December 4, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: EB-2014-0012 - Union Gas Limited –Undertaking Response J2.6**

Please find attached Union's response to Undertaking J2.6 in the above captioned proceeding.

Yours truly,

*[Original signed by]*

Karen Hockin
Manager, Regulatory Initiatives

Cc: EB-2014-0012 Intervenors
Charles Keizer, Torys
Mark Kitchen, Union

UNION GAS LIMITED

Undertaking of Mr. Tetreault
To Mr. Rubenstein

To explain the cost consequences of the applicant's proposal, with and without section 29 approval.

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As requested, Union reviewed the 2013 Deferrals proceeding Return on Equity schedule (EB-2014-0145 Exhibit A Tab 2 Appendix B Schedule 1) to consider the cost consequences of the proposal as a regulated service, and also a scenario where it is an unregulated service.

This review illustrates that only the contribution to existing utility assets has an impact on the earnings sharing calculation. Whether that contribution is built into rates as per the proposed regulated scenario or built into rates as a cross charge through an unregulated scenario, the financial impact is identical. The table below summarizes the results. Please see attachment 1 for the original schedule (Exhibit K2.3) plus each of the 2 scenarios. New or modified cells are highlighted for reference.

| Particulars ($000s) | Original (2013 Deferrals EB-2014-0145) | Regulated scenario (as proposed) | Unregulated scenario |
|---|---|---|---|
| Total utility earnings | 145,313 | 147,530 | 146,771 |
| Earnings at benchmark ROE | 121,643 | 122,402 | 121,643 |
| Earnings above Board approved | 23,670 | 25,128 | 25,128 |

*Exhibit A Tab 2 Schedule 5 and 6 figures for 2016 through 2018 were incorporated into 2013 deferrals schedule for illustration only.

UNION GAS LIMITED
Return on Equity
Calendar Year Ending December 31, 2013

| Line No. | Particulars ($000s) | 2013 (a) | Unregulated Storage (b) | Adjustments (c) | | 2013 Utility (d)=(a)-(b)+(c) |
|---|---|---|---|---|---|---|
| | Operating Revenues | | | | | |
| 1 | Gas Sales | 1,620,985 | - | (15,697) | i | 1,605,289 |
| 2 | Transportation | 161,178 | (356) | (1,426) | ii | 160,108 |
| 3 | Storage | 90,672 | 81,828 | - | | 8,844 |
| 4 | Other | 27,268 | - | (9,224) | iii | 18,045 |
| 5 | | 1,900,104 | 81,472 | (26,346) | | 1,792,286 |
| | Operating Expenses | | | | | |
| 6 | Cost of gas | 848,876 | 2,879 | (15,697) | i | 830,300 |
| 7 | Operating and maintenance expenses | 397,275 | 13,283 | (2,954) | iv | 381,038 |
| 8 | Depreciation | 202,682 | 9,725 | - | | 192,957 |
| 9 | Other financing | - | - | 383 | v | 383 |
| 10 | Property and other taxes | 65,288 | 1,444 | - | | 63,845 |
| 11 | | 1,514,122 | 27,330 | (18,268) | | 1,468,523 |
| | Other | | | | | |
| 12 | Gain / (Loss) on sale of assets | (227) | (291) | - | | 64 |
| 13 | Other / Huron Tipperary | (1,580) | (1,580) | - | | - |
| 14 | Gain / (Loss) on foreign exchange | (1,051) | (22) | 374 | vi | (655) |
| 15 | | (2,858) | (1,893) | 374 | | (592) |
| 16 | Earnings before interest and taxes | 383,124 | 52,249 | (8,705) | | 323,171 |
| 17 | Income taxes | | | | | 25,815 |
| 18 | Total utility income | | | | | 297,356 |
| | Less debt and preference share return components | | | | | |
| 19 | Long-term debt | | | | | 147,362 |
| 20 | Unfunded short-term debt | | | | | 652 |
| 21 | Preferred dividend requirements | | | | | 2,060 |
| | | | | | | 150,074 |
| | Less shareholder portions of: | | | | | |
| 22 | Net short-term storage revenue (after tax) | | | | | 223 |
| 23 | Net optimization activity (after tax) | | | | | 1,746 |
| | | | | | | 1,969 |
| 24 | Utility earnings | | | | | 145,313 |
| 25 | Common equity | | | | | 1,362,188 |
| 26 | Return on common equity (line 24 / line 25) | | | | | 10.67% |
| 27 | Benchmark return on common equity | | | | | 8.93% |

Notes:

i Reclassification of optimization revenue as cost of gas

ii Reversal of FT RAM fuel cost provision for 2011 and 2012

iii Demand-side management incentive

| | | |
|---|---|---|
| iv | Donations | (2,952) |
| | CDM program | (2) |
| | | (2,954) |

v Facility fees and customer deposit interest

vi Foreign exchange gain on bank balances

**For Illustrative purposes only, 2016-2018 projected impact from Exhibit A, Tab 2, Schedule 5&6, has been layered onto exhibit K2.3**

UNION GAS LIMITED
Return on Equity
Adjusted for 2016-18 Hagar Liquifaction as a Regulated Service
Calendar Year Ending December 31, 2013

| Line No. | Particulars ($000s) | 2013 | 2016-18 Hagar Liquifaction | | Unregulated Storage | Adjustments | | 2013 Utility | |
|---|---|---|---|---|---|---|---|---|---|
| | | (a) | (b) | (1) | (c) | (d) | | (e)=(a)+(b)-(c)+(d) | |
| | Operating Revenues | | | | | | | | |
| 1 | Gas Sales | 1,620,985 | | | - | (15,697) | i | 1,605,289 | |
| 2 | Transportation | 161,178 | | | (356) | (1,426) | ii | 160,108 | |
| 3 | Storage | 90,672 | 6,281 | (2) | 81,828 | - | | 15,125 | |
| 4 | Other | 27,268 | | | - | (9,224) | iii | 18,045 | |
| 5 | | 1,900,104 | 6,281 | | 81,472 | (26,346) | | 1,798,567 | |
| | Operating Expenses | | | | | | | | |
| 6 | Cost of gas | 848,876 | | | 2,879 | (15,697) | i | 830,300 | |
| 7 | Operating and maintenance expenses | 397,275 | 2,096 | | 13,283 | (2,954) | iv | 383,134 | |
| 8 | Depreciation | 202,682 | 877 | | 9,725 | - | | 193,834 | |
| 9 | Other financing | - | | | - | 383 | v | 383 | |
| 10 | Property and other taxes | 65,288 | 126 | | 1,444 | - | | 63,971 | |
| 11 | | 1,514,122 | 3,099 | | 27,330 | (18,268) | | 1,471,622 | |
| | Other | | | | | | | | |
| 12 | Gain / (Loss) on sale of assets | (227) | | | (291) | - | | 64 | |
| 13 | Other / Huron Tipperary | (1,580) | | | (1,580) | - | | - | |
| 14 | Gain / (Loss) on foreign exchange | (1,051) | | | (22) | 374 | vi | (655) | |
| 15 | | (2,858) | | | (1,893) | 374 | | (592) | |
| 16 | Earnings before interest and taxes | 383,124 | 3,182 | | 52,249 | (8,705) | | 326,353 | |
| 17 | Income taxes | | | | | | | 26,175 | |
| 18 | Total utility income | | | | | | | 300,178 | |
| | Less debt and preference share return components | | | | | | | | |
| 19 | Long-term debt | | | | | | | 147,967 | (3) |
| 20 | Unfunded short-term debt | | | | | | | 652 | |
| 21 | Preferred dividend requirements | | | | | | | 2,060 | |
| | | | | | | | | 150,679 | |
| | Less shareholder portions of: | | | | | | | | |
| 22 | Net short-term storage revenue (after tax) | | | | | | | 223 | |
| 23 | Net optimization activity (after tax) | | | | | | | 1,746 | |
| | | | | | | | | 1,969 | |
| 24 | Utility earnings | | | | | | | 147,530 | |
| 25 | Common equity | | | | | | | 1,370,697 | (4) |
| 26 | Return on common equity (line 24 / line 25) | | | | | | | 10.76% | |
| 27 | Benchmark return on common equity | | | | | | | 8.93% | |

Notes:

| | | |
|---|---|---|
| i | Reclassification of optimization revenue as cost of gas | |
| ii | Reversal of FT RAM fuel cost provision for 2011 and 2012 | |
| iii | Demand-side management incentive | |
| iv | Donations | (2,952) |
| | CDM program | (2) |
| | | (2,954) |
| v | Facility fees and customer deposit interest | |
| vi | Foreign exchange gain on bank balances | |

(1) Separated out from column (a) for illustrative purposes only
(2) 1,238,080 GJs x $5.073/GJ
(3) Adjustment to long term debt = $23,637 (2016-18 Average Investment per Exhibit A, Tab 2, Schedule 5, column (b), line 3) x 64% x 4%
(4) Adjustment to common equity = $23,637 (2016-18 Average Investment per Exhibit A, Tab 2, Schedule 5, column (b), line 3) x 36%

**For Illustrative purposes only, 2016-2018 projected impact from Exhibit A, Tab 2, Schedule 5 & 6, has been layered onto exhibit K2.3**

UNION GAS LIMITED
Return on Equity
Adjusted for 2016-18 Hagar Liquifaction as an Unregulated Service
Calendar Year Ending December 31, 2013

| Line No. | Particulars ($000s) | 2013 | 2016-18 Hagar Liquifaction | (1) | Unregulated Storage | Unregulated Liquifaction | Adjustments | | 2013 Utility |
|---|---|---|---|---|---|---|---|---|---|
| | | (a) | (b) | | (c) | (d) | (e) | | (f)=(a)+(b)-(c)-(d)+(e) |
| | Operating Revenues | | | | | | | | |
| 1 | Gas Sales | 1,620,985 | | | - | | (15,697) | i | 1,605,289 |
| 2 | Transportation | 161,178 | | | (356) | | (1,426) | ii | 160,108 |
| 3 | Storage | 90,672 | 6,281 | (2) | 81,828 | 6,281 | 1,970 | (3) | 10,813 |
| 4 | Other | 27,268 | | | - | | (9,224) | iii | 18,045 |
| 5 | | 1,900,104 | 6,281 | | 81,472 | 6,281 | (24,377) | | 1,794,255 |
| | Operating Expenses | | | | | | | | |
| 6 | Cost of gas | 848,876 | | | 2,879 | | (15,697) | i | 830,300 |
| 7 | Operating and maintenance expenses | 397,275 | 2,096 | | 13,283 | 2,096 | (2,954) | iv | 381,038 |
| 8 | Depreciation | 202,682 | 877 | | 9,725 | 877 | - | | 192,957 |
| 9 | Other financing | - | | | - | | 383 | v | 383 |
| 10 | Property and other taxes | 65,288 | 126 | | 1,444 | 126 | - | | 63,845 |
| 11 | | 1,514,122 | 3,099 | | 27,330 | 3,099 | (18,268) | | 1,468,523 |
| | Other | | | | | | | | |
| 12 | Gain / (Loss) on sale of assets | (227) | | | (291) | | - | | 64 |
| 13 | Other / Huron Tipperary | (1,580) | | | (1,580) | | - | | - |
| 14 | Gain / (Loss) on foreign exchange | (1,051) | | | (22) | | 374 | vi | (655) |
| 15 | | (2,858) | | | (1,893) | | 374 | | (592) |
| 16 | Earnings before interest and taxes | 383,124 | 3,182 | | 52,249 | 3,182 | (6,735) | | 325,140 |
| 17 | Income taxes | | | | | | | | 26,327 |
| 18 | Total utility income | | | | | | | | 298,814 |
| | Less debt and preference share return components | | | | | | | | |
| 19 | Long-term debt | | | | | | | | 147,362 |
| 20 | Unfunded short-term debt | | | | | | | | 652 |
| 21 | Preferred dividend requirements | | | | | | | | 2,060 |
| | | | | | | | | | 150,074 |
| | Less shareholder portions of: | | | | | | | | |
| 22 | Net short-term storage revenue (after tax) | | | | | | | | 223 |
| 23 | Net optimization activity (after tax) | | | | | | | | 1,746 |
| | | | | | | | | | 1,969 |
| 24 | Utility earnings | | | | | | | | 146,771 |
| 25 | Common equity | | | | | | | | 1,362,188 |
| 26 | Return on common equity (line 24 / line 25) | | | | | | | | 10.77% |
| 27 | Benchmark return on common equity | | | | | | | | 8.93% |

Notes:

i Reclassification of optimization revenue as cost of gas

ii Reversal of FT RAM fuel cost provision for 2011 and 2012

iii Demand-side management incentive

| | | |
|---|---|---|
| iv | Donations | (2,952) |
| | CDM program | (2) |
| | | (2,954) |

v Facility fees and customer deposit interest

vi Foreign exchange gain on bank balances

(1) Separated out from column (a) for illustrative purposes only
(2) 1,238,080 GJs x $5.073/GJ
(3) 1,238,080 GJs x $1.5909/GJ (rate derived from Exhibit A, Tab 2, Schedule 6, sum of lines 5, 15 and 18)