EB-2013-0202

UNION GAS LIMITED

SETTLEMENT AGREEMENT

July 31, 2013

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EB-2013-0202

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is for the consideration of the Ontario Energy Board ("the Board") in its determination, under Docket No. EB-2013-0202, of the 2014-2018 rate-setting methodology for Union Gas Limited ("Union").

On April 29, 2013, Union convened a meeting with stakeholders to present its 2014-2018 Incentive Rate Mechanism ("IRM") proposals. Those invited were intervenors that participated in Union's 2013 Rebasing Proceeding (EB-2011-0210), and representatives of Board Staff. The purpose of the meeting was to inform stakeholders of Union's proposals and provide an opportunity for stakeholders to ask questions to better understand those proposals. A copy of the slides used at that meeting are included at Appendix A. Those slides describe the original Union proposals for 2014-2018 rates. At the end of the April 29, 2013 meeting, it was determined that further meetings would be held, which occurred on May 23, June 10, June 11, June 17 and July 15, 2013. It was agreed that Union would provide written responses to the information requests stakeholders had with respect to Union's proposals contained in Appendix A. All of the written responses Union provided to such information requests are included in Appendix B. The initial stakeholder meeting and all subsequent discussions, except the July 15 meeting, were facilitated by Mr. Ken Rosenberg, who was retained by Union to perform this function.

At the May 23, 2013 meeting, Union responded to further information requests from stakeholders. It was also determined in the May 23rd meeting that the further discussions in June and July would take the form of a Settlement Conference with a view to agreeing on some or all

of Union's IRM proposals. Parties agreed that all discussions would be subject to the Board's Settlement Conference Guidelines, interpreted as if this Agreement were the result of a Board-ordered settlement conference.

Settlement negotiations between Union and stakeholders took place on June 10, June 11, June 17 and July 15, 2013. The product of those negotiations is the comprehensive settlement of the IRM by which Union would set rates over the 2014-2018 period, subject to the determination of certain issues remaining to be determined, as set forth in Section 13.3 of this Agreement.

At the time that the April through July of 2013 discussions between the parties took place, Union's application in EB-2013-0202 (the "Application") had not been filed. Union has prepared its Application for Approval of a 2014-2018 Incentive Rate Making Framework based on this Agreement, and the documents considered by the parties hereto which are included in appendices to this Agreement. Additional evidence filed in support of the Application has been reviewed by the parties to the Agreement prior to filing. The parties agree that they regard the Application materials and this Agreement to constitute a sufficient evidentiary record to support the resolution of each of the issues as set forth in this Agreement.

The parties to the Agreement acknowledge and agree that none of the completely settled provisions of this Agreement are severable. If the Board does not 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).

The Other Issues set forth in Section 13.3 were deferred to other processes and, unless settled through those processes, remain to be determined by the Board in EB-2013-0202 or Union's 2014 rates application. Each of those issues has to be resolved in order to establish 2014 rates, except as otherwise expressly set out in Section 13.3.

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 Board's Rules of Practice and Procedure, interpreted as if this Agreement were the result of a Board-ordered settlement conference.

The parties agree that all communications between parties during the Settlement Conference, and all documents exchanged during the conference which were prepared to facilitate settlement discussions are, unless subsequently placed on the record by agreement between the parties, strictly confidential, 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 parties intend that the confidentiality of these negotiations be determined in accordance with the Board's Settlement Conference Guidelines, interpreted as if this Agreement were the result of a Board-ordered settlement conference.

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". Board Staff attended these discussions on that basis.

The following parties participated in the Settlement Conference:

Association of Power Producers of Ontario ("APPrO")

Building Owners and Managers Association of the Greater Toronto Area ("BOMA")

Canadian Manufacturers & Exporters ("CME")

Consumers Council of Canada ("CCC")

Energy Probe Research Foundation ("Energy Probe")

Federation of Rental-housing Properties of Ontario ("FRPO")

Industrial Gas Users Association ("IGUA")

City of Kitchener ("Kitchener")

London Property Management Association ("LPMA")

Ontario Association of Physical Plant Administrators ("OAPPA")

School Energy Coalition ("SEC")

Six Nations Natural Gas ("Six Nations")

TransCanada PipeLines Limited ("TCPL")

Union Gas Limited ("Union")

Vulnerable Energy Consumers Coalition ("VECC")

Except for those parties who are noted under specific issues as having taken no position, all parties agreed with and supported the resolution of each settled issue. No party opposes the resolution of any of the issues set forth in this Agreement.

OVERVIEW

The Board stated in the Natural Gas Forum ("NGF") Report that incentive rate regulation should meet three objectives:

1. establish incentives for sustainable efficiency improvements that benefit customers and shareholders;
2. ensure appropriate quality of service for customers; and,
3. create an environment that is conducive to investment, to the benefit of customers and shareholders.

The parties have entered into this Agreement with the intent of achieving those objectives. Therefore, the parties agree that these objectives are met by the proposed resolution of the various issues discussed as part of arriving at the 5-year IRM proposed to the Board in this Agreement.

Further, the parties to the Agreement represent the major stakeholders and constituencies with an interest in Union's rates. These parties represent a wide range of sometimes competing interests who hold a wide range of sometimes competing objectives. These parties also are experienced in understanding IRM, not only as it relates to Union, but also as it relates more broadly to other utilities regulated by the Board.

The evidence in EB-2013-0202, including the Application, this Agreement and the Appendices to this Agreement, indicates that the IRM parameters agreed to by the parties herein will result in rates that are consistent with the Board's rate making objectives and principles. These factors,

when combined with the experience gained by Union and stakeholders over the term of Union's last IRM (2008-2012), lead the parties to this settlement to encourage the Board to accept this Agreement, in its entirety, as the basis for setting Union's rates from 2014 to 2018.

In this Agreement, the term "net delivery revenue requirement impacts" is used in a number of places. As used in this Agreement, that term means the annual costs of a project or initiative, including operating costs, depreciation, cost of incremental debt, return, and related taxes, net of any incremental delivery revenues arising from, associated with, or enabled by the project or initiative.

RESULTING RATES AND BILL IMPACTS

Union has attached at Appendix C the estimated delivery rate and total bill impacts flowing from this Agreement.

Union has also attached at Appendix I a calculation of 2014 illustrative rates flowing from this Agreement.

Union will file an application for actual 2014 rates in September 2013.

1 MULTI-YEAR INCENTIVE RATEMAKING FRAMEWORK

The parties agree that Union's regulated rates over the IRM term will be set by applying the Incentive Regulation Mechanism described below to Base Rates being Union's 2013 Board-approved rates adjusted in the manner hereinafter described.

1.1 Incentive Regulation Mechanism

(Complete Settlement)

The parties agree that a multi-year Price Cap Index ("PCI") mechanism will be used to set regulated distribution, transmission and storage rates over the IRM term which are a function of:

- An inflation factor (I);
- A productivity factor (X);
- Certain non-routine adjustments (Z factors);
- Certain predetermined pass-throughs (Y factors); and,
- An adjustment for normalized average consumption (NAC),

all as further set out in this Agreement.

The parties further agree that rates each year will be adjusted as described below and as set out in Appendix I to this Agreement which illustrates how 2014 rates will be determined.

1. The base year adjustments to 2013 Board-approved revenue set forth in Section 1.2 below will be allocated to rate classes, and within each rate class to the rate components, as set out in Appendix E attached. Subject to any changes ordered by the Board as a result of the resolution of the issues set forth in Section 13.3 of this Agreement, the adjusted 2013 Board-approved revenues would be the base revenues to which the PCI mechanism adjustments will apply for 2014.

2. Prior year Y factor amounts that are embedded in base rates will be deducted from those rates on a class by class basis and within each rate class from the revenues applicable to rate components, to get base revenue net of Y factor amounts. For example, the Demand Side Management ("DSM") budget, upstream transportation costs and capital pass-through costs (if any) included in 2013 rates will be deducted from the approved revenue to be collected from each class, and within each class from each component of rates, prior to the application of inflation net of productivity.

3. The net revenue described above will be multiplied by the inflation factor (I) net of productivity (X). I is the inflation factor referred to in Section 2 below, and X is the productivity factor described in Section 3 below, equal to 60% of I. Thus, the PCI percentage will in all years be 40% of I. This application of the index will result in the indexed revenues.

4. The new Y factor amounts, and any Z factors approved by the Board, will be added to the indexed revenues on a class by class basis and within each class, to arrive at total proposed revenue.

5. Board approved billing determinants for rates M1, M2, 01 and 10 will be adjusted to reflect changes in NAC as set forth below. Board approved billing determinants for other rate classes will be adjusted to reflect LRAM.

6. For all classes, these adjusted Board approved billing determinants will be applied to total proposed revenues from #4 above to calculate final rates.

Rates for each of 2015 through 2018 will be established on the same basis as above, based on the rates for the previous year, but without Step 1 above.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

1.2 Base Rates

(Complete Settlement)

The parties agree that the PCI mechanism will apply to Union's 2013 Board-approved regulated distribution, transmission and storage revenue ("2013 Board-approved revenue") (EB-2011-0210) subject to the following adjustments for January 1, 2014:

1.2.1 Deferred Tax Drawdown

The parties agree to a $3.152 million increase to Union's 2013 Board-approved revenue relating to deferred taxes over the IRM term. The amount, calculated in detail in Appendix D, is the levelized difference between the credit to ratepayers for deferred taxes included in 2013 rates, and the lower credits that will be owing to ratepayers in each of the years 2014 through 2018. That levelized difference is grossed-up to a pre-tax amount, because it is taxable.

This is a continuation of a series of known and accepted rate adjustments that have taken place for many years. In 1997, Union changed its accounting for income taxes for utility operations from the tax allocation (or accrual) method to flow through (or cash-basis) tax accounting. The change to flow through tax accounting was adopted for rate-making purposes on a prospective basis in EBRO 493/494 (Union's 1997 rate case). The tax allocation method of tax accounting used for rate-making purposes prior to EBRO 493/494 resulted in an accumulated deferred tax balance. In the EBRO 499 (Union's 1999 rate case) settlement agreement, parties agreed that the accumulated deferred tax balance would be used to reduce Union's cost of service in future years.

As was the case in EB-2007-0606, the parties agree to adjust the 2013 Board-approved revenue to reflect the difference in the deferred tax credit in 2013 Board-approved revenue and the average of the deferred tax drawdown over the 2014-2018 IRM term. Without adjusting the deferred tax credit in rates during the IRM period, Union would over-refund the accumulated deferred tax balance which would then have to be collected from customers upon rebasing. Accordingly, an adjustment should be made to avoid this circumstance.

Union's 2013 rates contain a deferred tax credit of $15.169 million, which absent any adjustment, would be credited to ratepayers annually over the IRM term, a total of $75.845 million. The remaining accumulated deferred tax balance to be credited to customers after 2013 is $64.094 million, which is $11.751 million less than the amount that would otherwise be refunded through the amount embedded in rates. The levelized amount would be $12.819 million (i.e. $64.094 million accumulated balance / 5 years), requiring a base rate increase of $2.350 million (i.e. $15.169 million in rates less $12.821 million levelized credit) which when grossed-up equals $3.154 million pre-tax. The effect of this adjustment is to keep both Union and the ratepayers whole over the 2014-2018 period.

The detailed calculation of the deferred tax adjustment is provided at Appendix D. The allocation of the deferred tax adjustment is provided in Appendix E.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

1.2.2 Upfront Productivity Commitment

Union agrees to reduce the 2013 Board-approved revenue by an upfront productivity commitment of $4.5 million. That is, Union agrees that in addition to the productivity factor included in the PCI mechanism, Union will be incented to seek further productivity savings of $4.5 million in each of the five years of the IRM term. The parties further agree that the reductions in the 2013 Board-approved revenue represented by the upfront productivity commitment will be allocated to rate classes in proportion to the allocation of Administrative and

General Operating and Maintenance costs included in 2013 Board-approved rates. The allocation of the $4.5 million adjustment is included in Appendix E.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

1.2.3 Winter Warmth Program/Low Income Energy Assistance Program (LEAP) Funding

(Complete Settlement)

The parties agree that there will be no adjustments to rates over the term of the IRM to recover the costs associated with Winter Warmth Program/LEAP. Currently, Union's Winter Warmth Program/LEAP is managed by the United Way of Chatham-Kent and funded from the Late Payment Penalty settlement. If the Late Payment Penalty settlement funds are depleted over the term of the IRM, Union will pay but not seek to adjust rates to reflect the Board's Winter Warmth Program/LEAP funding requirements until the end of the IRM term. Union's Winter Warmth Program/LEAP funding requirement is approximately $0.835 million annually.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

2 INFLATION FACTOR

(Complete Settlement)

The parties agree that the inflation factor to be used in Union's PCI mechanism is the actual year over year percentage change in the annualized average of 4 quarters (using Q2 to Q2) of Statistics

Canada's Gross Domestic Product Implicit Price Index Final Domestic Demand (GDP IPI FDD). The inflation factor will be adjusted annually on this basis with no restatement for adjustments by Statistics Canada. By way of example, the inflation factor for 2014 rates will be based on the actual change in the GDP IPI FDD from 2012 Q2 to 2013 Q2 which will be available in August 2013. The price inflator and calculation method are the same as those used during Union's 2008-2012 IRM. For the purposes of calculating the rate impacts contained in Appendix C, Union has used the 2011 Q4 to 2012 Q4 change in GDP IPI FDD of 1.63%.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

3 PRODUCTIVITY FACTOR

(Complete Settlement)

The annual productivity factor ("X factor") in this Agreement is expressed as a percentage of inflation. The parties agree that Union will commit to pursuing productivity of 60% of GDP IPPI FDD, inclusive of a stretch factor, for each year of the IRM term. This results in an annual rate escalation factor, before the impact of Y and Z factors and earnings sharing, of 40% of GDP IPI FDD, i.e. subject to other adjustments base rates will increase annually by 40% of GDP IPI FDD. Together, the Upfront Productivity Commitment described in Section 1.2.2 and the X factor are inclusive of a stretch factor.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

4 WEATHER NORMALIZATION

(Complete Settlement)

The parties agree that for the duration of the IRM term, Union will use the normalization methodology approved by the Board in Union's 2013 rates case (EB-2011-0210). Specifically, the Board approved Union using a 50:50 blend of the 30-year average and the 20-year declining trend.

The following parties agree with the settlement of this issue: BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: APPrO, Six Nations, TCPL

5 NORMALIZED AVERAGE CONSUMPTION ADJUSTMENT

(Complete Settlement)

The parties agree that it is appropriate during the IRM term to adjust rates to reflect the impact of changes in normalized average consumption ("NAC") for the general service rate classes (rate classes M1, M2, R01 and R10). Further, the parties agree that the way to accomplish this is to update the NAC in rates based on the last known actual NAC, weather normalized using the Board-approved 50:50 weighting of the 30-year average and the 20-year declining trend. For example, for setting 2014 rates, Union will use the 2012 actual NAC. This adjustment captures all volumetric consumption changes related to efficiency gains and Demand Side Management initiatives. As a result, any lost general service volumes as a result of DSM activities will be captured through the NAC adjustment and not through the Lost Revenue Adjustment Mechanism

("LRAM"). The LRAM deferral account will continue to be used to capture lost volumes for the contract rate classes, but will no longer apply to M1, M2, R01 or R10.

Further, parties agree to establish a Normalized Average Consumption deferral account to capture the variance between forecast NAC in rates and what is observed on an actual basis for the same year. This deferral account will be disposed of annually through the non-commodity deferral accounts and earnings sharing proceeding. The draft NAC accounting order can be found at Appendix F.

The following parties agree with the settlement of this issue: BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: APPrO, Six Nations, TCPL

6 **Y FACTORS**

(Complete Settlement)

The parties agree that the costs associated with identified Y factors will not be adjusted by the PCI but will be passed through directly to rates. Each of the Y factors is subject to deferral account treatment. The Y factor deferral accounts capture the variances between the costs/revenues included in rates compared to the actual costs/revenues. The principle is that neither Union nor its ratepayers should gain or lose with respect to variances recovered from ratepayers on account of Y factor items. This principle will be determinative in any conflict between the application of the principle and the wording of any particular deferral account.

Items that will be treated as Y factors are:

- Upstream gas costs
- Upstream transportation costs
- Incremental DSM costs (as determined in EB-2011-0327 and in any subsequent DSM proceeding)
- LRAM for the contract rate classes
- Unaccounted for gas ("UFG") volume variances
- Major Capital Additions (as defined below)

These Y factors are each described in more detail below.

6.1 Upstream Gas Costs

The parties agree that changes in upstream gas costs, as approved through the QRAM process, or as otherwise determined by the Board, will be passed through to ratepayers through the gas commodity deferral accounts cleared during the QRAM process, through rates during the annual rate setting or through the earnings sharing and deferral accounts clearing processes. That is, the pass-through of upstream gas costs will be unchanged in both substance and procedure from the 2013 Board-approved pass-through mechanisms.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.2 Upstream Transportation Costs

The parties agree that changes in upstream transportation costs that underpin Union's gas supply plan will be passed through to ratepayers through the gas supply deferral accounts or as otherwise determined by the Board, and through rates during the annual rate setting or the earnings sharing

and deferral accounts clearing processes. The upstream transportation costs include the 2013 Board-approved treatment of upstream transportation optimization revenues. Thus, the pass-through of upstream transportation costs will be unchanged in both substance and procedure from the 2013 Board-approved pass-through mechanisms.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.3 Incremental DSM Costs

The parties agree the DSM costs in rates will be adjusted annually per the Board's EB-2011-0327 Decision or any subsequent DSM Decision.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.4 LRAM Volume Reductions

The parties agree that contract rates will be adjusted annually to take into account volume reductions due to DSM activity (LRAM) per the Board's EB-2011-0327 Decision or any subsequent Decision.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.5 Unaccounted for Gas Volume Variances

The total cost of UFG is comprised of two elements: a percentage of throughput volume that determines the UFG volume, and the Board-approved weighted average cost of gas ("WACOG"). Changes to WACOG and the corresponding impact on the total cost of UFG using the Board-approved UFG volume are captured in Union's Quarterly Rate Adjustment Mechanism ("QRAM").

The Board has approved a total cost of $14.7 million for UFG in 2013 base rates (EB-2011-0210) calculated by multiplying the Board-approved total UFG volume of 70,253 10^3m^3 by the gas cost of $210.506/ 10^3m^3 (the cost of gas used in Union's January 1, 2013 QRAM). The parties agree that total UFG cost changes resulting from a difference between the UFG volume included in rates and the actual UFG volume will be recorded in a new UFG Volume Deferral Account. The amount to be recorded in the UFG Volume Deferral Account will be calculated using the most recent Board-approved WACOG. The amount of the UFG Volume Deferral Account to be cleared to customers will be subject to a symmetrical dead-band of $5 million, with amounts within such dead-band being to Union's account only. This means that for 2014 UFG, a volume variance less than $9.7 million and greater than $19.7 million will be subject to deferral. To illustrate, if the volume variance is $25.7 million, $6 million would be deferred and recovered from ratepayers.

The parties agree that Union will include the amounts in the UFG Volume Deferral account in its annual application to the Board to dispose of the balances in the non-commodity deferral accounts in accordance with the provision above.

The draft UFG accounting order can be found at Appendix F.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

6.6 Major Capital Additions

The parties agree to Y factor treatment for major capital projects that meet the criteria in sections (i) through (viii) below. If the two major facility expansion projects set out below meet the criteria and are approved by the Board in their respective leave to construct applications and, provided they continue to meet the requisite criteria, the net delivery revenue requirement impacts of those projects will be treated as Y-factors in each year of the IRM term beginning with the first year that each project comes into service:

1. The facilities included in the Parkway West Project as that term is used in EB-2012-0433. The current forecast of the net delivery revenue requirement impacts are shown in Appendix G. Rate recovery would, assuming the current forecast of 2015 as the in-service year, commence with rates effective January 1, 2015;
2. The facilities included in the Brantford-Kirkwall Pipeline and Parkway D Compressor Station Projects as those terms are used in EB-2013-0074. The current forecast of the net delivery revenue requirement impacts is shown in Appendix G. Rate recovery would, assuming the current forecast of 2016 as the in-service year, commence with rates effective January 1, 2016.

Y-factor treatment also applies to additional capital projects that result in net delivery revenue requirement impacts over the IRM term which meet the requisite criteria specified below.

The criteria that must be met for any capital project to quality for Y factor treatment are as follows:

i) A minimum increase, or a minimum decrease, of $5 million in net delivery revenue requirement for a single new project (the "Rate Impact Threshold"). For the purposes of making this determination, capital costs are those costs relating to that capital project as defined under the applicable accounting rules. For the purpose of determining whether the Rate Impact Threshold is met, the net delivery revenue requirement associated with the capital project for each of the years from the in-service year until 2018 shall be calculated; should the net delivery revenue requirement exceed the Rate Impact Threshold in any year, the project would meet the Rate Impact Threshold criterion. The rate adjustment for each year will be based on the forecast net delivery revenue requirement impacts for each specific year, subject to true-up to actual as discussed in subparagraph (viii) below.

In determining net delivery revenue requirement for any year, the following parameters will be applied:

- Depreciation expense will be calculated using 2013 Board-approved depreciation rates;
- Required return assumes a capital structure of 64% long-term debt and 36% common equity;

- The incremental long-term debt cost will be calculated based on expected financing costs for the incremental borrowing required by the project, at market rates in effect at the time the project is approved;
- The return will be calculated using the 2013 Board-approved return on equity of 8.93%;
- Income and other taxes related to the equity component of the return will be calculated using the 2013 Board-approved tax rate of 25.5%;
- Incremental delivery revenues associated with the project will be calculated as an offset to the delivery revenue requirement;
- For the in-service year, all components of the calculation except taxes (but including, without limitation, depreciation, cost of debt, and return) will be calculated only for the period from the month of in-service to the end of the year; and,
- Union agrees to make no changes to these parameters during the IRM term.

ii) The capital cost of the project, using the same capitalization policies as were in place for the purposes of the approved EB-2011-0210 revenue requirement, must exceed $50 million. Provided, however, that in the event that Union is required to change its accounting standard from USGAAP to any other standard (including IFRS), and as a result its capitalization policies must change, the capitalization policies under the new accounting standard shall apply;

iii) The project is outside the base rates on which this incentive regulation framework is set;

iv) The project must be needed to serve customers and/or to maintain system safety, reliability or integrity, and cannot reasonably be delayed, and is demonstrated to be the most cost effective manner of achieving the project's objective relative to the reasonably available alternatives;

v) The project will be identified to stakeholders and the Board as soon as possible, including in that year's stakeholder review session where practical (see Section 12.2);

vi) The project will be subject to a full regulatory review equivalent to a leave to construct proceeding, in which the applicant must demonstrate need, safety or reliability purposes, and economic viability prior to inclusion in rates. For any project that requires leave-to-construct approval of the Board, the full regulatory review will be conducted in that proceeding. For any project that does not require leave-to-construct approval of the Board, Union commits to filing its annual rate adjustment application with the Board by July 1 of the year prior to rate impacts of the project going into effect, to allow sufficient time for a full regulatory review of the project in its rates application;

vii) Subject to direction otherwise from the Board, Union will allocate the net revenue requirement using 2013 Board-approved cost allocation methodologies. Any party, including Union, may take any position with respect to the proposed allocation for any particular capital project during review of the project, or its rate impacts, by the Board; and,

viii) The project will include a deferral account request to capture any differences between the forecast annual net delivery revenue requirement and the actual net delivery revenue requirement for each year of the IRM term for which the project is included in rates. The true-up will occur annually during the period the project is subject to Y

factor treatment. If, at the end of the 2018 year, the actual net delivery revenue requirement has not exceeded the $5 million minimum for every year the project has been in service, then the project will be deemed not to have qualified, and all amounts collected thereon shall be refunded/debited to ratepayers through an end of IRM term true-up deferral account mechanism.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

7 DEFERRAL AND VARIANCE ACCOUNTS

(Complete Settlement)

The parties agree that the Deferral and Variance Accounts described and listed in Appendix H will continue during the term of the IRM. It is understood and agreed that Union will make no changes in the manner in which it administers and clears the Deferral and Variance Accounts during the course of the IRM without first fully disclosing the proposed changes to the parties, and then obtaining prior Board approval for such proposals. Moreover, it is understood and agreed that Union will administer the pass through items of expenses and savings in a manner that is compatible with the principle that neither Union nor its ratepayers should gain or lose on such pass through items.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

8 Z FACTORS

(Complete Settlement)

The parties agree that for prospective or historical cost increases/decreases to qualify for pass through as a "Z factors", the cost increases/decreases must:

1. causally relate to an external event that is beyond the control of utility's management;
2. result from, or relate to, a type of risk;
    a. for which a prudent utility would not be expected to take risk mitigation steps; and,
    b. which is out of the realm of the basic undertaking of the utility (per EB-2011-0277 Decision, page 13);
3. not otherwise be reflected in the price cap index;
4. be prudently incurred; and,
5. meet the materiality threshold of $4.0 million of annual net delivery revenue requirement impact per Z factor event. Net delivery revenue requirement will be defined in the same manner as set forth in Section 6.6 above.

The parties agree that changes in the amounts of taxes payable by Union through the 2014-2018 IRM term resulting from changes to Federal and/or Provincal legislation and/or regulations thereunder are Z factors and will be shared 50:50, as applied to the tax level reflected in rates. Treating 50% of tax changes as a Z factor is consistent with the Board's findings in its EB-2007-0606/EB-2007-0615 Decision (dated July 31, 2008).

As during the 2008-2012 IRM term, Union will continue to calculate the variance between current year tax rates and calculation methods/rules to those used in current Board-approved

rates. This variance will be allocated to rate classes using 2013 Board-approved rate base as the allocation factor. Any variance between taxes using the actual rates and calculation methods/rules and the approved rates and calculation methods/rules in Union's rates will be captured in a new deferral account. The draft Tax accounting order can be found at Appendix F.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

9 TERM OF THE PLAN

(Complete Settlement)

The parties agree that the term of the IRM plan shall be 5 years, being the calendar years 2014 to 2018 inclusive.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

10 OFF-RAMPS

(Complete Settlement)

The parties agree that in light of the settlement on earnings sharing set out in Section 11 below and the other IRM parameters there should be no off ramps for this IRM plan. Union and each of the other parties hereto agrees not to apply for rates applicable to Union for any of the years 2014-2018 except rates that are in all respects consistent with this Agreement.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

11 EARNINGS SHARING MECHANISM (ESM)

11.1 Earnings Sharing

(Complete Settlement)

The parties agree that there will be an earnings sharing mechanism, based on actual utility earnings. If in any calendar year Union's actual utility return on equity is more than 100 basis points over the 2013 Board-approved ROE of 8.93%, then excess earnings between 100 basis points and 200 basis points will be shared 50/50 between Union and its customers. If in any calendar year Union's actual utility return on equity is more than 200 basis points over the 2013 Board-approved ROE of 8.93%, then such earnings in excess of 200 basis points will be shared 90/10 between customers and Union (i.e., customers will be credited 90% and Union will be credited 10%). For the purposes of the earnings sharing mechanism, Union shall calculate its earnings using the regulatory rules prescribed by the Board from time to time, and shall not make any material changes in accounting practices that have the effect of either reducing or increasing utility earnings. All revenues that would be included in revenues in a cost of service application shall be included in the earnings calculation and only those expenses (whether operating or capital) that would be allowable as deductions from earnings in a cost of service application shall be included in the earnings calculation.

Parties acknowledge that the DSM related Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM") and storage related deferral accounts are outside of the earnings sharing mechanism identified above.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

11.2 ROE in rates and for earnings sharing

(Complete Settlement)

The parties agree that the return on equity ("ROE") included in rates shall be fixed at the 2013 Board-approved level of 8.93% for the term of the IRM. The parties also agree that the 2013 Board-approved ROE of 8.93% will be the benchmark ROE for the purposes of calculating earnings sharing for the term of the IRM.

If a proceeding is instituted before the Board, before the term of this IRM expires, in which changes to the methodology for determining ROE are requested or changes in capital structure are proposed, then all parties including Union will be free to take such positions as they consider appropriate with respect to that proceeding. Notwithstanding any such positions, however, the parties agree that if the Board determines that a change in ROE methodology or capital structure is appropriate, such changes will only be implemented in respect of Union's rates after the conclusion of the IRM term.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

12 REPORTING REQUIREMENTS

12.1 Information filed with the Board and intervenors

(Complete Settlement)

Union agrees to continue to make its RRR filings with the Board available to intervenors. Union also agrees to prepare, and distribute to all parties to this Agreement and all intervenors in any of Union's subsequent rate proceedings, the following utility information annually for the most recent historical year:

1. Calculation of revenue deficiency / (sufficiency);
2. Statement of utility income;
3. Statement of earnings before interest and taxes;
4. Summary of cost of capital;
5. Total weather normalized throughput volume by service type and rate class;
6. Total actual (non-weather normalized) throughput volumes by service type and rate class;
7. Total weather normalized gas sales revenue by service type and rate class;
8. Total actual (non-weather normalized) gas sales revenue by service type and rate class;
9. Delivery revenue by service type and rate class and service class;
10. Total customers by service type and rate class;
11. Summary revenue from regulated storage and transportation;
12. Other revenue;
13. Operating and maintenance expense by cost type – actuals only;
14. Calculation of utility income taxes;
15. Calculation of capital cost allowance;
16. Provision for depreciation, amortization and depletion;
17. Capital budget analysis by function;

18. Statement of utility rate base – actuals only;
19. Unregulated Continuity of Property, Plant and Equipment, & Unregulated Continuity of Accumulated Depreciation;
20. Service Quality Indicators per the RRR; and
21. Audited financial statements for utility operations.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

12.2 Annual stakeholder meeting

(Complete Settlement)

The parties agree that Union will hold an annual, funded stakeholder meeting (including funding for reasonable preparation for the meeting and follow up comments from the meeting), after the public release of year-end financial results but prior to Union filing its annual non-commodity deferral accounts disposition application (March/April timeframe). At the stakeholder meeting Union will:

1. Review previous year's financial results (i.e. earnings, capital spending) and other key operating parameters (i.e. SQI performance) for the most recently completed year;
2. Present and explain market conditions and expected changes/trends, and the impact these may have on the regulated operations;
3. Present and review the gas supply plan for the coming year;
4. Present new capital projects that meet the capital pass-through criteria as defined in Section 6.6; and,
5. Present results of any customer surveys undertaken during the year.

Union will file all information resulting from this annual meeting with the Board and ensure it is available to any party not able to attend.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

13 RATE-SETTING PROCESS

13.1 Annual Adjustment

(Complete Settlement)

The parties agree that annual rate adjustments will be made in accordance with the following process:

1. Union will file an application for approval of any Z factor adjustments, the pricing of any new regulated services, and/or for any other adjustments for which advance approval from the Board is required, in a time frame that will enable these issues to be resolved in sufficient time to be reflected prospectively in the next year's rates. Union will file a draft rate order with supporting documentation by September 30 which reflects the impact of the PCI, Y factors, approved Z factors and NAC. The documentation shall be in sufficient detail to allow the Board to issue a procedural order such that a final rate order could be issued by December 15 for implementation by January 1; and,
2. As soon as reasonably possible following the public release of Union's annual audited financial statements, Union will make application (as it does now) for disposition of actual year end non-commodity deferral account balances. (This would coincide with the filing of an annual earnings sharing calculation as described in section 11.1). Union

will use its best efforts to file its application and pursue the regulatory process such that, after the Board's decision, Union will be able to implement all rate adjustments associated with deferral account disposition at the time of its July 1 QRAM. Union will continue to adjust gas supply commodity and upstream transportation through the QRAM mechanism as approved in EB-2008-0106.

The parties agree that stakeholders, including all parties to this proceeding, should have a reasonable opportunity to review the application and calculations, including the ability to make reasonable requests for additional information with respect thereto from Union, and to make submissions or comments thereon.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

13.2 New Energy Services

(Complete Settlement)

Union agrees that all new regulated energy services will require prior Board approval. Accordingly, Union will make an application, on notice with supporting material, for all new regulated energy services.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

13.3 Other Issues

(Complete Settlement)

The parties agree that the following issues have not been settled in this Agreement, and remain to be determined by the Board in EB-2013-0202 or in Union's 2014 rates application and agree that rates will be adjusted in accordance with any such determination. This Agreement is without prejudice to the positions that the parties may take with respect to these issues.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

13.3.1 M1/M2 and R01/R10 Volume Breakpoint

In its EB-2011-0210 Decision, the Board found that, while Union's proposal to reduce the volume breakpoint between the Rate 01/Rate 10 and Rate M1/Rate M2 rate classes and harmonize the blocking structures had merit, the methodology used by Union to allocate costs between the rate classes was flawed. Accordingly, the Board did not approve Union's proposals. The Board directed Union to undertake a comprehensive cost allocation study which includes the volume breakpoint reduction proposal as part of its 2014 rates filing.

In response to the Board's directive, Union has formed a working group with intervenors to determine the appropriate allocation of costs for Union's Rate M1/Rate M2 and Rate 01/Rate 10 volume breakpoint reduction proposal. Should Union and intervenors reach a consensus on an appropriate cost allocation methodology, Union will file with the Board a Settlement Agreement, together with supporting evidence, seeking approval of the agreed methodology in the EB-2013-

0202 proceeding or Union's 2014 rates proceeding. In the event that the parties cannot reach a consensus in a timely manner, Union will file sufficient evidence on cost allocation with respect to these rate classes to allow the Board to adjudicate the issue in the EB-2013-0202 proceeding or in the 2014 rates proceeding.

13.3.2 Parkway Obligation Working Group

In the EB-2011-0210 Settlement Agreement, the parties agreed to establish a Working Group to review Union's Parkway delivery obligation and determine whether or not any changes should be made in whole or in part to that obligation after 2013. Union was directed to report to the Board during its 2014 rate proceedings, on the outcome of the Working Group process and Union's proposal, if any, in respect to the delivery obligation arising from the Working Group process.

In response to the Board's directive, Union has formed a Working Group with intervenors to review the Parkway delivery obligation and whether or not any changes should be made to that obligation. Should Union and intervenors reach a consensus on an appropriate response to this review, Union will file with the Board a Settlement Agreement, together with supporting evidence, seeking approval of the agreed response in the 2014 rates proceeding. In the event that the parties cannot reach a consensus, Union will file sufficient evidence on the issue and its position on whether or not any changes should be made to allow the Board to adjudicate the issue in the 2014 rates proceeding.

13.3.3 Gas Supply Plan Studies

In its EB-2011-0210 Decision, the Board directed Union to hire a consultant to review its gas supply plan and the cost allocation of the gas supply costs. Union contracted Sussex Economic

Advisors ("Sussex") and Concentric Energy Advisors ("Concentric") to review and provide reports on Union's gas supply plan and the allocation of costs associated with the gas supply plan. Union filed the Sussex and Concentric reports in its 2012 Deferrals and Earnings Sharing Disposition proceeding (EB-2013-0109). Subject to Sections 6.1 and 6.2 above, any changes required following the review of the gas supply plan reports in EB-2013-0109 will be implemented per the Board's Decision in that proceeding.

13.3.4 M5 and T3 Rates

The parties agree that as part of EB-2013-0202 or Union's 2014 rates proceeding parties will have an opportunity to review and, if appropriate, to lead evidence on the M5 and T3 cost allocation and rate design as approved by the Board in EB-2011-0210. Parties, including Union, are free to take such positions as they see appropriate with respect to the appropriateness of the current methodologies and resulting rates. If, as part of EB-2013-0202 or Union's 2014 rates proceeding, the Board finds that changes to the current methodologies and resulting M5 and T3 rates are appropriate, in no event shall the changes result in any change to overall revenue to which the incentive regulation formula will apply for the term of the IRM.

13.4 NON-ENERGY SERVICES

(Complete Settlement)

Parties agree that miscellaneous non-energy service charges shall be outside of the price cap formula. If Union requires any changes to its miscellaneous non-energy service charges during the IR term, Union will provide the Board with evidence that supports the change. The parties

agree to the principle that non-energy service charges should not generate incremental revenue in excess of any related incremental costs.

Union agrees that all new regulated non-energy services will require prior Board approval. Accordingly, Union will make application on notice with supporting material, for all new regulated non-energy services.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL

14 REBASING

(Complete Settlement)

Union agrees (subject to any subsequent agreement of all parties to extend the IRM term) to prepare a full cost of service filing at the time of rebasing, regardless of whether Union applies to set rates for 2019 on a cost of service basis or not.

At the time of rebasing, Union will provide 2013-2017 actual, 2018 bridge and 2019 forecast information. In addition, Union will provide historical plant continuity information for 2012, 2013, 2014, 2015 and 2016 similar to the information provided in the EB-2011-0210 proceeding at B6/T1 & T2/S 1 – 5.

The following parties agree with the settlement of this issue: APPrO, BOMA, CCC, CME, Energy Probe, FRPO, IGUA, Kitchener, LPMA, OAPPA, SEC, Union, VECC

The following parties take no position: Six Nations, TCPL