

POLICIES & GUIDELINES

Policy #: 03-DP-VS-002

Subject: Vertical Slice Policy	Effective: January 5, 2011
Applies to: South sales service customers transferring from sales service to direct purchase.	
Purpose: To allocate upstream transportation capacity, in proportion to Union Gas's sales service portfolio, to customers transferring from sales service to direct purchase.	
Background: <i>(Not to limit the applicability of the policy)</i> Note: Direct purchase customers and/or the direct purchase customers appointed agent are jointly referred to as 'customers'. Union Gas is responsible for managing the upstream transportation requirements for sales service customers. As sales service customers transferred to direct purchase, they were originally allocated 100% TCPL transportation capacity, as Union Gas's upstream transportation portfolio was, at the time, largely comprised of TCPL capacity. Union Gas's sales service upstream transportation portfolio now includes other transportation assets. In order to accurately and fairly reflect the upstream transportation capacity that Union Gas uses to serve sales service customers, the Vertical Slice policy allocates upstream transportation capacity to customers transferring from sales service to direct purchase in the same proportion that the capacity exists in Union Gas's sales service upstream transportation portfolio. The Ontario Energy Board (OEB) approved the vertical slice allocation methodology effective November 1, 2001 (in EB-2001-0441). It is important to note that a customer may have responsibility for reporting to US authorities as a result of these upstream transportation allocations. Example US customs and border protection.	
Policy: <ul style="list-style-type: none">• A new vertical slice allocation will be established annually to be effective each November 1st based on Union Gas's projected sales service upstream transportation portfolio. Once set, the vertical slice allocation will remain in effect for a 1 year period (ending the following October 31st). This allocation will apply to all sales service customers that transfer to direct purchase during that period.• The new vertical slice, to be effective November 1st, will be communicated to the market no later than August 31st of each year via Factsline.• Direct purchase customers that receive the vertical slice are not subject to an annual re-allocation each November 1st. However, any new direct purchase transfers will be managed as defined in the "Setting New, and Increasing or Decreasing Existing, Obligated Daily Contract Quantity (DCQ) - Union Gas South" (Policy #05-DP-DCQS-009).• The direct purchase customer is required to complete the necessary posting/assignment administrative arrangements to accept any capacity that is allocated/released from Union Gas. If these administrative arrangements are not completed at least one (1) month prior to gas flow then: if the contract is new, the transfer to direct purchase will be delayed, on a monthly basis, until the administrative arrangements are completed; otherwise, failure to deliver charges will apply until the administrative arrangements are completed.• The direct purchase customer will pay the same toll that has been contracted by Union Gas for each applicable transportation capacity arrangement for the term of the contract. Where applicable, the tolls will be charged directly	
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by the upstream pipeline company.

- At the expiry of the underlying transport contract which is allocated, the direct purchase customer's obligation to deliver will remain at their Union Gas obligated DCQ Point of Receipt. Any upstream transportation arrangements required beyond the original term of the allocated capacity are the responsibility of the direct purchase customer, unless otherwise mutually agreed upon.
- Any direct purchase customer with a DCQ less than 300 GJ/day will be treated in accordance with the "Daily Contract Quantity (DCQ) increases of less than 300 GJ per day" policy ([Policy # 03-DP-VS-003](#)).

Procedures

1. The vertical slice allocation percentages will be established by August 31st based on the projected portfolio effective November 1st of each year.
2. Union Gas will calculate or recalculate DCQ based on the "Setting New, and Increasing or Decreasing Existing, Obligated Daily Contract Quantity (DCQ) - Union Gas South" ([Policy #05-DP-DCQS-009](#)).
3. Unless the customer's total DCQ is less than 300 GJ (see related [Policy # 03-DP-VS-003](#)), all end-use locations transferring from sales service to direct purchase will be allocated/assigned the capacity underlying the vertical slice in effect on the effective date of the contract or contract amendment. Customer must ensure that all necessary documentation for each pipeline company is in place one month prior to gas flow.
4. The allocation will be reflected on the Contract Parameter Report and in the DCQ section of Schedule 1 to the direct purchase contract.
5. For Canadian pipelines underlying the vertical slice allocation:
 - a. Union distributes Vertical Slice Aggregations Report to inform Customers of allocations prior to flow.
 - b. Customer must accept the Alliance Canada allocation via the Alliance website on a monthly basis.
 - c. For Vector Canada, the customer must complete/sign the assignment paperwork to start the process. No monthly acceptance is required.
 - d. For the TCPL component of the vertical slice, customers are allocated Western capacity. Other than Unbundled customers that must take an assignment of the capacity, no additional documentation is required.
6. For U.S. pipelines underlying the vertical slice allocation:
 - a. Union Gas will post the vertical slice quantities and will create a pre-arranged bid for the direct purchase customer.
 - b. Customer will acknowledge, or give Union Gas authority to acknowledge on their behalf, the pre-arranged bid and the capacity will be automatically awarded.
7. The customer will nominate supply per the nomination deadlines outlined in the contract. Customer must identify the contract SA# when nominating the supply. Further, customer must identify the supplier if customer had not previously done so.
8. Union Gas will confirm/schedule the nomination as outlined in the contract.
9. Gas will arrive as nominated and will be reflected in the Banked Gas Account through the "receipts" column of the DP status report for a bundled-t customer or the storage account for a T1, T3 or unbundled customer.
10. An invoice will be issued by the pipeline companies to the customer for the capacity released to them, where applicable.
11. Customers wanting to change their vertical slice allocation may attempt to do so through the clearinghouse ([Policy # 06-DP-VS-005](#)).

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