February 6, 2015

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

Dear Ms. Walli:

RE: EB-2014-0261 – Union Gas Limited ("Union") – Dawn Parkway 2016 Expansion Project Association of Power Producers of Ontario ("APPrO") Request for Additional Information to Union's Interrogatory Response.

Union received a copy of a January 19, 2015 letter to the Ontario Energy Board ("Board") from counsel to APPrO requesting the Board require Union to provide additional information to the filed response in Exhibit B.APPrO.7 f) and g). The following is Union's response to APPrO's request.

As provided in Exhibit B.APPrO.7(c) and (e), the tolling methodology negotiated in the Settlement Agreement by TransCanada and the Eastern LDCs (Union, Enbridge and Gaz Métro) was approved by the National Energy Board in November 2014 (RH-001-2014). The Settlement Agreement provides TransCanada a reasonable opportunity to recover its costs and provides market participants with further access to Dawn and Niagara. The resulting TransCanada tolls will reflect billing determinants, costs and deferral account balances as of December 31, 2014 and will be filed for approval with the National Energy Board before March 31, 2015 (RH-001-2014 Compliance Tolls). The billing determinants and costs in the RH-001-2014 Compliance Tolls include the transportation portfolio shift by the Eastern LDCs from Empress based long haul transportation to Dawn based short haul transportation.

That transportation portfolio shift for all three Eastern LDCs will occur over several years as reflected in the results of TransCanada's 2015 New Capacity Open Season (2015 NCOS) and 2016 New Capacity Open Season (2016 NCOS)[1]. Transportation contracted by the Eastern LDCs as a result of the 2015 NCOS and 2016 NCOS is included in the billing determinants of the RH-001-2014 Compliance Tolls. TransCanada is expected to build the King's North Project and Vaughan Loop Project, which provide capacity to meet the Eastern LDCs contracts from the 2015 NCOS and 2016 NCOS, respectively.

In summary, with respect to Exhibit B.APPrO.7(f) and (g):

[1] TransCanada also recently conducted an Open Season for service commencing November 1, 2017 (2017 NCOS) in conjunction with Union's Dawn Parkway System open season for incremental capacity commencing November 1, 2017.

- TransCanada's RH-001-2014 Compliance Tolls will include the billing determinants and costs associated with the long haul to short haul transition; and
- The RH-001-2014 Compliance Tolls will provide TransCanada a reasonable opportunity to recover its costs.

Union has consulted extensively with TransCanada, Enbridge and Gaz Métro in the negotiation of the Settlement Agreement and in the development of its proposed facilities, including those approved by the Ontario Energy Board in EB-2013-0074 and proposed in this proceeding, EB-2014-0261. Union understands that the capacity contracted on the Dawn Parkway System by Enbridge and Gaz Métro for November 1, 2016 in-service (combined with capacity contracted with TransCanada through its 2016 NCOS) will:

i) replace non-renewable firm TransCanada transportation (FT-NR) currently held on the TransCanada Mainline that expires October 31, 2016[2;]
ii) replace capacity currently purchased from third parties (ex-TransCanada) in the secondary market; and
iii) serve demand growth (capacity not contracted today).

Upon expiry of the FT-NR contract terms, Gaz Métro and Enbridge have no contractual right to renew their capacity on the TransCanada Mainline and will be short capacity to serve their firm markets. Gaz Métro and Enbridge have chosen to replace their FT-NR capacity with transportation from Dawn effective November 1, 2016 (i.e. participated in Union and TransCanada open seasons). This will require Union to construct its proposed 2016 facilities (EB-2014-0261) and TransCanada to construct its facilities for a November 1, 2016 in-service.

Since the Enbridge and Gaz Métro FT-NR and secondary market capacity is not contracted past October 31, 2016, there will be no net reduction in revenue to TransCanada. In fact, the 2016 NCOS capacity contracted by Enbridge and Gaz Métro increases billing determinants, directionally reducing tolls for shippers in the Eastern Ontario Triangle, including Ontario natural gas customers. No gas cost savings have been calculated for Enbridge and Gaz Métro customers as part of Union's EB-2014-0261 application.

With respect to Union's contracts resulting from the 2016 NCOS, the difference between the long haul contract costs and the short haul contract costs (including adjustment of STS contracts) is approximately \$63 million annually[3,] excluding commodity costs as provided in Exhibit A, Tab 7 (Tables 7-6 and 7-7). The aggregate Contract Demand of all FT contracts with a primary delivery point in Ontario (non-export) is approximately 40% of the total TransCanada Mainline FT Contract Demand (energy-distance basis) as of November 1, 2016. Based on this percentage, the difference is approximately \$25 million.

This estimated cost is derived from information publically available to Union (TransCanada CDE Reports) and is based on a simplified proxy of a complicated TransCanada toll calculation. It is not appropriate to compare this \$25 million differential to the \$44 million annual savings referenced in Exhibit A, Tab 7 as Union's application does not include any gas cost savings for Enbridge and it would

[2] The FT-NR service replaced capacity secured by Enbridge and Gaz Métro through discretionary services (such as STFT) on the TransCanada Mainline. The FT-NR service contracted by Enbridge and Gaz Métro is not available after October 31, 2016 (capacity removed for Energy East Project).
[3] This calculation utilizes the tolls filed as part of TransCanada's Tolls and Tariff Changes Application (RH-001-2014) for specific long haul and short haul paths on the TransCanada Mainline. The tolls filed by TransCanada were approved on an interim basis until the RH-001-2014 Compliance Tolls have been approved by the National Energy Board.

ignore any savings realized by Gaz Métro customers[4]. However, in an effort to provide an illustrative example Union has completed a NPV calculation including Gas Cost savings (quantified for Union only) and the above estimate of toll impact (for all Ontario customers) as the toll impacts cannot be looked at in isolation of the change in commodity costs. The NPV calculation results in a net benefit to the project of $196 million. Adding this benefit to Table 9-1 found at Exhibit A, Tab 9, page 10 yields the following:

NPV ($ Millions)

Stage	NPV
Stage 1	(259)
Stage 2	Not quantified
Stage 3 Union Gas Savings Net of Ontario Tolls	+ 378 + 196
Total	+ 315

Yours truly,

[original signed by]

Karen Hockin
Manager, Regulatory Initiatives

c.c.: Zora Crnojacki, Board Staff
Mark Kitchen, Union Gas
Crawford Smith, Torys
EB-2014-0261 Intervenors

[4] The Net Present Value assuming $44 million annual savings (according to Exhibit A, Tab 7) with $25 million annual toll differential is $196 million over a 15 year period.