supply line to the area. The capital cost of the new line has been unitized in a manner that will enable a proportionate share of the cost to be attributed to growers based on the capacity for the number of acres the customer is requesting. For ease of communications, we equated the volume capacity to an equivalent usage per acre because acres are a common point of reference from the perspective of the growers. The unitized cost is $9000 / $ 18000 per acre for interruptible or firm service respectively, and is applied to all growers. Non-greenhouse operations (such as a larger commercial/industrial user) will be allocated a proportionate share of the supply line costs using a factor of $205/$m^3$/hour). This factor is noted in the open season documents. The charge is an equivalent to the per acre allocation quoted in the open season. For practical reasons the allocation will not be applicable to residential customers.

The allocated cost of the supply line is added to the customer specific distribution costs to determine the total cost for such customer. The revenue parameters are chosen by the customer based on the gas service needs that support the grower's operations. These include the Contract Demand (CD), the MAV and the length of term for the contract subject to a maximum 10 years. Where the NPV of the revenue stream is less than the NPV of the costs as noted above, there is a revenue shortfall and the customer has the choice of either making a lump sum payment in advance or modifying the parameters that were used for the revenue determination. This includes increasing the CD, MAV, or the term of the contract; or any combination of these with a lump sum payment.

In our meeting we discussed the 10 year contract term. This is a maximum term. A term less than 10 is available to customers at their option. A lesser term will have a lesser committed revenue stream and will of course impact the NPV of the revenue. By way of example, if a 10 year revenue stream results in a PI of 1.20 (revenue is excess of the cost), the customer may choose to either reduce the MAV and keep the 10 years or keep the MAV and reduce the term, or a combination of both. Provided the PI does not fall below 1.0 an aid would not be required. Conversely in an example where a 10 year term has PI of .80 either additional revenue or a lump sum payment of an aid is required. In this example the customer choices for the revenue stream are: Increasing the CD or MAV or a lump sum payment or any combination of this.

In our meeting there were questions asked in regards to a whether a queue exists for the capacity. There is no queue. Capacity of the supply line is on first come first served basis. The availability in the future is based on the take up rates as committed by customers via signed contracts.

In our meeting we discussed reference to the $2 million aid payment requirement as was noted in the filing we made to the Ontario Energy Board (OEB). At the time of filing, the $2 million figure was an estimate of the revenue shortfall for the entire project based on a forecasted rate of take up of the capacity over a 3 year period; the estimated cost of the supply line; and the estimated cost of the distribution system to connect the customers. As we discussed that forecast, derived from customer discussions, was based on a mix of acres that would sign up for firm or interruptible service, and existing acres that would convert from interruptible to firm service. In the later case the cost of distribution facilities is considerably less than the cost to connect new acres on a new site. This was an aggregated estimate of the project in total. The determination of whether an individual customer would need to pay an aid would be determined as I have described above.

In March Union updated the forecasted attachments and the forecasted distribution costs. The net result was a forecasted PI of 1.18. The increase in PI was driven by a reduction of the forecasted distribution costs primarily because the acres being committed where more weighted towards a conversion from interruptible to firm service. The forecasted cost of the supply line at approximately $8.2 million did not change. The PI of 1.18 assumed a 10 year revenue term for all customers and in such circumstances the revenues would exceed the costs. On an individual basis there may be circumstances where a customer has a PI less than 1.0 and an aid may be required. This is the example as I described above.

We appreciate the opportunity to have met with you and your colleagues in person to discuss this on July 31st. I trust that our discussion at that meeting, along with this additional communication, provides a clear understanding of the financial requirements regarding the Leamington Expansion.
Should you have further questions regarding this project or any other matter of interest to your association or its members, please do not hesitate to contact me or Patrick Boyer, Manager Greenhouse, Retail Energy and Wholesale Markets, pboyer@uniongas.com (519) 436-5470. We look forward to keeping in touch with your association and its members going forward.

Sincerely,

Jackie Caille
Director, Residential Commercial Sales

November 5, 2013

Union Gas Ltd.
50 Keil Drive North,
Chatham, ON N7M 5M1

Attention: Ms. Jackie Caille, Director, Residential Commercial Sales

RE: Leamington Expansion Pipeline Project - OGVG Request for Information

We are writing on behalf of the Ontario Greenhouse Vegetable Growers ("OGVG") as a follow-up to communications with Union Gas this past summer. As you know, DR QUINN & ASSOCIATES LTD. was retained by OGVG to address concerns originally communicated to the Ontario Energy Board ("the Board") in their letter of April 8, 2013.

Our communications this past summer were helpful in providing a consistent message to the growers regarding Union's position on the Leamington Expansion Pipeline Project ("the Project"). However, we were left with concerns regarding the economic evaluation of the project and Union's stated policies regarding required financial security for access to service that would flow from the project. In our meeting of July 31st, we asked some questions regarding the economics, design and capacity of the Project and were directed to the filings in EB-2012-0431 and some clarifying tables showing the increases in estimates of acreages to be served over time. Despite having reviewed the EB-2012-0431 material, your letters and the tables provided, our concerns remain.

The purpose of this letter is to understand the Board-approved decisions and policies that underpin Union's requirement for financial security from customers served by the Project. Further, we are also requesting the provision of some of the background information that supported the economic analysis and facilities design. Accordingly, we are providing you with the following questions in order to, hopefully, help our client understand whether its apparent concerns are in fact real.

<u>Board Approvals</u>

From the docket it appears that the initial application for the Project included an aid-to-construction to support a profitability index of 1.0. However, we understand that Union subsequently informed the Board that the overall project aid was not required and the Board relied on that information in providing its approval.[1] Since there is no required aid-to-construction, please provide the Board authority that Union is relying upon to:

[1] EB-2012-0431 Decision and Order dated March 28, 2013, page 5.

1) Secure an upfront cash deposit; or

2) Establish a minimum annual volume to secure the amount of the deposit over the 10 year contract

as a pre-condition for access to the incremental service.

Economic Evaluation

Please provide a breakdown of the increase in annual volumes by rate class that were forecasted in the first 5 years of the economic run included in Union's Reply Submission[2]. Please confirm that the Discounted Cash Flow analysis in that submission did not include upfront capital contributions by customers.

Facilities Design

As communicated in our meeting, we are seeking to understand the capability of the pipeline to meet future needs. The application speaks to contracted and forecasted growth and provides basic information about the size, length and location of the Project. To inform our understanding of the incremental capacity of the project and its ability to meet growth, please provide:

1) The five year forecast of increased hourly demand by rate class.
2) The increase in hourly capacity created by the Project.
3) The forecasted surplus in capacity in 5 years.

Your clear responses to this letter would reduce our need to seek clarification through the Ontario Energy Board.

On behalf of OGVG,

Dwayne R. Quinn
Principal
DR QUINN & ASSOCIATES LTD.

c. P. Duguay - OEB
G. Gilvesy, J. Taylor - OGVG
M. Buonaguro

[2] EB-2012-0431 Union Reply Submission dated March 8, 2013

December 2, 2013

Mr. Dwayne R. Quinn
DR QUINN & Associates Ltd.
130 Muscovey Dr.
Elmira, ON
N3B 3P7

RE: Leamington Expansion Pipeline Project – OGVG Request for Information

Dear Mr. Quinn,

From your letter dated November 5th, 2013, Union understands that there are 3 areas where your client, Ontario Greenhouse Vegetable Growers (OGVG) is seeking further clarity regarding the Leamington Expansion Pipeline Project. The 3 topics requiring further understanding relate to: Ontario Energy Board (OEB) authority Union is relying on for this project, economic evaluation and facilities design. Each is addressed in turn below:

OEB Authority

Your letter requested Union to provide the Board authority that Union is relying upon to:

1) Secure and upfront cash deposit, or
2) Establish a minimum annual volume to secure the amount of deposit over the 10 year contract

Union's project economics for the Leamington Expansion project were completed following the EBO 188 Guidelines, and Union's Distribution New Business Guidelines.

When Union prepares and submits an application to the OEB it includes the project economics and the assumptions that underpin those calculations. When the OEB approves the application, those assumptions underpinning the calculations are approved as well. The only exception to this would be a specific reference in the Board's decision that changes or revises those assumptions.

The Leamington Expansion project revised economic assumptions included a revenue stream for 10 years consistent with the attachment forecast.

In order for the project to have a PI of 1.0, a grower, or any contract customer is required to sign a contract that will support a revenue stream for a PI of 1.0 for their share of the costs. This will require a contract term of up to 10 years or the customer can provide an upfront payment, or a combination of both. This process will match the revenues identified in the project economics.

Economic Evaluation

Your letter also requested:

1) A breakdown of the increase in annual volumes by rate class that were forecasted for the first 5 years of the economic run included in Union's Reply Submission for EB-2012-0431 dated March 8, 2013.

2) Confirm that the Discounted Cash Flow analysis in that submission did not include upfront capital contributions by customers.

The breakdown of the increase in annual volumes by rate class that were forecast in the economic evaluation for the Leamington Expansion Project can be found in the table below.

	2013	2014	2015	2016	2017
Total (m3)	10,022,762	64,512,370	71,946,370	79,346,370	79,346,370
M2	414,583	2,487,500	2,487,500	2,487,500	2,487,500
M4	4,083,657	24,852,740	26,606,740	26,606,740	26,606,740
M5	5,524,522	37,172,130	42,852,130	50,252,130	50,252,130

The analysis in Union's Reply Submission for EB-2012-0431 dated March 8, 2013 did not include any capital contribution by customers.

Facilities Design

Lastly, with regards to the incremental capacity of the project and its ability to meet growth, you requested Union to provide:

1) The five year forecast of increased hourly demand by rate class.
2) The increase hourly capacity created by the project.
3) The forecasted surplus in capacity in year 5.

The forecast for the Leamington Expansion project is not based on the hourly demands by rate class. The economics for the project are derived from the revenue for each of the three types of acres being served by the project – new firm, new interruptible and conversion from interruptible to firm – and the applicable rate class identified for each type. Based on the applicable rate class for each type, a forecast of revenues for the project was developed.

The Leamington Expansion Pipeline project has the firm capacity to provide 48,633 m3/hour and an additional 10,300 m3/hr of interruptible capacity.

There was no surplus capacity forecasted in year 5 of the project.

Sincerely,

Jackie Carlile

Directory, Residential Commercial Sales
Union Gas Limited

cc: P. Duguay, OEB
M. Kitchen, P. Boyer, Union Gas Ltd.
G. Gilvesy, J. Taylor, OGVG
M. Buonaguro