



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER PROCEDURAL ORDER NO. 2 EB-2015-0181

UNION GAS LIMITED

Dawn Reference Price and North T-Service Application

BEFORE: Ken Quesnelle
Vice Chair and Presiding Member

Emad Elsayed
Member

January 7, 2016

1 INTRODUCTION AND SUMMARY

Union Gas Limited (Union) is a natural gas storage, distribution and transmission company regulated by the Ontario Energy Board (OEB). It serves approximately 1.4 million customers in northern, eastern and southern Ontario. The distribution service area of Union extends throughout northern Ontario, from the Manitoba border to the North Bay/ Muskoka area, through southwestern Ontario from Windsor to Hamilton and across eastern Ontario, from Port Hope to Cornwall.

Union operates an integrated network of over 69,000 kilometres of natural gas pipelines. Union also owns storage and transmission assets that include 157 billion cubic feet (Bcf) of underground natural gas storage at the Dawn Hub, which is located in southwestern Ontario. The Dawn Hub is one of the most liquid natural gas trading hubs in North America.

Customers who buy their natural gas supply from Union pay a price set by the OEB through the Quarterly Rate Adjustment Mechanism (QRAM) process. The QRAM process was established in the proceeding on Methodologies for Commodity Pricing, Load Balancing and Cost Allocation for Natural Gas Distributors (EB-2008-0106). Currently, Union's gas supply reference price represents an average cost for gas at Empress (the Alberta Border Reference Price) for the next 12 months.

Union determines the Alberta Border Reference Price by applying a forward Empress basis differential to the future 12-month NYMEX market prices¹, applying a foreign exchange rate and weighting these monthly prices by the volume Union plans to buy in each of the next 12 months. The result is an average cost per gigajoule (GJ) in Canadian dollars that represents the 12-month forward market price at Empress.

Currently, 100% of Union North supply and 40% of Union South supply is sourced from Empress. With conventional production declining in Western Canada and new supplies originating in Northeastern U.S., Union intends to purchase more gas from the U.S. and use Dawn as a critical transportation and storage hub. By 2017, Union forecasts that 85% of Union North customers and 97% of Union South customers will be served predominantly from supply sourced from Dawn or upstream from Dawn.

Union has proposed to change the reference price used in the QRAM process to set rates for Union South and a majority of Union North customers. Union has proposed to use a Dawn-based reference price versus the current Empress price of gas. According

¹ The New York Mercantile Exchange (NYMEX) provides future prices of natural gas.

to Union, changing the reference price will better reflect where Union will be purchasing gas supply in the future, and will minimize variances that would accumulate in gas cost deferral accounts.

Accordingly, Union filed an application with the OEB on July 15, 2015 pursuant to section 36 of the *Ontario Energy Board Act, 1998*, for approval to change the reference price used to set commodity rates through the QRAM process. In its Application, Union requested the following approvals:

- changes to the reference price used to set rates as determined in Union's quarterly rate filing to better reflect where Union will be purchasing gas supply in the future
- changes to Union North transportation, storage and commodity rates to reflect supply portfolio changes and modifications to the applicable rate schedules
- new transportation service option for Union North East T-Service customers to deliver gas at Dawn
- changes to the recovery of upstream transportation compressor fuel costs in rates for Union North sales service and bundled DP customers
- cost allocation methodology and rate design changes for Union North gas storage and transportation rates
- to establish new deferral accounts and close certain existing ones

In its Application, Union has proposed a new optional North T-service Transportation from Dawn service to provide customers with access to Dawn-based supply.

Union's North T-Service customers are responsible for arranging supply and transportation for supply to arrive in their delivery area. In order to arrange supply to arrive at the delivery area, North T-Service customers currently rely on purchasing supply delivered to the customer at the delivery area or purchasing supply at a location upstream to the delivery area and then transporting the supply to the required delivery area.

The proposed service of Union will allow T-service customers to arrange for an alternative gas supply source at Dawn. To this end, Union is seeking approval to modify the existing Rate 01, Rate 10, Rate 20, Rate 25 and Rate 100 rate schedules to include a new transportation service option for Union North T-service customers.

In its Application, Union requested the changes effective January 1, 2016. However, as a result of a potential delay in facility expansions and regulatory approvals, the parties agreed that Union's proposal would be implemented effective January 1, 2017.

The total annual bill impact, including the 2018 gas supply plan changes and the proposed cost allocation and rate design changes, for an average residential customer (consuming 2,200 m³) ranges from a decrease of \$51 per year in the Union Sault Ste. Marie Delivery Area to an increase of \$26 per year in the Union North Delivery Area (NDA) as compared to the April 2015 QRAM. The net increase in the Union NDA is a result of a decrease in transportation rates as Union moves from long-haul to short-haul transportation from Dawn, an increase in storage rates as the NDA is allocated Dawn storage costs and an increase in commodity rates from using a Dawn Reference Price.

The proposed change in reference price will also lead to a reduction in the Union South gas commodity and transportation rate. The change in the reference price would lead to an annual reduction of approximately \$20 for the average Union South residential customer as compared to the April 2015 QRAM.

2 THE PROCESS

As indicated above, Union filed its application on July 15, 2015. The list of intervenors who participated in the proceeding is provided in Schedule A.

In Procedural Order No. 1 dated September 23, 2015, the OEB scheduled a three-day Settlement Conference starting on November 9, 2015, with the objective of reaching a settlement among the parties on the issues. Union filed a Settlement Proposal on November 30, 2015, reaching a settlement on all issues with the exception of the new optional North T-Service Transportation service. The Settlement Proposal is attached as Schedule B.

OEB staff filed a submission supporting the Settlement Proposal. In its submission, OEB staff noted that the Settlement Proposal was in accordance with the principles established in EB-2008-0106 and the proposed changes will reduce the variance between the actual cost of gas and the reference price established in each QRAM.

OEB staff also noted that customers in Union's proposed North West Zone (Fort Frances, Union Western Delivery Area and Union Saul Ste. Marie Delivery Area) will continue to be served using Empress sourced supply and Union has proposed to continue using the Alberta Border Reference Price to set gas commodity rates for the Union North West Zone. OEB staff supported the use of an Alberta Border Reference Price for this zone as it is a better indicator of actual costs.

OEB staff further noted that under Union's proposal, the QRAM process would use two reference prices: the Alberta Border Reference Price and the Dawn Reference Price. However, OEB staff did not expect this to be an issue as the prices would be separated by zone and the review process was expected to be short and mechanistic as it is now.

The outcome of the Settlement Proposal was not materially different from what Union filed in its application. Some of the major elements of the Settlement Proposal include:

- The parties agreed with Union's proposal to introduce two zones in the North, the North West and North East zones to set gas commodity, storage and transportation rates. The Union North West Zone will continue to be served from Empress and will use the current QRAM methodology to set prices. The Union North East Zone and Union South will use a Dawn Reference Price to set commodity rates.
- The parties agreed with Union's proposal to update the forecast cost of upstream transportation compressor fuel required to move gas to and from storage to reflect the changes in the gas supply transportation portfolio.

- The parties agreed that the use of a Dawn Reference Price will minimize or eliminate the difference between the cost of the Union South portfolio and the cost of serving Union South sales service customers using a Dawn Reference Price. This will eliminate the need for the South Portfolio Cost Differential currently used in the QRAM methodology. Accordingly, the Union South transportation rate is not required for sales service customers and will be set to zero.
- The parties agreed with Union's proposal to set storage and transportation rates for the Union North West and North East zones based on a detailed cost allocation methodology by zone. Union will set the storage and transportation rates on a postage stamp basis within each of the two proposed zones.
- The parties agreed with Union's proposal to change the obligated Daily Contract Quantity (DCQ) allocation methodology for Union North bundled direct purchase customers to reflect Union's transportation portfolio for each respective zone.
- The parties agreed to the establishment of four new deferral accounts:
 1. Transportation Tolls and Fuel – Union North West Operations Area (179-145)
 2. Transportation Tolls and Fuel – Union North East Operations Area (179-146)
 3. Union North West Purchase Gas Variance Account (179-147)
 4. Union North East Purchase Gas Variance Account (179-148)
- The parties also agreed to close the Transportation Tolls and Fuel – Northern and Eastern Operation Area Deferral Account (Account No. 179-100) and the North Purchase Gas Variance Account (Account No. 179-105).
- Union's initial implementation date was January 1, 2016. However, as a result of the potential delay in TransCanada's King's North Project, parties agreed that Union's proposal would be implemented effective January 1, 2017.
- In its Application, Union proposed a new Transportation from Dawn Service for Union North T-Service customers. Currently, Union North T-Service customers are responsible for arranging supply and transportation. The proposed service allows T-Service customers to arrange for an alternative gas supply source at Dawn. The parties did not reach any settlement on this issue and accordingly Union's proposal to modify existing Rate 01, Rate 10, Rate 25 and Rate 100 schedules to include a new transportation service for Union North T-Service customers remains unsettled. Similarly, Union's request for a Base Service North

T-Service TransCanada Capacity Deferral Account to facilitate the proposed service also remains unsettled. These issues will proceed to hearing.

3 OEB DECISION

The OEB approves the Settlement Proposal based on the following key findings:

- The proposed change to the reference price will better reflect the gas supply portfolio of Union in the future.
- The proposed change will reduce the variance between the actual cost of gas and the reference price established in each QRAM.
- The use of a Dawn Reference Price will lead to a decrease in delivery rates as compared to the April 2015 QRAM.

The OEB commends the parties for their efforts in coming to an agreement that the OEB considers to be in the public interest.

The OEB notes that one issue remains unsettled, which is Union's proposed T-Service Transportation from Dawn Service for Union North T-Service customers. This issue will proceed to a written hearing.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Union shall establish the following deferral accounts as noted in the Dawn Reference Price and North T-Service Settlement Proposal and as set forth in Schedule "C". Union shall record simple interest on the monthly opening balances, calculated at the Board-approved rate.
 - Transportation Tolls and Fuel – Union North West Operations Area (179-145)
 - Transportation Tolls and Fuel – Union North East Operations Area (179-146)
 - Union North West Purchase Gas Variance Account (179-147)
 - Union North East Purchase Gas Variance Account (179-148)
2. Parties and OEB Staff who wish to file written arguments with respect to the unsettled issue shall file them with the OEB and serve them on all parties on or before **January 15, 2016**.
3. Union shall file its reply with the OEB and serve it on all other parties on or before **January 22, 2016**.

All filings to the OEB must quote the file number, EB-2015-0181 and be made electronically in searchable / unrestricted PDF format through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: boardsec@ontarioenergyboard.ca

Tel: 1-888-632-6273 (Toll free)

Fax: 416-440-7656

DATED at Toronto, **January 7, 2016**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

SCHEDULE A
DECISION AND ORDER
UNION GAS LIMITED
EB-2015-0181
JANUARY 7, 2016

LIST OF INTERVENORS

- Association of Power Producers of Ontario (APPrO)
- Building Owners and Managers Association Toronto (BOMA)
- Canadian Manufacturers and Exporters (CME)
- Enbridge Gas Distribution Inc.
- Federation of Rental-housing Providers of Ontario (FRPO)
- Industrial Gas Users Association (IGUA)
- London Property Management Association (LPMA)
- Ontario Association of Physical Plant Administrators (OAPPA)
- School Energy Coalition (SEC)
- The Corporation of the City of Kitchener (Kitchener)
- Timiskaming-Cochrane, Provincial Electoral District, John Vanthof, MPP
- Vulnerable Energy Consumers Coalition (VECC)

SCHEDULE B
SETTLEMENT PROPOSAL – NOVEMBER 30, 2015
UNION GAS LIMITED
EB-2015-0181
JANUARY 7, 2016

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas as of January 1, 2016.

SETTLEMENT PROPOSAL

November 30, 2015

This Settlement Proposal is for the consideration of the Ontario Energy Board (“the Board”) in its determination, under Docket No. EB-2015-0181, of an Application by Union Gas Limited (“Union”). This document is called a “Settlement Proposal” because it is a proposal by the parties to the Board to settle the issues in this proceeding. It is termed a proposal as between the parties and the Board. However, as between the parties, and subject only to the Board’s approval of this Settlement Proposal, this document is intended to be a legal agreement, creating mutual obligations, and binding and enforceable in accordance with its terms. As set forth later in this Preamble, this agreement is subject to a condition subsequent, that if it is not accepted by the Board in its entirety, then unless amended by the parties it is null and void and of no further effect. In entering into this agreement, the parties understand and agree that, pursuant to the Act, the Board has exclusive jurisdiction with respect to the interpretation and enforcement of the terms hereof.

By Procedural Order No. 1 dated September 23, 2015, the Board scheduled a Settlement Conference to commence at 9:30 a.m. on November 9, 2015. The Settlement Conference was duly convened, and finished on November 10, 2015, with Mr. Chris Haussmann as facilitator.

The following parties participated in the Settlement Conference:

Association of Power Producers of Ontario (“APPrO”)

Building Owners and Managers Association Toronto (“BOMA”)

Canadian Manufacturers & Exporters (“CME”)

Federation of Rental-housing Providers of Ontario (“FRPO”)

Industrial Gas Users Association (“IGUA”)

London Property Management Association (“LPMA”)

School Energy Coalition (“SEC”)

Vulnerable Energy Consumers Coalition (“VECC”)

Union applied to the Board in this Application for:

- a. changes to the reference price used to set rates as determined in Union’s quarterly rate filing to better reflect where Union will be purchasing gas supply in the future, effective the QRAM coinciding with or immediately following the TransCanada King’s North Project in-service date;
- b. changes to Union North transportation, storage and commodity rates to reflect the gas supply portfolio changes and modifications to the applicable rate schedules, effective January 1, 2016;
- c. modifications to the existing Rate 01, Rate 10, Rate 20, Rate 25 and Rate 100 rate schedules to include a new transportation service option for Union North East T-Service customers;
- d. changes to the recovery of upstream transportation compressor fuel costs in rates for Union North sales service and bundled DP customers, effective January 1, 2016;
- e. cost allocation methodology and rate design changes for cost-based Union North gas storage and transportation rates based on the 2016-2018 gas supply plan; and,
- f. to establish the following deferral accounts:
 - i. Transportation Tolls and Fuel – Union North West Operations Area
 - ii. Transportation Tolls and Fuel – Union North East Operations Area
 - iii. Union North West Purchase Gas Variance Account
 - iv. Union North East Purchase Gas Variance Account

- v. Base Service North T-Service TransCanada Capacity Deferral Account;
- and,

g. to close the following deferral accounts:

- i. Transportation Tolls and Fuel – Northern and Eastern Operations Area Deferral Account (Account No. 179-100)
- ii. North Purchase Gas Variance Account (Account No. 179-105)

Except as expressly noted below, for the purposes of settlement of the issues in this proceeding, the parties agree to the relief sought by Union in the Application and accept Union’s position that the claimed relief is supported by Union's pre-filed evidence and its responses to interrogatories. References to the pre-filed evidence and the interrogatories are provided in relation to each of the agreed items contained in the Settlement Proposal.

The parties acknowledge that this Settlement Conference is confidential in accordance with the Board’s Practice Direction on Settlement Conferences (the “Practice Direction”). The parties understand that confidentiality in that context does not have the same meaning as confidentiality in the Board’s Practice Direction on Confidential Filings, and the rules of that latter document do not apply. Instead, in this Settlement Conference, and in this Settlement Proposal, the parties have interpreted “confidential” to mean that the documents and other information provided during the course of the Settlement Conference, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly privileged and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception; the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal. Further,

the parties shall not disclose those documents or other information to persons who were not attendees at the Settlement Conference. However, the parties agree that “attendees” is deemed to include, in this context, persons who were not physically in attendance at the Settlement Conference but were; a) any persons or entities that the parties engage to assist them with the Settlement Conference; and b) any persons or entities from whom they seek instructions with respect to the negotiations; in each case provided that any such persons or entities have agreed to be bound by the same confidentiality provisions.

The role adopted by Board Staff in Settlement Conferences is set out on pp. 5-6 of the Board’s April 24, 2014 Practice Direction on Settlement Conferences. Although Board Staff are not a party to this Settlement Proposal as noted in the Guidelines, “Board Staff who participate in the Settlement Conference in any way are bound by the same confidentiality standards that apply to the parties to the proceeding”.

As described above, the evidence supporting the proposal on each issue is cited in each section of the Settlement Proposal. 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 and, Exhibit B.Staff.1 will be referred to as B.Staff.1. The structure and presentation of the settled issues is consistent with settlement proposals which have been accepted by the Board in prior cases. The parties agree that this Settlement Proposal forms part of the record in this proceeding. The identification and listing of the evidence that relates to each issue is provided to assist the Board. The identification and listing of the evidence that relates to each settled issue is not intended to limit any party who wishes to assert, either in any other proceeding, or in a hearing in this proceeding, that other evidence is relevant to a particular settled issue, or that evidence listed is

not relevant to the issue, or that the concise description of the issue prepared by Union is incorrect or incomplete.

According to the Practice Direction (p. 4), the parties must consider whether a Settlement Proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. The parties who participated in the settlement discussions agree that no settled issue requires an adjustment mechanism other than as may be expressly set forth herein.

With the exception of issue 3 and issue 7.5 below, all of the issues contained in this Settlement Proposal have been settled by the parties as a package and none of the provisions of this settlement is severable. If the Board does not accept this package in its entirety, then there is no settlement agreement (unless the parties subsequently agree that any portion of the package that the Board does accept may continue as part of a valid settlement agreement).

In the event the Board directs the parties to make reasonable efforts to revise the Settlement Proposal, the parties agree to use reasonable efforts to discuss any potential revisions, but no party will be obligated to accept any proposed revision. The parties agree that all of the parties who took a position on a particular issue must agree with any revised Settlement Proposal as it relates to that issue prior to its re-submission to the Board.

None of the parties can withdraw from this Settlement Proposal except in accordance with Rule 30.05 of the Rules. Moreover, the settlement of any particular issue in this proceeding and the positions of the parties in this Settlement Proposal are without prejudice to the rights of the

parties to raise the same issue and/or to take any position thereon in any other proceeding, whether or not Union is a party to such proceeding.

1. ARE THE CHANGES TO THE REFERENCE PRICE USED TO SET RATES AS DETERMINED IN UNION'S QUARTERLY RATE FILING APPROPRIATE?

(Complete Settlement)

The parties agree with Union's proposal to introduce Union North West and Union North East Zones to set gas commodity, storage and transportation rates. The Union North West Zone will be comprised of the delivery areas that will continue to be served from Empress; the Centrat MDA (Fort Frances), Union WDA and Union SSMDA. The Union North East Zone will be comprised of the delivery areas that will be served predominately from Dawn; the Union NDA, Union NCDA and Union EDA. Parties agree that Union will use a Dawn Reference Price to set commodity rates for customers in the Union North East Zone and in Union South. Using the Alberta Border Reference Price to set commodity rates for sales service customers continues to be an accurate reflection of the anticipated cost of gas for the Union North West Zone. Union will use a Dawn Reference Price for delivery-related compressor fuel, UFG and gas in storage carrying costs. The result of using a Dawn Reference Price for these delivery related items results in a decrease to delivery rates (a decrease of \$6.3 million based on the April 2015 QRAM). The actual change in rates will be reflected when Union implements the proposal with its QRAM coinciding with or immediately following the TransCanada King's North Project in-service date.

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

The following parties take no position: APPrO

Evidence References:

1. A/T1/pp.5-6, 14-17; A/T1/A/S1 and S2; B.Staff.3; B.LPMA.2; B.OAPPA.4

2. ARE THE CHANGES TO UNION NORTH TRANSPORTATION, STORAGE AND COMMODITY RATES TO REFLECT THE GAS SUPPLY PORTFOLIO CHANGES AND MODIFY UNION'S RATE SCHEDULES APPROPRIATE?

(Complete Settlement)

The parties agree with Union's proposed changes to rates for Union's sales service and bundled direct purchase ("DP") customers to better reflect the changes in Union's gas supply transportation portfolio going forward. Union will be converting long-haul transportation contracts on TransCanada to short-haul transportation contracts on TransCanada. Union will reduce reliance on supply from the Western Canadian Sedimentary Basin ("WCSB") and increase reliance on supply sourced at Dawn or upstream of Dawn. The rate schedule changes reflecting Union's proposal can be found at Exhibit A, Tab 2, Appendix A, Schedule 11.

By 2017, 85% of Union North customers and 97% of Union South customers will be served predominately from supply sourced from Dawn or upstream of Dawn. As Union reduces reliance on supply from the WCSB and increases reliance on supply sourced at Dawn or upstream of Dawn, the Dawn Reference Price is a more appropriate market price indicator of the cost of gas supply for those customers. Currently, Union's gas supply reference price represents an average cost for gas at Empress (the Alberta Border Reference Price). Union is proposing to change the reference price used in the QRAM process to set rates for Union South and the majority of Union North customers to be based on the Dawn price of gas rather than the current Empress price of gas. The proposed changes to the reference price used to set rates will better reflect the cost of the gas supply purchased to serve Union South, Union North West Zone and Union North East Zone customers and will minimize variances that would otherwise accumulate in gas cost deferral accounts.

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

The following parties take no position: APPrO

Evidence References:

1. A/T1/pp. 1, 6-7; A/T2/A/S11; B.Staff.1

3. ARE THE MODIFICATIONS TO THE EXISTING RATE 01, RATE 10, RATE 20, RATE 25 AND RATE 100 RATE SCHEDULES TO INCLUDE A NEW TRANSPORTATION SERVICE OPTION FOR UNION NORTH EAST T-SERVICE CUSTOMERS APPROPRIATE?

(No Settlement)

The parties do not agree that the changes to rate schedules as set out at Exhibit A, Tab 2, Appendix A, Schedule 11 are appropriate. Specifically, the parties agree to add the two Union North Zones to rate schedules and Schedule A. The parties do not agree to the modifications to Rate 01, Rate 10, Rate 20, Rate 25 and Rate 100 rate schedules to include a new transportation service option for Union North East T-Service customers. This issue will proceed to hearing.

Evidence References:

1. A/T2,A,S11; A/T3/pp.13-14

4. ARE THE CHANGES TO THE RECOVERY OF UPSTREAM COMPRESSOR FUEL COSTS IN RATES FOR UNION NORTH SALES SERVICE AND BUNDLED DP CUSTOMERS APPROPRIATE?

(Complete Settlement)

Storage-related Upstream Transportation Compressor Fuel

The parties agree with Union's proposal to update the forecast cost of upstream transportation compressor fuel required to move gas to and from storage to reflect the changes in the gas supply transportation portfolio. If gas delivered from Empress to the delivery areas for Union North sales service and bundled DP gas is not required in the delivery area to meet demand requirements, Union will transport the gas from the delivery area to storage at Dawn using services on

TransCanada. In this situation, transportation compressor fuel will be required to move gas from the delivery area to Dawn storage. Compressor fuel for movement of gas from the Union North delivery areas to Dawn will be priced at the Alberta Border Reference Price. On days when the obligated DCQ is not adequate to meet demand in the delivery area, Union will withdraw gas from storage at Dawn and deliver the gas to the delivery area using the STS or short-haul redelivery transportation on TransCanada. Upstream transportation compressor fuel required to move gas from Dawn storage to the delivery area will be priced at the Dawn Reference Price. The costs of upstream compressor fuel used to transport supply to and from storage will be updated quarterly to reflect the current reference price. Variances between actual costs and the forecast costs recovered in rates will continue to be captured in the Transportation Tolls and Fuel Deferral Account and disposed of to Union North sales service and bundled DP customers as part of the QRAM process.

Transportation-related Upstream Transportation Compressor Fuel

The parties agree with Union's proposal to include the cost for upstream transportation compressor fuel to move gas from Empress or Parkway to the respective delivery area in transportation rates for both Union North sales service and bundled DP customers. Union North bundled DP customers will no longer be required to provide fuel in kind at Empress or Dawn. Union will forecast the upstream transportation compressor fuel requirements in the gas supply plan for both Union North sales service and bundled DP customers. The gas supply plan will include monthly upstream transportation compressor fuel requirements from Empress to the respective delivery areas and from Parkway to the respective delivery areas based on forecast demand each month. The cost of the upstream transportation compressor fuel requirements will

be updated each quarter for changes in the reference price as determined through the QRAM process and compressor fuel costs.

Variances between the cost of compressor fuel in rates and actual compressor fuel costs incurred each month will be recorded in the Transportation Tolls and Fuel Deferral account and disposed of to Union North sales service and bundled DP customers through the QRAM process.

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

Evidence references:

1. A/T1/pp.22-29; B.FRPO.5; B.LPMA.3; B.VECC.4

5. ARE THE COST ALLOCATION METHODOLOGY AND RATE DESIGN CHANGES FOR UNION NORTH APPROPRIATE?

(Complete Settlement)

Union North and Union South Gas Commodity Rates

The parties agree that Union South and Union North East Zone gas commodity rates will be based on a Dawn Reference Price. The Union North West Zone gas commodity rate will continue to be based on the Alberta Border Reference Price. As the Dawn Reference Price represents a landed cost of gas at Dawn, no additional upstream transportation tolls or transportation fuel is required to serve Union South sales service customers. Accordingly, the transportation rate and the fuel included in the gas commodity rate are no longer required for Union South sales service customers. Parties also agree that Union will remove upstream transportation fuel costs from Union North gas commodity rates and recover upstream transportation fuel costs for both sales service and bundled DP customers in Union North West and Union North East transportation rates. The use of a Dawn Reference Price will minimize or eliminate the difference between the

cost of the Union South portfolio and the cost of serving Union South sales service customers using a Dawn Reference Price, thereby eliminating the need for the South Portfolio Cost Differential (“SPCD”). Accordingly, the Union South transportation rate is not required for sales service customers and will be set to zero. Parties agree that Union will communicate the transportation rate of zero in order to avoid customer confusion.

Union North Transportation and Storage Rates

The parties agree with Union’s proposal to set storage and transportation rates for the Union North West and Union North East Zones based on a detailed cost allocation methodology by Zone. Within each of the two proposed Zones, Union will set the storage and transportation rates on a postage stamp basis.

Parties note that while the Settlement agrees to changes to commodity, transportation, and storage rate cost allocation, there are no changes to the cost allocation of delivery rates.

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

Evidence References:

1. A/T2/pp.3-12; B.Staff; B.Staff.4; B.Staff.8; B.FRPO.11; B.LPMA.1; B.VECC.6

6. ARE THE UNION NORTH BUNDLED DIRECT PURCHASE OBLIGATED DAILY CONTRACT QUANTITY (“DCQ”) CHANGES APPROPRIATE?

(Complete Settlement)

The parties agree with Union’s proposal to change the obligated DCQ allocation methodology for Union North bundled DP customers to reflect Union’s transportation portfolio for each respective Zone. Union North bundled DP customers in the Union North East Zone will have a portion of

their obligated DCQ at Empress and a portion of their obligated DCQ at Dawn. The percentage of the obligated DCQ to be delivered at each receipt point will reflect the percentage of Union's underpinning firm transportation portfolio at Empress and Dawn used to serve the Union North East Zone as of each November 1. The Union North West Zone will continue to be served 100% from Empress for the foreseeable future. Consequently, Union North bundled DP customers in the Union North West Zone will have their obligated DCQ remain at Empress. Union plans to update the Union North East bundled DP obligated DCQ receipt point quantities annually at November 1 to reflect the percentage of Union's transportation portfolio at Dawn or Empress to serve the Union North East delivery zone. Parties agree that if the King's North Project projected in-service date of November 1, 2016 is delayed, Union will communicate this to customers as soon as possible and work with customers to mitigate any resulting impacts of any consequent potential delay in changes to the DCQ allocations of affected customers, respecting amongst other factors, contractual delivery commitments of the customer.

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

Evidence references:

1. A/T1/pp.19-22; B.FRPO.1; B.OAPPA.2; B.VECC.1

7. IS THE PROPOSAL TO ESTABLISH THE FOLLOWING DEFERRAL ACCOUNTS APPROPRIATE?

7.1 TRANSPORTATION TOLLS AND FUEL – UNION NORTH WEST OPERATIONS AREA (ACCOUNT NO. 179-145)

(Complete Settlement)

The parties agree with Union's proposal to establish the Transportation Tolls and Fuel – Union North West Operations Area deferral account to record the difference in the costs between the

actual cost of the transportation portfolio to serve Union North West delivery areas including associated fuel costs and the forecast cost of the transportation portfolio to serve these areas including associated forecast fuel costs as approved by the Board. Please see Appendix A for the Accounting Order.

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

Evidence references:

1. A/T1/pp. 36-38; A/T1/B/p.1

7.2 TRANSPORTATION TOLLS AND FUEL – UNION NORTH EAST OPERATIONS AREA (ACCOUNT No. 179-146)

(Complete Settlement)

The parties agree with Union’s proposal to establish the Transportation Tolls and Fuel – Union North East Operations Area deferral account to record the difference in the costs between the actual cost of the transportation portfolio to serve Union North East delivery areas including associated fuel costs and the forecast cost of the transportation portfolio to serve these areas including associated forecast fuel costs as approved by the Board. Please see Appendix A for the Accounting Order.

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

Evidence references:

- 1.A/T1/pp. 36-38; A/T1/B/p.2

7.3 UNION NORTH WEST PURCHASE GAS VARIANCE ACCOUNT (ACCOUNT NO. 179-147)

(Complete Settlement)

The parties agree with Union's proposal to establish the Union North West Purchase Gas Variance Account to record the difference between the unit cost of gas purchased each month for the Union North West delivery areas and the unit cost of gas included in the gas sales rates as approved by the Board, including the difference between the actual heat content of the gas purchased and the forecast heat content included in gas sales rates. Please see Appendix A for the Accounting Order.

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

Evidence references:

1.A/T1/pp. 36-38; A/T1/B/p.3

7.4 UNION NORTH EAST PURCHASE GAS VARIANCE ACCOUNT (ACCOUNT NO. 179-148)

(Complete Settlement)

The parties agree with Union's proposal to establish the Union North East Purchase Gas Variance Account to record the difference between the unit cost of gas purchased each month for the Union North East delivery areas and the unit cost of gas included in the gas sales rates as approved by the Board, including the difference between the actual heat content of the gas purchased and the forecast heat content included in gas sales rates. Please see Appendix A for the Accounting Order.

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

Evidence references:

1.A/T1/pp. 36-38; A/T1/B/p.4

7.5 BASE SERVICE NORTH T-SERVICE TRANSCANADA CAPACITY DEFERRAL ACCOUNT

(No Settlement)

The parties do not agree with Union's proposal to allocate the deferral account balance to all eligible T-Service customers in the Union North East Zone. This issue will proceed to hearing.

Evidence References:

1. A/T3/pp.8-10; A/T3/B; B.Staff.9; B.APPrO.2; B.APPrO.3; B.SEC.6

8. IS THE PROPOSAL TO CLOSE THE FOLLOWING DEFERRAL ACCOUNTS APPROPRIATE?**8.1 TRANSPORTATION TOLLS AND FUEL – NORTHERN AND EASTERN OPERATIONS AREA DEFERRAL ACCOUNT (ACCOUNT NO. 179-100)?**

(Complete Settlement)

The parties agree with Union's proposal to close the Transportation Tolls and Fuel – Northern and Eastern Operations Area Deferral Account (Account No. 179-100), and establish the deferral accounts for the Union North West and Union North East Zones as discussed at issue 7.1 and 7.2 above.

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

Evidence References:

- A/T1/pp.36-38; B.FRPO.6

8.2 NORTH PURCHASE GAS VARIANCE ACCOUNT (ACCOUNT NO. 179-105)?

(Complete Settlement)

The parties agree with Union's proposal to close the North Purchase Gas Variance Account

(Account No. 179-105), and establish the deferral accounts for the Union North West and Union North East Zones as discussed at issue 7.3 and 7.4 above.

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

Evidence References:

1. A/T1/pp.36-38; B.FRPO.6

9. IS THE IMPLEMENTATION APPROPRIATE?

(Complete Settlement)

The parties agree that the implementation of the changes to the reference price used to set rates as determined in Union's quarterly rate filing will be effective at the QRAM coinciding with or immediately following the TransCanada facilities in-service date. If the TransCanada King's North Project is delayed to November 1, 2016, Union would implement the changes to the reference price as of January 1, 2017. Union will monitor the progress on the King's North Project and advise customers when the in-service date becomes more certain.

As a result of the potential delay in the TransCanada King's North Project, parties also agree that the following would be implemented effective January 1, 2017 rather than January 1, 2016:

- Changes to Union North transportation, storage and commodity rates to reflect the gas supply portfolio changes and modifications to the applicable rate schedules;
- Changes to the recovery of upstream transportation compressor fuel costs in rates for Union North sales service and bundled DP customers; and,
- Changes to deferral accounts as required

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

Evidence References:

1. A/T2/p.33; B.FRPO.1

SCHEDULE C
DEFERRAL ACCOUNTS
UNION GAS LIMITED
EB-2015-0181
JANUARY 7, 2016

UNION GAS LIMITED

**Accounting Entries for
Transportation Tolls and Fuel – Union North West Operations Area
Deferral Account No. 179-145**

This account is applicable to the North West Operations of Union Gas Limited. Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit - Account No.179-145
 Other Deferred Charges – Transportation Tolls and Fuel – Union North West Operations Area

Credit - Account No. 623
 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-145, the difference in the costs between the actual cost of the transportation portfolio to serve Union North West delivery areas including associated fuel costs and the forecast cost of the transportation portfolio to serve these areas including associated forecast fuel costs as approved by the Board.

Debit - Account No. 179-145
 Other Deferred Charges - Transportation Tolls and Fuel – Union North West Operations Area

Credit - Account No. 623
 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-145 charges that result from the Limited Balancing Agreement.

Debit - Account No. 500
 Sales Revenue

Credit - Account No. 179-145
 Other Deferred Charges - Transportation Tolls and Fuel – Union North West Operations Area

To record, as a credit (debit) in Deferral Account No. 179-145 revenue from T-Service customers for load balancing service resulting from the Limited Balancing Agreement.

Debit - Account No. 179-145
 Other Deferred Charges - Transportation Tolls and Fuel – Union North West Operations Area

Credit - Account No. 323
 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-145 interest expense on the balance in Deferral Account No. 179-145. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

UNION GAS LIMITED

**Accounting Entries for
Transportation Tolls and Fuel – Union North East Operations Area
Deferral Account No. 179-146**

This account is applicable to the North East Operations of Union Gas Limited. Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit - Account No.179-146
 Other Deferred Charges – Transportation Tolls and Fuel – Union North East Operations Area

Credit - Account No. 623
 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-146, the difference in the costs between the actual cost of the transportation portfolio to serve Union North East delivery areas including associated fuel costs and the forecast cost of the transportation portfolio to serve these areas including associated forecast fuel costs as approved by the Board.

Debit - Account No. 179-146
 Other Deferred Charges - Transportation Tolls and Fuel – Union North East Operations Area

Credit - Account No. 623
 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-146 charges that result from the Limited Balancing Agreement.

Debit - Account No. 500
 Sales Revenue

Credit - Account No. 179-146
 Other Deferred Charges - Transportation Tolls and Fuel – Union North East Operations Area

To record, as a credit (debit) in Deferral Account No. 179-146 revenue from T-Service customers for load balancing service resulting from the Limited Balancing Agreement.

Debit - Account No. 179-146
 Other Deferred Charges - Transportation Tolls and Fuel – Union North East Operations Area

Credit - Account No. 323
 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-146 interest expense on the balance in Deferral Account No. 179-146. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

UNION GAS LIMITED

**Accounting Entries for
Union North West Purchase Gas Variance Account
Deferral Account No. 179-147**

This account is applicable to the North West delivery areas of Union Gas Limited. Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No. 179-147 Other Deferred Charges – Union North West Purchase Gas Variance Account
Credit	-	Account No. 623 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-147, the difference between the unit cost of gas purchased each month for the Union North West delivery areas and the unit cost of gas included in the gas sales rates as approved by the Board, including the difference between the actual heat content of the gas purchased and the forecast heat content included in gas sales rates.

Debit	-	Account No. 179-147 Other Deferred Charges - Union North West Purchase Gas Variance Account
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-147, interest expense on the balance in Deferral Account No. 179-147. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

UNION GAS LIMITED

**Accounting Entries for
Union North East Purchase Gas Variance Account
Deferral Account No. 179-148**

This account is applicable to the North East delivery areas of Union Gas Limited. Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit - Account No. 179-148
 Other Deferred Charges – Union North East Purchase Gas Variance Account

Credit - Account No. 623
 Cost of Gas

To record, as a debit (credit) in Deferral Account No. 179-148, the difference between the unit cost of gas purchased each month for the Union North East delivery areas and the unit cost of gas included in the gas sales rates as approved by the Board, including the difference between the actual heat content of the gas purchased and the forecast heat content included in gas sales rates.

Debit - Account No. 179-148
 Other Deferred Charges - Union North East Purchase Gas Variance Account

Credit - Account No. 323
 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-148, interest expense on the balance in Deferral Account No. 179-148. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.