



**uniongas**

A Spectra Energy Company

File 10  
**RECEIVED**

OCT 29 2008

**ONTARIO ENERGY BOARD**

October 28, 2008

*29/10/08*  
Ontario Energy Board  
2300 Yonge Street,  
27<sup>th</sup> Floor  
Toronto, ON  
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

**Re: EB-2008-0304 – Interrogatory Responses**

Dear Ms. Walli:

Please find attached Union's responses to interrogatories in proceeding EB-2008-0304.

To assist the Board, Union has responded to all of the interrogatories including those related to the redemption of the preferred shares and the conversion to a Nova Scotia ULC. Union notes that under Section 43(2), Union is only seeking approval of the share transfer from WEI to the Limited Partnership. No approvals are required for the remaining steps of the reorganization.

Should you have any questions, please contact me at 519-436-5275.

Yours truly,

Mark Kitchen  
Director, Regulatory Affairs

Enclosure

cc: EB-2008-0304 Intervenors of Record  
Michael Penny, Torys

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

***Question:***

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*What is the precise entity that will operate the current assets of Union Gas Limited?*

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**Response:**

As indicated in Attachment 3 of the pre-filed evidence, Union Gas Limited will continue to exist as Union Gas Company once Union Gas Limited has been converted into an unlimited liability company. Union Gas Company will be the same entity as Union Gas Limited is, in the same way that a company that changes its name is the same entity it was prior to the name change. Union Gas Company will continue to own and operate its assets (which will be the same as the assets of Union Gas Limited).

A corporation continued in Nova Scotia and converted into a ULC retains all of the rights and is subject to the same obligations that it had or was subject to prior to such continuance.

See sections 181 of the Business Corporation Act (Ontario) (Attachment 1) and 133 of the Companies Act (Nova Scotia) (Attachment 2) which make it clear that all rights and obligations survive the continuance.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

Section 181 of the Business Corporation Act (Ontario)

181.

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

(1) Subject to subsection (9), a corporation may, if it is authorized by the shareholders and the Director in accordance with this section, apply to the appropriate official or public body of another jurisdiction requesting that the corporation be continued as if it had been incorporated under the laws of that other jurisdiction. R.S.O. 1990, c. B.16, s. 181 (1).

Notice to shareholders

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

(2) The notice of the meeting of shareholders shall include or be accompanied by a statement that a dissenting shareholder is entitled to be paid the fair value of the shares in accordance with section 185, but failure to make that statement does not invalidate an authorization under clause (3) (a). R.S.O. 1990, c. B.16, s. 181 (2).

Application for continuance

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

- (3) An application for continuance becomes authorized,
- (a) by the shareholders when the shareholders voting thereon have approved of the continuance by a special resolution; and
  - (b) by the Director when, following receipt from the corporation of an application in prescribed form, the Director endorses an authorization on the application. R.S.O. 1990, c. B.16, s. 181 (3).

Authorization by Director

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

(4) The Director may endorse the authorization if he or she is satisfied that the application is not prohibited by subsection (9).  
R.S.O. 1990, c. B.16, s. 181 (4).

Abandoning application

[http://www.e-laws.gov.on.ca/html/statutes/french/elaws\\_statutes\\_90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws_statutes_90b16_f.htm)

(5) The directors of a corporation may, if authorized by the shareholders, abandon an application without further approval of the shareholders. R.S.O. 1990, c. B.16, s. 181 (5).

Time limit to Director's authorization

<[http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16_f.htm)>

(6) The authorization of the Director for an application for continuance expires six months after the date of endorsement of the authorization unless, within the six-month period, the corporation is continued under the laws of the other jurisdiction. 2000, c. 26, Sched. B, s. 3 (7).

Filing instrument of continuance

<[http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16_f.htm)>

(7) The corporation shall file with the Director a copy of the instrument of continuance issued to it by the other jurisdiction within sixty days after the date of issuance. R.S.O. 1990, c. B.16, s. 181 (7).

Effective date

<[http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16_f.htm)>

(8) This Act ceases to apply to the corporation on the date upon which the corporation is continued under the laws of the other jurisdiction. R.S.O. 1990, c. B.16, s. 181 (8).

Continuance in outside jurisdiction

<[http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16\\_f.htm](http://www.e-laws.gov.on.ca/html/statutes/french/elaws/statutes/90b16_f.htm)>

(9) A corporation shall not apply under subsection (1) to be continued as a body corporate under the laws of another jurisdiction unless those laws provide in effect that,

- (a) the property of the corporation continues to be the property of the body corporate;
- (b) the body corporate continues to be liable for the obligations of the corporation;
- (c) an existing cause of action, claim or liability to prosecution is unaffected;
- (d) a civil, criminal or administrative action or proceeding pending by or against the corporation may be continued to be prosecuted by or against the body corporate; and
- (e) a conviction against the corporation may be enforced against the body corporate or a ruling, order or judgment in favour of or against the corporation may be enforced by or against the body corporate. R.S.O. 1990, c. B.16, s. 181 (9).

Section 133 of the Companies Act (Nova Scotia)

Certificate of continuance

- (1) Any company, incorporated under the laws of any jurisdiction other than Nova Scotia for any of the purposes or objects for which a certificate of incorporation may be issued under this Act and being at the time of the application a subsisting and valid company, may apply for a certificate of continuance under this Act and the Registrar, upon receiving satisfactory evidence that the act of incorporation or charter of the company so applying is valid and subsisting and that no public interest in the Province will be prejudiced, may issue a certificate of continuance continuing such company as a company under this Act but limiting, if necessary, the purposes, objects and powers of the company to such purposes, objects and powers as might have been granted had the company been originally incorporated under this Act, and thereupon the company is continued and is a body corporate and politic organized under the laws of the Province.
- (2) It is not necessary in any application or in any such certificate of continuance to set out the names of the shareholders.
- (3) After the issue of such certificate of continuance the company shall be governed in all respects by the provisions of this Act and has all the ancillary and other powers given to a company incorporated under this Act.
- (4) From and after the continuance,
  - (a) without prejudice to the power of the company to vary or amend the same, the articles of continuance and the by-laws of the company shall, respectively, constitute the memorandum and articles of association of the company;
  - (b) the share capital of the company shall be the existing share capital and the liability of the shareholders thereon shall continue to be limited;
  - (c) the property of the company shall continue to be the property of the company subject to the power of the company thereafter to dispose of the same;
  - (d) the company shall continue to be liable for its obligations;
  - (e) all rights of creditors and others against the property, rights and assets of the company and all liens upon its property, rights and assets shall be unimpaired;
  - (f) none of the company's rights or properties, and none of the company's contracts or obligations shall be prejudicially affected nor shall the company be deemed to have been liquidated or dissolved;
  - (g) any existing cause of action, claim or liability to prosecution in any jurisdiction shall be unaffected;
  - (h) a civil, criminal or administrative action or proceeding pending by or against the company or its directors or officers in any jurisdiction may be continued to be prosecuted by or against the company or its directors or officers;



- (i) a conviction against, or ruling, or order or judgment in favour of or against, the company or its directors or officers shall continue to be enforceable by or against the company or its directors or officers;
  - (j) the directors and officers of the company shall continue to be the directors and officers of the company until they or their successors are duly chosen, elected or appointed, as the case may be;
  - (k) the rights of creditors and shareholders of the company shall not be adversely affected;
  - (l) all rights of the shareholders acquired, accrued, accruing or incurred on or before the continuance shall continue in full force and effect without any change; and
  - (m) notwithstanding any other provision of this Act, in the case of a company incorporated or continued under the Canada Business Corporations Act, the provisions in the Third Schedule to this Act shall be applicable to such company and any continuation thereof by amalgamation with respect to any matter arising either before or after the continuance.
- (5) A company may, if it is authorized by special resolution of the shareholders, and if it establishes to the satisfaction of the Registrar that its proposed continuance in another jurisdiction will not adversely affect creditors or shareholders of the company, apply to the appropriate official or public body of another jurisdiction requesting that the company be continued as if it had been incorporated under the laws of that other jurisdiction.
- (6) A company shall not be continued as a body corporate under the laws of another jurisdiction unless those laws provide, in effect, that
- (a) the property of the company continues to be the property of the continued body corporate;
  - (b) the continued body corporate continues to be liable for the obligations of the company;
  - (c) an existing cause of action, claim or liability to prosecution is unaffected;
  - (d) a civil, criminal or administrative action or proceeding pending by or against the company may be continued to be prosecuted by or against the continued body corporate;
  - (e) a conviction against or ruling, order or judgment in favour of or against the company may be enforced by or against the continued body corporate;
  - (f) the rights of the creditors shall not be adversely affected; and
  - (g) all rights of the shareholders shall continue in full effect without any adverse change.
- (7) Upon receipt of notice satisfactory to him that a company has been continued under the laws of another jurisdiction, the Registrar shall file the notice and issue a certificate of discontinuance.

- (8) This Act ceases to apply to a company on the date shown on the certificate of discontinuance. R.S., c. 81, s. 133; revision corrected 1999.

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

***Question:***

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*What are the advantages to the ratepayers of Union Gas Limited by converting that company to a NSULC?*

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**Response:**

As explained in paragraph 11 of the pre-filed evidence and further clarified in response #2 of our Clarification and Additional Information addressed to the Board on October 6, 2008, there are neither material advantages nor disadvantages to Union's customers from converting Union Gas Limited to an NSULC. Due to the related redemption of preferred stock and replacement with debt, there is a modest annual reduction in revenue requirement (approximately \$1.3 million/year) that will benefit the ratepayer. See Attachment 1 for the calculation of the \$1.3 million. On rebasing, any reduction to Union's overall cost of capital will be incorporated into rates.

Question: October 22, 2008

Answer: 10/28/2008

Docket: EB-2008-0304



Union Gas Ltd.  
Refinancing of Preferred Shares  
Estimate of Change in Revenue Requirement

	2009	2010	2011	2012
Revenue Requirement in Rates				
Dividend				
Dividend	5,314,848	5,314,848	5,314,848	5,314,848
Tax Rate	33.00%	32.00%	30.50%	29.00%
Reduction in Pre-Tax Revenue Requirement (Gross Up)	7,932,609	7,815,953	7,647,263	7,485,701 (A)
Part VI.1 Tax				
Part VI.1 tax				
Dividend payment	5,314,848	5,314,848	5,314,848	5,314,848
Part VI.1 Tax Rate	40%	40%	40%	40%
	2,125,939	2,125,939	2,125,939	2,125,939 (B)
Value of Tax Deductions				
Dividend payment	2,125,939	2,125,939	2,125,939	2,125,939
Part VI.1 factor	3	3	3	3
Tax Deduction	6,377,818	6,377,818	6,377,818	6,377,818
Tax Rate	33.00%	32.00%	30.50%	29.00%
Tax Savings	2,104,680	2,040,902	1,945,234	1,849,567 (C)
Reduction in after tax revenue requirement (B-C)	21,259	85,038	180,705	276,372
Tax Rate	33.00%	32.00%	30.50%	29.00%
Reduction I Pre Tax Revenue Requirement (Gross Up)	31,730	125,055	260,007	389,256 (D)
Total Reduction in Pre Tax Revenue Requirement (A + D)	7,964,339	7,941,008	7,907,270	7,874,958 (E)
Revenue Requirement after Refinancing of Preferred Shares				
Debt	109,857,186	109,857,186	109,857,186	109,857,186
Interest Rate	6.05%	6.05%	6.05%	6.05%
Interest Expense	6,646,360	6,646,360	6,646,360	6,646,360 (F)
Reduction in Revenue Requirement (E-F)	1,317,980	1,294,648	1,260,911	1,228,598

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

***Question:***

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*What additional liabilities are the ratepayers exposed by a conversion of ownership of Union Gas Limited to a NSULC?*

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**Response:**

The ratepayers are not exposed to any additional liabilities. As provided in our pre-filed evidence Attachment 1, paragraph 12, the only material difference is that shareholders of an unlimited liability company, on windup, may be liable without limit for the obligations of the company. This does not affect the liabilities of Union or its customers in any way.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

***Question:***

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*Please confirm that none of the restructuring costs involved in setting up the NSULC will be borne by the ratepayers of Union Gas Limited.*

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**Response:**

Confirmed. None of the restructuring costs associated with setting up the NSULC will be borne by the ratepayers.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

**Question:**

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*Westcoast Energy Inc. is a corporation incorporated under the Canada Business Corporations Act. Does not the presence of a Canadian "ordinary" corporation (i.e. one which is not a flow-through entity for U.S. tax purposes) in between Spectra and Union preclude the consolidation of Union's income or loss with Spectra's for U.S. tax purposes, notwithstanding the conversion of Union into a ULC?*

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**Response:**

Following the restructuring, Union's income or loss will not be consolidated with Spectra's for U.S. income tax purposes. Thus, the restructuring does not change the current treatment in this respect.

As explained in paragraph 8 of the pre-filed evidence, Union's earnings are attributed to WEI when Union pays a dividend. As explained in paragraph 9, the insertion of the limited partnership allows Spectra more control over when Union's earnings move to WEI.

The U.S. tax system taxes non-U.S. subsidiary earnings based on a cash distribution model (with some exceptions). Whether a cash distribution is considered to move earnings of a non-U.S. subsidiary to its U.S. parent (or to a non-U.S. intermediate parent in a foreign chain) is based on U.S. tax accounting principles, elections and methods to determine the magnitude of the earnings of a subsidiary to associate with a cash distribution (i.e., a dividend for U.S. tax purposes). The insertion of the limited partnership and conversion of Union Gas to an NSULC will provide additional flexibility in managing the U.S. measurement of earnings produced and characterization of a cash distribution to WEI for U.S. tax purposes. This will provide greater flexibility in the magnitude of earnings (or deficit in earnings) that is measured for WEI.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

**Question:**

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*If Union's income or loss will be consolidated with Spectra's in any event (by virtue of Union converting to a ULC) how does the insertion of a limited partnership allow Spectra "more flexibility in determining when distributions ultimately made by WEI to its parent would include the movement of Union's earnings and profit for U.S. tax purposes"? (See paragraph 9 of the prefiled evidence of Westcoast Energy and Union).*

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**Response:**

Following the restructuring, Union's income or loss will not be consolidated with Spectra's for U.S. income tax purposes.

As more fully explained in Exhibit B.5, the U.S. system is complex.

Pursuant to a planned U.S. tax election, the LP will be characterized as a corporation for U.S. tax accounting purposes.

The conversion of Union to the NSULC form of legal entity will change the U.S. tax accounting characterization of Union from a corporation to an entity that is disregarded from its owner and treated as an operating division of its 100% owner, the LP.

The transfer of the ownership of the Union voting common stock and the conversion of Union will permit the future movement of cash (i.e., dividends or equity distributions) from Union to the LP as Union manages its targeted capitalization ratio. The movement of cash (equity distributions) from the LP to WEI will be controlled to manage the movement of the LP's earnings (essentially Union's earnings) to WEI.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Board Staff

***Question:***

*With respect to the Applicant's intention to subsequently convert Union Gas Limited into a Nova Scotia unlimited liability company ("NSULC") (in the event that the Board grants leave to transfer all the voting shares of Union Gas Limited from Westcoast Energy Inc. to a Limited Partnership), please provide the following information:*

*In Union's letter of October 6, 2008, it stated that given the language of the obligations in the undertakings, which refer to Westcoast Energy "and its affiliates", the proposed limited partnership and the proposed general partner will become parties to the undertakings "by definition". If the OEB considers there to be any uncertainty with respect to this conclusion, would the Applicants be prepared to have the limited partnership and the proposed general partner execute the undertakings directly?*

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**Response:**

The Undertakings are between WEI, Union and the Lieutenant Governor in Council. The OEB is not a party to the Undertakings. WEI believes that it would be obliged by the existing terms of the Undertakings to cause the limited partnership and the general partner to comply with the Undertakings. However, if the government desired the proposed limited partnership and general partner to become signatories to the Undertakings, WEI, as their owner, would cause them to do so.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Canadian Manufacturers and Exporters ("CME")

**Question:**

*The chart in Attachment 2 of the pre-filed evidence shows Union Gas Limited ("UGL") as the current owner of utility assets. The chart in Attachment 3 shows Union Gas Company ("UGC"), which we understand will be an unlimited liability company incorporated under the Nova Scotia Companies Act, as the owner of the utility assets in Ontario after the proposed internal reorganization has been completed. Please provide the following information:*

- (a) Is UGL, the current owner of utility assets in Ontario, an Ontario limited liability company which is subject to the provisions of the Ontario Business Corporations Act?*
- (b) Is UGC a new and different legal entity from UGL?*
- (c) Please list and describe each of the steps involved in UGL being "... continued to Nova Scotia as a Nova Scotia unlimited liability company ...". (see para. 12 pre-filed evidence)*
- (d) Do all of UGL's utility assets need to be transferred to UGC? If so, then please list and briefly describe all of the documents that will need to be executed by UGL and UGC to implement the internal reorganization.*
- (e) While UGL may not need any approval from the OEB "to convert" UGL into UGC (see para. 40 pre-filed evidence), does UGL not need OEB approval to transfer its utility assets to UGC, the newly incorporated Nova Scotia unlimited liability company?*
- (f) Will UGL continue to exist; and, if so, please describe the assets, if any, it is likely to own and the nature of any business activities in which it is expected to engage.*
- (g) Is UGC expected to own or acquire any assets other than assets pertaining to Ontario utility operations; and, if so, then please provide details.*
- (h) Is a Nova Scotia company which owns public utility assets in Ontario subject to any sort of regulatory supervision by Nova Scotia regulatory authorities; and, if so, please provide the details thereof.*
- (i) Is UGC, as a Nova Scotia company, currently or prospectively exposed to provincial taxation by the Province of Nova Scotia; and, if so, please provide the details thereof.*
- (j) Why does UGL need to be continued as a Nova Scotia rather than an Ontario unlimited liability company?*
- (k) Is the continuance of UGL as an unlimited liability company in Ontario precluded by Ontario legislation; and, if so, then please explain why Ontario precludes such business entities.*
- (l) How is the Ontario public interest served by having utility assets in Ontario and currently owned by an Ontario company transferred to a newly incorporated Nova Scotia company?*

Question: October 22, 2008

Answer: October 28, 2008

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(m) What costs has UGL incurred in 2008 and what costs will the utility the Board regulates likely incur in 2009 in connection with the proposed internal reorganization; and to what extent could these costs potentially reduce utility earnings to be shared with ratepayers under the Incentive Regulation ("IR") plan the Board recently approved for Union?

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**Response:**

- (a) Union Gas Limited ("UGL") is a *Business Corporations Act (Ontario)* ("OBCA") company.
- (b) No, Union Gas Company ("UGC") will not be a new or different legal entity. As provided in the pre-filed evidence in Attachment 1, paragraph 12, Union will be continued into Nova Scotia and then will be converted into a ULC. Because it is continued, it is the same entity. Once it is converted to a ULC it will retain all rights and will be subject to the same obligations that it had or was subject to prior to such continuance and conversion.
- (c) UGL will continue out of Ontario in accordance with Section 181 of the OBCA and continue into Nova Scotia in accordance with Section 133 of the *Companies Act* (Nova Scotia). The resolution approving the continuance into Nova Scotia will provide that continued UGC will be an unlimited company. There is no transfer or assignment of any assets of the company. UGC will be the same entity that UGL is. A corporation continued in Nova Scotia and converted into a ULC retains all of the rights and is subject to the same obligations that it had or was subject to prior to such continuance and conversion. The detailed corporate legal steps are as follows:

Obtain UGL board approval of continuation and conversion
Reserve name Union Gas Company in Nova Scotia
Application by UGL to the Ontario Ministry of Consumer and Corporate Affairs for continuation into Nova Scotia
Approval of the Ontario Minister of Finance for UGL to continue into Nova Scotia
Special resolutions of the shareholder of UGL approving the continuation into Nova Scotia as an unlimited company
Obtain Certificate of status for UGL
Prepare memorandum of association and articles of associations for UGL
Certified copy of foregoing special resolution of UGL approving continuation, certified by an officer of UGL to be filed with the Nova Scotia Registrar
Application for continuance filed with the Nova Scotia Registrar
Affidavit of verification of UGL officer confirming that the information in the foregoing application is correct
Legal opinion to Nova Scotia Registrar
Notice of Officers and Directors

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

Notice of Registered Office
Notice of Appointment of Agent
Certificate of Continuance issued by the Nova Scotia Registrar
Certificate of Registration issued by the Nova Scotia Registrar

- (d) There is no transfer of any assets. See response to (b) above.
- (e) See response to (d) above.
- (f) As described above, UGL will continue to exist. UGC is the same entity as UGL, much in the same way that a company that changes its name is the same entity that it was prior to the name change. They are not two separate companies.
- (g) UGL already owns assets and engages in business activities other than regulated utility operations. The NGEIR decision provided for an unregulated storage division of UGL. There is no present intention to engage in materially different business activities than UGL is currently engaged in.
- (h) No. From the point of view of utility regulation, UGC will remain, as it is now, subject to the regulatory jurisdiction of the OEB. UGC will not carry on any regulated utility activities in Nova Scotia and therefore, will not be subject to Nova Scotia jurisdiction in that respect. As a Nova Scotia Company, UGC will be subject to the jurisdiction of the Nova Scotia Companies Registrar, just as it is subject to the Ontario Ministry of Corporate Services Branch today. This has no implications for Union or its customers from a utility regulation/OEB point of view.
- (i) No. Provinces are entitled to tax the income of corporations or businesses based on their "permanent establishment". The taxation of income is not based on where the corporation is incorporated. Union does not and will not have any permanent establishment in Nova Scotia. The mere continuance to Nova Scotia, as its place of incorporation, will not create any different permanent establishment for Union or additional provincial taxation.
- (j) Unlimited liability companies are creatures of statute. Ontario has not enacted such legislation and therefore it is not an option to remain in Ontario and convert to an unlimited company. To our knowledge, only three jurisdictions in Canada have ULC's: Nova Scotia, Alberta and British Columbia. Nova Scotia ULC's have the longest history and established process. Nova Scotia was therefore selected as the jurisdiction for UGC.
- (k) See response to (j) above.
- (l) The proposed internal reorganization has no material impact on Union's operations or costs and no material impact on Union's customers. In this sense, the reorganization raises no public interest issues vis-à-vis Union.

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Further, the reorganization and the conversion to a Nova Scotia ULC in no way impacts the Board's jurisdiction or its ability to regulate Union in the public interest.

In the Applicant's view, however, at a higher level, it is in the public interest that Ontario be, and be seen to be, a desirable jurisdiction in which to invest. Spectra Energy has invested through its equity in Union approximately \$1.3 billion in Ontario. The conversion of Union to a NSULC has no adverse impact on Union or its businesses, services or customers. The conversion does, however, enable the ultimate owner of Union, a U.S. entity domiciled in the U.S. and subject to U.S. taxation on dividends from non-U.S. sources, to achieve tax efficiencies in the realization of non-U.S. income.

In the Applicant's view, if an internal corporate reorganization of Union's ownership structure, which effects no substantive change in the ultimate owner, but which generates economic benefits to the owner can be achieved at no cost to and with no adverse impact on Union or its customers. That is in the public interest.

(m) The Applicants do not expect these costs to be material. In any event any costs incurred will be to the account of the shareholder and not Union's ratepayers.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Canadian Manufacturers and Exporters ("CME")

**Question:**

*We assume that the complete business rationale for the proposed internal reorganization being proposed for the purpose of benefiting UGL's indirect U.S. parent, Spectra Energy Corp. ("Spectra"), will be provided in the responses UGL is to provide to the interrogatories posed by the School Energy Coalition ("SEC"). If not, then please provide the complete business rationale for the proposed internal reorganization and, in addition, provide the following information:*

- (a) Show all of the taxes that apply, currently, to one dollar (\$1) of after-tax income in UGL, as that income flows from UGL to Westcoast Energy Inc. ("WEI") and then to Spectra in the "Current Structure" shown in Attachment 2 of the pre-filed evidence, in order to clearly illustrate the after-tax income Spectra currently receives from a UGL dividend.*
- (b) Show how one dollar (\$1) of after-tax income in UGL is expected to be taxed, as it flows through the proposed limited partnership to WEI and then to Spectra, in order to clearly illustrate the after-tax amount Spectra is expected to receive from one dollar (\$1) of UGC's after-tax earnings in the "Final Structure" shown in Attachment 3 of the pre-filed evidence.*
- (c) If the proposed reorganization is approved, are the provincial and federal tax rates UGC is expected to pay any different from the provincial and federal tax rates UGL would be expected to pay in a scenario where the reorganization is not approved? If so, then what are the differences?*

---

**Response:**

- (a) & (b) To illustrate \$1.00 of after-tax Canadian cash being distributed, it is necessary to assume that UGL has \$1.49 of pre-tax operating income that is subject to a 33% Canadian tax of \$0.49. Additional assumptions are as follows:
  - 1. There are no differences between the computation of Canadian taxable income and U.S. Earnings & Profits.
  - 2. All of WEI's earnings and cash activity net to \$1 with the exception of dividends from Union.
  - 3. The U.S. tax rate is 35%, the Canadian dividend withholding tax of 5% does not apply, and Spectra is not able to take advantage of U.S. foreign tax credit allowances.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

4. Union continues to distribute its income up to LP but LP does not distribute any earnings up to Westcoast.

Table 1 illustrates the flow of the Canadian after tax \$1.00 of Union earnings to the U.S. and the tax treatment of it at each step. Under the existing structure, Spectra will incur a U.S. tax of \$0.35 to retain \$1.00 of earnings after Canadian tax (column (a)).

Table 1

Cash Taxes Paid

Line No.		Existing Structure (a)	Proposed Structure (b)	Benefit (cost) of new Structure (c)
	Canada			
1	Westcoast Energy Inc	\$ -	\$ -	\$ -
2	New Limited Partnership	N/A	N/A	\$ -
3	Union Gas Limited	\$ 0.49	\$ 0.49	\$ -
4		\$ 0.49	\$ 0.49	\$ -
5	United States	\$ 0.35	\$ -	(\$ 0.35)
6	Total	\$ 0.84	\$ 0.49	(\$ 0.35)

Under the proposed structure there is a U.S. tax savings of \$0.35 (column (c)). The savings arises from the deferral of the \$1.00 distribution to WEI by the LP in the proposed structure.

Table 2 provides the after tax impact associated with \$1.00 of earnings after tax under the existing structure and proposed structure.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

Table 2

After Tax Income				
Line No.		Existing Structure (a)	Proposed Structure (b)	Benefit (cost) of new Structure (c)
	Canada			
1	Westcoast Energy Inc	\$ 1.00	\$ -	(\$ 1.00)
2	New Limited partnership	N/A	\$ 1.00	\$ 1.00
3	Union Gas Limited	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
4		\$ 1.00	\$ 1.00	\$ 0.00
5	United States	<u>\$ 0.65</u>	<u>\$ 1.00</u>	<u>\$ 0.35</u>
6	Total	<u>\$ 1.65</u>	<u>\$ 2.00</u>	<u>\$ 0.35</u>

(c) There will be no change in the tax payable by UGC (See chart in Exhibit C.2(a) above).

UNION GAS LIMITED

Answer to Interrogatory from  
Canadian Manufacturers and Exporters ("CME")

**Question:**

*One of the objectives of IR is to reduce regulatory burden. In this context, please provide the following information:*

- (a) What recent material changes in circumstances, if any, prompted UGL's ultimate owner, Spectra, to decide to internally reorganize in order to rationalize Spectra's tax position (see para. 6 pre-filed evidence) during 2007, the first year of UGL's Board approved 5 year IR Plan?*
  - (b) What is the earliest date, prior to 2007, on which Spectra might have initiated the internal reorganization which forms the subject matter of this Application?*
  - (c) Please explain how a postponement of this Application to a date at the end of UGL's five year IR Plan affects the overall public interest.*
- 

**Response:**

- (a) In the course of normal internal reviews, the U.S. Tax Department of Spectra determined that Union's common and preferred stock dividend policy raised issues in performing U.S. tax planning for cash distributions to WEI and to the U.S. The proposed structure was identified as mitigating the identified issues. In accordance with the share rights and restrictions for the preferred series, Union is only entitled to redeem the Class B, Series 11 shares on January 1, 2009 and January 1 in every fifth year thereafter.
- (b) See response to (a).
- (c) See response to (a).

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304



UNION GAS LIMITED

Answer to Interrogatory from  
Canadian Manufacturers and Exporters ("CME")

***Question:***

*Have any federal or provincial regulatory agencies in Canada considered the public interest aspects of the question of whether out-of-province or out-of-country limited partnerships should be permitted to either directly or indirectly own provincially or federally regulated in-province or in-country gas or electricity utilities?*

---

**Response:**

Union has not conducted any research on the public interest aspect of the conversion because there are no public interest implications of the reorganization affecting Union.

Please note that the proposed limited partnership and general partner will be constituted under Ontario law and will be neither out of province nor out of country.

Also note that WEI, the current direct owner of Union's voting shares, is a CBCA corporation whose head office is in British Columbia.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
Canadian Manufacturers and Exporters ("CME")

***Question:***

*If the answer to the previous question is yes, then please list the federal and/or provincial Canadian agencies which have considered the matter and provide excerpts from any decisions which they have rendered with respect to the issue.*

---

**Response:**

Please see Exhibit C.4.

Question: October 22, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

**Question:**

*Please confirm that the new limited partnership and its general partner will be treated by the Applicants, and will act, in all respects as "affiliates" of Union Gas Limited ("Union"), whether with respect to the Undertakings, the Affiliate Relationships Code, and all other ways in which regulation by the Board affects affiliates of a regulated entity.*

---

**Response:**

Confirmed. Union and WEI intend to abide by the terms of the Undertakings, the Affiliate Relationship Code and all other ways in which regulation by the Board legally affects affiliates of a regulated entity. The limited partnership and the general partner are wholly owned subsidiaries of WEI and thus would be affiliates of Union Gas and would therefore be subject to any requirement imposed on affiliates of Union Gas.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please confirm that the new limited partnership and its general partner will execute and become legally bound by the Undertakings directly, not just indirectly as set forth in Union's letter of October 6th.*

---

**Response:**

Please see Exhibit B.7.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please confirm that neither the new limited partnership nor its general partner will carry on any business activity, nor engage in any operations or other active roles, other than the passive ownership of the voting shares of Union by the limited partnership, and the passive ownership of a general partnership interest in the limited partnership by the general partner.*

---

**Response:**

At the present time the limited partnership and the general partner's sole assets will be an ownership interest in Union Gas. However, as part of WEI's ongoing activities, it may decide in the future to place additional assets or to undertake other business activities, operations and active roles within the limited partnership and general partner.

WEI would not expect any such activities to have any impact on Union or its customers. Any limitation on the activities that the limited partnership or general partner could engage in would unnecessarily constrain WEI's ability to operate its affairs in a prudent and tax effective manner. It should be noted that the current parent company of Union, WEI, has a number of other businesses within it and it holds a number of other companies, none of which has adversely affected Union or its customers. WEI does not see any reason to place additional constraints on the limited partnership or general partner. Furthermore, the entity engaged in providing regulated services is Union, not its parent company. Any requirement that limits the ability of the limited partnership or the general partner's ability to engage in other activities is beyond the jurisdiction of the OEB and is, in any event, unnecessary and unprecedented.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

**Question:**

*Please provide pro forma balance sheets and income statements for Union, on both a regulatory and an accounting basis, for each of 2009 and 2010, on the basis that a) leave is granted by the Board, and b) leave is not granted by the Board, in this Application. Please specify and quantify any differences in ROE arising out of the decision by the Board whether to grant leave, and the connection between the proposed structure and the ROE impact, if any.*

---

**Response:**

Pro forma statements are not available as Union has not completed the preparation of its 2009 or 2010 budgets. As indicated in Union's October 6, 2008 response to the Board's request for clarification and additional information, Union will incur slightly less tax as a result of the preferred shares being redeemed. This will, all else equal, increase Union's actual ROE slightly over the Incentive Regulation term.

This reduction in the cost of debt is not a factor in the reorganization.

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please identify and quantify each impact, if any, of the proposed reorganization on the timing, amount, or disposition of any existing or expected deferral or variance account.*

---

**Response:**

The proposed reorganization has no impact on the timing, amount, or disposition of any existing or expected deferral or variance account.



UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please identify and quantify each way, if any, in which International Financial Reporting Standards will affect Union Gas and its affiliates differently under the proposed structure as opposed to under the existing structure.*

---

**Response:**

The proposed structure has no impact on the way in which International Financial Reporting Standards will affect Union Gas and its affiliates.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please provide a copy of each tax or corporate planning letter, opinion, tax ruling, or reorganization memorandum that in whole or in part formed the basis for the internal reorganization proposed in the Application. Please ensure that the first such planning document is included, even if subsequently modified.*

---

**Response:**

There are no opinions or tax rulings available. The reorganization being proposed for Union is common tax planning that has been employed in respect of many of WEI's Canadian affiliates.

Please find attached the September 5, 2008 memo to Union's Board of Directors and the Board of Directors resolution related to the reorganization.

Union has also attached the "STEP Document" which formed the basis of the simplified flow chart provided at Attachment 2 and 3 of Union's prefiled evidence.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304



## UNION GAS LIMITED

**TO:** The Board of Directors of Union Gas Limited

**DATE:** September 5, 2008

**FROM:** Curt Bernardi, Director, Legal Affairs

---

**RE:** Corporate Restructure Reorganization

Union Gas Limited ("UG") is seeking approval to proceed with a U.S. tax driven reorganization of the corporate structure of UG.

### Steps

The reorganization would be comprised of the following steps:

**1. UG redeems all issued and outstanding Preferred Shares.**

There are a total of about \$110 million in Preferred Shares issued and outstanding. Several classes of the share have an associated premium to redeem as follows:

- Class B, Series 11: \$100 million in shares outstanding; 0% premium to redeem;
- Class A, Series A and Series C: \$5 million in shares outstanding; 1% premium to redeem; and
- Class A, Series B: \$5 million in shares outstanding; 10% premium to redeem.

The Class B, Series 11 Preferred Shares are only redeemable on January 1, 2009 and every five years thereafter. Therefore, it is important to effect the redemption on January 1, 2009.

Upon receiving Board of Directors approval, UG intends to issue a press release to ensure public disclosure of the share redemption, given the potential impact to a preferred shareholder's decision to buy or sell UG preferred shares.

**2. Westcoast Energy Inc. ("WEI") drops ownership of UG to a newly formed wholly owned limited partnership ("Union Holding LP").**

WEI would form Union Holding LP, and then transfer its ownership interest in the common shares of UG down into Union Holding LP. Please see Schedule 1 for current ownership structure of UG and Schedule 2 for the proposed ownership structure after the completion of the reorganization.

Even though still wholly owned by WEI, this step will trigger a requirement to obtain OEB approval. An application is expected to be submitted shortly after Board of Directors approval is obtained.

**3. UG continued into Nova Scotia and converted into an unlimited liability company (ULC)**

All Nova Scotia companies - limited or unlimited - are incorporated companies formed under the same statute and are materially the same as entities called "corporations" incorporated in other Canadian jurisdictions. The only material difference between ULCs and limited Nova Scotia companies is that the shareholders upon wind-up are liable without limit for the obligations of the company. A company converted into a ULC retains all of the rights and is subject to the same obligations that it had or was subject to prior to such continuance and conversion.

Upon conversion, it is necessary to remove the word "Limited" from Union Gas' name; the proposed new name is "Union Gas Company."

Reasons for Reorganization

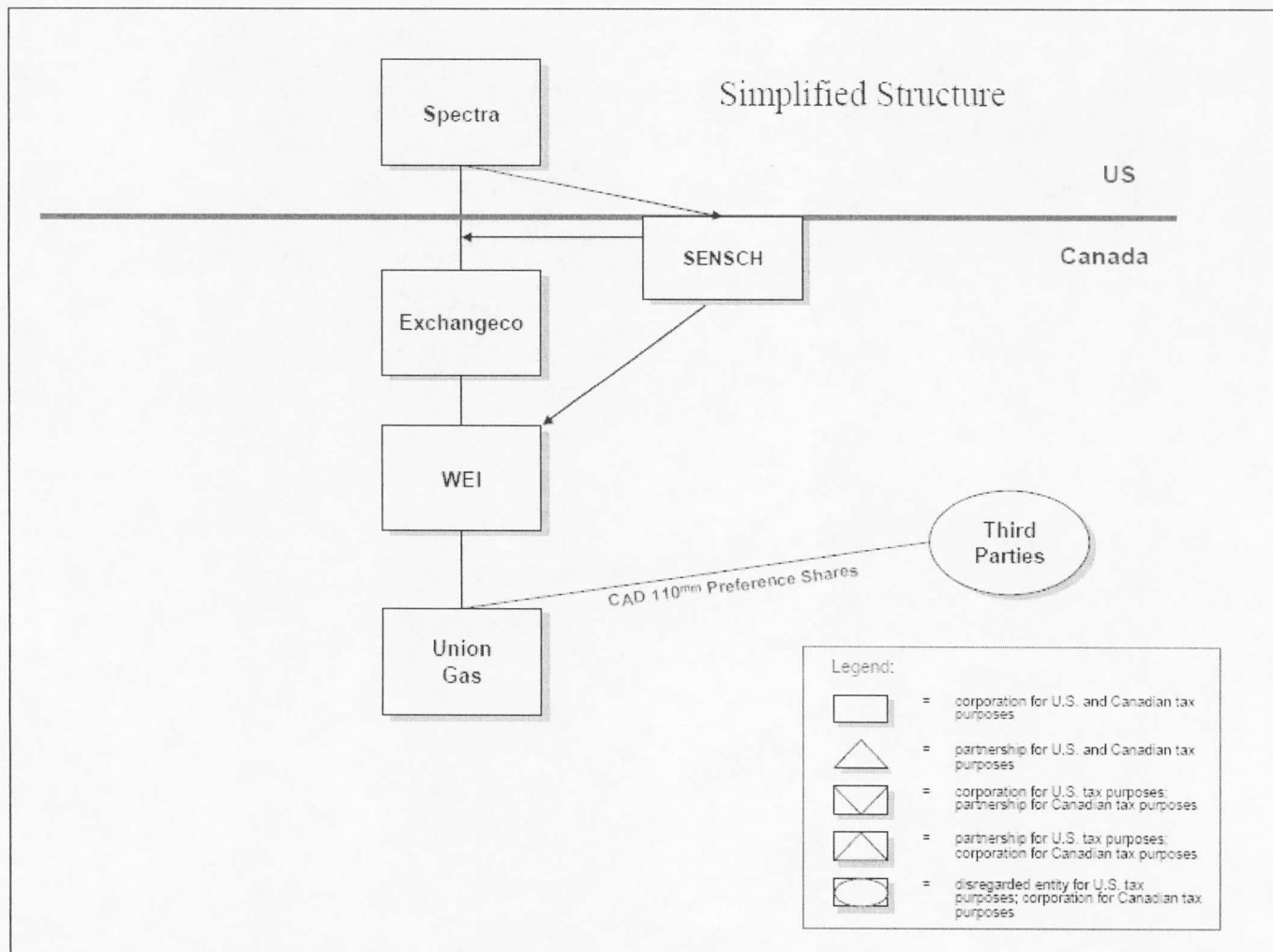
UG makes equity distributions to WEI. These regular distributions create adverse issues in managing the US tax attributes of WEI and UG to control the tax treatment of equity distributions from WEI up the chain to the US parent. US tax savings of an estimated C\$50 million will be realized by measuring future earnings at the Union Holding LP level rather than the UG and controlling the timing of distributions from Union Holding LP to WEI.

The resulting corporate structure would also allow for a future transfer of an ownership interest in UG in a more tax effective manner.

Recommendation

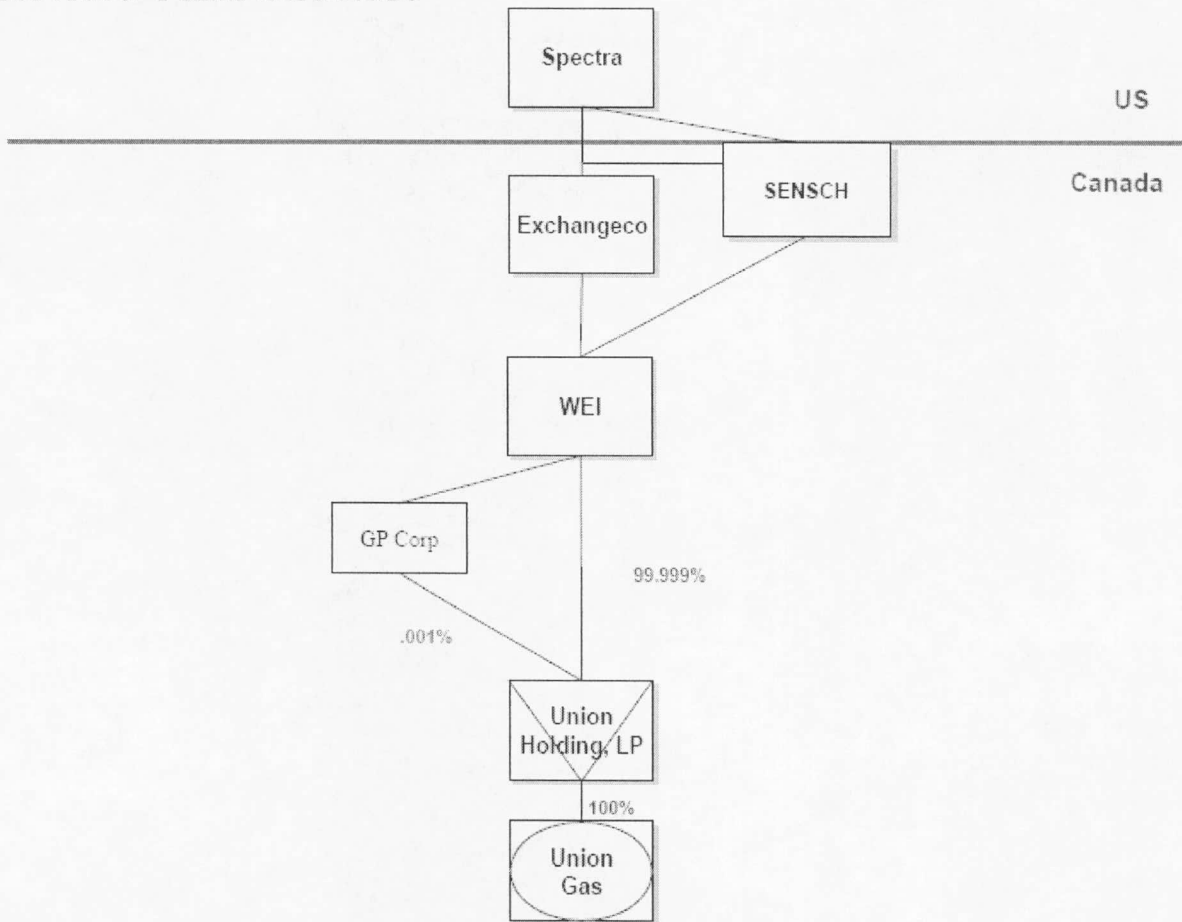
It is recommended that the Board of Directors of UG approve the proposed reorganization subject to obtaining OEB approval.

**SCHEDULE 1 –CURRENT SIMPLIFIED STRUCTURE**



SCHEDULE 2 – FINAL STRUCTURE

Revised Final Structure



RESOLUTIONS OF THE BOARD OF DIRECTORS OF  
**UNION GAS LIMITED**  
(the "**Corporation**")

**Reorganization**

**WHEREAS:**

A. Westcoast Energy Inc. ("**Westcoast**") is the owner of all the issued and outstanding Common shares in the capital of the Corporation (the "**Common Shares**").

B. The Corporation has also issued and outstanding the following Preference shares in the capital of the Corporation:

1. 47,672 5.5% Cumulative Redeemable Class A Preference Shares, Series A;
2. 90,000 6% Cumulative Redeemable Class A Preference Shares, Series B;
3. 49,500 5% Cumulative Redeemable Class A Preference Shares, Series C; and
4. 4,000,000 Cumulative Redeemable Convertible Class B Preference Shares (collectively, the "**Preference Shares**"), Series 11.

C. It has been determined that it would be beneficial for tax and other purposes to undertake the following transactions as part of an internal reorganization (collectively, the "**Reorganization**") to be effective on or about January 1, 2009:

1. the Corporation redeem all of the Preference Shares (the "**Preference Share Redemption**");
2. Westcoast transfer ownership of the Common Shares to a newly formed limited partnership ("**Union Holding LP**") which will be wholly owned by Westcoast (the "**Transfer of Common Shares**") through the following steps:
  - a. Westcoast transfers ownership of 99.999% of the Common Shares to Union Holding LP;
  - b. Westcoast transfers 0.001% of the Common Shares to a newly formed general partner of Union Holding LP ("**UHGP**"); and
  - c. UHGP transfers ownership of 0.001% of the Common Shares to Union Holding LP;
3. the Corporation be continued into the Province of Nova Scotia and be converted into an unlimited liability company.

D. There are no reasonable grounds for believing that the Corporation, after the redemption of the Preference Shares, will be unable to pay its liabilities as they become due or



the realizable value of the assets of the Corporation would be less than the aggregate of its liabilities and stated capital of all classes of shares.

E. The Corporation has determined that the foregoing transactions are reasonable and fair to the Corporation and in its best interests.

F. The Transfer of Common Shares is subject to the approval of the Ontario Energy Board (the "**OEB Approval**").

**RESOLVED THAT:**

**Approval of Reorganization**

1. Subject to obtaining the OEB Approval, the Corporation is authorized to proceed with the Reorganization.

**Redemption of Preference Shares**

2. Subject to obtaining the OEB Approval, the Corporation is authorized to redeem as of January 1, 2009, or such other date as the President of the Corporation may approve, the Preference Shares subject to the special rights and restrictions attached to each class of Preference Shares.

3. The Corporation pay upon redemption the redemption amount as set out in the special rights and restrictions attached to each class of Preference Shares (the "**Redemption Price**"), and the Redemption Price be paid and satisfied by the Corporation issuing payment to each holder once they have satisfied the redemption procedures as set out in special rights and restrictions attached to each class of Preference Shares.

4. Upon surrender to the Corporation of such share certificates, each holder of the Preference Shares shall not be entitled to any rights with respect to Preference Shares redeemed.

5. The Preference Shares so redeemed be cancelled and shall not be re-issued by the Corporation.

**Transfer of Common Shares**

6. The transfer of 57,822,072 Common Shares in the capital of the Corporation by Westcoast (as the successor corporation as a result of an amalgamation of Centra Gas Utilities Inc. and other corporations effective March 11, 2002) to Union Holding LP (having such name as may be ultimately determined) be approved and consented to.

7. The transfer of 578 Common Shares in the capital of the Corporation by Westcoast to UHGP (having such name as may be ultimately determined) be approved and consented to.

8. Upon notification to the Corporation that such transfers have occurred, the following share certificates be cancelled:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number of Common Shares</u>
30	Westcoast (as successor to Centra Gas Utilities Inc.)	56,758,820
31	Westcoast (as successor to Centra Gas Utilities Inc.)	1,063,830

9. Upon notification to the Corporation that such transfers have occurred, the following share certificate be issued to the following entity representing the Common Shares transferred:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number of Common Shares</u>
32	Union Holding LP	57,822,072
33	UHGP	578

and that the necessary particulars in respect of such share transfers be entered in the Securities Register of the Corporation and that any one director or officer of the Corporation be authorized to execute the said share certificates on behalf of the Corporation and deliver the said share certificates to the person entitled thereto.

10. The transfer of 578 Common Shares in the capital of the Corporation by UGPP to Union Holding LP (having such name as may be ultimately determined) be approved and consented to.

11. Upon notification to the Corporation that such transfer has occurred, the following share certificates be cancelled:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number of Common Shares</u>
32	Union Holding LP	57,822,072
33	UHGP	578

12. Upon notification to the Corporation that such transfer has occurred, the following share certificate be issued to the following entity representing the Common Shares transferred:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number of Common Shares</u>
34	Union Holding LP	57,822,650

and that the necessary particulars in respect of such share transfer be entered in the Securities Register of the Corporation and that any one director or officer of the Corporation be authorized to execute the said share certificate on behalf of the Corporation and deliver the said share certificate to the person entitled thereto.

**Continuation into Nova Scotia and Conversion into a Nova Scotia Unlimited Liability Company**

13. Subject to obtaining the OEB Approval and subject to the Preference Share Redemption having occurred, the Corporation apply for a Certificate of Continuance continuing the Corporation under the *Companies Act* of Nova Scotia and apply to effect a conversion into a Nova Scotia unlimited liability company, with the name "Union Gas Company" or such other name as acceptable to the Nova Scotia Companies Branch.

**General**

14. Any one officer or director of the Corporation is authorized to enter into, execute and deliver such agreements, assurances, certificates, applications, documents, instruments and other writings, with such changes and additions as the officer or director executing same shall deem necessary or appropriate as conclusively evidenced by such execution and to take all actions as may be necessary or advisable to effect the purpose and intent of all the foregoing resolutions.

15. Any one officer or director of the Corporation is authorized and directed to do or cause to be done all such further acts and things as the officer or director may deem necessary or advisable in order to effect the purpose and intent of the all foregoing resolutions and that all acts of said officer or director heretofore and hereafter taken in accordance with all the foregoing resolutions are ratified and confirmed.

The foregoing resolutions are hereby consented to by all the directors of the Corporation pursuant to the *Business Corporations Act* (Ontario) on September \_\_\_\_\_, 2008.

\_\_\_\_\_  
Julie A. Dill

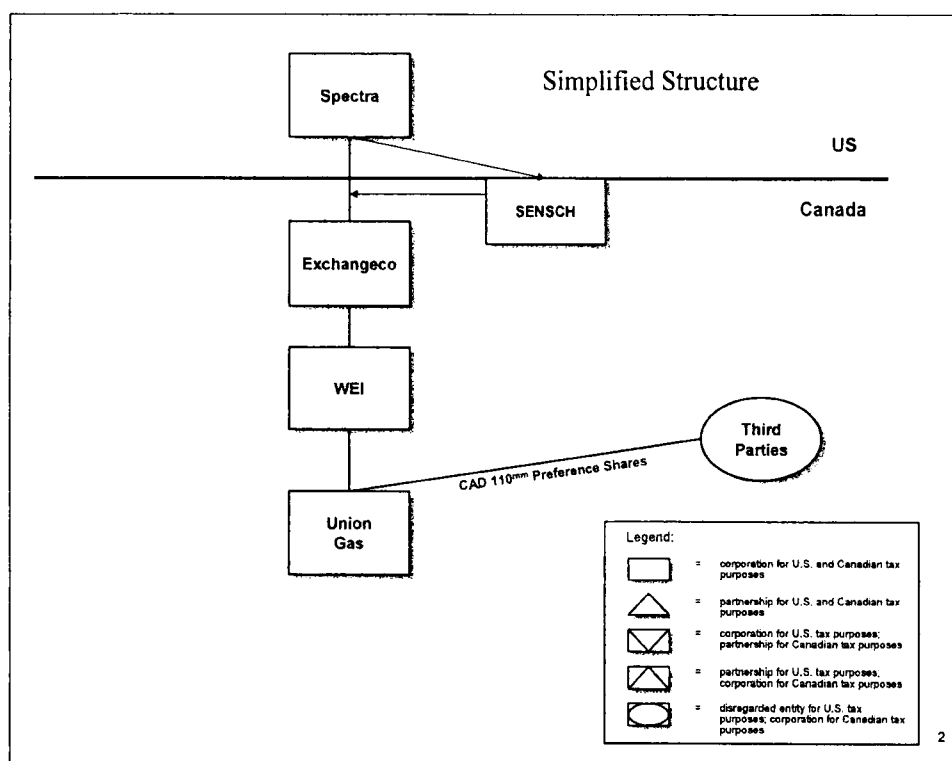
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Bruce E. Pydee

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David G. Unruh



# UGL Conversion Step Plan

(August 30, 2007)



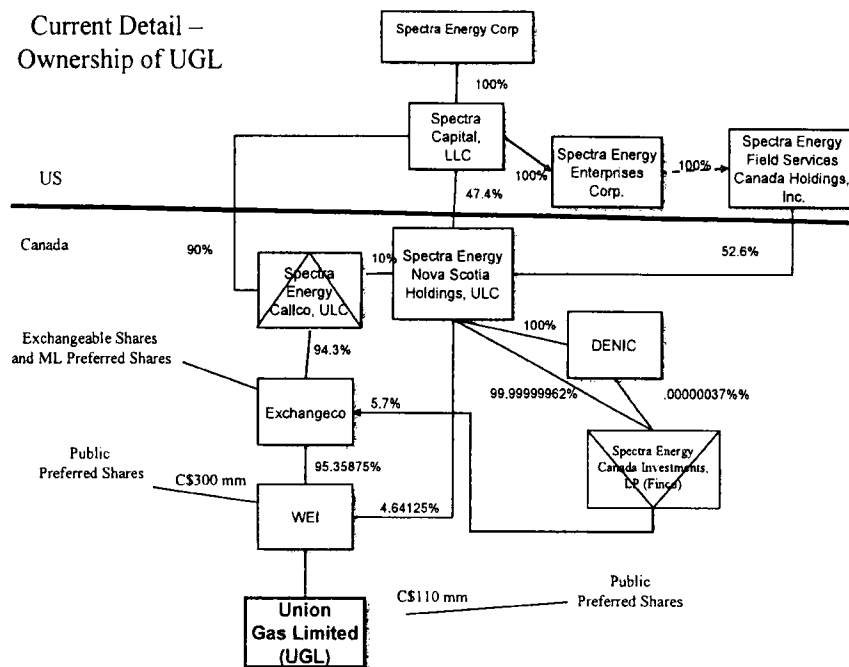
### Current Structure

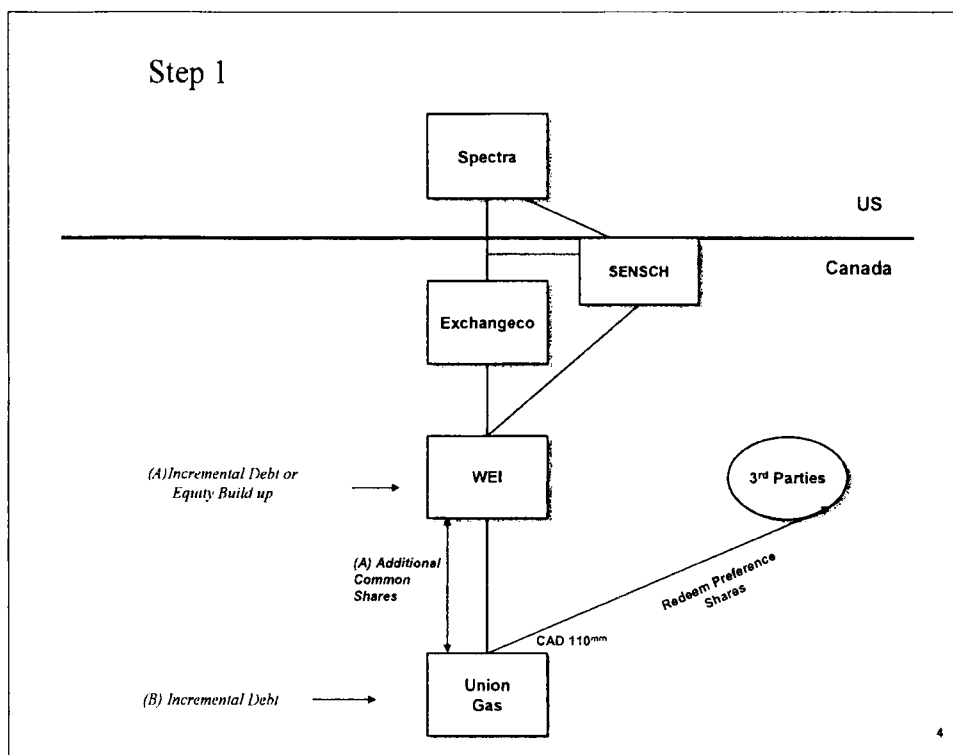
**Note 1:** Union Gas has outstanding approximately CAD 110 million of Preference Shares which are held by third parties, comprised of four series. Three of the series, representing approximately CAD 10 million, are redeemable currently. The fourth series (Series 11), representing approximately CAD 100 million, is not currently redeemable but may be amended to become currently redeemable with the approval of two-thirds of the holders.

**Note 2:** The common stock of Exchangegeo is owned 94.3% by Spectra Energy Call Co. ("Callco") and 5.7% by SE Canada Investments LP ("Finco"). Callco is a Canadian company classified as a partnership for U.S. tax purposes; FINCO is an Alberta limited partnership classified as a corporation for U.S. tax purposes. Each of Callco and FINCO is owned indirectly 100% by Spectra. Exchangegeo also has outstanding nonvoting preferred stock that is held by the public and Merrill Lynch & Co. The ownership structure of Exchangegeo is not shown in full detail in these slides.

**Note 3:** The common stock of WEI is owned 95.35875% by Exchangegeo and 4.64125% by Spectra Energy Nova Scotia Holdings Co. ("SENSCH"). SENSCH is a Canadian company owned indirectly 100% by Spectra. WEI also has outstanding nonvoting preferred stock that is publicly held. The ownership structure of WEI is not shown in full detail in these slides.

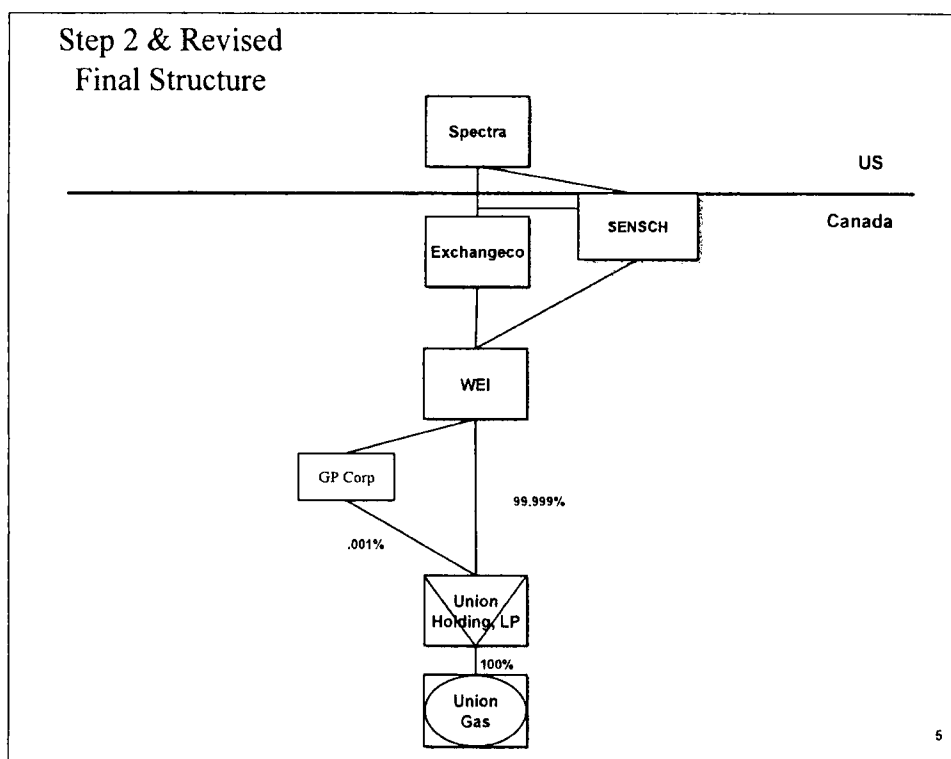
# Current Detail – Ownership of UGL





Step 1:

- (a) (A) WEI contributes approximately C\$110 million (plus redemption premium) to Union Gas in exchange for additional Union Gas common shares  
or (B) Union obtains additional debt
- (b) Union Gas redeems its existing Preference Shares held by third parties for approximately C\$110 million plus redemption premium.



### Step 2:

- (a) WEI forms a new corporation called Union Holding GP Corp. ("GPCorp") to serve as the general partner in a new limited partnership called Union Holding LP ("UHLP"). WEI transfers .001% of Union Gas common stock to GP Corp.
- (b) WEI and GP Corp form UHLP. GP Corp transfers .001% of the Union Gas common stock to UHLP in exchange for a .001% general partner interest and WEI transfers the balance of the Union Gas common stock to UHLP in exchange for a 99.999% limited partner interest. An election is filed to treat UHLP as a corporation for US tax purposes.
- (c) Union Gas is converted to an NSULC, ABULC or BCULC



UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please explain why the transfer of shares to the limited partnership must be voting shares, and any effect of control by the limited partnership as compared to equity ownership by the limited partnership on the goals of the reorganization.*

---

**Response:**

To achieve the U.S. tax classification under which the restructuring has been planned, WEI must transfer all evidence of ownership to the LP. Following the redemption of the Union preferred shares, the only equity ownership interest that Union will have outstanding will be voting common stock, which is 100% owned by WEI.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please provide copies or drafts of any operating, management, governance, or similar agreements planned or proposed, or summaries of any operating, management, governance, or similar terms expected to be implemented, to ensure that WEI retains limited liability as owner of more than 99% of the limited partnership notwithstanding that it is also the sole owner of the general partner.*

---

**Response:**

It is not clear to the Applicants why WEI's limited liability as owner of 99% of the limited partnership is relevant to any issue falling within the Board's jurisdiction. It certainly has no impact on Union, the operation of Union's business or on Union's customers.

There are, in any event, no such documents in existence. WEI anticipates engaging in its corporate activities and actions in a manner that respects the distinct legal nature of the general partner and the limited partnership. This will be achieved through, among other means, proper governance, Board of Directors meetings and resolutions and agreements where prudent in accordance with best corporate practices.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please identify and quantify each tax impact on Union or any affiliate arising out of the proposed reorganization, and disaggregate those impacts between a) the insertion of the limited partnership between WEI and Union, b) the corporate migration of Union to Nova Scotia as an unlimited liability company, and c) the redemption of the Union preferred shares.*

---

**Response:**

- (a) There is no tax impact to Union associated with the insertion of the limited partnership between WEI and Union.
- (b) There also is no tax impact to Union of the corporate migration of Union to Nova Scotia and conversion to an unlimited liability company.
- (c) It is estimated that there is a minor reduction in Union's revenue requirement associated with the preferred share redemption. A description and quantification of the reduction in Union's revenue requirement can be found in Union's response to Exhibit B.2.

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please provide details of the tax saving arising by replacing preferred shares with third party debt, including the full calculation of the \$1.3 million tax reduction. If the third party debt is already arranged, please provide a summary of its terms. If the tax reduction changes over time, please advise the expected level in Union's next expected rebasing year.*

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**Response:**

Please see Exhibit B.2.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please confirm that the various steps in the reorganization are integrated, and it is the intention of the Applicants to carry out the reorganization in its entirety, if leave of the Board is granted, or, if leave of the Board is not granted, not to carry out any of the steps in the reorganization.*

---

**Response:**

Union confirms that the various steps in the reorganization are integrated and it is the intention of the Applicant to carry out the reorganization if leave is granted.

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please describe the impact, if any, of the a) the proposed change of control of Union, and/or b) the proposed migration of Union to Nova Scotia, and its change to unlimited liability status, on any material contract of Union with any supplier, customer, or any other person, including, without limitation, any requirement that any supplier, customer, or other person consent to, or have any notice or review rights with respect to, the transaction.*

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**Response:**

Union does not anticipate the reorganization will have any impact on any of its material contracts. As part of its due diligence, Union is reviewing its material contracts to determine if the proposed internal transfer of Union to a wholly owned subsidiary of WEI or the conversion into a Nova Scotia unlimited liability company triggers any consent or other rights. To this point, the only contracts identified with such constraints are financing agreements which contain limitations on Union changing its jurisdiction of incorporation. Union will comply with the contractual requirements contained in those agreements to ensure the agreements continue in full force and effect.

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

***Question:***

*Please list all other regulatory or other government approvals required by the Applicants in order to effect the reorganization.*

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**Response:**

With the exception of the approval of the OEB, Union will not require any regulatory or other governmental approvals to effectuate the transfer of Union's voting shares to the limited partnership.

Union will require consent from the Ontario Minister of Finance and approval from the Director of the Ontario Ministry of Government Services to obtain authorization to continue out of Ontario. Union will also require approval from the

Nova Scotia Registrar of Joint Stock Companies to continue into Nova Scotia. Union will also provide notice to the Minister of Natural Resources in order to change the registered name of its well licenses from "Union Gas Limited" to "Union Gas Company".

Question: October 15, 2008

Answer: October 28, 2008

Docket: EB-2008-0304