

February 27, 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 Settlement Agreement

Please find attached the Settlement Agreement for the above noted proceeding. As reflected in the Agreement, the parties agree that the unsettled issues will proceed to hearing before the Board.

If you have any questions with respect to this submission please contact me at (519) 436- 5473.

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

EB-2014-0261
UNION GAS LIMITED
SETTLEMENT AGREEMENT
February 27, 2015

EB-2014-0261
SETTLEMENT AGREEMENT

This Settlement Agreement (the “Agreement”) is for the consideration of the Ontario Energy Board (the “Board”) in its determination, under Docket No. EB-2014-0261 for Union Gas Limited (“Union”).

On September 11, 2014, Union filed an application with the Board seeking approval for its 2016 Dawn Parkway Expansion Project (“the Project”). Subsequent to this, on September 30, 2014, Union filed its pre-filed evidence in support of the application. As stated in its evidence, the Project involves the installation of a new 44,500 ISO HP Lobo C Compressor plus modifications to existing facilities at the Lobo Compressor Station and, the construction of approximately 20 km of NPS 48 pipeline extending from the Hamilton Valve Site to the Milton Valve Site. These facilities will provide incremental capacity of 442,770 GJ/d on Union’s Dawn Parkway System with an in-service date of November 2016. The total estimated cost to construct the Project is \$415.7 million.

By Procedural Order No. 2 dated January 29, 2014, the Board scheduled a Settlement Conference on February 9, 2014. The Settlement Conference was duly convened, in accordance with Procedural Order No.2, with Gail Morrison as facilitator. The purpose of the Settlement Conference was to seek agreement on some or all of the issues identified in the Board’s Decision on Issues List dated February 6, 2014.

In Procedural Order No. 1 in this proceeding (dated November 18, 2014), the Board granted intervenor status to all parties as listed in Appendix A of Procedural Order No. 1. 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”)
Federation of Rental-Housing Providers of Ontario (“FRPO”)
Gas Pipeline Landowners of Ontario (“GAPLO”)
Kitchener Utilities (“Kitchener”)
London Property Management Association (“LPMA”)
Ontario Greenhouse Vegetable Growers (“OGVG”)
School Energy Coalition (“SEC”)
TransCanada PipeLines Limited (“TCPL”)
Union Gas Limited (“Union”)
Vulnerable Energy Consumers Coalition (“VECC”)

These issues cited in the Board’s February 6, 2014 Decision include:

1. Are the proposed facilities needed?

2. Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013, as applicable?
3. What are the potential short-term and long-term rate impacts to customers? Are these costs and rate impacts to customers appropriate?
4. What are the facilities and non-facilities alternatives to the proposed facilities? Have these alternatives been adequately assessed and are any preferable to the proposed facilities, in whole or in part?
5. Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?
6. Are there any outstanding landowner matters for the proposed facilities with respect to routing and construction matters? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.
7. Is the form of easement agreement offered by Union or that will be offered by Union to each owner of land affected by the approved route or location appropriate?
8. Are the proposed facilities designed in accordance with current technical and safety requirements?
9. Has there been adequate consultation with other potentially affected parties?
10. Does the project meet the capital pass-through mechanism criteria for pre-approval to recover the cost consequences of the proposed facilities?
11. If the Board approves the proposed facilities, what conditions, if any, are appropriate?

The result of the settlement negotiations between Union and stakeholders (the "Agreement") was a partial settlement in that the Agreement does not settle all issues in this proceeding. Issues 1, 2, 3, 4, 5, 8, 9 and 10 were completely settled. All remaining issues were unsettled, with partial settlements as noted below. These unsettled issues are specific to interests raised by GAPLO.

Consistent with the Board's Settlement Conference Guidelines (the "Guidelines"), 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).

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 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 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 parties have used their best efforts to ensure that the evidence supporting the Agreement is set out in the Agreement. The evidence supporting the agreement on each issue is cited in each section of the Agreement. Abbreviations will be used when identifying exhibit references. For example, Exhibit A, Tab 4, Schedule 1, Page 1 will be referred to as A/T4/S1/p. 1. The structure and presentation of the settled issues is consistent with settlement agreements which have been accepted by the Board in prior cases. The parties agree that this Agreement forms part of the record in the proceeding.

1. Are the proposed facilities needed?

(Complete settlement)

The parties agree that Lobo C and Hamilton-Milton facilities are needed to meet forecasted demand.

The following parties agree with the settlement of this issue: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC and VECC

The following parties take no position: GAPLO and TCPL

Evidence References:

A/T5, A/T5/Attachment 1 (2014 ICF Report), A/T6, A/T7, A/T8, Exhibit B.Staff.1, Exhibit B.TCPL.1, Exhibit B.TCPL.2, Exhibit B.TCPL.3, Exhibit B. CME.2a), Exhibit B. SEC.2, Exhibit B.APPrO.1, Exhibit B.APPrO.1, Exhibit B.APPrO.3, Exhibit B.APPrO.5, Exhibit B.APPrO.6, Exhibit B.APPrO.7, Exhibit B.LPMA.2, Exhibit B.LPMA.7, Exhibit B.VECC.1a), Exhibit B.OGVG.FRPO.CME.4, Exhibit B.OGVG.FRPO.CME.5, Exhibit B.OGVG.FRPO.CME.9, Exhibit B.OGVG.12, Exhibit B.OGVG.16

2. Do the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013, as applicable?

(Complete settlement)

The parties agree that the proposed facilities meet the Board's economic tests as outlined in the Filing Guidelines on the Economic Tests for Transmission Pipeline Applications, dated February 21, 2013, as applicable.

As filed at A/T9/p.3, the result of the Stage 1 economics for the proposed facilities indicate a cumulative net present value ("NPV") of (\$258.5) million and a profitability index ("PI") of 0.38. The NPV was updated in Exhibit B.Staff.3 Attachment 1 to (\$259.2) million with no change to the PI. As per Issue 3 of this Agreement below, Union agreed to reduce the contingency amount for this project by \$25.0 million. The result is a revised project NPV of (\$238.5) million and a PI of 0.39. Schedules detailing the revised economics are provided at Appendix 1 of the Agreement.

The following parties agree with the settlement of this issue: BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC and VECC

The following parties take no position: APPrO, GAPLO and TCPL

Evidence References:

A/T9, A/T10, Exhibit B.Staff.3, Exhibit B.Staff.5, Exhibit B.VECC.3a), Exhibit B.APPrO.7g),h), Exhibit B.CME.3

3. What are the potential short-term and long-term rate impacts to customers? Are these costs and rate impacts to customers appropriate?

(Complete settlement)

The parties agree that the costs and rate impacts are appropriate subject to the following with respect to the level of contingency costs and potential capacity turnback risk issues.

Level of Contingency Costs

For the purposes of settlement, Union agrees to reduce the total contingency cost for the Lobo C Compressor and the Hamilton Milton Pipeline from \$90.14 million to \$65.14 million (\$25.0 million) for ratemaking. Contingency costs are included to cover cost risks that are unforeseeable or difficult to predict at the time the capital cost estimate is prepared. Cost risks that may be unforeseen or are difficult to predict include foreign exchange risk, environmental mitigation and permitting.

The \$25.0 million reduction in the level of contingency will be prorated between the Lobo C Compressor and the Hamilton Milton Pipeline. The revised forecast capital expenditure for the LOBO C Compressor is \$159.68 million. The revised forecast capital expenditure for Hamilton Milton Pipeline is \$231.04 million. The revised forecast capital expenditures are provided at Appendix 2. Revised rate impacts are provided at Appendix 3.

Parties agree that in the event that the actual capital cost exceeds the revised forecast capital cost, any party may take any position as to the prudence of the actual capital cost in a subsequent proceeding. Union is proposing to track these costs in a deferral account as filed at A/T10/S7.

Capacity Turnback

CME, FRPO and OGVG submitted evidence relating to concerns regarding potential capacity turnback and the resulting rate impacts. To address these concerns, the intervenor evidence called for conditions of approval that would extend the terms of existing transportation contracts and set a floor on the ex-franchise demand factors used for allocating Dawn to Parkway costs for a period of ten years.

The parties do not agree on the risk of Dawn Parkway capacity turnback post-2018. For the purposes of settlement, while the parties agree that leave to construct should be granted, there is no agreement of how turnback risk should be dealt with in the context of the proposed facilities. Parties agree that this issue will be dealt with in Union's next cost of service

proceeding. For greater certainty, intervenors are in no way restricted or precluded from making any argument before the Board in that proceeding that it is appropriate that certain cost allocation measures should be put in place to insulate ratepayers from the effect of unutilized and underutilized capacity on the Dawn-Parkway system due to potential turnback risk. Accordingly, parties agree that no conditions related to capacity turnback are required at this time.

The following parties agree with the settlement of this issue: BOMA, CME, FRPO, LPMA, OGVG, SEC and VECC

The following parties take no position: APPrO, GAPLO, Kitchener and TCPL

Evidence References:

A/T9, A/T10, Exhibit B.Staff.1, Exhibit B.Staff.5, Exhibit B.LPMA.1, Exhibit B.LPMA.6, Exhibit B.VECC.2, Exhibit B.VECC.3b), Exhibit B.OGVG.FRPO.CME.11, Exhibit B.TCPL.1, Exhibit B.TCPL.2, Exhibit B.TCPL.3, Exhibit B.SEC.5, Exhibit B.SEC.6, Exhibit B.APPrO.2, Exhibit B.APPrO.5, Exhibit B.APPrO.6, written evidence and interrogatories of OGVG.FRPO.CME

4. What are the facilities and non-facilities alternatives to the proposed facilities? Have these alternatives been adequately assessed and are any preferable to the proposed facilities, in whole or in part?

(Complete settlement)

The parties agree the alternatives, both facility and non-facility, to the proposed facilities were adequately assessed. The parties also agree that based on the projected demands on the Dawn Parkway System, the facilities as proposed in this application are the preferred alternative.

The following parties agree with the settlement of this issue: BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC and VECC

The following parties take no position: APPrO, GAPLO and TCPL

Evidence References:

A/9, A/T10, Exhibit B.CME.2, Exhibit B.Staff.4, Exhibit B.LPMA.3, Exhibit B.LPMA.4, Exhibit B.SEC.4, Exhibit B.SEC.5, Exhibit B.SEC.6, Exhibit B.CME.1, Exhibit B.OGVG.FRPO.CME.1, Exhibit B.OGVG.FRPO.CME.2, Exhibit B.OGVG.FRPO.CME.3, Exhibit B.OGVG.FRPO.CME.6, Exhibit B.OGVG.FRPO.CME.7, Exhibit B.OGVG.FRPO.CME.8, Exhibit B.OGVG.FRPO.CME.9, Exhibit B.OGVG.FRPO.CME.10, Exhibit B.OGVG.14, Exhibit B.OGVG.15, Exhibit B.OGVG.17

5. Do the facilities address the OEB Environmental Guidelines for Hydrocarbon Pipelines as applicable?

(Complete Settlement)

Union agrees to undertake a post-construction comparative crop yield study. Union also agrees that it will offer to landowners, at a minimum, the Hamilton to Milton Letter of Understanding in the form attached hereto as Appendix 4. By doing so, GAPLO's request in its evidence at page 12, para 35 a) that Union be required to file a cumulative effects assessment in this proceeding is satisfied.

The following parties are in agreement: GAPLO

The following parties take no position: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC, VECC and TCPL

Evidence References:

A/T12, A/T12/Attachment 1 and 2, Exhibit B.GAPLO.6, Exhibit B.GAPLO.10, Exhibit B.GAPLO.14, Exhibit B.GAPLO.15, Exhibit B.GAPLO.21, Exhibit B.GAPLO.23, Exhibit B.GAPLO.24, Exhibit B.GAPLO.25, Exhibit B.GAPLO.26, Exhibit B.GAPLO.28, written evidence and interrogatories of GAPLO

6. Are there any outstanding landowner matters for the proposed facilities with respect to routing and construction matters? For greater clarity, landowners include parties from whom permits, crossing agreements and other approvals are required.

(Partial Settlement)

Union agrees to the appointment of an independent construction monitor for construction on agricultural lands for the Hamilton- Milton pipeline. The construction monitor will be chosen by a committee consisting of one representative from each of Union, the OEB and GAPLO. The scope of work for the construction monitor will be:

1. To observe impacts of construction on the land, including right-of-way preparation, trenching, backfill and clean-up operations as well as wet soil shutdown events;
2. To review construction activities for compliance with the OEB Conditions of Approval, Letters of Understanding ("LOU") agreed to between landowners and Union;
3. To review all specific construction commitments included in Union's construction contract;
4. To respond to specific requests by landowners and the committee within 24 hours while maintaining limited contact with landowners on a day-to-day basis; and
5. To prepare and deliver a series of activity reports in a timely manner to the appropriate persons.

Union further agrees to file interim and final reports of the construction monitor with the OEB and provide copies to GAPLO. Union's agreement is without prejudice to any position it may take in a future proceeding with respect to the appointment of an independent construction monitor.

There is no agreement on using the landowner LOU from EB-2005-0550 (Strathroy-Lobo) for Hamilton Milton Pipeline Project. This issue will proceed to hearing. The Hamilton-Milton LOU is provided at Appendix 4.

The following parties are in agreement: GAPLO

The following parties take no position: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC, VECC and TCPL

Evidence References:

A/T13, Exhibit B.Staff.6, Exhibit B.CN.1, Exhibit B.GAPLO.1, Exhibit B.GAPLO.2, Exhibit B.GAPLO.7, Exhibit B.GAPLO.8, Exhibit B.GAPLO.11, Exhibit B.GAPLO.12, Exhibit B.GAPLO.16, Exhibit B.GAPLO.17, Exhibit B.GAPLO.19, Exhibit B.GAPLO.20, Exhibit B.GAPLO.28, Exhibit B.GAPLO.30, written evidence and interrogatories of GAPLO

7. Is the form of easement agreement offered by Union or that will be offered by Union to each owner of land affected by the approved route or location appropriate?

(Partial settlement)

There is no agreement to use the Form of Easement approved by the Board in EB-2005-0550 (Strathroy Lobo Pipeline Project) for the Hamilton Milton Pipeline Project as requested in GAPLO's evidence at page 12, para 34 a) . The specific clause at issue relates to pipeline abandonment. This pipeline abandonment issue will proceed to hearing.

Parties agree to the following wording related to future use of lands adjacent to the easement:

"The Pipeline (including attachments, equipment and appliances for Cathodic protection but excluding valves, take-offs and fencing installed under Clause 9 hereof) shall be laid to such a depth that upon completion of installation it will not obstruct the natural surface run-off from the Lands nor ordinary cultivation of the Lands nor any tile drainage system existing in the Lands at the time of installation of the Pipeline nor any planned tile drainage system to be land in the Lands in accordance with standard drainage practice, if the Transferee is given at least (30) thirty days notice of such planned system prior to the installation of the Pipeline; provided that the Transferee may leave the Pipeline

exposed in crossing a ditch, stream, gorge or similar object where approval has been obtained from the Ontario Energy Board or other Provincial Board or authority having jurisdiction in the premises. The Transferee agrees to make reasonable efforts to accommodate the planning and installation of future tile drainage systems following installation of the Pipeline so as not to obstruct or interfere with such tile installation. In the event there is a change in the use of all, or a portion of, the Transferor Lands adjacent to the Lands which results in the Pipeline no longer being in compliance with the pipeline design class location requirements, then the Transferee shall be responsible for any costs associated with any changes to the Pipeline required to ensure compliance with the class location requirements.”

The following are in agreement: GAPLO

The following parties take no position: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, SEC, OGVG, TCPL and VECC

Evidence References:

A/T13, Exhibit B.GAPLO.7, Exhibit B.GAPLO.16, Exhibit B.GAPLO.17, written evidence and interrogatories of GAPLO

8. Are the proposed facilities designed in accordance with current technical and safety requirements?

(Complete settlement)

Parties agree the proposed facilities are designed in accordance with current technical and safety requirements. In response to GAPLO’s request in evidence page 12 paragraph 35b) Union filed their Standard Operating Procedure for depth of cover on February 23, 2015. Union also agrees that it will offer to landowners, at a minimum, the Hamilton to Milton Letter of Understanding in the form attached hereto as Appendix 4.

The following parties agree with the settlement of this issue: GAPLO

The following parties take no position: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, SEC, OGVG, TCPL and VECC

Evidence References:

A/T11, Exhibit B.GAPLO.2, Exhibit B.GAPLO.3, Exhibit B.GAPLO.29, Exhibit B.GAPLO.30

9. Has there been adequate consultation with other potentially affected parties?

(Complete settlement)

Parties agree there has been adequate consultation with other potentially affected parties.

The following parties agree with the settlement of this issue: GAPLO

The following parties take no position: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC, TCPL and VECC

Evidence References:

A/T12, A/T13, A/T14, Exhibit B.Staff.7

10. Does the project meet the capital pass-through mechanism criteria for pre-approval to recover the cost consequences of the proposed facilities?

(Complete settlement)

The parties agree that the project meets the capital pass-through mechanism criteria for pre-approval to recover the cost consequences of the proposed facilities.

As part of the EB-2013-0202 Settlement Agreement (2014-2018 Incentive Rate Mechanism (“IRM”)), Parties agreed to establish a deferral account to capture differences between the forecast annual net revenue requirement and the actual net delivery revenue requirement for each year of the IRM. As part of this Agreement, parties agree that if Union’s facilities (Lobo C and Hamilton-Milton) are in-service prior to TransCanada Pipelines (“TCPL”) facilities downstream of Parkway (the Vaughn Loop), parties are free to take any position as to whether or not an adjustment to the deferral account balance as a result of this timing difference is warranted, including whether Union’s facilities should be considered in-service for ratemaking purposes. By agreeing to the above, parties agree that no condition of approval linking the construction or in-service timing of Union’s Dawn Parkway facilities to the construction of in-service timing of TCPL’s facilities is required.

The following parties agree with the settlement of this issue: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC and VECC

The following parties take no position: GAPLO and TCPL

Evidence References:

A/T9, A/T10, Exhibit B.Staff.1, Exhibit B.Staff.2, Exhibit B.APPrO.1, Exhibit B.CME.2, Exhibit B.LPMA.7, Exhibit B.SEC.1.

11. If the Board approves the proposed facilities, what conditions, if any, are appropriate?

(Partial Settlement)

With the exception of GAPLO (Issues 6 and 7) parties agree that no additional conditions to the standard conditions of approval are required subject to the settled issues in Issues 3, 5, 8 and 10 above.

Further, the parties acknowledge condition of approval 1.2 in Appendix E of the Board's Decision and Order (EB-2012-0433/EB-2013-0074 dated January 30, 2014) regarding construction of the Brantford-Kirkwall pipeline is in no way impacted by this settlement.

The following parties are not in agreement: GAPLO

The following parties agree with the settlement of this issue: APPrO, BOMA, CME, FRPO, LPMA, Kitchener, OGVG, SEC and VECC

The following parties take no position: TCPL

Evidence References:

Exhibit B.Staff.8, written evidence and interrogatories of OGVG.FRPO.CME, written evidence and interrogatories of GAPLO

EB-2014-0261
Settlement Agreement
Appendix 1
Page 1 of 3

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EB-2014-0261
Settlement Agreement
Appendix 1
Page 2 of 3

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EB-2014-0261
Settlement Agreement
Appendix 1
Page 3 of 3

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TOTAL ESTIMATED PIPELINE COSTS - ADJUSTED FOR SETTLEMENT

NPS 48 Hamilton to Milton	As filed	Adjustment	Per Settlement
Materials	\$18,897,000		\$18,897,000
Construction and Labour	\$160,425,000		\$160,425,000
Contingencies	\$62,763,000	-\$14,783,000	\$47,980,000
Interest During Construction	<u>\$3,735,000</u>		<u>\$3,735,000</u>
Total Estimated Pipeline Capital Costs – 2016 Construction	<u><u>\$245,820,000</u></u>		<u><u>\$231,037,000</u></u>

TOTAL ESTIMATED STATION COSTS- ADJUSTED FOR SETTLEMENT

Lobo Compressor Plant	As filed	Adjustment	Per Settlement
Materials	\$56,131,000		\$56,131,000
Construction and Labour	\$80,751,000		\$80,751,000
Contingencies	\$27,377,000	-\$10,217,000	\$17,160,000
Interest During Construction	<u>\$5,637,000</u>		<u>\$5,637,000</u>
Total Estimated Station Capital Costs – 2016 Construction	<u><u>\$169,896,000</u></u>		<u><u>\$159,679,000</u></u>

UNION GAS LIMITED
Hamilton-Milton Pipeline and Lobo C Compressor Project Revenue Requirement - Per Settlement

Line No.	Particulars (\$000's)	2016 (a)	2017 (b)	2018 (c)
	<u>Rate Base Investment</u>			
1	Capital Expenditures	378,233	12,482	-
2	Average Investment	44,292	376,925	372,457
	<u>Revenue Requirement Calculation:</u>			
	<u>Operating Expenses:</u>			
3	Operating and Maintenance Expenses (1)	187	1,128	1,150
4	Depreciation Expense (2)	4,528	9,158	9,261
5	Property Taxes (3)	191	1,149	1,172
6	Total Operating Expenses	<u>4,906</u>	<u>11,435</u>	<u>11,583</u>
7	Required Return (6.031% x line 2) (4)	2,671	22,732	22,462
	<u>Income Taxes:</u>			
8	Income Taxes - Equity Return (5)	487	4,147	4,097
9	Income Taxes - Utility Timing Differences (6)	(7,381)	(9,192)	(7,892)
10	Total Income Taxes	<u>(6,894)</u>	<u>(5,046)</u>	<u>(3,795)</u>
11	Total Revenue Requirement (line 6 + line 7 + line 10)	<u>683</u>	<u>29,121</u>	<u>30,251</u>
12	Incremental Project Revenue (7)	<u>1,559</u>	<u>9,357</u>	<u>9,357</u>
13	Net Revenue Requirement (line 11 - line 12)	<u>(876)</u>	<u>19,764</u>	<u>20,894</u>

Notes:

- (1) Expenses include salaries and wages, employee-related expenses, fleet costs, materials and operating expenses.
- (2) Depreciation expense at 2013 Board-approved depreciation rates.
- (3) Property taxes in 2018 include \$0.792 million for the Hamilton-Milton pipeline and \$0.380 million for Lobo C compressor and facilities.
- (4) The required return of 6.031% assumes a capital structure of 64% long-term debt at 4.4% and 36% common equity at the 2013 Board-approved return of 8.93% ($0.64 \times 0.044 + 0.36 \times 0.0893$)
The 2018 required return calculation is as follows:
 $\$372.457 \text{ million} \times 64\% \times 4.4\% = \$10.488 \text{ million plus}$
 $\$372.457 \text{ million} \times 36\% \times 8.93\% = \$11.974 \text{ million for a total of } \22.462 million.
- (5) Taxes related to the equity component of the return at a tax rate of 25.5%.
- (6) Taxes related to utility timing differences are negative as the capital cost allowance deduction in arriving at taxable income exceeds the provision of book depreciation in the year.
- (7) Project revenue assumes an estimated M12 Dawn-Parkway rate of \$2.546 GJ/mth and an M12 Kirkwall-Parkway rate of \$0.450 GJ/mth.
The 2018 revenue is calculated as follows:
M12 Dawn-Parkway demands of 270,733 GJ x \$2.546 x 12 / 1000 = \$8.271 million plus
M12 Kirkwall-Parkway demands of 36,301 GJ x \$0.450 x 12 / 1000 = \$0.196 million plus
Union North T-Service demands of 29,115 GJ x \$2.546 x 12 / 1000 = \$0.890 million

UNION GAS LIMITED
2018 Cost Allocation Impacts of Hamilton-Milton Pipeline and Lobo C Compressor Project - Per Settlement

Line No.	Particulars	Total Cost Allocation Impacts (\$000's)	Cost Allocation Change in Demands (1) (\$000's)	Dawn-Parkway Easterly Transmission (2)				Other Functional Classifications		
		(a) = (b + e + i)	(b)	Project Costs (3) (\$000's)	Indirect Costs (\$000's)	Total (\$000's)	(%)	Project Costs (3) (\$000's)	Indirect Costs (\$000's)	Total (\$000's)
		(a) = (b + e + i)	(b)	(c)	(d)	(e) = (c + d)	(f)	(g)	(h)	(i) = (g + h)
1	Rate M1	(2,168)	472	1,938	512	2,450	6%	(863)	(4,227)	(5,089)
2	Rate M2	304	158	651	172	823	2%	(113)	(565)	(678)
3	Rate M4	113	46	189	50	239	1%	(25)	(147)	(173)
4	Rate M5	(159)	0	2	0	2	0%	(25)	(137)	(162)
5	Rate M7	75	21	87	23	110	0%	(9)	(48)	(57)
6	Rate M9	38	8	31	8	39	0%	(2)	(8)	(9)
7	Rate M10	1	0	1	0	1	0%	(0)	(1)	(1)
8	Rate T1	17	23	94	25	118	0%	(17)	(107)	(124)
9	Rate T2	403	148	607	160	767	2%	(79)	(433)	(512)
10	Rate T3	275	53	220	58	278	1%	(8)	(49)	(57)
11	Subtotal - Union South	(1,104)	929	3,820	1,008	4,828	12%	(1,140)	(5,722)	(6,862)
12	Excess Utility Space	(74)	-	-	-	-	0%	(18)	(57)	(74)
13	Rate C1	(29)	-	-	-	-	0%	(6)	(23)	(29)
14	Rate M12	30,535	(2,488)	26,326	6,950	33,276	82%	(124)	(128)	(253)
15	Rate M13	(1)	-	-	-	-	0%	(0)	(1)	(1)
16	Rate M16	(3)	-	-	-	-	0%	(1)	(2)	(3)
17	Subtotal - Ex-franchise	30,427	(2,488)	26,326	6,950	33,276	82%	(150)	(211)	(360)
18	Rate 01	(57)	542	1,310	346	1,655	4%	(403)	(1,851)	(2,254)
19	Rate 10	265	142	343	91	433	1%	(57)	(254)	(311)
20	Rate 20 (4)	963	873	256	68	324	1%	(18)	(216)	(234)
21	Rate 100	(174)	3	6	2	8	0%	(32)	(153)	(185)
22	Rate 25	(68)	-	-	-	-	0%	(12)	(57)	(68)
23	Subtotal - Union North	928	1,559	1,915	506	2,421	6%	(521)	(2,531)	(3,052)
24	In-franchise (line 11 + line 23)	(177)	2,488	5,735	1,514	7,249	18%	(1,661)	(8,253)	(9,914)
25	Ex-franchise (line 17)	30,427	(2,488)	26,326	6,950	33,276	82%	(150)	(211)	(360)
26	Total	30,251	(0)	32,061	8,463	40,525	100%	(1,811)	(8,463)	(10,274)

Notes:

- (1) Allocation of the 2013 Board-approved costs updated to include the incremental Dawn-Parkway Project demands of 474,949 GJ/d.
- (2) The Project costs of \$32.061 million and the indirect costs of \$8.463 million are allocated in proportion to the Dawn to Parkway demand allocation provided at EB-2011-0210, Exhibit G3, Tab 5, Schedule 23, Updated, pages 7-8, line 5, updated to include the incremental demands of 474,949 GJ/d.
- (3) The total 2018 Project costs of \$30.251 million include \$32.061 million directly allocated to the Dawn-Parkway Easterly functional classification and (\$1.811) million of property and income taxes allocated to distribution, storage and other transmission-related functional classifications.
- (4) Of the total \$0.963 million in costs allocated to Rate 20, \$1.039 million is associated with a new Dawn-based storage service for North T-service customers.

UNION GAS LIMITED
2018 General Service Bill Impacts - Per Settlement
Includes Hamilton-Milton Pipeline and Lobo C Compressor Project
Annual Consumption of 2,200 m³

Line No.	Rate M1 - Particulars	EB-2013-0365 Approved 01-Jan-14 Total Bill (1)	EB-2014-0261 Proposed 01-Jan-18 Total Bill	Bill Impact	
		(\$) (a)	(\$) (b)	(\$) (c) = (b - a)	(%) (d) = (c / a)
	<u>Delivery Charges</u>				
1	Monthly Charge	252.00	252.00	-	
2	Delivery Commodity Charge	80.82	78.25	(2.57)	
3	Storage Services	16.48	16.11	(0.37)	
4	Total Delivery Charge	349.30	346.36	(2.94)	-0.8%
	<u>Supply Charges</u>				
5	Transportation to Union	75.90	75.90	-	
6	Commodity & Fuel	394.23	394.23	-	
7	Total Gas Supply Charge	470.13	470.13	-	
8	Total Bill (line 4 + line 7)	819.43	816.49	(2.94)	-0.4%
9	Impacts for Customer Notices - Sales (line 8)			(2.94)	
10	Impacts for Customer Notices - Direct Purchase (line 4)			(2.94)	

Line No.	Rate 01 Eastern Zone - Particulars	EB-2013-0365 Approved 01-Jan-14 Total Bill (1)	EB-2014-0261 Proposed 01-Jan-18 Total Bill	Bill Impact	
		(\$) (a)	(\$) (b)	(\$) (c) = (b - a)	(%) (d) = (c / a)
	<u>Delivery Charges</u>				
11	Monthly Charge	252.00	252.00	-	
12	Delivery Commodity Charge	198.40	191.43	(6.97)	
13	Total Delivery Charge	450.40	443.43	(6.97)	-1.5%
	<u>Supply Charges</u>				
14	Transportation to Union	132.80	132.88	0.08	
15	Storage Services	75.57	80.93	5.37	
16	Subtotal	208.37	213.81	5.44	2.6%
17	Commodity & Fuel	394.44	394.44	-	
18	Total Gas Supply Charge (line 16 + line 17)	602.81	608.25	5.44	
19	Total Bill (line 13 + line 18)	1,053.21	1,051.69	(1.53)	-0.1%
20	Impacts for Customer Notices - Sales (line 19)			(1.53)	
21	Impacts for Customer Notices - Direct Purchase (line 13 + line 16)			(1.53)	

Note:

(1) Calculated as per Appendix A, EB-2013-0365.

UNION GAS LIMITED
2018 Rate M12/M12-X/C1 Transportation Demand Charges Impacts of the
Hamilton-Milton Pipeline and Lobo C Compressor Project- Per Settlement

Line No.	Services	EB-2013-0365 Approved (\$/GJ/day) (1) (a)	EB-2014-0261 Proposed (\$/GJ/day) (b)	Difference (c) = (b - a)	% Change (d) = (c / a)	EB-2014-0261 Including Parkway Projects (\$/GJ/day) (2) (e)	Difference (f) = (e- a)	% Change (g) = (f / a)
1	M12/C1 Dawn to Kirkwall	0.067	0.071	0.004	5.6%	0.085	0.018	26.3%
2	M12/C1 Dawn to Parkway	0.080	0.084	0.005	6.1%	0.101	0.022	27.3%
3	M12/C1 Kirkwall to Parkway	0.012	0.014	0.001	8.8%	0.016	0.004	32.8%
4	C1 Parkway to Kirkwall	0.019	0.021	0.002	8.8%	0.026	0.006	32.8%
5	C1 Parkway to Dawn	0.019	0.021	0.002	8.7%	0.026	0.006	32.8%
6	M12-X	0.099	0.106	0.007	6.7%	0.127	0.028	28.4%

Notes:

(1) EB-2013-0365, Appendix A, Pages 14-16, column (c), effective January 1, 2014.

(2) Parkway Projects includes Parkway West, Brantford to Kirkwall Pipeline and Parkway D Compressor Project.

UNION GAS LIMITED
2018 General Service Bill Impacts - Per Settlement
Includes Hamilton-Milton Pipeline and Lobo C Compressor Project and Estimated Gas Cost Savings
Annual Consumption of 2,200 m³

Line No.	Rate M1 - Particulars	EB-2013-0365	EB-2014-0261	Bill Impact	
		Approved 01-Jan-14 Total Bill (1)	Proposed 01-Jan-18 Total Bill	(\$)	(%)
		(a)	(b)	(c) = (b - a)	(d) = (c / a)
	<u>Delivery Charges</u>				
1	Monthly Charge	252.00	252.00	-	
2	Delivery Commodity Charge	80.82	78.25	(2.57)	
3	Storage Services	16.48	16.11	(0.37)	
4	Total Delivery Charge	349.30	346.36	(2.94)	-0.8%
	<u>Supply Charges</u>				
5	Transportation to Union	75.90	51.85	(24.05)	
6	Commodity & Fuel	394.23	402.89	8.66	
7	Total Gas Supply Charge	470.13	454.74	(15.39)	
8	Total Bill (line 4 + line 7)	819.43	801.10	(18.33)	-2.2%
9	Impacts for Customer Notices - Sales (line 8)			(18.33)	
10	Impacts for Customer Notices - Direct Purchase (line 4)			(2.94)	

Line No.	Rate 01 Eastern Zone - Particulars	EB-2013-0365	EB-2013-0365	EB-2014-0261	Bill Impact	
		Approved 01-Jan-14 Total Bill (1)	Updated (2) 01-Jan-14 Total Bill	Proposed 01-Jan-18 Total Bill	(\$)	(%)
		(a)	(b)	(c)	(d) = (c - b)	(e) = (d / b)
	<u>Delivery Charges</u>					
11	Monthly Charge	252.00	252.00	252.00	-	
12	Delivery Commodity Charge	198.40	198.40	191.43	(6.97)	
13	Total Delivery Charge	450.40	450.40	443.43	(6.97)	-1.5%
	<u>Supply Charges</u>					
14	Transportation to Union	132.80	219.48	132.62	(86.85)	
15	Storage Services	75.57	93.40	126.82	33.42	
16	Subtotal	208.37	312.88	259.44	(53.44)	-17.1%
17	Commodity & Fuel	394.44	389.99	403.15	13.16	
18	Total Gas Supply Charge (line 16 + line 17)	602.81	702.86	662.59	(40.28)	
19	Total Bill (line 13 + line 18)	1,053.21	1,153.27	1,106.02	(47.24)	-4.1%
20	Impacts for Customer Notices - Sales (line 19)				(47.24)	
21	Impacts for Customer Notices - Direct Purchase (line 13 + line 16)				(60.40)	

Note:

- (1) Calculated as per Appendix A, EB-2013-0365.
(2) Update includes TCPL settlement tolls and Empress to NDA long haul transporation contract of 67,000 GJ/d.

UNION GAS LIMITED

Hamilton-Milton Pipeline and Lobo C Compressor Project Revenue Requirement by Rate Class - Per Settlement

Line No.	Particulars (\$000's)	2016 (a)	Variance (b) = (c - a)	2017 (c)	Variance (d) = (e - c)	2018 (e)
1	Rate M1	(2,162)	(475)	(2,637)	469	(2,168)
2	Rate M2	(135)	369	234	70	304
3	Rate M4	(21)	116	96	17	113
4	Rate M5	(99)	(76)	(175)	15	(159)
5	Rate M7	4	65	69	6	75
6	Rate M9	8	28	37	1	38
7	Rate M10	0	1	1	0	1
8	Rate T1	(34)	39	5	12	17
9	Rate T2	(49)	401	352	51	403
10	Rate T3	65	203	268	6	275
11	Subtotal - Union South	<u>(2,423)</u>	<u>672</u>	<u>(1,750)</u>	<u>646</u>	<u>(1,104)</u>
12	Excess Utility Space	(46)	(35)	(81)	7	(74)
13	Rate C1	(14)	(17)	(31)	2	(29)
14	Rate M12	3,078	27,282	30,360	175	30,535
15	Rate M13	(1)	(0)	(1)	0	(1)
16	Rate M16	(2)	(1)	(3)	0	(3)
17	Subtotal - Ex-franchise	<u>3,014</u>	<u>27,229</u>	<u>30,243</u>	<u>184</u>	<u>30,427</u>
18	Rate 01	(549)	276	(273)	216	(57)
19	Rate 10	15	216	231	33	265
20	Rate 20	780	158	938	25	963
21	Rate 100	(113)	(80)	(193)	18	(174)
22	Rate 25	(42)	(33)	(75)	7	(68)
23	Subtotal - Union North	<u>92</u>	<u>537</u>	<u>628</u>	<u>299</u>	<u>928</u>
24	In-franchise	(2,331)	1,209	(1,122)	946	(177)
25	Ex-franchise	3,014	27,229	30,243	184	30,427
26	Total	<u>683</u>	<u>28,438</u>	<u>29,121</u>	<u>1,130</u>	<u>30,251</u>

LETTER OF UNDERSTANDING

Between:

hereinafter referred to as the “**Landowner**”

and

Union Gas Limited

hereinafter referred to as the “**Company**”

INTRODUCTION

The Company has applied to the Ontario Energy Board to construct a 48 inch diameter pipeline which will run approximately 20 kilometres starting at the existing Union Gas Hamilton Valve Site, approximately 400 metres east of Highway 6, and travelling parallel to an existing 48 inch Union Gas natural gas pipeline easement, and terminating at the existing Union Gas Milton Valve Site located 150 metres west of Philbrook Drive, south of Derry Road (the “Project”). As a result it will be necessary for the Company to enter onto the Landowner’s property for the purpose of constructing and installing the pipeline.

The Company recognizes that the construction of the pipeline may result in damage to the Landowner’s property and a disruption to the Landowner’s daily activities for which the Company is obligated to compensate the Landowner and observe various construction techniques to minimize such damages.

It is the policy of the Company that Landowners affected by its pipeline projects be dealt with on a consistent basis that is fair to both parties. This Letter of Understanding represents the results of negotiations between the Company and the Landowner and outlines the obligations of each party with respect to:

- i) The construction of the pipeline;
- ii) Remediation of the Landowner’s property; and,
- iii) Compensation to the Landowner for various damages as a result of the construction of the pipeline.

The parties acknowledge that the Company is required to adhere to all of the conditions set out in the Leave to Construct Order of the Ontario Energy Board and that the foregoing are additional undertakings that the Company has agreed upon with the Landowner on the Project. A copy of the Conditions of Approval will be mailed to the Landowner upon request.

1. Pre-Construction Meeting

Prior to construction, the Company’s representatives shall visit with the Landowner to conduct a preconstruction interview. During this interview the parties will review the timing of construction and discuss site specific issues and implementation of mitigation and rehabilitation measures in accordance with the provisions of this Letter of Understanding. For greater certainty, and to help ensure Landowner requests are implemented, the Company will document the results of such meetings and provide a copy to the Landowner.

2. Testing For Soybean Cyst Nematode

In consultation with the Landowner, the Company agrees to sample all agricultural easements along the pipeline route of this Project, before construction, and any soils imported to the easement lands for the presence of soybean cyst nematode (SCN) and provide a report of test results to the Landowner. In the event the report indicates the presence of SCN, the Company will work with OMAFRA to develop the most current best practice at the time of construction. The Company will also test for SCN whenever it is conducting post-construction soil tests.

3. Continued Supply of Services

Where private water or utility lines are planned to be interrupted, the Company will supply temporary service to the affected Landowners prior to service interruption. In the case of unplanned interruption, temporary services will be provided by the Company at the earliest possible opportunity.

4. Water Wells

To ensure that the quality and quantity (i.e. static water levels) of well water and/or the well itself is maintained, a monitoring program will be implemented for all dug or drilled wells within 100 metres of the proposed pipeline and for any other wells recommended by the Company's hydrogeology Consultant. All samples will be taken by the Company's environmental personnel and analyzed by an independent laboratory. Results of testing will be summarized in a letter and will be provided to the Landowner.

Should well water (quantity and/or quality) or the well itself, be damaged from pipeline installation/operations, a potable water supply will be provided and the water well shall be restored or replaced as may be required.

5. Staking of Work Space

The Company agrees to stake the outside boundary of the workspace necessary for the construction of this Project which may include an easement and temporary land use area. The stakes will be located at 30 metre (98.4 foot) intervals prior to construction. The intervals or distance between stakes may decrease as deemed necessary in order to maintain sight-lines and easement boundaries in areas of sight obstructions, rolling terrain or stream and road crossings.

6. Topsoil Stripping

Prior to installing the pipeline in agricultural areas, the Company will strip topsoil from over the pipeline trench and adjacent subsoil storage area. All topsoil stripped will be piled adjacent to the easement and temporary land use areas in an area approximately 10 metres (33') in width. The topsoil and subsoil will be piled separately and the Company will exercise due diligence to ensure that topsoil and subsoil are not mixed. If requested by the Landowner, topsoil will be ploughed before being stripped to a depth as specified by the Landowner.

The Company will strip topsoil across the entire width of the easement (at the request of the Landowner), provided also that a temporary right to use any necessary land for topsoil storage outside the easement is granted by the Landowner.

If requested by the Landowner the Company will not strip topsoil. The topsoil/subsoil mix will be placed on the easement on top of the existing topsoil.

At the recommendation of the Company's Soils Consultant, topsoil will be over-wintered and replaced the following year. In these circumstances the Company will replace the topsoil such that the easement lands are returned to surrounding grade.

7. Depth of Cover

The Company will install the pipeline with a minimum of 1.2 metres of cover, except where bedrock is encountered at a depth less than 1.2 metres, in which case the pipe will be installed with the same cover as the bedrock, but not less than 1.0 metre below grade.

If the Company, acting reasonably, determines in consultation with the Landowner that it is necessary to increase the depth of the Pipeline to accommodate current processes such as deep tillage, heavy farm equipment or land use changes, the Company will provide for additional depth of cover.

8. Levelling of Pipe Trench

During trench backfilling the Company will remove any excess material after provision is made for normal trench subsidence. The Landowner shall have the right of first refusal on any such excess material. The Company's representative will consult with the Landowner prior to the removal of any excess material.

If topsoil is replaced in the year of construction and trench subsidence occurs the year following construction, the following guidelines will be observed:

- i) 0 to 4 inches - no additional work or compensation.
- ii) Greater than 4 inches - the Company will either:
 - (a) Strip topsoil, fill the depression with subsoil and replace topsoil, or
 - (b) Repair the settlement by filling it with additional topsoil.

If topsoil is replaced during the year of construction and mounding over the trench persists the year following construction, the following guidelines will be observed by the Company:

- i) 0 to 4 inches - no additional work or compensation;
- ii) Greater than 4 inches the Company will strip topsoil, remove the excess subsoil and replace the stripped topsoil;
- iii) Should adequate topsoil depth be available, the mound can be levelled with the approval of the Landowner.

If the topsoil is over wintered and subsidence occurs in the year following top soil replacement the following guidelines will be observed:

- i) 0 to 4 inches - no additional work or compensation.
- ii) Greater than 4 inches - the Company will repair the settlement by filling it with additional topsoil.

If the construction of the pipeline causes a restriction of the natural surface flow of water, due to too much or not enough subsidence, irrespective of the 4 inches level stated above, the Company will remove the restriction by one of the methods described above.

9. Topsoil Replacement, Compaction Removal and Stone Picking

The subsoil will be worked with a subsoiling implement, as agreed by the Company and Landowner.

Unless there is an agreement to the contrary, the Company will remediate any residual compaction in the subsoil prior to return of topsoil.

The Company will pick stones prior to topsoil replacement.

Stone picking will be completed, by hand or by mechanical stone picker to a size and quantity consistent with the adjacent field, but not less than stones 100 mm (4 inches) in diameter.

After topsoil replacement, the topsoil will be tilled with an implement(s) as agreed by the Company and Landowners.

After cultivation, the Company will pick stones again.

The Company will perform compaction testing on and off the easement before and after topsoil replacement and provide the results to the Landowner, upon request.

If agreed to by the parties, the Company will return in the year following construction and will cultivate the easement area. When necessary, to accommodate planting schedules, the Landowner should perform cultivation themselves, at the Company's expense (see Schedule of Rates attached as Schedule 3).

The Company shall, at a time satisfactory to the Landowner, return to pick stones 100 mm (4 inches) or larger in the following two years after construction, where there is a demonstrable need.

10. Drainage Tiling

The Company will repair and restore all field drainage systems and municipal drains impacted by construction to their original performance. The Company will be responsible for the remedy, in consultation with the Landowner, of any drainage problem created by the existence of the pipeline present and future. The Company will be responsible for any defects in the integrity and performance of tile installed or repaired in conjunction with construction, operation or repair, provided the defects are caused by the Company's activities, faulty materials or workmanship. The Company guarantees and will be responsible forever for the integrity and performance of such tile as well as any other drain tile or municipal drain compromised by the Company's activities, including future maintenance operations and problems caused by the Company's contractors, agents or assigns. Where the Landowner, acting reasonably, believes that there may be a drainage problem arising from the Company's operations, the Company will perform an integrity check on any tile construction/repair crossing the pipeline, and repair any deficiencies to the Landowner's satisfaction.

The Company will retain the services of a qualified independent drainage Consultant. The Consultant will work with each Landowner prior too, during and after construction. The Consultant will be responsible to gather as much background information from each Landowner prior to construction as available, and with this information in conjunction with the Landowner they will determine whether there is pre-construction, post construction and/or

temporary tile construction required on their land. The Consultant will provide where requested each Landowner with a tile plan for their review and approval prior to any installation of tile. The installation of tile will only be performed by a licensed drainage contractor to ensure that all drainage best practices are used. The Company will consult with the Landowner and mutually develop a list of five licensed tile drainage contractors from the area to bid on the work. All installations may be inspected by the Landowner or his/her designate prior to backfilling where practicable. The Company will provide the Landowner or his/her designate advance notice of the tile repair schedule. The Consultant will incorporate any professionally designed drainage plans obtained by the Landowner for future installation. If the Landowner intends to install or modify a drainage system but has not yet obtained professionally designed plans, the Consultant will work with the Landowner accordingly.

Once the Consultant has reviewed all the drainage background provided to them they will proceed in developing pre-construction tiling plans where required. The purpose of pre-construction work is to ensure that the pipeline work does not interfere or cut off any adjacent subsurface drainage. In conjunction with the Landowner the Consultant will design an appropriately sized header tile (interceptor drain) which will be installed 1m outside the easement limits by trench method in order to minimize the number of tiles crossing the pipeline easement. All intercepted tiles will be connected or end plugged accordingly. By installing the main outside the easement limits the Company can guarantee the integrity of the existing drainage system during the construction period. The Consultant/Landowner will be responsible for identifying to the pipeline contractor as reasonably possible any existing tiles 150mm or greater crossing the easement. The Company will ensure that any such crossings will be temporarily repaired across the trench line and maintained during the complete construction period until post construction work can repair them permanently. The Company where possible will expose any such tile crossings prior to pipeline trenching operations to obtain an exact invert depth and ensure that the pipeline is not going to conflict with them.

During construction the Consultant will be following the trenching operations collecting / monitoring and ensuring that the drainage is maintained accordingly. Once the Consultant has collected and reviewed all the survey information they will develop a post-construction tile plan and profile for each affected owner. These post construction tile plans will show the Landowner exactly how many tiles are to be installed on easement and by what method the contractor is to use plow/trench.

During construction, the Consultant will be following the trenching operations to ensure that the drainage is maintained.

The Consultant will also provide the Landowner with the most recent specifications concerning tile support systems for repairing and installing new tile across the pipeline trench. Once the Consultant has reviewed the drawing with the Landowner for their approval and received signature on the plan, the Consultant will provide the Landowner with a copy along with a specification for installation so they can monitor the work to be completed.

Also the Company will review other areas of drainage recommended by the drainage Consultant/Landowner such as:

- i) In areas where water may accumulate on or off easement as a result of the construction, the drainage Consultant, in conjunction with the Landowner, will develop a temporary tile plan to mitigate these impacts where the water cannot be pumped into an open drain or ditch. The Company could then pump into the temporary tile, but not into any existing tiles unless otherwise discussed and agreed upon by the Landowner.
- ii) In areas where the pipeline construction program clears lands adjacent to existing pipelines and adjacent drained land and as a result creates a newly cleared area large enough to farm, the Company will, at the request of the Landowner, develop a tile plan to drain the cleared area. The Company will install the tile in the newly cleared area, and install a drainage outlet that will enable the implementation of the tile plan, provided the cost of such work does not exceed the net present value of the crop revenue from the cleared area. The net present value shall be calculated using the same crop value and discount rate used in the one time crop loss compensation calculation. The net crop revenue shall be derived by reducing the crop value by a negotiated input cost. The Company will accept drainage design solutions that include the use of a motorized pump, if the Landowner releases the Company from all future operation and maintenance responsibilities for the pump. The Company will accept drainage design solutions that include outlet drains crossing adjacent properties, if the Landowner obtains necessary easements or releases fully authorizing such crossings.

The Company will do its best weather permitting to complete the post construction tiling work in the year of pipeline construction after the topsoil has been pulled, unless otherwise agreed upon with the Landowner. If it is not possible for the Company to complete the post construction tiling in the year of construction, the Company will undertake all measures possible to mitigate any off easement damages to the best of its ability.

In situations where topsoil is to be over wintered, the tiling plan will address the timing of tile installation.

Once the tiling is complete the Consultant will adjust all tile plans to reflect the as-constructed information and a copy will be provided to the Landowner for their records.

11. Water Accumulation during Construction

The Company will, unless otherwise agreed to with the Landowner, ensure any water which may accumulate on the easement during construction will be released into an open drain or ditch, but not in a tile drain. This may, however, be accomplished through the installation of temporary tile. The Company will provide the Landowner with a proposed temporary tiling plan for review and approval. If the Company pumps into an existing tile with the Landowner's permission, the water will be filtered.

12. Access Across the Trench

Where requested by the Landowner, the Company will leave plugs for access across the trench to the remainder of the Landowner's property during construction. Following installation of the pipe and backfill, if soft ground conditions persist that prevent the Landowner from crossing the trench line with farm equipment, the Company will improve crossing conditions either by further replacement and/or compaction of subsoil at the previous plug locations.

Should conditions still prevent Landowner crossing, the Company will create a gravel base on filter fabric across the trench line at the previous plug locations and remove same at the further request of the Landowner.

13. Restoration of Woodlots

If requested by the Landowner prior to the start of construction, all stumps and brush will be removed from the easement. If the Landowner does not convert the land to agricultural use, Union will maintain a minimum 6 metre strip over the pipeline which will be kept clear by cutting the brush or spraying. The remainder of the easement will be allowed to reforest naturally or can be reforested by the Landowner.

14. Tree Replacement

The Company has established a policy to replant twice the area of trees that are cleared for the Project. Landowners whose woodlots are to be cleared may apply in writing to the Company should they wish to participate in this program. Tree seedlings will be replanted on the right-of-way or within the Landowner's property using species determined in consultation with the Landowner. Although replanting on easement is not encouraged by the Company, when planting on easement occurs, it must be done in accordance with the easement and the Company's policies.

For windbreaks/hedgerows the Company will implement the following practice:

- i) If a deciduous (hardwood) tree in excess of six (6) feet is removed, a six (6) foot replacement tree will be planted; if a tree less than six (6) feet in height is removed, a similar sized tree will be planted.
- ii) If a coniferous (evergreen) tree in excess of four (4) feet is removed, a four (4) foot replacement tree will be planted; if a tree less than four (4) feet in height is removed, a similar sized tree will be planted.

The Company will warrant such trees for a period of one year following planting, provided the Landowner waters the trees as appropriate after planting.

15. Covenants

Company covenants as follows:

- i) On present and proposed agricultural lands, the Company will undertake appropriate survey techniques to establish pre-construction and post-construction grades with the view to restoring soils to pre-construction grade as reasonably practicable.
- ii) All construction practices and appropriate environmental mitigation measures will be followed to ensure a proper clean up.
- iii) Whenever possible, all vehicles and equipment will travel on the trench line.
- iv) All subsoil from road bores will be removed.
- v) To replace or repair any fences which are damaged by pipeline construction in a good and workmanlike manner.
- vi) Any survey monuments which are removed or damaged during pipeline construction will be reset.

- vii) Its employees, agents, contractors and sub-contractors, will not use any off-easement culverts incorporated into municipal drains to provide access to the easement.
- viii) It will not use any laneway or culvert of the Landowner without the Landowner's prior written consent. In the event of such use, the Company will, at its own expense, repair any damage and compensate the Landowner accordingly.
- ix) To monitor and maintain private driveways that cross the easement for a period of 18 months after construction.
- x) That construction activities will not occur outside of agreed to areas without the written permission of the Landowner. In the event that such activities occur, the Company will pay for damages.
- xi) To implement its Landowner Complaint Tracking system which will be available to Landowners for the proposed construction.
- xii) To provide a copy of this Letter of Understanding and all environmental reports to the construction contractor.
- xiii) To ensure suitable passage and land access for agricultural equipment during construction.
- xiv) If there is greater than 50% crop loss after five years, at the request of the Landowner, the Company will retain an independent soils Consultant satisfactory to both parties to develop a prescription to rectify the problem.
- xv) To permit the planting of the 6 metre strip with permission for the re-establishment of windbreaks and that trees may be planted as a crop (nursery stock), provided that no tree is permitted to grow higher than 2 metres in height, and the species are of a shallow rooting variety. The use of hydraulic spades within the 6 metre strip is prohibited.
- xvi) In consultation with the Landowner, the Company agrees to retain an independent Consultant to carry out tests along the pipeline to monitor soils and crop productivity. As part of this testing, a soil specialist will conduct comparative compaction testing of the subsoil and NPK (nitrogen, phosphorus, potassium) testing and testing of PH levels on and off easement after construction. Global Positioning System (GPS) equipment may be used to identify all test locations. The Company further agrees to implement all commercially reasonable measures, where recommended by the soil specialist to remediate the soil.
- xvii) To work with the Landowner to ensure that weeds are controlled along the pipeline. Weeds will be sprayed or cut after discussion with the Landowner. The Landowner will be provided with a contact name in the event that concerns are experienced with weeds.
- xviii) To implement the Company's Integrity Dig Agreement for all integrity and maintenance operations on the pipeline.
- xix) At the request of the Landowner, the Company shall undertake a depth of cover survey of the pipeline and shall provide its findings to the Landowner. In agricultural areas, where it is determined that cover over the pipeline is less than 0.9 metres the Company shall restore depth of cover to a minimum of 0.9 metres with the importation of topsoil or by lowering the pipe. In areas where the top of the pipe is at

or below bedrock, the Company will ensure a minimum of 0.6 metres of cover over the pipeline.

- xx) Any imported topsoil shall be natural, free of SCN and shall have attributes consistent with the topsoil of adjacent lands as determined by the Company's Consultant.
- xxi) To implement Union's wet soil shut down practice as described in Schedule 4.

Landowner covenants as follows:

- i) To execute a Clean-up Acknowledgment when he/she is satisfied with the clean-up operations described in this Letter of Understanding. It is suggested that any tenant(s) who are affected by construction acCompany the Landowner to inspect the clean-up prior to execution of the Clean-up Acknowledgment.
- ii) To be responsible to ensure his/her tenant is aware of the terms of the easement or temporary land use agreement and this Letter of Understanding.
- iii) To be responsible for making any compensation to his/her tenant for any matters included in the damage payment from the Company, as damages payments are made directly to the registered Landowner.

16. Dispute Resolution

In the event the parties are unable to reach resolution with respect to the following matters, the Company shall pay the costs of independent Consultants satisfactory to both the Landowner and the Company to resolve site specific disputes involving affected lands on a binding basis concerning the following:

- i) The need for topsoil importation as in Article 8 hereof, respecting the existence of identifiable subsidence,
- ii) The establishment of levels of compensation for specialty crops as in Article 21.
- iii) The resolution of future crop loss claims for Additional Productivity Loss under Article 21 hereof.

Where Construction Damages and Disturbance Damage settlements cannot be negotiated, the Company or the Landowner may apply to Ontario Municipal Board to settle unresolved claims. It is further understood and agreed that the Landowner's executing the easement, is without prejudice to his/her position in negotiation of damages following construction of the pipeline.

17. Land Rights - Easements

Land rights required for the Project include permanent interests such as pipeline easements (i.e. a limited interest in the affected lands) and may also include temporary land use agreements. The Company agrees that it will not surrender or be released from any of its obligations under an easement for this Project without the consent of the Landowner.

Consideration for these rights will be paid at the rate of 100% of the appraised market value of the affected lands. If agreement on the consideration for land rights cannot be reached, the Company will pay for a second report by a qualified appraiser who is chosen by the Landowner provided the appraiser and the terms of reference for the appraisal report are mutually acceptable to the Landowner and the Company. If consideration for land rights still cannot be agreed upon, the matter would be determined at a Ontario Municipal Board Compensation

Hearing and the Company's offers would not prejudice either party's presentation at the Hearing.

18. Land Rights – Temporary Land Use Agreements and Top Soil Storage

These rights will be required for at least a two year period, being the year of construction and the following year to allow for clean-up and restoration activities. Consideration for these rights will be paid at the rate of 50% of the appraised market value of the affected land. Should activities extend beyond the two year period, payment will be negotiated on an annual basis. Although every effort will be made by the Company to identify these rights in certain instances either before or during construction, additional temporary land use may be identified and compensation will be as outlined above.

19. Damage Payments

Compensation for damages can be grouped under two headings namely: Disturbance Damages, which are paid at the time easements and temporary land use agreements are executed, and Construction Damages, which are paid either before or after construction is completed. Top soil storage damages will be paid after construction is completed. Disturbance and Construction damage payments will apply to easement, temporary land use and top soil storage and will be based upon the areas of the proposed pipeline easement and temporary land use as set out in Schedule 1.

20. Disturbance Damages

Disturbance Damages are intended to recognize that pipeline construction will result in some unavoidable interference with active agricultural operations and certain other uses of affected lands. This may include lost time due to negotiations and construction, inconvenience to the farming operations, restricted headlands, interrupted access and extra applications of fertilizer. Other land uses may qualify for Disturbance Damages which are site-specific in nature and recognize the particular circumstances of the use being interfered with. Union will negotiate with the affected Landowner to address these site-specific issues.

21. Construction Damages – Crop Loss

The Company will offer the Landowner a one-time settlement for crop loss damages incurred on the easement and temporary land use areas resulting from the Project, which settlement will include the following:

- i) year of construction and future crop loss;
- ii) stone picking beyond the second year following construction;
- iii) crop losses associated with establishment of a cover crop.

Notwithstanding that the Landowner will have executed a Full and Final Release for crop damages either before or after construction, should productivity loss exceed the percentages paid through the "One Time" Program as in any year following construction and the Landowner has not been (or is not being) compensated for crop loss under the terms of an existing crop loss compensation program with the Company, the Company will reimburse the Landowner for the difference calculated by applying the percentage loss to the Landowner's actual gross return in the year and deducting the compensation received for that year under the "One Time" program ("Additional Productivity Loss"). It will be incumbent upon any Landowner making this type of claim to advise the Company in sufficient time to allow for investigation of the matter and completion of the required samplings.

Alternatively, at the option of the Landowner, upon provision of advance notice to the Company to permit opportunity for inspection, GPS data may be utilized to establish yield reductions for the purpose of any applicable Additional Productivity Loss provided that the Company is not responsible for installing GPS units or survey equipment if necessary ("GPS" option). In the event that the Landowner selects the GPS option, the Landowner must provide all necessary GPS documentation related to the entire farm field in question, including, but not limited to, maps, computer print-outs and formula to determine field averages. For greater clarity the following is an example of the calculation of Additional Productivity Loss:

- i) Third year crop loss under "One Time" Program = 50%.
- ii) Actual crop loss following investigation and sampling = 60%.
- iii) Difference payable to Landowner = 10%.

Crop Loss for topsoil storage Areas

Compensation for crop loss on topsoil storage areas will be as follows:

- In year of construction - 100% crop loss;
- In years after construction - measured crop loss;
- Payments will be based upon actual area used for topsoil storage;
- Compensation will not be prepaid;
- Compensation will be paid on an as incurred basis.

Speciality Crops

The one time payment does not apply to specialty crops. Specialty crops include tobacco, produce and registered seeds. Compensation will be negotiated on a site specific basis.

Post construction cover crop program

In addition to the one time payment, the Landowner may request a cover crop rehabilitation program for cultivated lands. Under this program the Landowner will plant alfalfa/sweet clover or other restoration crops approved by the Company on the easement and his/her normal crop in the remainder of the field for up to three years. The initial cost of tillage and planting will be paid by the Company as determined by "Economics Information", published by the Ministry of Agriculture and Food. The cost of seed planted over the easement will be compensated upon presentation of an invoice for same. This cover crop program does not apply for tobacco or other specialty crops.

22. Woodlots and Windbreak/Hedgerow Trees

With respect to compensation for damage to woodlots, the Landowner will have the following two options:

Option 1:

Woodlots and hedgerow trees will be cut and appraised by a qualified forester retained by the Company. Evaluation of trees in woodlots will be based on the practice as outlined on Schedule 3.

Option 2:

The Landowner may accept the One Time Crop Loss and Disturbance Damage Payment in lieu of the woodlot evaluation.

With respect to compensation for damage to other wooded areas:

Tree plantations (Christmas trees and nursery stock) will be appraised separately. Compensation for trees evaluated in this manner shall be set out in Schedule 4 to this document.

Evaluation of aesthetic trees will be based on the practice outlined in Schedule 4.

The forester will contact the Landowner before entry on their property. Copies of appraisal reports will be made available to affected Landowners and payment will be made in accordance with the reports.

The Company reserves the right to use trees for which it has paid compensation. At the Landowner's request, any remaining logs will be cut into 10 foot (3.05 metre) lengths, lifted and piled adjacent to the easement.

23. Gored Land

The Company agrees to pay the Landowner 100 % crop loss on the gored land. Gored land is defined as land rendered inaccessible or unusable for agricultural purposes during the Project.

24. Insurance

Upon request of the Landowner, the Company will provide insurance certificates evidencing at least five million dollars in liability insurance coverage.

25. Abandonment

Upon the abandonment of the pipeline in accordance with the terms and conditions of the easement, the affected lands shall be returned as close as possible to its prior use and condition with no ascertainable changes in appearance or productivity as determined by a comparison of the crop yields with adjacent land where no pipeline has been installed. Without prejudice to any continuing right of the Landowner to Additional Productivity Loss, there shall be no additional compensation for crop loss to the Landowner

26. Liability

The Company will be responsible for damages to property, and equipment, resulting from construction operations, and will pay for repairs or replacement costs. The Company will be responsible, and indemnify the Landowner from any and all liabilities, damages, costs, claims, suits and actions except those resulting from the gross negligence or wilful misconduct of the Landowner.

27. Assignment

All rights and obligations contained in this agreement shall extend to, be binding upon, and enure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto respectively; and wherever the singular or masculine is used it shall, where necessary, be construed as if the plural, or feminine or neuter had been used, as the case may be. The Company shall not assign this agreement without prior written notice to the Landowner and,

despite such assignment; the Company shall remain liable to the Landowner for the performance of its responsibilities and obligations in this agreement.

28. Site Specific Issues

Schedule 2 is to be used to identify any site specific issues which require special mitigation and compensation.

29. Compensation Levels

The levels of compensation applicable to your property are set out in Schedule 1 and are based upon the criteria set out above. Kindly sign the second copy of this Letter of Understanding and initial all Appendices to indicate your acceptance of our arrangements.

Dated at _____, Ontario this ____ day of_____,2015.

UNION GAS LIMITED

Name & Title:

Dated at _____, Ontario this ____ day of_____,2015.

Witness:

Landowner:

Landowner:

Landowner:

Landowner:

SCHEDULE 1: SETTLEMENT

Property No.: H.M., Landowner(s): _____

The parties to this Letter of Understanding dated the ____ day of _____, 2015, in consideration of making this settlement have summarized below all the obligations, claims, damages and compensation arising from and for the required land rights and the pipeline construction across the Landowner(s)' property, name: _____
(Check all applicable items of compensation)

NOTE: Refer to APPENDIX “C” within Option Agreements for site specific details

Yes No

LAND RIGHTS

<input type="checkbox"/>	<input type="checkbox"/>	(a)	Easement @	\$	per acre.
<input type="checkbox"/>	<input type="checkbox"/>	(b)	Temporary Land Use @	\$	per acre.
<input type="checkbox"/>	<input type="checkbox"/>	(c)	Topsoil Storage Land Use @	\$	per acre

DAMAGES

<input type="checkbox"/>	<input type="checkbox"/>	(a)	Disturbance @	\$	per acre of easement.
<input type="checkbox"/>	<input type="checkbox"/>	(b)	Disturbance @	\$	per acre of Temporary Land Use
<input type="checkbox"/>	<input type="checkbox"/>	(c)	Disturbance @	\$	per acre of Top Soil Storage area

CROP LOSS

<input type="checkbox"/>	<input type="checkbox"/>	One Time Payment @	\$	per acre of easement.
<input type="checkbox"/>	<input type="checkbox"/>	One Time Payment @	\$	per acre of Temporary Land Use
<input type="checkbox"/>	<input type="checkbox"/>	One Time Payment @	\$	per acre of Top Soil Storage area

NON-AGRICULTURAL DAMAGE PAYMENTS

<input type="checkbox"/>	<input type="checkbox"/>	Non-agricultural Lands @	\$	per acre
<input type="checkbox"/>	<input type="checkbox"/>	Woodlots @	\$	per acre

OBLIGATIONS

<input type="checkbox"/>		a) This Letter of Understanding.
<input type="checkbox"/>	<input type="checkbox"/>	b) Attached as Schedule 2 any other special requirements or compensation issues.

Initialled for identification by owner(s): _____.

Approval (Union Gas Limited): _____.

SCHEDULE 2: SETTLEMENT

Property No.:H.M., Landowner(s): _____

SCHEDULE 3

WOODLOT EVALUATION

At the time of signing of the Letter of Understanding the Landowners with woodlots will be given 3 options.

1. take a one time full and final for the total easement.
2. take a one time full and final for that portion of the easement in agricultural land, and have the woodlot evaluated separately.
3. take the crop monitoring program and have the woodlot evaluated separately.

Woodlots will be assessed in the following manner:

A forestry Consultant will cruise the woodlot to determine the amount of volume which could be harvested on a periodic basis from the woodlot under sustained yield management.

This volume will then be determined on an annual basis.

Current sale prices will then be given to this volume to determine an annual amount which could be harvested from the woodlot.

This value will then be present valued using the same formula as the one time payment option.

SCHEDULE 4

AESTHETIC TREE EVALUATION

The following procedure would be followed where a Landowner wishes to have trees on his property evaluated for aesthetic values.

During discussions for the Letter of Understanding, the Landowners would identify the trees he wishes to have evaluated for aesthetic purposes.

Union would contract a qualified person to complete an evaluation of the trees.

The Landowners would be paid the evaluated price for the trees in addition to other payments.

If trees are less than 5 inches in diameter replacement of the trees may be considered in lieu of a payment.

If the Landowner disagrees with Unions evaluation a second evaluation may be completed using the same criteria as the original evaluation.

EVALUATION CRITERIA

A four part evaluation criteria will be completed for aesthetic trees:

Tree Value = Basic Value X Species Rating X Condition Rating X Location Rating

Basic value is estimated without consideration of condition, species or location. It is calculated by multiplying the cross-sectional area of the tree trunk by an assigned value per square inch of trunk area.

Species rating is a percentage rating based on the relative qualities of the tree species.

Condition rating is a percentage rating based on the health of the tree.

Location rating is a percentage rating based on the location of the tree.

SCHEDULE 5

Schedule of Rates for Work
Performed by Landowners

Typically all work will be done by the Company. If the parties agree that the Landowner will perform work on behalf of the Company, the Company will remunerate the Landowner in accordance with the following;

- | | | | |
|----|-----------------|------|---------------------------------------|
| 1. | Stonepicking | - \$ | per hour/per person picking by hand |
| | | - \$ | per hour for use of tractor and wagon |
| 2. | Chisel Plowing | - \$ | per hour |
| 3. | Cultivation | - \$ | per hour |
| 4. | Tile Inspection | - \$ | per hour * |

* Payment for Tile Inspection is for those hours spent inspecting tile at the request of the contractor.

SCHEDULE 6

Wet Soils Shutdown

The following sets out the Wet Soils Shutdown practice of Union Gas Limited for pipeline construction, repair and maintenance on agricultural lands.

While constructing the Company's pipeline the Company's senior inspectors inspect right-of-way conditions each day before construction activities commence for that day. If, in the judgment of these inspectors, the right-of-way conditions on agricultural lands are such that construction would have an adverse affect on the soils due to wet soils conditions, the contractor is prohibited from starting construction activities. The inspectors shall consider the extent of surface ponding, extent and depth of rutting, surface extent and location of potential rutting and compaction (i.e., can traffic be re-routed within the easement lands around wet area(s) and the type of equipment and nature of construction proposed for that day. The wet soil shutdown restriction would be in effect until, in the judgment of the Company representatives, the soils would have sufficiently dried to the extent that commencing construction activities would have no adverse affects on the soils.

Wet soils shutdown is a routine part of Union's normal management process for pipeline construction activities. In recognition of this, Union budgets for and includes in contract documents, provisions for payment to the pipeline contractors for wet soils shutdown thereby removing any potential incentive for the contractor to work in wet conditions.

In addition, Union's inspection staff is responsible for ensuring that construction activities do not occur during wet soils shutdown. This would include shutting down construction activities if soils became wet during the day.

It should, however, be recognized that there may be situations when construction activities cannot be carried out during the normal construction period due to delays in project timing and it may become necessary to work in wet conditions in the spring or fall of the year. Where construction activities are undertaken by the Company in wet soil conditions, additional mitigation measures may be put in place to minimize resulting damages. Mitigation measures may, where appropriate, be developed by Union on a site specific basis and may include avoiding certain areas, full easement stripping, geotextile roads, the use of swamp mats, or the use of other specialized equipment where deemed appropriate by Union. Union will authorize work in wet soils conditions only when all other reasonable alternatives have been exhausted.