



uniongas

A Spectra Energy Company

October 6, 2008

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

Dear Ms. Walli:

Re: EB-2008-0304 - Section 43(2) Application
Clarification and Additional Information

Please see Union's responses to the Board's request for clarification and additional information with respect to the proposed ownership revision and the associated restructuring.

- 1. Please confirm that the proposed limited partnership, the proposed general partner of the proposed limited partnership and WEI will become or will remain parties to the undertakings made to the Lieutenant Governor that were undertaken by the current owners of the voting shares of Union Gas. If it is the Applicants' position that neither the proposed limited partnership nor the proposed general partner of the proposed limited partnership need to become parties to the undertaking please explain the Applicants' reasons for its position.*

Response

WEI and Union are, and will remain, parties to the December 7, 1998 Undertakings. As the Board and the LGIC are aware, a number of intermediate holding companies that were between WEI and Union in 1998 were eliminated from the ownership structure in an internal reorganization approved without a hearing by the Board in February, 2002. The current reorganization, of course, will introduce a wholly owned general partner and limited partnership back into Union's ownership structure. Given the language of the obligations in the Undertakings, which refer to WEI "and its affiliates," the proposed limited partnership and the proposed general partner will become parties to the Undertakings by definition.

2. *Please provide a statement from the Applicants as to their view of the tax effects on Union Gas after any conversion to the new ownership structure and the proposed conversion to a Nova Scotia Unlimited Liability Company. Please explain the impact of any tax savings on Union Gas and the impact of such tax savings on the IRM plan before and after conversion to the new ownership structure and its proposed conversion to a Nova Scotia Unlimited Liability Company.*

Response

Neither the new ownership structure nor the conversion to a Nova Scotia unlimited liability company have any impact on Union's tax status. The tax impacts of these steps are on U.S. tax obligations only (of which Union has none). Because the conversion has no impact on Union's tax status, there is also no impact on Union's IRM.

There is, however, a modest collateral impact on Union's tax position resulting from the proposed redemption of Union's outstanding preferred shares. The capital represented by the redeemed preferred shares will be replaced with third party debt. For tax purposes interest expense from debt is deductible from taxable income. Dividends on preferred shares are not. As a result of the different tax treatment of preferred share dividends and debt, after the preferred shares are redeemed Union will incur slightly less tax expense. Union estimates the reduction in revenue requirement to be approximately \$1.3 million, starting in 2009. On rebasing any reduction to Union's overall cost of capital will be incorporated into rates.

3. *Please advise whether there will be a change in the capital structure of Union Gas for rate making purposes as a result of substituting debt for the preferred shares in Union Gas that are proposed to be redeemed by WEI.*

Response

There will be no change in Union's capital structure for rate making purposes resulting from the redemption of the preferred shares. The outstanding preferred shares are already considered debt for the purposes of calculating Union's capital structure for regulatory purposes. Since Union is replacing the preferred shares with debt there will be no impact on Union's overall regulated capital structure. Union's approved debt/equity ratio will remain at 64/36%.

4. *Please clarify, following any conversion of Union Gas Limited to a Nova Scotia Unlimited Liability Company:*
 - a) *whether there will be a change in the actual capital structure of Union Gas and if so, what is that change envisioned,*

- b) *whether the retained earnings, share capital and contributed surplus (or book value) of the company will be replaced with subordinated shareholder notes.*

Response

- a) There will be no change to Union's deemed or actual capital structure as a result of the conversion to a Nova Scotia unlimited liability company.
- b) As noted above, the redeemed preferred shares will be replaced with debt. In the event that the amount paid to redeem the preferred shares is greater than or less than their book value, the difference will be reflected in retained earnings. Union is not expecting any significant difference between the book value and the cost of redemption. Union will not replace retained earnings, share capital or consolidated surplus with subordinated shareholder notes.

Should you require any further clarification, please contact me at 519-436-5275.

Yours truly,

[original signed by]

Mark Kitchen
Director, Regulatory Affairs

c.c.: EB-2007-0606 Intervenors
Bruce Pydee, WEI
Adrian Pye, OEB
Michael Penny, Torys