uniongas
A Spectra Energy Company

October 25, 2012

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

Dear Ms. Walli:

RE: EB-2012-0337 – Union Gas Limited – 2013-2014 Demand Side Management Plan for Large Volume Customers – Updated Exhibit A and Schedules

Please find attached Exhibit A and Schedules 1 through 3 updated for the following:

1) The inflation factor used for 2013 and 2014 has been changed to 2.22% to reflect the four quarter rolling average of the GDP-IPI as at Q2, 2012 available August 31, 2012. This is consistent with the Settlement Agreement approved in EB-2011-0327;

2) Corrected allocation between Power Generation and Industrial Customers provided in Table 1; and

3) Corrected Table 4 to indicate the values are in millions of dollars.

Please note that legal counsel for this matter has changed from Crawford Smith to Alexander Smith. Below please find the contact information for Mr. Alexander Smith:

Torys LLP
Toronto Dominion Centre, Suite 3000
79 Wellington Street West
Box 270
Toronto, Ontario M5K 1N2
Attention: Mr. Alexander Smith

Email: asmith@torys.com
Tel: 416-865-8142
Fax: 416-865-7380

If you have any questions, please contact me at 519-436-4521.

Yours truly,

[Original signed by]

Marian Redford
Manager, Regulatory Initiatives

cc: Alexander Smith (Torys)
EB-2012-0337 Intervenors

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1. INTRODUCTION

On January 31, 2012, Union Gas Limited ("Union") filed the EB-2011-0327 – 2012 - 2014 Demand Side Management ("DSM") Plan Settlement Agreement ("Agreement"). The Agreement included a Large Industrial DSM program for 2012 only. As part of the Agreement Union committed to file a new application and evidence with the Ontario Energy Board ("Board") supporting a Large Industrial Rate T1 and Rate 100 DSM plan for 2013 and 2014 prior to September 1, 2012. The Board accepted the Agreement on February 21, 2012. Accordingly, Union has developed a new Large Volume DSM Plan ("Plan") for the years 2013 and 2014. Although the DSM Guidelines for Natural Gas Utilities ("Guidelines") dated June 30, 2011 (EB-2008-0346) and the Agreement, refer to the customers within Rate T1 and Rate 100 as "Large Industrial", Union has termed this Plan as Large Volume to recognize that customers within these rate classes have end uses that are not exclusively industrial in nature. The Plan includes a single Large Volume Program (the "Program") outlined in Section 6.

In Union's 2013 Cost of Service Application (EB-2011-0210) Union proposed to split the current Rate T1 into two rate classes with distinct rate structures; a new Rate T1 mid-market service and a new Rate T2 large market service. If approved by the Board, Union proposes to implement the new rate classes, eligibility changes and rate structures, on a revenue neutral basis, effective January 1, 2013. The Plan is premised on the Board's approval of the proposed split of Rate T1. In the event the Board does not approve Union's proposal related to Rate T1 and Rate T2, Union will modify the Plan as discussed in Section 8.

Union has prepared the Plan in compliance with the Board's Guidelines. Union will continue to follow the framework elements approved in the EB-2011-0327 proceeding as they relate to the Plan. Specifically, the process for the Lost Revenue Adjustment Mechanism ("LRAM"), DSM Variance Account ("DSMVA"), DSM Incentive Deferral Account ("DSMIDA"), DSM Program Screening, Avoided Costs, Stakeholder Terms of Reference and Low-Income program cost recovery are not impacted by the Plan. Union is seeking approval of the Plan effective January 1, 2013.

1.1 Consultation Efforts

Consultation with current Rate T1/Rate 100 customers and intervenors contributed to the development of the proposed Large Volume DSM Plan for 2013 and 2014. Several consultation sessions with Rate T1 and Rate 100 customers and industry stakeholders were completed in the months of June, July and August 2012. At these sessions the Rate T1/Rate 100 DSM program information was shared and Union received customer feedback and comments to inform its program proposal.

Customer and Stakeholder Input

Union invited all existing Rate T1 customers to attend a DSM Rate T1 focus group session on June 5, 2012. To facilitate Rate T1 customer participation, this focus group session was scheduled to coincide with Union's annual Rate T1 customer meeting. Eleven Rate T1 customers representing approximately 50% of the total volume consumed by the T1 rate class in 2011 participated in this focus group session.

A similar focus group session was also held with Rate 100 customers. This session took place on June 25, 2012, by way of conference call. Five Rate 100 customers participated. The customers represented approximately 70% of the total Rate 100 volume consumed in 2011.

At these focus group sessions, Union confirmed that it would be applying to the Board to extend its Rate T1/Rate 100 DSM program for 2013 and 2014. Union also shared information related to the 2012 Rate T1/Rate 100 DSM program structure and encouraged customers to share their views and comments related to the current program.

Both focus group sessions included a presentation from Union (Appendix B and Appendix D). This presentation provided customers with an understanding of Union's Rate T1/Rate 100 DSM program history and an overview of the current Board approved 2012 Rate T1/Rate 100 DSM program. The presentation highlighted key 2012 DSM program features that differentiated the current program from the DSM programs of prior years (e.g. separate scorecard, budget limitation, Union DSM incentive limitation, etc.). The focus group sessions encouraged discussion and customers proactively shared their views and perspectives related to Union's DSM program.

The following is a summary of the feedback received from customers attending these sessions:

- Customers commented that they value Union's energy-efficiency focused engineering expertise, noting they do not want to lose access to this resource;
- Larger customers expressed an interest in having increased flexibility to access larger incentive amounts for larger projects. It was suggested that Union could provide a specific fund for energy-efficiency and let the customer determine how best to spend these funds;
- Some customers indicated that they were completing energy-efficiency initiatives on their own and would like the option to not participate in Union's DSM program and avoid any associated costs; and
- Some customers expressed concern regarding large one-time deferral charges. They suggested avoiding future potential charges by incorporating the underpinning costs into rates or, alternatively, collecting the deferral costs over a longer period of time.

Union provided each customer who attended the focus group sessions with a summary capturing what was heard at each meeting. The "As It Was Heard Report" is provided at Appendix C and Appendix E. After considering the feedback received from customers, Union developed the program described in Section 6.

During the month of July 2012, Union presented its proposed Plan through a series of five additional meetings with customers and stakeholders. These customers collectively accounted for over 60% of the total Rate T1 and Rate 100 volume throughput in 2011. A presentation from a customer meeting is provided at Appendix F.

Intervenor Consultation on 2013 – 2014 Large Volume Rate T1/Rate T2/Rate 100 DSM Plan

On August 15, 2012, Union held a Consultative meeting with intervenors and interested parties. At the consultation, Union presented its 2013 – 2014 Large Volume DSM Program proposal, budget and annual scorecards, and feedback was provided by stakeholders. Following the consultation, Union circulated its presentation to the Consultative, including those not able to attend. In addition, Union offered stakeholders who attended the meeting the opportunity to review the summary of feedback received at the Consultative session to ensure it reflected their input and provide additional written comments on the Plan. The material provided to Union's Consultative, invitation and attendance list are provided in Appendix G. A summary of the feedback received and Union's position, including changes made from the original Plan proposal to the final Plan, is provided in Appendix H.

Union notes that although it consulted with stakeholders when developing the Plan and incorporated, where in Union's view appropriate, the feedback provided through consultation, it does not have consensus on the Plan. While some customers and stakeholders liked the program proposal, others indicated that they would like to opt-out of the Plan, thereby avoiding any costs associated with providing DSM programs or DSM related deferral account disposition. Union addresses its reasoning for not offering an opt-out option in Section 7. It is Union's view that the Plan is consistent with the Guidelines while balancing the goals of the Board and the interests of Union, its customers and its stakeholders.

1.2 <u>Union's 2013 – 2014 Large Volume Program Overview</u>

Union's Board-approved 2012 Rate T1/Rate 100 program is targeted to all customers within these rate classes. It includes the following five offerings: customer engagement, engineering feasibility and process improvement studies, O&M optimization, new equipment and processes, and energy management. The 2012 post-inflation program budget is $4.664 million. This budget includes the incentives provided to customers who undertake energy-efficiency initiatives within their facilities. Customer incentive funds are dispersed via an aggregated pool approach where projects are supported based on their lifetime natural gas savings and cost-effectiveness.

In 2013 and 2014, Union is proposing to deliver the same program offerings and maintain a consistent program budget, escalated annually for inflation. All Rate T1[1] customers will maintain access to an aggregate pool of customer incentives throughout the year. This approach has been successful in driving projects for these customers historically and is consistent with the DSM program structure in Union's bundled contract rate classes that serve other similarly sized customers.

Union is proposing to change the customer incentive budget process for Rate T2 and Rate 100 customers to a new Direct Access budget mechanism. Instead of an aggregate pool approach, at the beginning of the year these customers will each have direct access to the full customer incentive budget they pay in rates. They must use these funds to identify and implement energy-efficiency projects, or lose the funds to be used by other customers in their rate class. This “use it or lose it” approach ensures each customer has first access to the amount of the customer incentive budget funded by their rates.

The Direct Access budget mechanism is being introduced in direct response to feedback received from Union’s largest customers at the focus group sessions. Rate T2 and Rate 100 customers will have enhanced flexibility to access a greater level of incentives for individual large projects or studies. They will know their dedicated amount of customer incentive budget for the program year. This funding can be incorporated into their overall budget planning process with the knowledge that available funds will either be used for qualifying activities to deliver value to them, or the funds will be moved to the aggregate pool for use by others. By motivating each customer to take action with their available incentive budget, Union’s program also aims to minimize intra-rate class cross subsidization. Additionally, Union has removed the ability to

[1] As per Rate T1 proposal in Union’s 2013 Cost of Service Application (EB-2011-0210)

overspend the budget by 15% in Rate T2 and Rate 100 to provide greater rate certainty for these customers.

Union's program has also been informed by a Jurisdictional Review of programs in North America, provided in Appendix A. Some jurisdictions in the United States ("U.S.") offer self-direct or opt-out provisions whereby customers either pay a cost-recovery mechanism fee which can be "self-directed" into an internal energy-efficiency investment or the customer "opts-out" and is exempt from funding energy-efficiency programs. Union found no Canadian jurisdiction offering either of these program options today. In the U.S., with the exception of Vermont, none of the top twenty leading jurisdictions in industrial programming offer any form of an opt-out program. Ten of the top twenty, however, do provide self-direct programs. Union's Direct Access budget mechanism includes key elements of self-direct programs in other jurisdictions. It builds on these program models by continuing to provide technical assistance through its Account and Project Managers. This is in direct response to customer feedback regarding the high value placed on Union's technical resources. This technical support is not present in the majority of self-direct programs in other jurisdictions. In addition, the program will follow the evaluation, verification and audit protocols in the Guidelines and established through the Stakeholder Terms of Reference (e.g. Technical Evaluation Committee and Audit Committee process) to ensure reliable energy savings are generated. This is consistent with the rest of the DSM program portfolio.

Within an environment of competing production demands, limited resources and low commodity prices for natural gas, it is important to continually ensure energy-efficiency remains a priority for large volume customers. These customers have, and continue to generate, the most cost-effective natural gas savings within Union's program portfolio. Although some customers, such as power producers, have indicated that they would like to opt-out of the Plan, significant economically feasible efficiency opportunities remain in the province that large volume customers have not undertaken to-date. Union's Program will continue to support customers in identifying and realizing these energy savings. For industrial and power generation customers alike, Union has experienced consistent growth in the number of projects and cost-effective natural gas savings generated in its large volume rate classes. Union has provided a summary of its historical Rate T1 and Rate 100 cumulative natural gas savings and projects in Table 1 below.

Table 1: 2008 – 2011 Rate T1 and Rate 100 Cumulative Natural Gas Savings and Projects

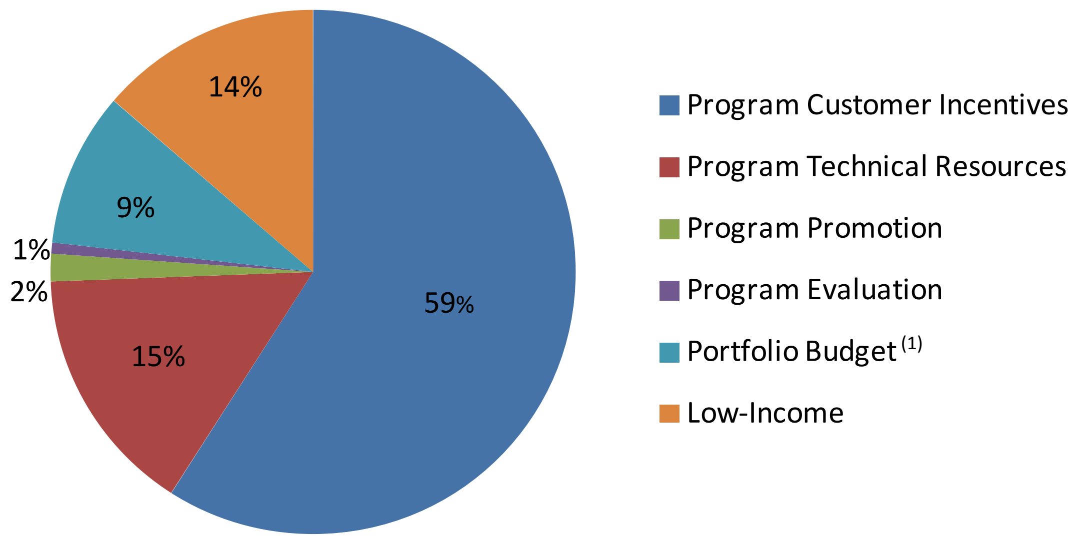
	Customer Type	2008	2009	2010	2011
Cumulative Natural Gas Savings (m^3)	Power Generation	8,105,669	67,715,197	85,135,577	87,708,786
	Industrial	462,796,246	617,062,026	896,800,700	1,392,613,906
	Total	**470,901,915**	**684,777,223**	**981,936,277**	**1,480,322,692**
Projects Completed (1)	Power Generation	3	11	24	25
	Industrial	91	113	107	247
	Total	**94**	**124**	**131**	**272**

(1) Includes all studies, capital and O&M projects

The Program will build on Union's success in driving substantial energy savings and bill reductions for customers. Union is proposing to allocate $6.207 million in the large volume rate classes for DSM in 2013. This value includes the proposed Large Volume program budget, as well as the allocation of Board-approved DSM portfolio and Low-income costs allocated to Rate T1, Rate T2 and Rate 100 customers. The amount is consistent with 2012, escalated for inflation[2] and is allocated between Rate T1, Rate T2 and Rate 100 in Exhibit A, Tab 1, Schedule 1. Figure 1 displays the percentage allocation for each budget item included in the $6.207 million. The values for each budget item in Figure 1 are included in Tables 2 and 3 below.

[2] For 2013, Union has applied the inflation factor of 2.22% based on the four quarter rolling average of the Gross Domestic Product Implicit Index as at Q2 2012, released at the end of August.

Figure 1 - Percentage Allocation of Rate T2, Rate T1, Rate 100 DSM Budget Items



(1) Includes portfolio level research, evaluation and administration allocated to Union's Large Volume Rate Classes

As displayed, 59% of the DSM amount in rates is budgeted for customer incentives and 15% for program technical resources. This 74% of the total DSM amount allocated to Large Volume rate classes directly supports the identification, analysis and implementation of energy-efficiency projects.

The process and timing for Rate T1, Rate T2 and Rate 100 customers to access available customer incentive funding will follow two distinct mechanisms, as outlined below:

Rate T1

- Rate T1 customers will have access to an Aggregated Pool of customer incentive budget.
- This budget will be available to all Rate T1 customers throughout each program year.
- This is consistent with Union's customer incentive budget approach in 2012 for these customers.

Rate T2/Rate 100

- From January 1 until April 1 of each year, Union's energy-efficiency experts will assist customers to develop an energy-efficiency plan. This plan will identify potential projects, their timing and associated customer incentive funding. The energy-efficiency plan is to be submitted to Union by April 1.
- From January 1 until August 1 of the program year, each Rate T2 and Rate 100 customer will have dedicated access to the amount of the customer incentive budget they fund in their rates for energy-efficiency initiatives.
- After August 1 of each year, any remaining funds that have not been allocated to projects or studies will become available to any customer within their rate class.

2. PROGRAM BUDGET

Consistent with the Guidelines and the Agreement as it relates to other DSM programs, Union is proposing to escalate the current approved Large Volume DSM Program budget of $4.664 million by inflation each year to arrive at the 2013 and 2014 Large Volume Rate T1/Rate T2/Rate 100 Program budgets. The inflation rate for 2013 and 2014, also consistent with the Agreement, will be calculated using the four quarter rolling average of the Gross Domestic Product Implicit Index ("GDP-IPI"), released at the end of August of the prior calendar year. Accordingly, the 2013 budget will be the 2012 budget escalated using the inflation rate of 2.22% calculated using the four quarter rolling average of the GDP-IPI as at Q2, 2012. For illustrative purposes, the 2014 budget in Table 2 has been escalated using the 2013 inflation factor.

Table 2 provides the 2012 Board approved program budget, and proposed annual Large Volume Rate T1/Rate T2/Rate 100 program budget for each year of the Plan.

Table 2: 2012 – 2014 Large Volume Rate T1 / Rate T2 / Rate 100 Program Budget

	Year		
	2012 (2) ($000)	2013 ($000)	2014 ($000)
Large Volume T1/T2/R100 Program Budget			
Program Customer Incentives	$ 3,487	$ 3,487	$ 3,487
Program Promotion	$ 100	$ 100	$ 100
Program Technical Resources	$ 907	$ 907	$ 907
Program Evaluation	$ 40	$ 40	$ 40
Cumulative Inflation (1)	$ 130	$ 234	$ 339
Total Large Volume DSM Program Budget	**$ 4,664**	**$ 4,767**	**$ 4,873**

(1) Inflation rate for 2012 is 2.87% and for 2013 is 2.22%. For 2014 the illustrative inflation rate is 2.22%.

(2) Approved as per EB 2011-0327

The total DSM amount to be included in rates for 2013 and 2014 for Union's Large Volume rate classes is displayed in Table 3 below. In addition to the Program budget, this includes the portion of the total DSM portfolio budget and Low-income costs allocated to Rate T1, Rate T2 and Rate 100. The total portfolio budget, Low-income budget, and methodology to allocate these budgets to Union's rate classes were filed in the 2012 – 2014 DSM Settlement Agreement and approved by the Board (EB-2011-0327).

Table 3: Total DSM Amount Allocated to Large Volume Rate T1/Rate T2/ Rate 100 Classes

		Year 2012 ($000)	Year 2013 ($000)	Year 2014 ($000)
Portfolio Budget (For All Union Programming)				
Research		$ 766	$ 766	$ 766
Evaluation		$ 969	$ 969	$ 969
Administration		$ 1,582	$ 1,582	$ 1,582
Total DSM Portfolio Budget Pre-Inflation		**$ 3,317**	**$ 3,317**	**$ 3,317**
Cumulative Inflation [1]		$ 95	$ 171	$ 248
Total DSM Portfolio Budget Post-Inflation	(a)	**$ 3,412**	**$ 3,488**	**$ 3,565**
Portfolio Budget Allocation to Rate T1/Rate T2/Rate 100 (%)[2]	(b)	**16.9%**	**16.9%**	**16.9%**
Portfolio Budget Amount Allocated Rate T1/ Rate T2/ Rate 100 ($000) [1]	(c) = (a) * (b)	**$ 578**	**$ 591**	**$ 604**
Large Volume Rate T1/Rate T2/Rate 100 Program Budget [1]	(d)	**$ 4,664**	**$ 4,767**	**$ 4,873**
Total Large Volume Program and Allocated Portfolio Budget [1]	(e) = (c) + (d)	**$ 5,241**	**$ 5,358**	**$ 5,477**
Low-Income Allocation to Rate T1/Rate T2/Rate 100 [1]	(f)	**$ 831**	**$ 850**	**$ 869**
Total DSM Budget Allocation to Rate T1/Rate T2/Rate 100 [1]	(g) = (e) + (f)	**$ 6,073**	**$ 6,207**	**$ 6,345**

(1) Inflation rate for 2012 is 2.87% and for 2013 is 2.22%. For 2014 the illustrative inflation rate is 2.22%.
(2) Calculated as the pre-inflation Large Volume Rate T1/Rate T2/Rate 100 program budget $4.534 M / Total pre-inflation DSM budget for all programs of $26.773.

The sum of the proposed Large Volume Rate T1/Rate T2/Rate 100 Program and allocated Board-approved portfolio budget for these rate classes is $5.358 million in 2013 and $5.477 million in 2014. As with the 2012 Program budget, Union must allocate the 2013 and 2014 Program budget and allocated portfolio budget between the large volume rate classes. Of the total Large Volume Program budget, Union proposes to allocate 32% to Rate T1, 38% to Rate T2 and 30% to Rate 100. This allocation of DSM costs is consistent with Union's 2013 Cost of Service Application (EB-2011-0210, Exhibit J.H-8-13-2) (adjusted for 2013 inflation factor of 2.22% versus 2.87%). The amount in each Large Volume rate class is provided at Exhibit A, Tab 1, Schedule 1.

The 2013 Low-income budget is based on the 2012 Low-income budget, which was allocated using the 2012 Board-approved distribution revenue by rate class in Union's EB-2011-0025 rates proceeding. The 2013 Low-income budget also includes an inflation factor adjustment of 2.22%. Further, for the 2013 proposed Rate T1 and Rate T2 split, the Low-income budget is allocated based on the 2013 forecast revenue (per EB-2011-0210) for these rate classes. The allocation of

Low-income program costs and overheads for each Large Volume rate class is provided at Exhibit A, Tab 1, Schedule 1.

Union will track the variance between the DSM budget included in rates, by rate class, and the actual DSM dollars spent by rate class. The variance, by rate class, will be disposed of annually through Union's deferral disposition application.

In the event Union qualifies to access the 15% allowable overspend, Union will only access the overspend for Rate T1 up to a maximum of 15% of the program and portfolio budget allocated to Rate T1. For 2013, this value is $1.697 million[3] and the resulting maximum 15% overspend claim is $0.255 million. The 2013 value will be escalated by inflation for the 2014 program year. The 15% overspend will not be accessed for, nor recovered from, Rate T2 or Rate 100.

Union has imposed additional restrictions on the 15% overspend relative to 2012 to provide greater rate certainty for Large Volume customers. In 2012 each large volume rate class had a potential deferral due to the 15% overspend of $0.786 million. This has been reduced for Rate T1 and eliminated for Rate T2 and Rate 100 in 2013 and 2014.

Consistent with the EB-2011-0327 Agreement, Union proposes that, at its sole discretion, it be allowed to transfer a maximum of $0.500 million of the program budget allocated to Rate T1, Rate T2 or Rate 100 to Rate T1, Rate T2 or Rate 100 respectively (exclusive of the 15% allowable overspend). Further, Union will not transfer budget dollars from any other part of the overall DSM budget into Rate T1, Rate T2 or Rate 100.

[3] Rate T1 program and portfolio budget allocation is provided in Schedule 1. 2013 inflation is based on the inflation rate of 2.22%.

3. TARGETS

The metrics in the Large Volume scorecard include two cumulative natural gas savings metrics, and a Rate T2/Rate 100 Percent of Customer Incentive Budget Spent metric. The 2013 and 2014 Rate T1/Rate T2/ Rate 100 scorecards are displayed in Table 4 below.

Maximizing cost-effective m^3 savings is one of the guiding principles set out by the Board in the DSM Guidelines. In recognition of the importance of driving natural gas savings, Union has included cumulative m^3 targets in its 2013 and 2014 scorecards. This metric was also included in the Board approved 2012 scorecard. For 2013 – 2014, Union has proposed two cumulative natural gas savings metrics, one for Rate T2/Rate 100 customers who will have direct access to their dedicated customer incentive budget, and one for Rate T1 customers who will have access to an aggregated pool of customer incentive funding. Union has separated these two metrics in recognition of the increased customer incentive flexibility introduced in the Direct Access budget mechanism for Rate T2/Rate 100 customers and the additional budget limitation for these rate classes introduced through the elimination of the 15% overspend. These changes required Union to set the target levels for these customers differently than for Rate T1 customers.

To ensure Union balances the goal of maximizing gas savings with generating broad customer participation amongst its largest volume gas users, Union has introduced a Rate T2/Rate 100 Percentage of Customer Incentive Budget Spent metric. This metric will incent Union to drive participation from each customer, maximizing individual customer value.

While Union has ensured the scorecard balances the overall weighting between Rate T2/Rate 100 and Rate T1 customers at 40% versus 60%, Union has placed lower weighting on the cumulative natural gas savings metric for Rate T2/Rate 100 customers relative to Rate T1 customers. This is in recognition of the lack of historical information upon which to base the Rate T2/Rate 100 cost-effectiveness. Union has placed equal weighting on each of the two Rate T2/Rate 100 metrics as Union feels it is equally important to ensure natural gas savings as well as broad customer participation for these customers. Ensuring each customer participates in the program minimizes cross subsidization within each rate class.

Table 4: 2013 and 2014 Large Volume Rate T1/Rate T2/Rate 100 Scorecards

2013 Large Volume Rate T1 / Rate T2 / Rate 100 Scorecard				
Metric	Metric Target Levels			Weight
	Lower Band	Target	Upper Band	
Rate T2 / Rate 100 Cumulative Natural Gas Savings (m^3)	75% of Target	2012 Post Audit T2/R100 Customer Incentive Cost Effectiveness (m^3 per Customer Incentive Dollar Spent)*($2.383 million)*(1-0.30)	110% of Target	20%
Rate T2 / Rate 100 Percentage of Customer Incentive Budget Spent (%)	60%	70%	80%	20%
Rate T1 Cumulative Natural Gas Savings (m^3)	75% of Target	2012 Post Audit T1 Customer Incentive Cost Effectiveness (m^3 per Customer Incentive Dollar Spent)*($1.104 million)	125% of Target	60%

2014 Large Volume Rate T1 / Rate T2 / Rate 100 Scorecard				
Metric	Metric Target Levels			Weight
	Lower Band	Target	Upper Band	
Rate T2 / Rate 100 Cumulative Natural Gas Savings (m^3)	75% of Target	2013 Post Audit T2/R100 Customer Incentive Cost Effectiveness (m^3 per Customer Incentive Dollar Spent)*($2.383 million)	110% of Target	20%
Rate T2 / Rate 100 Percentage of Customer Incentive Budget Spent (%)	2013 Post Audit Result (%)	2013 Post Audit Result (%) + 5%	2013 Post Audit Result (%) + 10%	20%
Rate T1 Cumulative Natural Gas Savings (m^3)	75% of Target	2013 Post Audit T1 Customer Incentive Cost Effectiveness (m^3 per Customer Incentive Dollar Spent)*($1.104 million)	125% of Target	60%

Scorecard Metrics Description

a. Rate T2/Rate 100 Cumulative Natural Gas Savings (m^3)

- The total natural gas saved for all projects delivered to Rate T2 and Rate 100 customers for the term of their measure life, net of adjustment factors such as free ridership and spillover.

b. Rate T2/Rate100 Percentage of Customer Incentive Budget Spent (%)

- Measures Union's ability to influence Rate T2 and Rate 100 customers to access their available funds, maximizing each customers' participation and value from the program.
- Calculated as the average of each Rate T2 and Rate 100 customer's post-audit customer incentive spend divided by the 100% customer incentive budget funded within the program year in each customer's rates.
- In calculating the results for this metric, the value cannot exceed 100% for an individual customer.
- For 2014, in the event the calculated 2014 targets (Lower Band, Target or Upper Band) are lower than the 2013 Targets, the 2014 metric target levels will become the 2013 targets (Lower Band: 60%, Target:70%, Upper Band: 80%). No target level may exceed 100%.

c. Rate T1 Cumulative Natural Gas Savings (m^3)

- The total natural gas saved for all projects delivered to Rate T1 customers for the term of their measure life, net of adjustment factors such as free ridership and spillover.

For 2013 and 2014, Union proposed that the cumulative natural gas savings targets will be determined by multiplying the previous year's Rate T2/Rate 100 and Rate T1 customer post-audit cost-effectiveness (m^3 per customer incentive dollar spent) by \$2.383 million for Rate T2/Rate100 and \$1.104 million for Rate T1 respectively. These values represent the customer incentive budget for the Rate T2/Rate 100 and Rate T1 customers, and are consistent with the rate class allocation of the total customer incentive budget provided in Table 2 above. For 2013 only, a discount factor of 30% will be applied to the Rate T2/Rate 100 cumulative natural gas savings target.

3.1 Rationale for Targets

Cumulative Natural Gas Savings Metric Targets

Union has proposed two cumulative natural gas savings metrics. The first measures the m^3 results generated by Rate T2/Rate 100 customers, and the second the m^3 savings generated by Rate T1 customers. For both metrics, Union has based the cumulative natural gas savings targets on the cost-effectiveness of the previous program year. The overall approach is similar to the cumulative natural gas savings targets for 2013 and 2014 in Union's Resource Acquisition scorecard. Through using a formulaic approach, the targets will be adjusted based on the performance of the prior calendar year.

The target calculation for the cumulative natural gas savings metrics are based on post-audit m^3 per customer incentive dollar spent, not m^3 per promotion and incentive dollar spend as is the case for the Resource Acquisition scorecard. In the Resource Acquisition scorecard the programs, and their associated promotion costs, had been included in the calculation of a single metric. In contrast, the Large Volume program scorecard has separate target calculations at a rate class level. As promotion costs are not tracked at a rate class level, they have been excluded from the target calculation.

Union has outlined the reasons for the differences in the cumulative natural gas savings target levels for the Rate T2/Rate 100 metric (Direct Access) and Rate T1 metric (Aggregate Pool) below.

Rate T2/ Rate 100 Cumulative Natural Gas Savings Metric

To reflect the transition in cost-effectiveness between the 2012 and 2013 programming for Rate T2 and Rate 100 customers, Union has applied a 30% discount factor to the 2013 Target for this metric. Union's Direct Access budget mechanism provides these customers the flexibility to fund a greater percentage of incremental project costs, studies and audits than was possible under the 2012 Program. As customers fund a greater percentage of incremental cost through their available incentives, the m^3/$ customer incentive cost-effectiveness will be lower for Rate T2 and Rate 100 than it was in 2012. In addition, these customers will receive incentive funding for developing energy plans that will generate no direct m^3 savings. In response to these changes, Union has applied a 30% discount factor to the 2012 results to establish an appropriate 2013 Target. As the actual 2013 results will reflect the cost-effectiveness of programming under the Direct Access budget mechanism, the discount factor is not included in the 2014 target calculation.

Union has maintained the 2012 25% spread between the Lower Band and Target for this metric. The Upper Band has been set as 110% of the Target to recognize Union has eliminated the ability to overspend the budget by 15% for Rate T2 and Rate 100 customers once the 100% scorecard target is achieved. Within this structure Union must achieve a 10% increase above the Target with no additional funding above the budget. Therefore, it will be very challenging for Union to drive increased natural gas savings above the Target level for this metric.

Rate T1 Cumulative Natural Gas Savings Metric

As the 2013 – 2014 programming for these customers is consistent with 2012, Union has not applied a discount factor to the 100% Target. Union has maintained the 25% spread between the Lower Band, Target and Upper Band for this metric as Union retains the ability to overspend the budget by 15% for Rate T1 should the scorecard achieve the 100% weighted scorecard target on a pre-audit basis.

Rate T2/Rate 100 Percentage of Customer Incentive Budget Spent Metric Targets

This metric measures the percentage of the customer incentive budget funded in rates that is utilized by each Rate T2 and Rate 100 customer for energy-efficiency initiatives, on an individual customer basis. In setting the 2013 targets for this metric, Union established a baseline calculated on a four year average as displayed in Table 5 below. Union did not historically plan its program budget at a rate class level. In prior program years there was no separate Rate

T1/Rate 100 budget, and the DSM allocation established in these rate classes reflected a simple escalation of the 2007 budget. Therefore, Union established the baseline as follows:

- The total annual customer incentive received by Rate T1 and Rate 100 customers was tallied.
- This total, by rate class, was allocated back to each individual Rate T1 and Rate 100 customer based on the total volume of gas consumed by the customer for each calendar year. This established the amount of the DSM customer incentive each customer would have paid in their rates if the historical DSM rate class allocation had been based on where the budget was to be spent, as will be the case in 2013 – 2014.
- For each projected Rate T2 and Rate 100 customer, Union divided the actual customer incentive each customer received annually by the amount, based on the above methodology, they would have paid in rates. Where the resulting percentage was greater than 100%, Union capped the value at 100% as the 2013 – 2014 metric cannot exceed full utilization of the direct access customer incentive available for the purposes of measuring this metric.
- Union then averaged each customer's percent of customer incentive received relative to the value funded in rates to arrive at the historical annual results. The four year average for all customers Union has assessed will be in Rate T2 and Rate 100 is provided in Table 5 below.

Table 5: Percentage of Customer Incentive Funded in Rates Received, on an Individual Customer Basis

	2008	2009	2010	2011	Four Year Average
Rate T2 Average	31%	33%	34%	45%	36%
Rate 100 Average	19%	40%	49%	54%	40%
Total Average	25%	36%	41%	49%	38%

Union has established the 2013 Lower Band Target as 60%, the Target as 70%, and the Upper Band Target as 80%. These levels of broad customer participation represent a significant increase over Union's current baseline but will drive Union to ensure every customer accesses their available Direct Access budget to undertake projects. This will generate energy savings for each customer and minimize cross-subsidization within Rate T2 and Rate 100. Union has applied a target formula based on the actual 2013 post-audit metric result for the 2014 targets. Therefore, the 2014 targets will be adjusted based on the performance of the prior calendar year to drive continual improvement.

4. DSM INCENTIVE

Table 6 below shows the 2013 – 2014 maximum shareholder financial incentive allocated to the Large Volume Rate T1/Rate T2/Rate 100 scorecard based on the Program budget share. The Program budget and percentage budget share aligns with the values presented in Table 3.

The DSM Incentive is consistent with the Guidelines. It is allocated based on the program budget share and escalated for inflation annually. For 2013, all values in Table 6 have been escalated using the 2013 inflation factor of 2.22%. For illustrative purposes, the 2014 values have been escalated using the 2013 inflation factor. Actual 2014 inflation will be based on the four quarter rolling average GDP-IPI issued by Statistics Canada in the second quarter of 2013 and published at the end of August.

Table 6: Maximum DSM Incentive Allocated to Large Volume Program Scorecard

	2013			2014		
	Budget	Budget Share	Max Utility Incentive	Budget	Budget Share	Max Utility Incentive
	($000)	%	($000)	($000)	%	($000)
Scorecard						
Large Volume Rate T1 / Rate T2 / Rate 100	4,767	16.9%	1,809	4,873	16.9%	1,849
Programs Sub-total [(1)]	**28,153**	**100.0%**	**10,682**	**28,778**	**100.0%**	**10,919**

[(1)] Sum of the proposed Large Volume Program budget and the program budgets for all programs approved in the DSM Settlement Agreement (EB-2011-0325).

5. RATES IMPACT

The total amount of DSM spending to be recovered in 2013 rates as compared to 2012 approved rates for Rate T1, Rate T2 and Rate 100 customers is provided at Exhibit A, Tab 1, Schedule 1. DSM costs are included in approved delivery rates and are not separately identified. Although DSM costs are included in approved delivery rates and are not separately identified, Exhibit A, Tab 1, Schedule 3 provides the average rate for 2013, by rate class, with and without DSM-related costs.

In addition to the information above, Union has provided Exhibit A, Tab 1, Schedule 2 which compares the average unit rate of total DSM-related costs in 2012 rates to the average unit rate of total DSM-related costs Union expects to incur in 2013.

6. UNION'S PROPOSED 2013-2014 LARGE VOLUME RATE T1/RATE T2/RATE 100 DSM PROGRAM

6.1 Customer Class Targeted

The Program will target Large Commercial, Industrial and Power contract customers. This group of customers are diverse and are typically comprised of large volume industrial operations, power generators, institutions, greenhouse operations, chemical plants and petroleum refineries. Annual consumption for these customers range from approximately 4,000,000 m^3 to over 635,000,000 m^3.

6.2 Rate Class Targeted

- Rate T1 – Storage and Transportation Rates for Contract Carriage customers with combined firm and interruptible annual consumption of 2,500,000 m^3 or greater and a daily firm contracted demand up to 140,870 m^3 (Union South).
- Rate T2 – Storage and Transportation Rates for Contract Carriage customers with daily firm contracted demand of at least 140,870 m^3 (Union South).
- Rate 100 – Large Volume High Load Factor Firm Service customers whose maximum daily requirement for firm service is 100,000 m^3 or more, and whose annual requirement for firm service is equal to or greater than its maximum daily requirement multiplied by 256 (Union North).

6.3 Program Goals

Program goals for the Large Volume Rate T1/Rate T2/Rate 100 program consist of the following:

- Provide customers (Rate T2/Rate 100) with direct access to their associated incentive funds for a set period of time, allowing these customers the planning certainty to incorporate energy-efficiency incentives into their operations and providing flexibility for these customers to align funds with corporate initiatives.
- Provide all Large Volume customers with the tools, expertise and support to incorporate energy-efficiency into their everyday operations and practices through continuous improvement.
- Promote the identification of energy saving measures through proper analysis techniques.
- Encourage the procurement and utilization of energy-efficient equipment and processes.
- Encourage the adoption of operations and maintenance actions and process improvements that support a continuous focus on energy management.
- Generate long-term and cost-effective energy savings for customers, to enable increased competitiveness in the global economy.

6.4 Program Strategy

To achieve these program goals, Union will provide dedicated technical expertise to assist customers in obtaining value from the identification, adoption and implementation of energy-efficient actions throughout their sites, facilities and operations. Union will engage customers to increase awareness surrounding the positive benefits achieved through active energy management. Customers will be provided financial incentives and education/training initiatives that are value-added; this will encourage customers to focus on continuous energy management as an integral part of their operations and practices.

6.5 Program Offerings

Consistent with the 2012 Program, Union will continue to encourage the adoption of energy-efficient equipment, technologies and actions through direct customer interaction. The program offerings have been developed to ensure customers have access to education and awareness initiatives, technical assistance and financial incentives, supporting the continuous improvement approach (Plan/Do/Check/Act) to active energy management.

The following are the Program offerings:

1. Customer Engagement: Communication and Education
2. Engineering Feasibility and Process Improvement Studies
3. Operation and Maintenance Practices
4. New Equipment and Processes
5. Energy Management

These offering are further outlined below.

1. Customer Engagement: Communication and Education

Union will provide education, training and technical expertise to Rate T1, Rate T2 and Rate 100 customers. Customers will be offered a wide variety of materials aimed at building an increased awareness of energy-efficiency opportunities and benefits. Union's targeted and connected set of initiatives afford Rate T1, Rate T2 and Rate 100 customers the opportunity to incorporate continuous energy management into their operations.

2. Engineering Feasibility and Process Improvement Studies

This offering will support studies to identify and quantify potential energy savings measures. Furthermore, the offering will support comprehensive process improvement studies to determine and assess financial costs and benefits of energy-efficiency opportunities, supporting the customer's internal decision making process.

3. Operation and Maintenance Practices

Union provides financial incentives to support operation and maintenance actions and practices which result in saving natural gas, and which may also increase energy-efficiency and/or improve productivity of customers' operations. These incentives are available for customers, with or without an engineering feasibility or process improvement study.

4. New Equipment and Processes

Union provides financial incentives to support the installation of new equipment and processes which result in saving natural gas, and which may also increase energy-efficiency and/or improve productivity of customer's operations. These incentives are available for customers, with or without an engineering feasibility or process improvement study.

5. Energy Management

Financial incentives support the installation of energy meters, monitoring and management systems, allowing customers to manage the energy intensity of their operations actively and continuously.

Market Delivery

The Large Volume Rate T1/Rate T2/Rate 100 Program is delivered directly to customers by dedicated Union Gas Account and Project Managers; energy experts who are knowledgeable about individual customer's businesses, operations and processes.

Collaboration with key organizations, original equipment manufacturers, vendors, suppliers and consultants is required to expand the reach of Union's program offerings, educate customers and encourage the adoption of energy-efficiency best practices. Furthermore, these collaborations develop customer's capacity to make informed energy-efficiency decisions while helping to promote the investigation and implementation of energy-efficiency projects.

Barriers Addressed

Primary barriers preventing higher uptake of energy-efficiency measures in the market include the following:

1. Customer's focus on their core manufacturing competencies. Energy use is typically not considered a core production management system metric as energy is widely viewed as a "cost of doing business". Increasing efficiency of energy-use is a significant challenge in many plants due to its broad scope and the reality that controlling the efficiency of energy use is not as central to the operation as production output, product quality or even environmental compliance. To address this barrier, Union presents a full suite of program offerings to allow customers the ability to incorporate energy-efficiency into their everyday operations through continuous improvement.

2. Some customers appear to place a low priority on maintaining their energy using equipment, allowing inefficient use to continue without management awareness. Budget and resource limitations challenge customers to balance manufacturing priorities versus energy-efficiency spending. To address this barrier, Union provides support through financial incentives for cost-effective performance improvement actions. In addition, Union's educational forums present customers with best-practices and promote knowledge sharing.

3. Some projects that save natural gas may have long payback periods that make them ineligible for internal capital resources, especially given current low commodity prices for natural gas. To address this barrier, Union offers incentives that reduce project payback time.

4. Adverse economic conditions in the market place. To address this barrier, Union will share best-practices for initiatives that can increase customers' operating efficiencies. This approach can reduce customer operating expenses year-over-year and will enable customers to operate in a more sustainable manner, allowing them to better compete in the global marketplace.

5. Lack of customer awareness of Union's Program and of energy-efficient options. The primary strategy for informing customers about the Program and their energy-efficiency options is direct contact by Union's Account Managers and Project Managers. However, there remains a need to communicate more widely with customer staff. To address this barrier, Union will focus on awareness and education through communication strategies including tradeshows, workshops, seminars, case studies, newsletters and website resources to communicate the benefits of energy-efficiency for Rate T1, Rate T2 and Rate 100 customers.

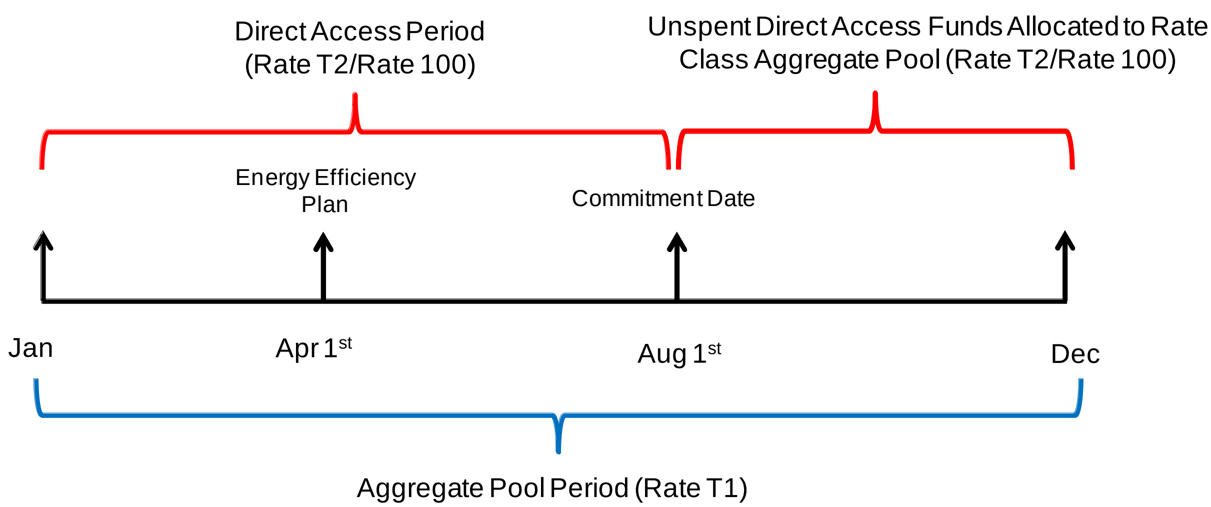
6.6 Customer Incentive

Incentive levels are established to drive energy-efficiency initiatives throughout a customer's operations and facilities in a cost-effective manner. These incentives will be directed to the customer.

6.6.1 Customer Incentive Budget Mechanism

Union is introducing two separate DSM program budget mechanisms for customers to access customer incentive funding in the Large Volume program. A Direct Access budget mechanism will be provided to Rate T2 and Rate 100 customers. An Aggregate Pool budget mechanism will be provided to Rate T1 customers. The timeframe for customers to access customer incentive funding within these two budget mechanisms is outlined in Figure 2 and described below.

Figure 2: Timeline for Customer Incentive Access in Direct Access and Aggregate Pool Budget Mechanisms



6.6.2 <u>Direct Access Budget Mechanism</u>

Each Rate T2 and Rate 100 customer will have dedicated access to the customer incentive budget they pay in their rates. Under this model, these customers will know exactly how much funding they have available for each program year. This ensures they can appropriately plan their expenditures to reduce energy usage in their facility.

Union has separated the stages of the Direct Access budget mechanism into two periods, outlined below.

Rate T2/Rate 100 Direct Access Period: January – August 1

From January 1 to August 1 of each program year, Rate T2 and Rate 100 customers have direct access to their associated customer incentive contributions for the year. These funds must be used to support energy-efficiency projects such as Union's existing program offerings listed in Section 6.5.

By April 1st, customers are required to submit an Energy-Efficiency Plan, authored with the assistance of Union Gas' energy experts. An incentive will be provided to the customer once their Energy-Efficiency Plan has been confirmed by Union Gas. The Energy-Efficiency Plan will serve as a roadmap allowing customers and Union to actively work together, driving energy-efficiency projects at customers' operations, sites and facilities.

Until August 1st, Direct Access customers can either receive an incentive for an energy-efficiency project or earmark funds for projects with completion dates after this milestone. Earmarking is defined as an intentional hold of a customer's direct access incentive funds prior to the August 1st commitment date. Earmarking only applies to projects with commissioning or completion dates between August 1st and December 31st. A project will be earmarked for funding from a customer's Direct Access funds if Union has received documentation from the customer that is acceptable to Union. This documentation will describe the project and include a commitment regarding when the project will be commissioned in the current year.

Rate T2/Rate 100 Aggregate Pool Period: August 1 - December

After August 1st, any Direct Access funds not fully utilized or earmarked will be made available to all customers within the rate class. These funds will be dispersed via an aggregated pool approach where projects are supported based on their lifetime natural gas savings and cost-effectiveness.

6.6.3 <u>Aggregate Pool Budget Mechanism</u>

All Rate T1 customers will have access to an overall customer incentive budget these customers fund in rates. This customer incentive budget will be disbursed via an aggregated pool approach where projects are supported based on their lifetime natural gas savings and cost-effectiveness. Union's existing program offerings are listed in Section 6.5. All Rate T1 customers are eligible to receive customer incentives for projects and studies from the aggregate pool of budget available throughout the program year. This is consistent with Union's program approach in 2012 for these customers and the DSM program structure in Union's bundled contract rate classes that serve other similarly sized customers.

6.7 Program Duration

All Program offerings in the Large Volume Rate T1/Rate T2/Rate 100 Program will be delivered annually over the course of the two year DSM Plan. The offerings may change should market conditions change over the course of the Plan.

6.8 Cost Effectiveness

The estimated Total Resource Cost ("TRC") cost effectiveness for Union's Large Volume Rate T1/Rate T2/Rate 100 Program is displayed in Table 7. The actual cost effectiveness will be reported in Union's Annual Report for each program year.

Table 7: Large Volume Rate T1/Rate T2/Rate 100 Program Cost Effectiveness

Measure	Participants	Total TRC Benefits	Total TRC Costs	Total Net TRC Before Program Costs	TRC Ratio
Large Volume Offerings (Custom) [1]	41	$ 188,260,716	$ 22,056,635	166,204,080	8.5
Total		**$ 188,260,716**	**$ 22,056,635**	**$ 166,204,080**	
		Promotion Costs	$ 100,000		
		Administration Costs	$ 906,511		
		EM&V Costs	$ 40,000		
		Program Total Net TRC		**$ 165,157,569**	
		Program TRC Ratio			**8.1**

1. TRC Benefits and TRC Costs based on 3 year historical (2009-2011) average of Rate T1/Rate 100 custom results

7. WHY NO OPT-OUT PROVISION

As indicated in Section 1.1, some customers expressed an interest in having the option not to participate in Union's DSM programming. By opting out of Union's DSM programming, these customers would seek to avoid any DSM related costs included in delivery rates and the impacts associated with the disposition of DSM-related deferral accounts. Union does not support and is not proposing an opt-out mechanism as part of the Plan because:

1. Such a mechanism violates the well-established principles of class ratemaking that have been supported and endorsed by the Board on numerous occasions; and

2. Given the Guidelines established by the Board and Union's proposals in respect of DSM programming for Rate T1, Rate T2 and Rate 100, many of the past customer concerns have been addressed without the need for an opt-out mechanism.

7.1 The Well-Established Principles of Class Ratemaking

In Union's view, any mechanism that allows for customers in any rate class to opt-out of paying for any costs associated with that customer class, including the costs associated with DSM-related programming, is inconsistent with the well-established principles of class ratemaking. All of Union's Board-approved rates adhere to this principle. The costs of providing regulated distribution, transmission and storage services are allocated to rate classes which consist of customers with similar load characteristics on the basis of cost causation for the class. The costs allocated to rate classes include the costs that are ancillary to and support the provision of regulated distribution, transmission and storage services. These costs include the costs of providing DSM programming. Under class ratemaking, the costs recovered from customers through rates are not the actual costs incurred to provide service to an individual customer. Rather, the costs recovered from an individual customer represent a reasonable recovery of the costs allocated to the class as a whole. As such, customers will pay more or less than the actual costs associated with providing their specific service. As a matter of principle, the contribution to the recovery of DSM-related costs by customers that do not fully avail themselves of DSM programming is no different than a customer served directly off transmission main contributing to the recovery of distribution-related costs that are allocated to their rate class.

Said another way, any opt-out mechanism is a targeted form of end-user ratemaking which neither the Board nor Union has supported.

The principles of class ratemaking have been supported by the Board on numerous occasions. For example, in RP-2003-0063/ EB-2004-0542 (Union's Response to the Board's M16 Directive), Union applied for approval of new M16 rates for transportation service for embedded storage pools connected to Union's transmission or distribution system. That proceeding focused on the firm M16 transportation component east of Dawn to serve Tribute Resources' Tipperary storage pool, which would be served under the proposed revised M16 rate schedule. On page 5 of Decision with Reasons, the Board stated that:

> *"Over the years, the Board has had many requests for special status for a customer group or a customer. The Board has been consistent in its response to such requests by adhering to its established principles in dealing with cost allocation and rate setting. <u>Principled ratemaking involves the creation of a unified and theoretically consistent set of rates for all participants within the system. It begins with the establishment of a revenue requirement for the regulated utility and proceeds to design rates for the respective classes according to well-recognized and consistent theory respecting such elements as cost allocation. This is an objective and dispassionate process, which is driven by system integrity and consistent treatment between consumers on the system. Principled ratemaking typically does not involve a ranking of interests according to a subjective view of the societal value of any given participant or group of participants. This approach is not unique to Ontario. A departure from these principles should only be undertaken where the evidence and all other circumstances outweigh the inherent virtue of an objective process.</u>" (emphasis added)*

In RP-2003-0063 / EB-2003-0087 / EB-2003-0097 (Union's 2004 rates case), Coral Energy Canada Inc intervened to seek the Board's approval for a rate to govern the supply of gas to the Brighton Beach gas-fired electricity generation facility located in Windsor, Ontario. On page 176 of its Decision with Reasons, the Board endorsed a postage stamp ratemaking approach. Specifically, the Board stated that:

"The development and design of a rate or rate class is a process that is governed by principles which have been developed by scholars and practitioners. Principles are necessary because of the high degree of interdependence of gas distribution system participants. Of all the principles governing the establishment of rates and rate classes, the most fundamental is that requiring that rate classes should be responsible for a reasonable proportion of the costs they cause the system to incur".

The revenue requirement established by the Board in rates cases such as the present case represents the system's overall financial burden. In order for rates to be just and reasonable, which is the statutory requirement, each rate class should bear a proportion of that burden roughly coincident with the costs incurred by the system operator, in this case Union Gas, in providing the necessary infrastructure and services to arrange for, store and transport the commodity to that rate class' members." (emphasis added)

In effect large volume customers who want to opt-out of DSM programming are seeking special rate treatment at the expense of other customers in the class. Union currently offers DSM programming to all rate classes to which it provides regulated distribution, transmission and storage services. To offer an opt-out option to large volume customers would also create an inappropriate inconsistency with other rate classes.

7.2 The Board's Guidelines and Union's Proposed Plan Address Many Customer Concerns

Union understands that the customers seeking the option to opt-out are doing so for three primary reasons. They are:

1. The customer is of the view that there are no further DSM opportunities for them to take advantage of;
2. The customer is implementing DSM initiatives on their own and does not require utility DSM programming; and
3. The disposition of DSM-related deferral accounts have resulted in significant unexpected out-of-period adjustments.

With respect to Items 1 and 2, it is Union view, notwithstanding the principles of class ratemaking described above, that utility DSM programming continues to provide value for all customers. With the current low price of gas, DSM programming for all customers ensures that energy conservation remains a priority. Despite commodity price fluctuations, a sustained focus on energy-efficiency is important for the long-term environmental sustainability and economic competitiveness of Ontario. Payment of DSM funding ensures there is no internal competition for this budget for other uses within a customer's organization. It is a driver for large volume organizations to leverage ratepayer-funded technical support to seek out conservation opportunities within their facility. Union's proposed Direct Access program design incorporates the key elements of a self-direct program but has been tailored for Union's customers based on Union's knowledge of the market requirements and customer feedback. The proposed Plan, and in particular Union's proposals related to Direct Access, ensures that energy conservation continues to be a priority for large volume natural gas consumers in Ontario. Union further notes that in most jurisdictions where opt-out is a feature of a DSM plan, customers are required to demonstrate to the regulator that they are in fact undertaking DSM initiatives.

With respect to Item 3, the Guidelines and proposed Plan directly address the concerns related to the significant, unexpected, out-of-period adjustments possible under the DSM Plan ("Old Plan") in place prior to 2012.

Under the Old Plan, Union had no limit to the amount that could be spent in a rate class and the ability to increase DSM program spending by 15% of the total DSM budget. The additional 15% of available DSM program funds were not capped for any rate class. To the extent that DSM spending differed from the rate class allocation or Union accessed the additional funds, the variance was allocated to rate classes in the DSMVA in proportion to actual DSM spending by rate class. Since the amounts were not capped at the rate class level, this resulted in significant charges attributable to individual rate classes.

Although the Guidelines did not address these issues, the Agreement limited the following items: the overall Large Industrial program budget, the amount ($0.5 million) which may be transferred between large volume rate classes within this program budget, and the amount of the 15%

available overspend that could be applied to the Large Industrial program. Union is proposing to extend these limitations in the Plan proposed for Rate T1, Rate T2 and Rate 100. Further, Union has removed the ability to overspend the Plan budget by 15% in Rate T2 and Rate 100.

The Guidelines and the proposed Plan also address the amount and allocation of the DSM incentive. Under the Old Plan, the maximum 2011 Shared Savings Mechanism ("SSM") DSM incentive was $9.2 million and was allocated to rate classes in proportion to TRC savings. The allocation of the SSM in proportion to TRC resulted in significant charges being attributed to large volume rate classes.

Per the Guidelines, the DSM incentive attributable to any rate class is allocated in proportion the actual DSM spending for that rate class. As indicated above, Union is proposing to extend the limitations on DSM spending for the large volume rate classes in 2013 and 2014 consistent with the Agreement. Accordingly the maximum DSM incentive attributable to Rate T1, Rate T2 and Rate 100 will also be limited and known in advance.

8. PENDING BOARD DECISION ON PROPOSED T2 RATE STRUCTURE

In the event the proposed T2 rate structure is not approved by the Board, the budget transfer and allocation amounts between Rate T1 and Rate T2 would no longer apply. The 2013 and 2014 Large Volume DSM budget would be allocated 70% to Rate T1 and 30% to Rate 100. In the event Union qualifies to access the 15% allowable overspend, Union will access up to a maximum of 15% of the program and portfolio budget allocated to Rate T1, Rate T2 and Rate 100. This maximum overspend may be allocated to programming for Rate T1, Rate T2, Rate 100, or any combination, at Union's discretion. These budget conditions are consistent with 2012.

The Direct Access budget mechanism for Rate 100 customers would remain as outlined above. This Direct Access budget mechanism would also be applied to all Rate T1 customers with a minimum firm daily contracted demand of 140,870 m^3 based on the 2013 Test Year Forecast for Rate T1. This threshold is consistent with the Rate T2 criteria proposed in Union's 2013 Cost of Service Application (EB-2011-0210).

Rate T1 customers with a firm daily contracted demand less than 140,870 m^3 would have access to an aggregate pool customer incentive budget. This aggregate pool incentive budget would be determined based on the percent of the 100% program budget allocated in rates for aggregate pool customers (i.e. if 10% of the Large Volume program budget is recovered from these customers 10% of the $3.487 million customer incentive budget would be budgeted in the aggregate pool).

After August 1st, any Rate T1 Direct Access customer's energy-efficiency funds not fully utilized or earmarked will be made available to all customers in Rate T1 as an aggregated pool customer incentive budget. There will be no distinction between Rate T1 Direct Access or Aggregate Pool customers in Union's annual deferral disposition application.

Union's Large Volume program scorecard will maintain the Percentage of Customer Incentive Budget Spent metric, which will be applicable to Rate T1 customers with a minimum firm daily contracted demand of 140,870 m^3 and Rate 100. The two Cumulative Natural Gas Savings metrics will be combined into a single metric, which will measure the natural gas savings for all Rate T1, Rate T2 and Rate 100 customers. For 2013, the Target for this metric will be calculated as the sum of the following:

- 2012 post-audit customer incentive cost-effectiveness for Direct Access customers (Rate T1 customers with a minimum firm daily contracted demand of 140,870 m^3 and Rate 100) * portion of Union's $3.487 million 100% customer incentive budget allocated to these customers * (1-0.30); and
- 2012 post-audit customer incentive cost effectiveness for Aggregate Pool customers (Rate T1 customers with a firm daily contracted demand of less than 140,870 m^3) * portion of Union's $3.487 million 100% customer incentive budget allocated to these customers

For 2014, the Target will be the 2013 post-audit customer incentive cost-effectiveness for all Large Volume customers multiplied by $3.487. For 2013 and 2014, the Upper Band target will be 125% of Target.

UNION GAS LIMITED
Rate Class Impacts of DSM
2012 Budget vs. 2013 Budget
($000's)

		2012 DSM Budget (1)							2013 DSM Budget (2)							
Line No.	Particulars	DSM Program Budget (a)	DSM Program Inflation Factor (b)	Total DSM Program Budget (c) = (a+b)	Low Income DSM Program Budget (d)	Low Income DSM Inflation Factor (e)	Total Low Income DSM Budget (f) = (d+e)	Grand Total DSM Budget (g) = (c+f)	DSM Program Budget (h)	DSM Program Inflation Factor (i)	Total DSM Program Budget (j) = (h+i)	Low Income DSM Program Budget (k)	Low Income DSM Inflation Factor (l)	Total Low Income DSM Budget (m) = (k+l)	Grand Total DSM Budget (n) = (j+m)	Variance (o) = (n-g)
1	Rate 100	1,529	44	1,572	181	5	187	1,759	1,572	35	1,607	187	4	191	1,798	39
2	Rate T1	3,567	102	3,669	627	18	645	4,314	3,669	81	3,750	645	14	659	4,409	96
3	Total Rate 100 & T1	5,095	146	5,241	808	23	831	6,073	5,241	116	5,358	831	18	850	6,207	135
	Proposed T1 & T2 Split															
4	Proposed Rate T1								1,660	37	1,697	102	2	104	1,801 (3)	
5	Proposed Rate T2								2,009	45	2,053	543	12	555	2,609 (3)	
6	Total Proposed Rate T1 & Rate T2 (line 4 + line 5)								3,669	81	3,750	645	14	659	4,409	

Notes:
(1) EB-2011-0327, Settlement Agreement, Appendix C.
(2) 2012 DSM Budget plus inflation factor of 2.22%.
(3) EB-2011-0210, J.H-8-13-2, adjusted for inflation factor of 2.22% vs. 2.87%.

UNION GAS LIMITED
Rate Class Impacts of DSM
2012 vs. 2013 Average Unit Rates
(cents/m^3)

Line No.	Particulars	2012 Total DSM Budget (1) (a)	2012 Approved Volume 10^3m^3 (2) (b)	2012 Average Unit Rate (c) = (a/b*100)	2013 Total DSM Budget (3) (e)	2013 Forecast Volume 10^3m^3 (4) (d)	2013 Average Unit Rate (f) = (e/d*100)		Variance (g) = (f-c)
1	Rate 100	1,759	2,219,052	0.0793	1,798	1,895,488	0.0949		0.0156
2	Rate T1	4,314	4,794,769	0.0900	4,409	5,164,982	0.0854		(0.0046)
3	Proposed Rate T1				1,801	548,986	0.3280	(5)	0.2381
4	Proposed Rate T2				2,609	4,615,996	0.0565	(5)	(0.0335)

Notes:
(1) EB-2011-0327, Settlement Agreement, Appendix C.
(2) EB-2011-0025, Rate Order, Working Papers, Schedule 4, Column (r).
(3) 2012 DSM Budget plus inflation factor of 2.22%.
(4) EB-2011-0210, Exhibit H3, Tab 1, Schedule 2, Column (a).
(5) EB-2011-0210, J.H-8-13-2, adjusted for inflation factor of 2.22% vs. 2.87%.

UNION GAS LIMITED
DSM Costs in Proposed 2013 Rates

Line No.	Particulars		Proposed Rates with DSM		DSM-related Component		Proposed Rates without DSM	DSM in Proposed Rates
			(a)		(b)		(c) = (a-b)	(d) = (b/a)
1	Rate 100	Distribution Revenue ($000's)	16,326	(1)	1,798	(2)	14,528	
2		Volumes (10^3m^3)	1,895,488		1,895,488		1,895,488	
3		Average rate (cents / m^3)	0.8613		0.0949		0.7665	11.0%
4	Current Rate T1	Distribution Revenue ($000's)	54,273	(1)	4,409	(2)	49,863	
5		Volumes (10^3m^3)	5,164,982		5,164,982		5,164,982	
6		Average rate (cents / m^3)	1.0508		0.0854		0.9654	8.1%
7	Proposed Rate T1	Distribution Revenue ($000's)	10,786		1,801	(3)	8,986	
8		Volumes (10^3m^3)	548,986		548,986		548,986	
9		Average rate (cents / m^3)	1.9648		0.3280		1.6368	16.7%
10	Proposed Rate T2	Distribution Revenue ($000's)	43,486		2,609	(3)	40,878	
11		Volumes (10^3m^3)	4,615,996		4,615,996		4,615,996	
12		Average rate (cents / m^3)	0.9421		0.0565		0.8856	6.0%

Notes:
(1) EB-2011-0210, Exhibit H3, Tab 1, Schedule 2, column (g).
(2) 2012 DSM Budget plus inflation factor of 2.22%.
(3) EB-2011-0210, J.H-8-13-2, adjusted for inflation factor of 2.22% vs. 2.87%.