



uniongas

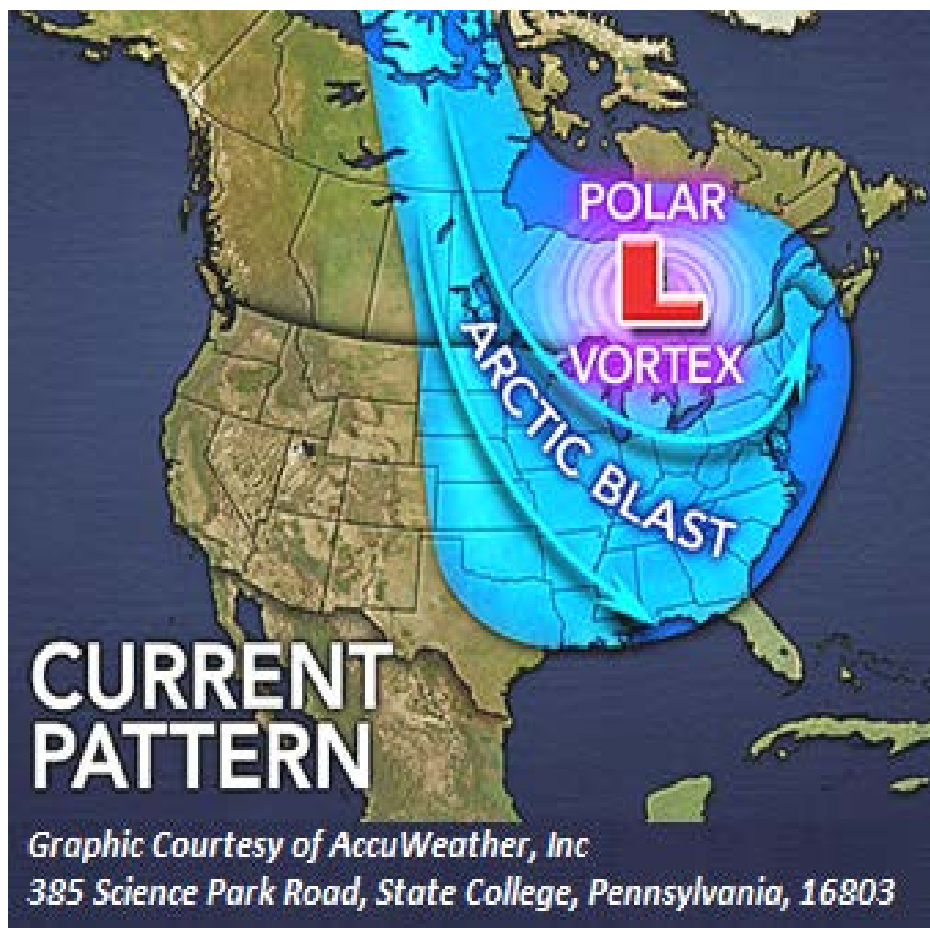
A Spectra Energy Company

An Exceptional Winter

Serving the Needs of Ontario's Natural Gas Customers

Winter 2013-14

An Exceptional Winter



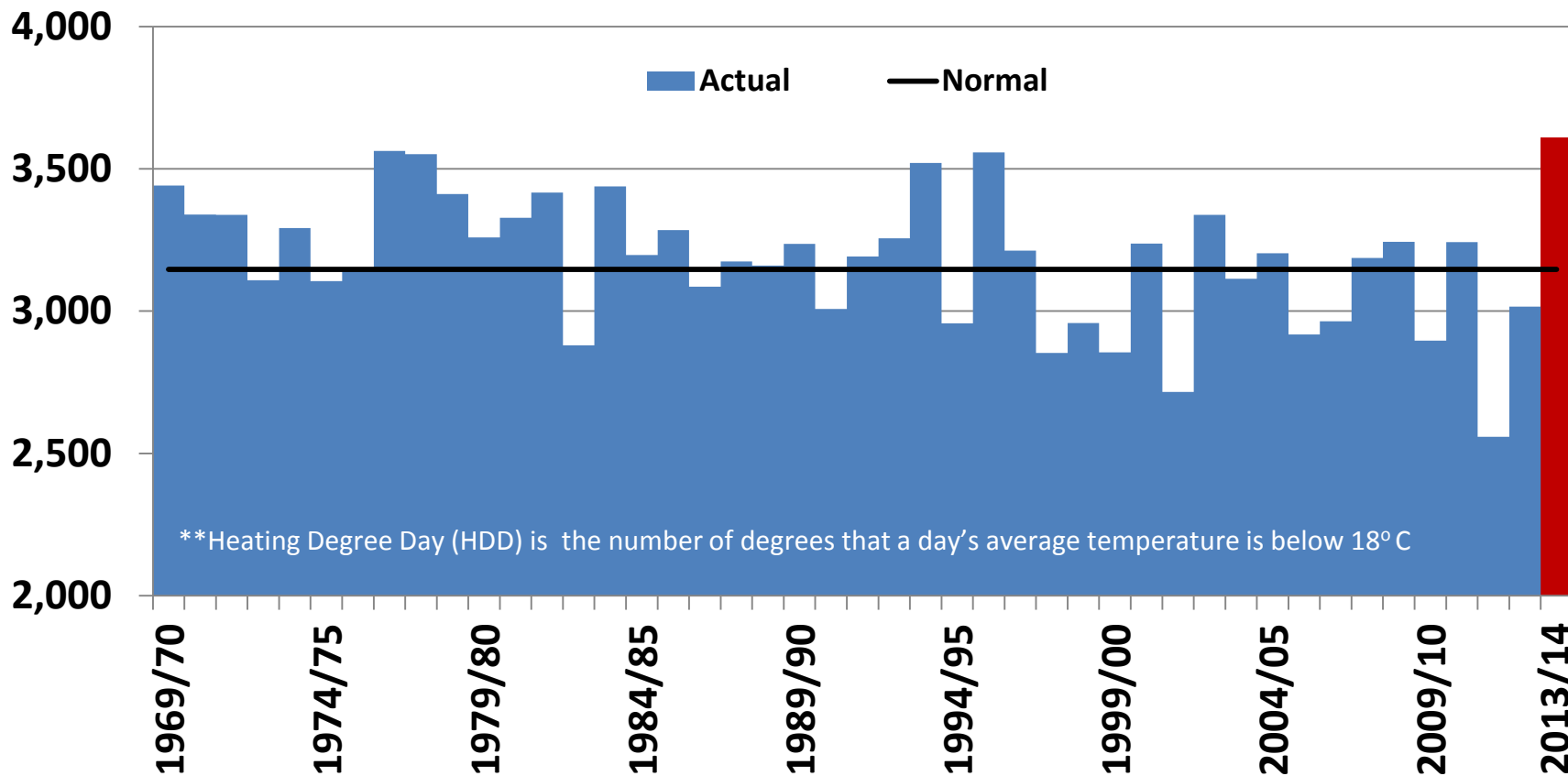
- 1. Coldest on record:**
 - Moved from west to east and settled in the eastern half of North America
 - Drove incremental demand
- 2. Gas supply contracted to Ontario:**
 - Some gas found lucrative markets upstream of Dawn (i.e. Chicago) reducing supply delivered to Ontario
- 3. Incremental Ontario/Quebec demand served by:**
 - Dawn storage withdrawals
 - TransCanada Interruptible and Short Term Firm Services from Alberta on Mainline
- 4. Prices:**
 - Remained relatively stable for customers buying for future month delivery
 - Were subject to volatility for customers buying on a daily basis

Sustained record cold weather impacted natural gas demand, flows and pricing across North America

Coldest Winter on Record*

Union Franchise Area

Winter Cumulative Heating Degree Days**



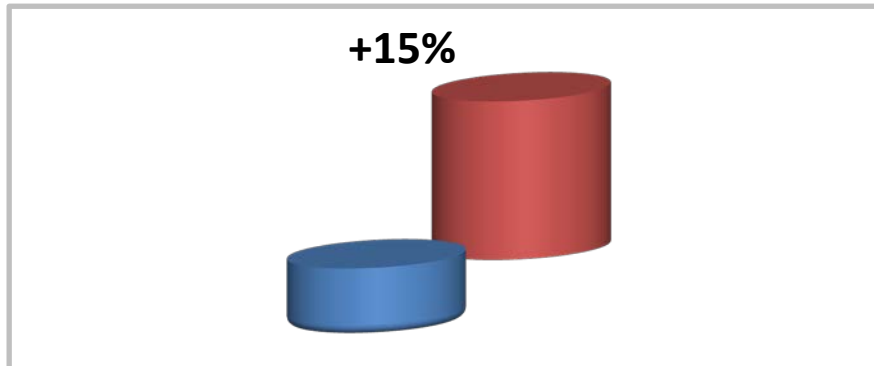
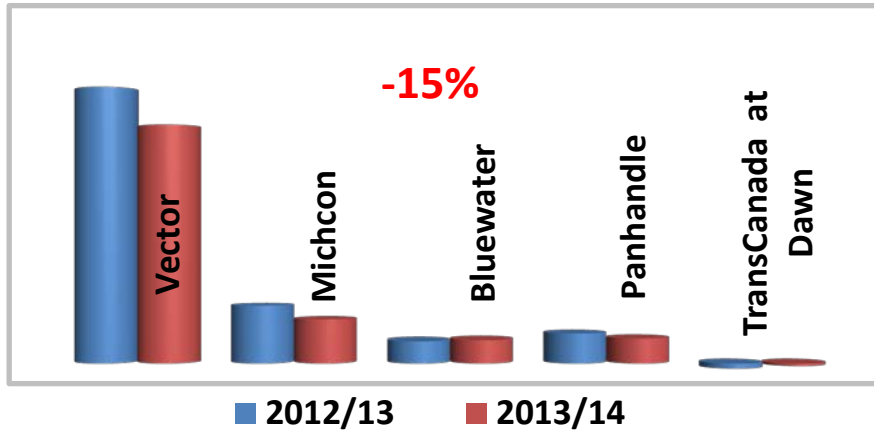
**Heating Degree Day (HDD) is the number of degrees that a day's average temperature is below 18°C

* Union Gas temperatures back to 1969

Sustained cold not experienced in at least 45 years

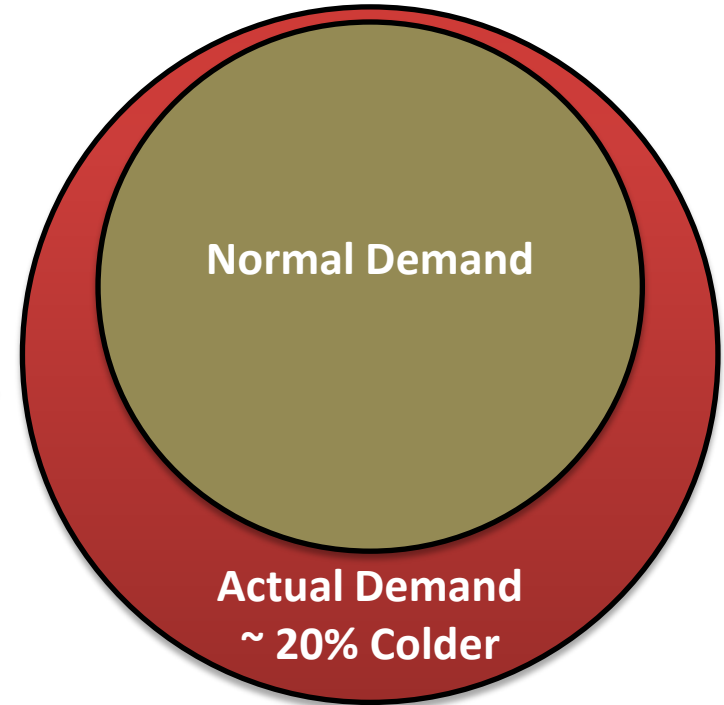
Serving Ontario Demand this Winter

Pipeline Flows into Dawn Decreased



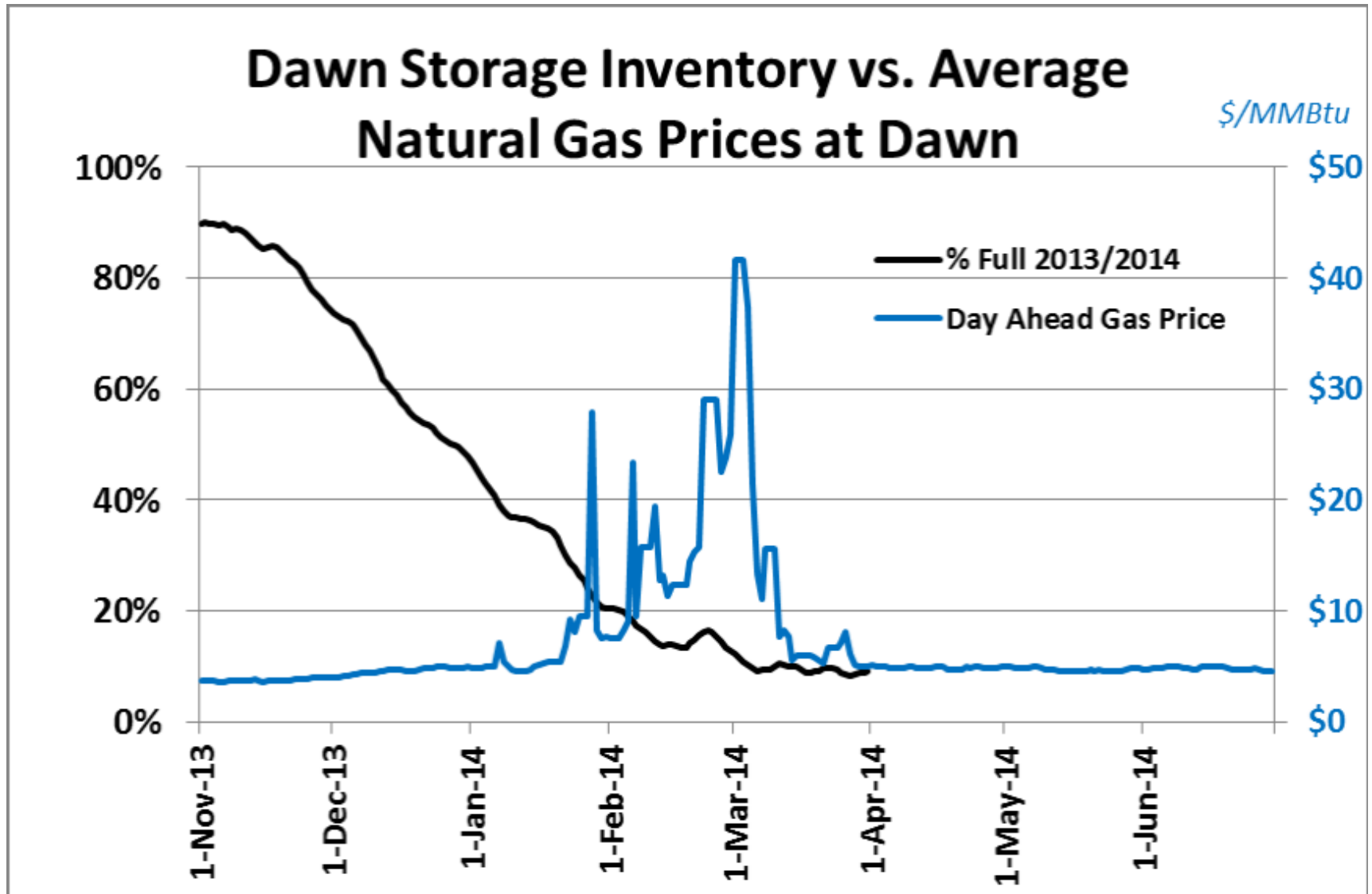
Dawn Storage Made Up the Difference

Ontario Gas Demand



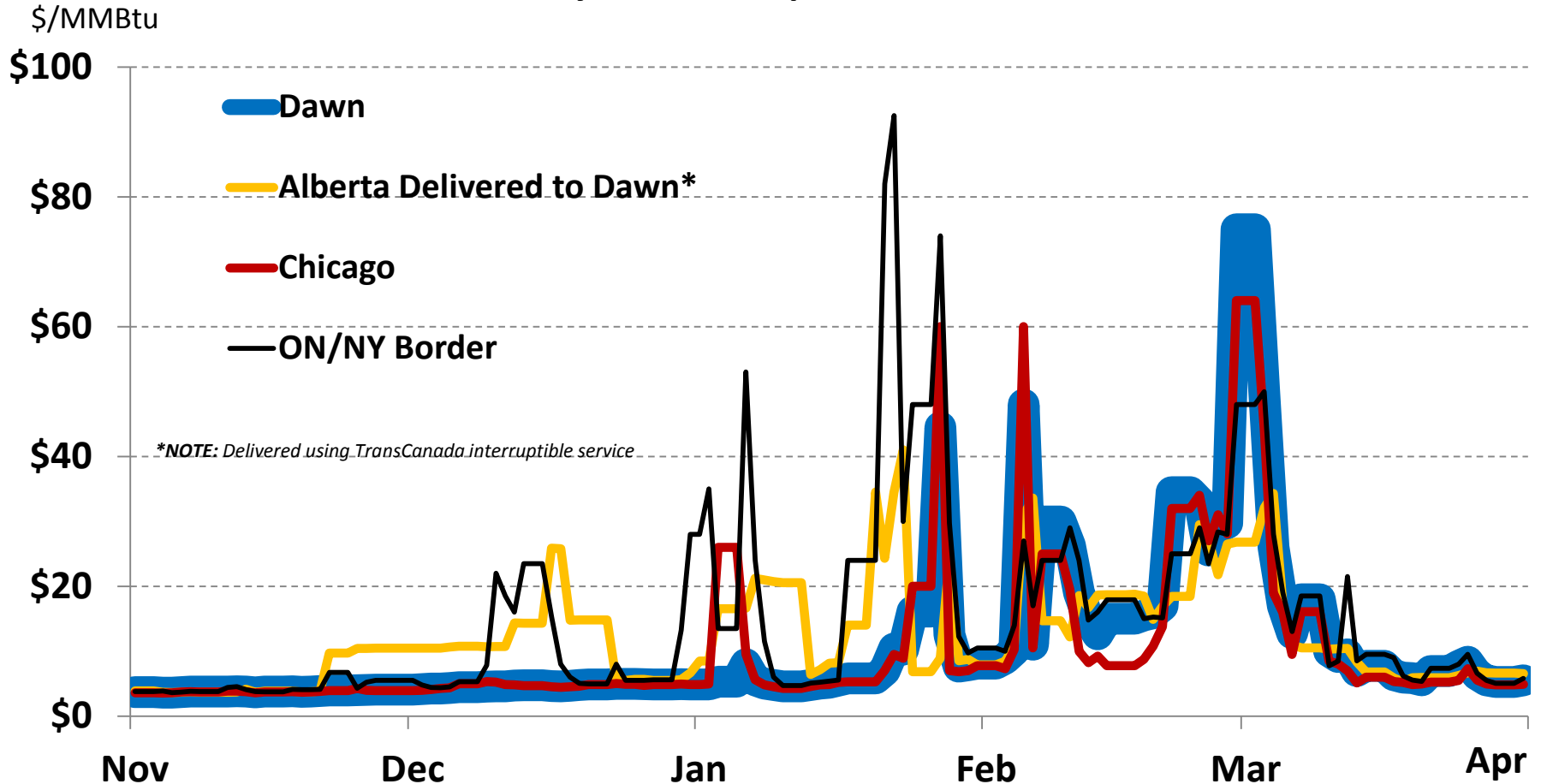
Dawn storage was Ontario's workhorse this winter

Dawn Storage Availability Offset Price Spikes



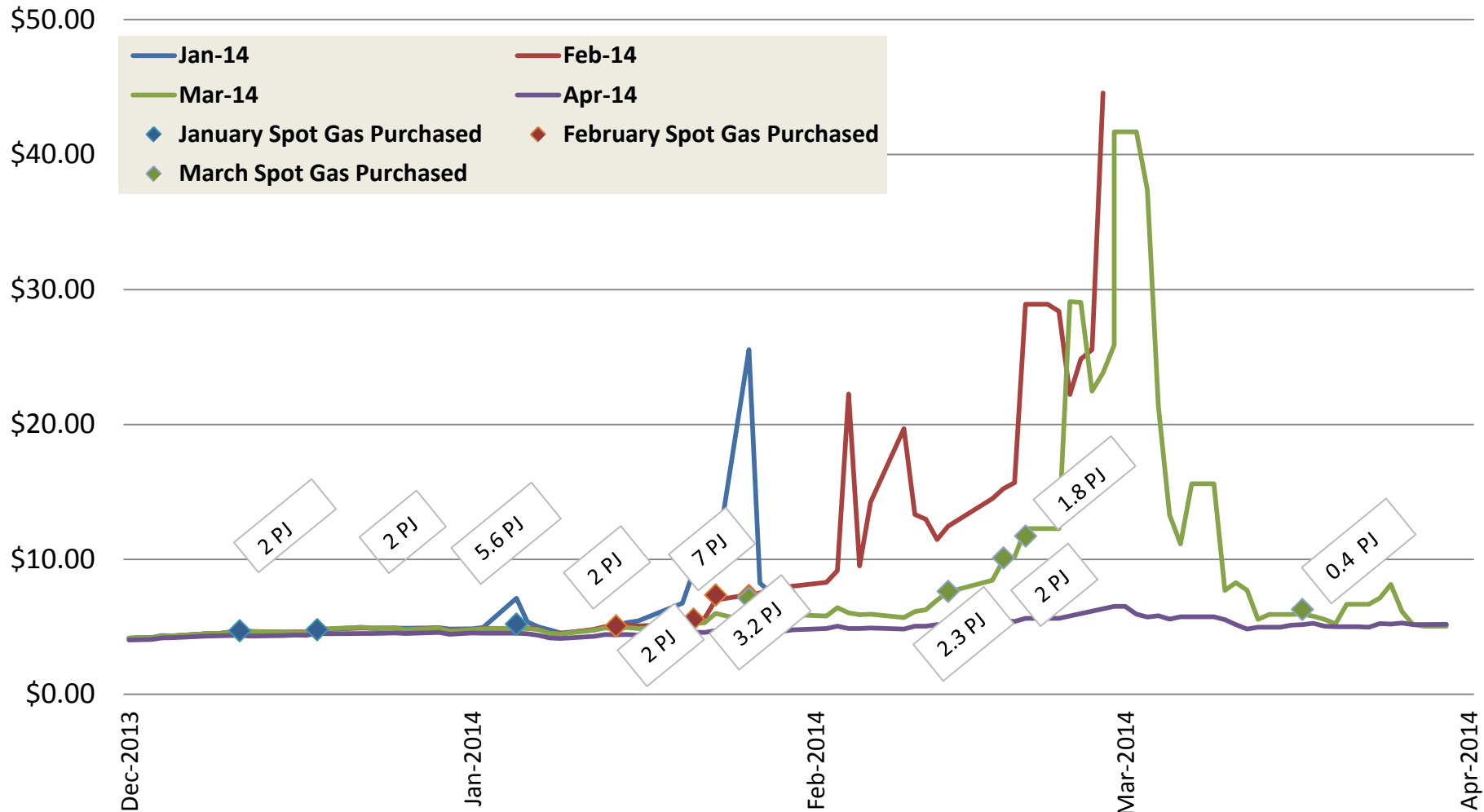
Maximum Daily Prices Winter 2013/2014

Maximum Daily Prices Comparison: Winter 2013/14



Dawn traded lower than Chicago and ON/NY border during the coldest days

Additional Gas Purchased for Customers Supplied by Union



Union Gas managed the price impact to customers by frequently monitoring markets and prices, adjusting purchasing strategy to account for forecast weather impacts and continuing to not rely on the day market

The Cost of Winter – Regulatory Outcomes

- **April QRAM**

- Prices increased due to:

- Forward NYMEX 12 month strip (Apr '14 to Mar '15) impact on Reference Price

- »April 1 (\$4.87/GJ to \$6.17/GJ)

- Increased costs of planned January through March purchases (higher than forecast in Jan QRAM)
- Unplanned spot gas required to meet incremental weather driven demand
 - Union purchased over 30 PJ of spot gas at an average price of approx. \$7.12/GJ

- **October QRAM**

- Prices retreated as storage refilled back to normal levels

- Reference price decreased from \$6.17/GJ to \$5.44/GJ (price retreated approx. 60% of April increase)

- **2013 Deferral Hearing**

- Costs to balance south bundled direct purchase customers
 - Board ruled that these customers should pay \$1.954 million for additional gas Union bought to balance their needs for the period beyond when the Feb 28 checkpoint requirement was calculated
- Costs of Managing the system including the price variance related to Unaccounted for Gas (UFG)
 - Board ruled all customers who rely on their compressor fuel (bundled Direct Purchase and System supply) from Union should pay a portion of the \$4.7 million price variance incurred

- **Winter Penalty Proceeding**

- The Board approved Union's application, for a one-time exemption from approved tariffs with respect to the penalty charges applied to direct purchase customers who did not meet their contractual obligations during the months of February and March, 2014
- A reduction in the charge from approx. \$78/GJ to approx. \$50/GJ

True Impact to Union Sales Service Customers of Winter 2013/14

Estimate based on April QRAM

- **Residential annual bill increase for Union Gas system gas customers:**

Annual average use of 82 GJ (equal to 2,200 m³ of natural gas)

Total estimated increase April 2014 – March 2015:	<u>\$200</u>
– Due to increased price of planned purchases (Jan-Mar):	\$ 50
– Due to incremental gas purchases (Jan-Mar):	\$ 40
– Due to the forward gas price (Apr 2014 to Mar 2015):	\$110

- **Revised due to price change based on October QRAM**

Total estimated increase April 2014 – March 2015:	<u>\$126</u>
– Due to increased price of planned purchases (Jan-Mar):	\$ 50
– Due to incremental gas purchases (Jan-Mar):	\$ 40
– Due to the forward gas price (Apr 2014 to Mar 2015):	\$ 36

QRAM Process

- Concerns were raised about QRAM process after last winter
- OEB Initiated a process to review (July QRAM delayed)
 - Many submissions were filed
 - Most concerns centered on communication protocol and early warning of significant changes
 - OEB amended process to communicate early when a significant change in rates is foreseen
- QRAM Process as currently structured is an efficient and effective mechanism
 - Provides customers with market pricing signals, while at the same time, reducing rate volatility
 - Does not require any further changes

Summary Observations

From Coldest Winter on Record

1. Customers received the gas needed this winter as Union's integrated system worked very well
2. Less gas delivered to Ontario, combined with the coldest winter on record meant that Dawn storage was critical in meeting incremental winter needs
3. Dawn storage limited gas price volatility until end of January
4. Union's frequent monitoring and proactive purchasing strategies were critical in managing the cost impact to sales service customers
5. The vast majority of Union's Direct Purchase customers complied with their contractual requirements and ultimately paid the appropriate cost over the winter
6. Increased access to new supply basins (Marcellus/Utica) is critical to help reduce future price volatility in Ontario