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Stephen W. Baker
President

February 16, 2018

Dear Shareholder:

I am pleased to forward you a copy of the Union Gas Limited (Union Gas) 2017 Annual Report. It contains Union Gas' Management's Discussion and Analysis (MD&A), Management Responsibility for Financial Reporting, Financial Statements, and Corporate Directory. I invite you to visit www.sedar.com for electronic versions of Union Gas' Financial Statements, MD&A, and other filings throughout the year.

Stephen W. Baker

President

INTRODUCTION

The terms "we," "our," "us," "Union Gas" and "the Company" as used in this report refer to Union Gas Limited unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Union Gas.

This Management's Discussion and Analysis (MD&A) dated February 16, 2018 for the twelve months ended December 31, 2017, should be read in conjunction with the audited Financial Statements and accompanying notes. The results reported herein have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and are presented in millions of Canadian dollars, except where noted. Additional information relating to us, including our most recent Annual Information Form, can be found at www.sedar.com.

In 2014, Canadian securities regulators approved the extension of our exemptive relief to continue reporting under U.S. GAAP instead of International Financial Reporting Standards (IFRS) until the earlier of January 1, 2019, and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information, or forward-looking statements, have been included in this MD&A to provide readers with information about Union Gas, including management's assessment of Union Gas' future plans and operations. This information may not be appropriate for other purposes. Forward-looking statements are based on management's intentions, plans, expectations, beliefs and assumptions about future events. These forward-looking statements are typically identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, likely, plan, project, predict, will, potential, forecast, target and similar words suggesting future outcomes or statements regarding an outlook. Although Union Gas believes that these forward-looking statements are reasonable based on the information available on the date such statements are made and the processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions. Material assumptions used to develop these forward-looking statements include assumptions about: the supply and demand for natural gas; prices of natural gas; inflation; interest rates; the results and costs of financing efforts; expected future cash flows; expected earnings (losses); expected costs related to projects under construction; expected capital expenditures; estimated future dividends; expected costs related to remediation and potential insurance recoveries; the availability and price of labour and construction materials; operational reliability; the ability to successfully complete merger, acquisition or divestiture plans; anticipated in-service dates and weather.

Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent and Union Gas' future course of action depends on management's assessment of all information available at the relevant time. Factors used to develop these forward-looking statements and that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- local, provincial and federal legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of storms;

- the timing and extent of changes in commodity prices, interest rates and exchange rates;
- general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and related services;
- potential effects arising from terrorist attacks and any consequential or other hostilities;
- changes in environmental, safety and other laws and regulations;
- changes in tax law and tax rate increases;
- the development of alternative energy resources;
- results of financing efforts, including the ability to obtain financing on favourable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- declines in the market prices of equity and debt securities and resulting funding requirements for defined benefit pension plans;
- growth in opportunities, including the timing and success of efforts to develop pipeline, storage, and other related infrastructure projects and the effects of competition;
- the performance of natural gas storage, transmission and distribution facilities;
- sensitivity to variances in the commodity measurement process;
- the extent of success in connecting new natural gas supplies to Ontario transmission systems and in connecting to expanding gas markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by these forward-looking statements; and
- the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements made in this document or otherwise, whether as a result of new information, future events or otherwise, except as required by applicable securities law. All subsequent forward-looking statements, whether written or oral, attributable to Union Gas or persons acting on Union Gas' behalf, are expressly qualified in their entirety by these cautionary statements.

NON-GAAP MEASURES

This MD&A contains references to operating margin, which represents Gas sales and distribution revenue and Storage and transportation revenue less Gas commodity, storage and transportation costs. Management believes that the presentation of this measure provides useful information to investors and shareholders as it provides increased transparency and predictive value. Operating margin is not a measure that has standardized meaning prescribed by U.S. GAAP and is not considered an U.S. GAAP measure; therefore, this measure may not be comparable with similar measures presented by other issuers.

GENERAL

Union Gas is a major Canadian natural gas storage, transmission and distribution company based in Ontario with over 100 years of experience and service to customers. The distribution business serves about 1.5 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario. Union Gas' storage and transmission business offers a variety of storage and transportation services to customers at the Dawn Hub (Dawn), the largest integrated underground storage facility in Canada and one of the largest in North America. As of November 1, 2017, after the completion of the 2017 Dawn to Parkway expansion, Union Gas' transmission system has an effective peak daily demand capacity of 7.5 billion cubic feet per day (Bcf/d), which increased from 7.2 Bcf/d in 2016.

Dawn offers customers an important link in the movement of natural gas from western Canadian and United States of America (U.S.) supply basins to markets in central Canada and the northeast U.S. Key pipeline interconnects in Canada and the U.S. have enabled us to deliver approximately 774 billion cubic feet (Bcf) of gas through our transmission system in 2017. The majority of Union Gas' annual transportation and storage revenue is generated by fixed demand charges. The average length of long-term transportation contracts is approximately 11 years, with the longest remaining transportation contract term being 15 years. The average length of long-term storage contracts is approximately five years, with the longest remaining storage contract term being 19 years.

As the supply of affordable natural gas in areas close to Ontario continues to grow, there is an increased demand to access these diverse supplies at Dawn and transport them along the Dawn-Parkway pipeline system to markets in Ontario, eastern Canada and the U.S. northeast. To secure the continued reliable delivery of natural gas and to serve a growing demand for clean, affordable natural gas, Union Gas has invested approximately $1.5 billion in capital projects between 2015 and 2017 to expand the Dawn-Parkway natural gas transmission system, and all facilities are now fully in service. This has increased the takeaway capacity from Dawn by approximately 20 percent or from 6.3 Bcf/d in 2014 to 7.5 Bcf/d in 2017.

Our distribution system consists of approximately 66,000 kilometres (km) of main and service pipelines. Our distribution pipelines carry natural gas from the point of local supply to customers. Our underground natural gas storage facilities have a working capacity of approximately 163 Bcf in 23 underground facilities located in depleted gas fields. The transmission system consists of approximately 4,900 km of high-pressure pipeline and five mainline compressor stations.

Union Gas' common shares are held by Great Lakes Basin Energy L.P. (GLBE), a wholly-owned limited partnership of Westcoast Energy Inc. (Westcoast). Westcoast is an indirect wholly-owned subsidiary of Spectra Energy Corp (Spectra Energy).

On February 27, 2017 Enbridge Inc. (Enbridge) and Spectra Energy completed a stock-for-stock merger transaction (the Merger) pursuant to which Enbridge acquired all of the issued and outstanding common shares of Spectra Energy. As a result of the Merger, Enbridge and its subsidiaries own Union Gas through their ownership of Spectra Energy.

Enbridge is a public company whose common shares are listed on the Toronto and New York stock exchanges under the symbol ENB.

Our Board of Directors (the Board) is comprised of at least one-third independent directors with the remainder consisting of officers of Union Gas and Enbridge. There is no audit committee of the Board. The function of the audit committee is carried out by the Board during the review of Union Gas' Financial Statements.

New Appointments as a Result of the Merger

Effective February 27, 2017, Ms. Cynthia Hansen was appointed Director and Chair of the Board of the Company.

Effective April 13, 2017, PricewaterhouseCoopers LLP was appointed as new auditors of the Company replacing Deloitte LLP.

HIGHLIGHTS

	For the Years Ended December 31,		
($millions except where noted)	**2017**	2016	2015
Income			
Total operating revenues	**2,260**	1,849	1,972
Net income applicable to common shares	**232**	202	185
Dividends			
Dividends on preferred shares	**3**	3	3
Dividends on common shares	**—**	—	50
Assets and long-term liabilities[a]			
Total assets	**8,916**	8,227	7,190
Total long-term liabilities	**5,240**	4,830	4,321
Volumes of gas (10^6m^3)[b]			
Distribution volumes	**12,841**	13,376	13,881
Transportation volumes	**21,917**	20,759	20,824
Total throughput	**34,758**	34,135	34,705
Customers *(thousands)*	**1,475**	1,459	1,437
Heating degree days[c] *(degree Celsius)*			
Actual	**3,879**	3,789	4,104
Normal[d]	**4,066**	4,068	3,969
(Warmer) colder than normal	**(187)**	(279)	135

[a] 2015 amounts restated due to debt issue costs reclassification. See New Accounting Pronouncements section in our 2015 Annual Report for additional details.

[b] 10^6m^3 equals millions of cubic metres. One cubic metre is equivalent to 35.30096 cubic feet.

[c] A heating degree day is a measure of temperature that identifies the need for heating. A heating degree day occurs when the average daily temperature falls below 18 degrees Celsius. A temperature of zero degrees Celsius on a particular day equals 18 heating degree days.

[d] As per Ontario Energy Board approved methodology used in setting rates.

DIVIDENDS

	For the Years Ended December 31,		
	2017	2016	2015
Per Common Share	**$—**	$—	$0.86
Per Class A Preferred Share			
5.5% Series A	**$2.75**	$2.75	$2.75
6% Series B	**$3.00**	$3.00	$3.00
5% Series C	**$2.50**	$2.50	$2.50
Per Class B Preferred Share			
4.88% Series 10	**$0.58**	$0.54	$0.56

The declaration of dividends on the Common shares is at the discretion of the Board. In order to maintain the common equity component of the capital structure at the level approved by the Ontario Energy Board (OEB), we typically pay dividends to our parent company based on net income, less earnings reinvested in expansion capital projects. For 2017 we paid no dividends to GLBE due to our significant investment in expansion capital projects (2016 – $nil; 2015 – $50 million).

The indentures and agreements relating to our long-term debt obligations contain covenants limiting the payment of dividends. Certain debenture issues limit the payment of dividends such that dividends are not permitted, with certain exceptions, if immediately thereafter all indebtedness for money borrowed would exceed 75% of the total capitalization of Union Gas. We are in compliance with these provisions.

RESULTS OF OPERATIONS

	Three Months Ended December 31,			Twelve Months Ended December 31,		
($millions)	2017	2016	**Increase (Decrease)**	2017	2016	**Increase (Decrease)**
Gas sales and distribution revenue	551	470	**81**	1,873	1,529	**344**
Storage and transportation revenue	97	78	**19**	363	299	**64**
Gas commodity, storage and transportation costs	327	249	**78**	1,070	738	**332**
Operating margin[(a)]	321	299	**22**	1,166	1,090	**76**
Other revenue	11	9	**2**	24	21	**3**
Expenses[(b)]	197	204	**(7)**	768	724	**44**
Interest expense	44	42	**2**	171	161	**10**
Income tax expense	11	9	**2**	16	21	**(5)**
Net income	80	53	**27**	235	205	**30**
Net income applicable to common shares	79	52	**27**	232	202	**30**

(a) For more information on this non-GAAP measure see page 5.

(b) Expenses include Operating and maintenance, Depreciation and amortization, and Property taxes and other.

Three Months Ended December 31, 2017 compared to three months ended December 31, 2016

Operating margin. The $22 million increase was mainly driven by:

- a $13 million increase in residential customer usage of natural gas, primarily due to weather that was colder than in 2016, and
- a $12 million increase due to incremental transportation revenue primarily from the Dawn-Parkway expansion projects.

Expenses. The $7 million decrease was mainly driven by:

- a $13 million decrease in operating and maintenance expenses primarily due to lower demand side management (DSM) charges, that are recovered in delivery rates, partially offset by
- a $7 million increase in depreciation expense due to new projects placed into service.

Income taxes. The $2 million increase was mainly due to higher pre-tax income.

Twelve months ended December 31, 2017 compared to twelve months ended December 31, 2016

Operating margin. The $76 million increase was mainly driven by:

- a $40 million increase in transportation revenue primarily due to incremental revenue from the Dawn-Parkway projects,
- an $11 million increase in storage revenue primarily due to higher storage pricing and higher storage optimization,
- an $8 million increase in delivery rates,
- a $6 million increase in residential customer usage of natural gas, primarily due to weather that was colder than in 2016, and
- a $6 million increase from growth in the number of customers.

Expenses. The $44 million increase was mainly driven by:

- a $26 million increase in depreciation expense due to new projects placed into service, and
- a $14 million increase in operating and maintenance expenses primarily due to higher employee severance costs as a result of the Merger and higher employee related expenses.

Income taxes. The $5 million decrease was mainly due to lower effective tax rate primarily attributable to increased timing differences related to property, plant and equipment, partially offset by higher pre-tax income.

QUARTERLY RESULTS[a]

($millions)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Gas sales and distribution revenue	565	295	199	470	726	349	247	551
Storage and transportation revenue	76	71	74	78	94	86	86	97
Other revenue	4	4	4	9	4	5	4	11
Total operating revenues	645	370	277	557	824	440	337	659
Net income (loss)	125	29	(2)	53	134	29	(8)	80
Net income (loss) applicable to common shares[b]	124	29	(3)	52	133	29	(9)	79

[a] Quarterly results have been extracted from financial statements prepared in accordance with U.S. GAAP.

[b] Earnings per share is not provided, since the Company is an indirect wholly owned subsidiary of Enbridge.

Seasonal Trends

The natural gas distribution business is highly seasonal due to volume-based rates and the significant effect of the winter heating season on volumes. This is typically reflected in strong first quarter results, second and third quarters that show either small profits or losses and strong fourth quarter results, subject to the impact of weather variations relative to demand during the winter heating season. Changes in natural gas rates that are charged to customers result in corresponding changes in gas sales and distribution revenue. These increases or decreases in Gas sales and distribution revenue are completely offset in Gas commodity, storage and transportation costs as a result of the associated regulatory recovery and refund mechanisms.

Beginning January 1, 2017, revenues include amounts billed to customers to recover Cap and Trade compliance costs through rates. Similar to the gas supply procurement framework, the OEB's framework for emission allowance procurement allows recovery of fluctuations in emission allowance prices in customer rates, subject to OEB approval.

REGULATORY MATTERS

Union Gas is regulated by the OEB pursuant to the provisions of the *Ontario Energy Board Act, (1998)*, which is part of a package of legislation known as the *Energy Competition Act, (1998)*. This legislation provides for different forms of regulation and competition in the energy (electricity and natural gas) industry in Ontario. We are subject to regulation with respect to the rates that we may charge our customers, system expansion or facility abandonment, adequacy of service, public safety aspects of pipeline system construction and certain accounting practices.

Application to Amalgamate

In November 2017, the Company and Enbridge Gas Distribution Inc. (EGD), an affiliate of the Company, (together, the Applicants) filed an application with the OEB to amalgamate, in accordance with the OEB's guidance for Mergers, Acquisitions, Amalgamations and Divestitures (MAAD), with an effective date of January 1, 2019. Under the OEB's MAAD policy, the Applicants are seeking to defer rate rebasing for ten years to allow the utilities to identify and leverage best practices and implement integrated solutions. This filing initiated the regulatory review process which will continue through 2018 with a decision from the OEB expected in the second half of 2018.

Subsequent to the above application, also in November 2017, Union Gas and EGD submitted a second, related, application. The application seeks an order approving a rate setting mechanism for the ten year rebasing period effective January 1, 2019 that would apply if Enbridge proceeds with the amalgamation of the Company and EGD. The Applicants are seeking approval of a price cap mechanism which includes an annual rate escalation at inflation; continues to pass through certain costs; allows for pass through of capital expenditures in excess of an OEB approved threshold; and allows for non-routine adjustments with a materiality threshold of $1 million.

The final decision on whether to proceed with the amalgamation is subject to the completion of the regulatory process and Union Gas, EGD, and Enbridge's review and assessment of the regulatory outcomes and their respective Board of Directors approvals.

Rate Regulation

Our distribution rates, beginning January 1, 2014, are set under a five-year incentive regulation framework. The incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts. The framework allows for:

- annual inflationary rate increases, offset by a productivity factor of 60% of inflation, such that the annual net rate escalator in each year is 40% of inflation,
- rate increases or decreases in the small volume customer classes where average use declines or increases,
- certain adjustments to base rates,
- the continued pass-through of gas commodity, upstream transportation and demand side management costs,
- the additional pass-through of costs associated with major capital investments and certain fuel variances,
- an allowance for unexpected cost changes that are outside of management’s control,
- equal sharing of tax changes between Union Gas and our customers, and
- an earnings sharing mechanism that permits Union Gas to fully retain the return on equity from utility operations up to 9.93%, share 50% of any earnings between 9.93% and 10.93% with customers, and share 90% of any earnings above 10.93% with customers.

On January 18, 2018, the OEB approved Union Gas' application for new rates effective January 1, 2018 pursuant to our incentive regulation framework. As a result of the OEB's findings in the decision, the impact on a typical residential customer will range from an increase of $9 to $14 annually depending on the customer's location within our service territory.

This rate application does not include the impacts of charges under the Province of Ontario's (the Province) Cap and Trade Program for the recovery of customer-related obligation costs and Union Gas' facility-related obligation costs effective January 1, 2018. Union Gas filed to recover these obligation costs associated with its 2018 Cap and Trade Compliance Plan with the OEB in November 2017. Union Gas is expecting a decision in the second half of 2018.

Commodity Rates

Union Gas and the OEB have a mechanism in place to change gas commodity rates on a quarterly basis (QRAM), to ensure that customers' rates reflect future expected prices to the extent reasonably possible. The difference between the approved and the actual cost of gas incurred is deferred for future recovery from or repayment to customers. These differences are included in quarterly gas commodity rates and recovered from or refunded to customers over the subsequent 12 months. This allows us to adjust customers' rates closer to the time costs are incurred.

Annual Non-Gas Commodity Deferral Accounts Disposition

Non-gas commodity deferral accounts are filed for approval of disposition annually and typically collected or recovered over six months. In August 2017, the OEB approved collection of the 2016 non-gas commodity deferral account balances of $43 million beginning October 1, 2017.

Demand Side Management

We continue to focus on promoting conservation and energy efficiency by undertaking activities focused on reducing natural gas consumption through our various DSM programs offered across all markets. As such, our 2018 rates include $63 million to recover forecast DSM spend. The 2018 budget was approved as part of the OEB Revised Decision in the 2015-2020 DSM Plan proceeding.

In December 2017, after receiving final audit results, we filed an application with the OEB for the disposition of the 2015 DSM deferral account balances. The impact is a net receivable from customers of approximately $8 million. Union Gas has requested a decision from the OEB in the first quarter of 2018 to allow recovery from customers to begin in the second quarter of 2018.

DSM deferral account balances for 2016 and 2017 will be filed for disposition after the 2015 DSM deferral decision has been received.

OEB Consultation on Pensions and Other Post-employment Benefits (OPEBs)

In May 2015, the OEB invited interested rate-regulated utilities, in both the gas and electricity sectors, to participate in a consultation on pensions and OPEBs. The objectives of the consultation are to develop standard principles to guide the OEB's review of pension and OPEB costs in the future, to establish specific information requirements for applications and to establish appropriate regulatory mechanisms for cost recovery which can be applied consistently across the gas and electricity sectors for rate-regulated utilities. In September 2017, the OEB released its final "Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs" report, which established the accrual accounting method as the default method on which to set rates for pension and OPEBs in cost-based applications. The report also provides for the establishment of a variance account to track the difference between the forecast accrual amounts in our rates and actual cash contributions effective January 1, 2018. The financial impacts of the OEB's final report are not expected to be material.

OEB Consultation on Cap and Trade

In September 2016, the OEB released its final "Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities" report. The framework is used to guide the OEB's assessment of natural gas distributors' Cap and Trade Compliance Plans, including the cost consequences of these plans, monitoring and reporting, customer outreach, confidentiality of the Cap and Trade information and the mechanism for the recovery of costs in rates. The OEB determined that charges related to the recovery of customer-related obligation costs, Union Gas' facility-related obligation costs and administrative costs relating to the implementation and ongoing operation of the Cap and Trade Program will be included in the delivery charge on customer bills. In November 2016, we filed our 2017 Compliance Plan and the OEB issued an interim rate order approving the associated Cap and Trade costs for recovery from customers effective January 1, 2017. In September 2017, the OEB issued its Decision and Order on Union Gas' 2017 Compliance Plan. The OEB noted that the plan was based on reasonable option analysis, optimized decision-making and risk management process and analysis. Union Gas received final rate approval from the OEB in November 2017. For more information, see Climate Change within Risk Factors.

Cap and Trade Deferral Accounts

In September 2017, the OEB approved the establishment of the Greenhouse Gas Emissions Compliance Obligation – Customer Related Deferral Account and the Greenhouse Gas Emissions Compliance Obligation – Facility Related Deferral Account, as part of the approval of Union Gas' 2017 Compliance Plan. These deferral accounts will separately track the variance between the actual costs incurred related to the customer-related greenhouse gas (GHG) obligation cost and the facility-related GHG obligation cost and the amount collected through rates.

Dawn to Parkway Projects

Union Gas has just completed the 2017 Dawn to Parkway Expansion project which was the final phase of a three year growth project which increased the firm capacity of that system by 20 percent. In the third quarter of 2017, new compressors and associated facilities at the Lobo and Bright Compressor Stations went into service as part of the Dawn to Parkway 2017 Expansion Project. The installation of a Dawn compressor was completed and placed into service in October 2017. For further details regarding these projects, see Liquidity and Capital Resources.

Panhandle Reinforcement Pipeline Project

In February 2017, the OEB approved the construction and rate recovery of the Panhandle Reinforcement Pipeline from the Dawn Compressor Station to the Dover Transmission Station to serve firm demand growth in southwestern Ontario. The pipeline was placed into service in November 2017. For further details regarding this project, see Liquidity and Capital Resources.

Community Expansion

In November 2016, the OEB released its Decision with Reasons (Decision) for a generic community expansion proceeding. The decision granted the ability for the distributor to charge stand alone rates or surcharges for each new community to ensure that the projects are self-funding over the life of the project. Union Gas filed its updated community expansion application and evidence proposals for four projects at the end of March 2017.

In the third and fourth quarter of 2017, the OEB approved the rate surcharge proposal for four communities and granted leave to construct for the three communities that required approval. The Lambton Shores and Kettle Point First Nation and Milverton projects had 2017 in-service dates, and projects to service Prince Township and Moraviantown First Nation are expected to enter service in 2018. The Moraviantown First Nation project will only proceed if an Ontario Government (the Government) grant is awarded.

In October 2016, Union Gas filed its Common Infrastructure Plan (CIP) Proposal to serve the area covered by the South Bruce Expansion application. An OEB administered process to determine the successful competing project proponent is currently underway, with an OEB decision expected in the first half of 2018.

On July 30, 2017, Union Gas submitted grant applications to the Government for 45 community expansion and five economic development projects, for a total grant amount of $330 million. The Government has set aside approximately $70 million for community expansion grants and $30 million for economic development grants. Union Gas expects the Government to publicly announce the successful grant applicants in the first quarter of 2018, which will allow construction for a limited number of additional projects in 2018 through 2020.

For further details regarding these projects, see Liquidity and Capital Resources.

Sudbury Replacement Project

In September 2017, the OEB granted leave to construct for a new pipeline in the City of Greater Sudbury. The new pipeline will replace the existing pipeline, addressing integrity issues and future growth requirements. The total capital cost of the pipeline is expected to be approximately $74 million with service to customers expected in November 2018. For further details regarding this project, see Liquidity and Capital Resources.

Kingsville Transmission Reinforcement Project

In January 2018, we applied to the OEB for leave to construct and cost recovery approval for a new pipeline, extending from an interconnect at the existing Nominal Pipe Size (NPS) 20 Panhandle Line in the Town of Lakeshore to a new station in the Town of Kingsville. The total capital cost of the pipeline is expected to be approximately $106 million with service to customers expected in November 2019. For further details regarding this project, see Liquidity and Capital Resources.

GAS SUPPLY

Union Gas ensures that customers receive a secure and diverse gas supply portfolio that is cost-effective. We continuously monitor and evaluate the new and changing natural gas supply dynamics to determine what opportunities exist for our customers.

Union Gas currently holds a diverse portfolio of transportation contracts that allow for the purchase of natural gas from various supply basins and suppliers across North America. The price that Union Gas pays for natural gas is a market sensitive price, typically based on the NYMEX Physical Basis or an index depending on where Union Gas sources natural gas from across North America. This includes, but is not limited to, indices such as Alberta, Michigan and Chicago.

The North American natural gas market has experienced and is expected to continue to experience change. While production from some conventional North American natural gas basins is in decline, production from shale gas formations continues to exceed expectations, and the supply economics generally favour shale gas formations which are closer to the consuming markets.

In support of this change in natural gas flows, in December 2015, the OEB approved our application for the pre-approval of the cost consequences of entering into a long-term transportation capacity contract with the Nexus Gas Transmission pipeline (NEXUS), which is expected to be in service in the third quarter of 2018. NEXUS will transport natural gas from the Appalachian region of the U.S. Northeast, which is the single largest and fastest growing producing region of natural gas in North America, into Dawn. The NEXUS project is being jointly developed by DTE Energy Company and Enbridge.

The overall increase in natural gas supply in North America resulting from shale gas development has led to current and projected, low and stable natural gas prices.

Renewable Natural Gas

In Ontario, there is an increasing desire to reduce the carbon intensity of natural gas which Union Gas delivers to customers and uses in its own operations. The Government of Ontario and the OEB have clearly and consistently articulated support for the pursuit of renewable natural gas (RNG) as a component of utility gas supply portfolios. RNG is biogas that has been upgraded to pipeline quality natural gas by removing impurities. By upgrading the quality, it becomes possible to inject the biogas into the natural gas distribution system in Ontario and to distribute a renewable alternative gas to customers via the existing natural gas pipeline grid. Union Gas is exploring options to source RNG as part of its gas supply purchase portfolio while minimizing cost impacts to customers. Union

Gas has made a proposal to the OEB for approval of an RNG purchase mechanism as part of its 2018 Cap and Trade Compliance Plan filing. The cost of RNG is typically higher than the combined cost of carbon and the cost of conventional natural gas today and is expected to be for the foreseeable future. Union Gas' proposal to the OEB contemplates government funding to offset the higher cost of RNG. Natural gas customers contribute to Cap and Trade program funds through the cost of carbon included in natural gas rates. Access to the Cap and Trade funds, distributed by the government, to support RNG ensures that ratepayers are not paying a premium for RNG in addition to already contributing to Cap and Trade in natural gas rates. Government funding provides access to Cap and Trade proceeds specifically allocated for RNG, supporting the economic and environmental benefits that RNG can provide in optimizing the use of existing natural gas assets while reducing the Province's carbon footprint. If approved, Union Gas will pursue the purchase of RNG, through a request for proposal process, as early as 2018.

OUTLOOK

Gas Sales and Distribution

We expect that the long-term demand for natural gas in Ontario will remain relatively stable with continued growth in peak day demands, subject to the impacts of governmental actions to reduce GHG emissions. Some modest growth driven by low natural gas prices is expected to continue given the significant price advantage relative to their alternate energy options, with specific interest coming from communities that are not currently serviced by natural gas.

We continue to focus on promoting conservation and energy efficiency by undertaking activities focused on reducing natural gas consumption through our various DSM programs offered across all markets. For 2017, the OEB approved DSM budget was $59 million and will increase to $63 million in 2018 and $64 million by 2020.

We are also pursuing other opportunities to assist in lowering GHG emissions. Union Gas and EGD have partnered with the Government of Ontario to deliver a home renovation program using $100 million in funding over three years through the Green Investment Fund program. Union Gas will continue to pursue options to promote RNG as well as compressed natural gas as alternative fuel sources.

Storage and Transportation

The storage and transportation marketplace continues to respond to changing natural gas supply dynamics including a robust supply environment. In recent years, the robust North American gas supply balance, due mainly to the development of shale gas volumes including the Alberta, British Columbia, Marcellus and Utica shale areas, has resulted in lower commodity prices and narrower seasonal price spreads. Unregulated storage values are primarily determined based on the difference in value between winter and summer natural gas prices. Storage values have been relatively stable to slightly rising over 2016 and 2017 as the North American natural gas supply and demand slowly returned to a more balanced position.

We expect that demand for natural gas in North America will continue to see low annual growth over the long-term with continued growth in peak day demands. The development of the Marcellus and Utica Shale areas is leading to significant new pipeline infrastructure to connect these supplies to the North American pipeline grid and the associated natural gas consuming market areas. The proximity of our storage and transportation facilities and our interconnections with major U.S. markets in the Great Lakes region and in the northeast U.S. support long-term growth opportunities. These opportunities focus on connecting new supply sources to Dawn and ensuring that there is sufficient transportation capacity on Union Gas' transmission system and pipelines downstream of Parkway to serve eastern Canadian and U.S. markets. Connectivity to Ontario continues to increase with new pipelines under construction for service beginning in 2018. Further, gas supply access at the Dawn Market hub is increasing due to the TransCanada Pipelines Limited's Long Term Fixed Price service from Empress.

In response to customer demand to access new and growing supply at Dawn, Union Gas has just completed the 2017 Dawn to Parkway Expansion project which was the final phase of a three year growth period which increased the firm capacity of that system by 20 percent. For additional information regarding this and other projects, see the Regulatory Matters section.

RISK FACTORS

Our earnings are affected by the risks inherent in the natural gas industry and energy marketplace. In general, our business and earnings level may be adversely affected by a number of risks, including but not limited to the risks described below.

Climate Change

Ontario's Cap and Trade Program came into effect on January 1, 2017 with the purpose of reducing GHG emissions in the Province. It covers natural gas distributors (and others) and puts a price on certain GHG emissions. Union Gas is required to purchase emission allowances or credits on behalf of most of its customers and for its own emissions.

On September 22, 2017, the Ontario government signed an agreement linking the carbon markets of Quebec, Ontario and California, effective January 1, 2018. This linkage which has been enabled in Ontario with various GHG reporting and Cap and Trade regulation amendments over the course of 2017 will create a larger and more liquid market for carbon allowances, which may help to keep compliance costs for our customers down. However, non-compliance or unexpected policy changes may cause significant changes to the cost of maintaining compliance and needs to be closely monitored to ensure impacts are understood. Impacts on carbon pricing that may result from policy change may affect the price of natural gas and, in turn, potentially affect the demand for natural gas.

In June 2016, the Province also issued its Climate Change Action Plan (the CCAP), a high-level policy that describes how proceeds from the Cap and Trade program may be used over the next five years to reduce GHG emissions in Ontario. Longer term impacts of the Cap and Trade program and the CCAP and associated programs and their future effects on Union Gas' results of operations, financial position or cash flows remain uncertain.

Union Gas received approval from the OEB to incorporate forecasted Cap and Trade costs in rates effective January 1, 2017. Variances from the forecast will be captured in a deferral account for future disposition. Union Gas will continue to incorporate any impacts on its revenues, operating costs or capital expenditures of the Cap and Trade program and the CCAP into applicable regulatory applications, including by seeking cost recovery through rates, and will continue to actively monitor and respond to actions and initiatives resulting from the CCAP.

The Company submitted and received supportive endorsement from the OEB of its 2017 Compliance Plan, and has filed, and is seeking approval of its 2018 Compliance Plan. The Compliance Plans detail how Union Gas will meet its carbon compliance obligation through carbon allowance and/or offset procurement as well as through customer and facility abatement projects that may be deemed cost effective. By creating a prudent and thoughtful plan and executing with excellence, the Company best mitigates any risk of cost disallowance. The OEB approved use of the 2017 final rate for recovery of 2018 Cap and Trade compliance costs until determined otherwise.

As with previous years, in 2017 the Company reported GHG emissions to the Ontario Ministry of Environmental and Climate Change (MOECC), Environment and Climate Change Canada (ECCC), and a number of voluntary reporting programs. Emissions from the Company's Ontario combustion sources were verified in detail by a third party accredited verifier with no material discrepancies found. Additionally, operational emissions from venting, fugitive and natural gas distribution emissions were reported to the MOECC for the first time in 2017 in accordance with O. Reg. 143/16 – Quantification, Reporting, and Verification of Greenhouse Gas Emissions Regulation standard quantification methods ON. 350 and ON. 400, respectively. Union Gas continues to monitor regulation developments and attend stakeholder consultations in Ontario.

Union Gas utilizes an emissions data management process to help with the data capture and mandatory and voluntary reporting needs of the Company. Quantification methodologies and emission factors will continually be updated in the system as required. The Company publicly reports its GHG emissions and has developed internal procedures for more frequent monthly Cap and Trade related GHG reporting. The Company continues to work with industry associations to refine quantification methodologies and emissions factors, as well as best management practices to minimize emissions. The Company's plan to reduce emissions in 2018 is outlined in the Facility Abatement Plan within its Compliance Plan.

In late 2016, the Government of Canada announced the Pan-Canadian Framework on Clean Growth and Climate Change (Framework). The Framework is intended to support Canada's international commitments to reducing GHG emissions and addressing climate change. The Framework includes elements such as national carbon pricing benchmarks (which are intended to create a uniform carbon price across Canada), complementary actions and innovation. In May 2017 and January 2018, the Government of Canada issued its proposed details to implement a backstop carbon price in provinces and territories that do not meet the national benchmark carbon price (as described in the Framework) by the end of 2018. The incremental impact of the Framework on Ontario's Cap and Trade system and CCAP is unknown at this time, but continues to be closely monitored.

In May 2017, ECCC published the "Proposed Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector)" (the Proposed Methane Regulations), to help reduce methane emissions from Canada's oil and gas sector. The Proposed Methane Regulations are expected to impose new regulatory requirements to reduce methane emissions at natural gas transmission and storage facilities. Union Gas will continue to monitor developments in the regulation, assess potential impacts and participate in ongoing consultations with ECCC. The Proposed Methane Regulations are expected to be finalized in 2018 and to take effect between 2020 and 2023 depending on the specific emission type.

Market Risk

Sales to industrial customers are affected by general economic conditions, the absolute and relative price of energy, foreign exchange rates, local and global competition and government legislation and regulations. The modest growth seen in 2017 in the North American economy is expected to further improve in 2018. Ontario's natural gas energy market will benefit from this improvement while also being impacted by negative market forces arising from globalization and more energy efficient technology.

Electricity demand in Ontario is showing little growth due to permanent industrial demand destruction and energy conservation that has occurred, resulting in an oversupply of electricity. That, coupled with the extension of previously declared end of life nuclear units at Pickering, has resulted in the non-renewal of several power purchase agreements with some non-utility natural gas fueled power generators (specifically, Northland Cochrane, Atlantic North Bay and Kapuskasing). Other factors affecting the power market include the province of Quebec's announcement to sell hydro-electric power to Ontario displacing gas-fired power generation, and the Independent Electricity System Operator's (IESO's) announced intent to replace expiring long term power purchase agreements with capacity auctions. As the IESO continues to advance its market renewal initiative, the commercial framework for gas-fired power generators could continue to change. These policy and market dynamics could impact our ability to re-contract with existing power generators moving forward. Revenues from gas-fired power generators have declined due to non-renewals of power purchase agreements with Natural Gas generators noted above.

Sales to Union Gas' residential, small commercial and small industrial customers are affected by the number of new customer additions to the system, the price of natural gas, the warming trend in weather that is not fully reflected in rates, and the continued shift to higher efficiency. New customer additions in 2018 are expected to remain consistent with 2017 trends. High electricity prices are furthering the conversion market.

A large quantity of our transportation capacity is subject to renewal on an annual basis. Our standard contract terms provide automatic renewal of contracts, after the initial term, for one year at a time unless the customer provides two years' prior notice of termination. Future termination notices and reselling terminated capacity are dependent on the demand for the capacity which is affected by the changing flows of gas in the Great Lakes region. It is also dependent on the availability of transportation downstream of Parkway. Any new projects that create downstream capacity will provide access to Dawn supplies for customers located in the downstream Ontario, Quebec and northeast U.S. markets. We have received notice of termination for Dawn-Parkway capacity of approximately 0.19 Bcf/d in 2018 and 0.05 Bcf/d in 2019. This terminated capacity will be available to serve new transportation demand as well as growth in in-franchise loads.

Commodity Price Risk

Fluctuations in natural gas prices affect our gas purchase costs for our own operating requirements as well as for the gas supply costs we incur for and collect from our system customers. Our gas procurement policy primarily includes contracts with pricing mechanisms that reflect monthly and daily variations in the price of gas. Commodity price volatility and absolute price levels also impact the amount of natural gas used by customers. Differences between the OEB approved reference amounts and those costs actually incurred are deferred on the Balance Sheets for future disposition subject to approval by the OEB.

Carbon Price Risk

Union Gas is required to purchase emission allowances or credits on behalf of most of our customers and for our own emissions. Fluctuations in carbon prices affect our Cap and Trade compliance costs for our own operations as well as the compliance costs we incur for and collect from our customers. Differences between the OEB approved reference amounts and those costs actually incurred are deferred on the Balance Sheets for future disposition subject to approval by the OEB.

Credit Risk

Credit risk represents the loss that we could incur if a counterparty fails to perform under its contractual obligations. We analyze the customer's financial condition prior to entering into an agreement, obtain collateral when appropriate, establish credit limits and monitor the appropriateness of those limits on an ongoing basis.

Our credit exposure consists of both the risk of collecting receivables for services provided, as well as the risk related to gas imbalances that occur as a regular part of the services provided in both the direct purchase market and ex-franchise market.

In the normal course of operations, we provide gas loans to other parties from our holdings of gas in storage. The replacement cost of the gas on loan at December 31, 2017 was $93 million (2016 – $84 million). We manage our credit exposure related to gas loans by subjecting these parties to the same credit policies used for all customers.

Weather Risk

As the primary component of our rates is volume based, our revenue levels approved by the OEB are impacted by weather. The volume forecasts used to determine the rates approved by the OEB assume normal weather conditions. Normal weather, as mandated by the OEB, is based on a 50:50 weighting of the 30-year average forecast and 20-year trend forecast respectively, for 2013 forward. Since a large portion of the gas distributed to the residential and commercial markets is used for space heating and is charged using volume-based rates, differences from normal weather have a significant effect on the consumption of gas and on our financial results.

Regulatory Risk

Our natural gas assets and operations are subject to regulation by federal, provincial and local authorities including the OEB and by various federal and provincial authorities under environmental laws. Regulation affects almost every aspect of our business, including the ability to determine terms and rates for services, acquisitions, construction, expansion and operation of facilities, issuance of equity or debt securities and dividend payments.

In addition, regulators in Canada have taken actions to strengthen market forces in the gas pipeline industry, which have led to increased competition. In a number of key markets, natural gas pipeline and storage operators are facing competitive pressure from a number of new industry participants, such as alternative suppliers as well as traditional pipeline competitors. Increased competition driven by regulatory changes could have a material effect on our business, earnings, financial condition and cash flows.

Our pipelines and related facilities are also regulated by the Ontario Technical Standards and Safety Authority (TSSA) while a few are regulated by the National Energy Board of Canada (NEB). Through our participation on the TSSA Natural Gas Advisory Council and associated Risk Reduction Groups we have the opportunity to provide input on the direction of regulatory changes. Union Gas also has extensive engagement on the Canadian Standards

Association Technical Code and Standards Committees. Amendments to the Ontario regulations made by the TSSA could have an impact on our Integrity Management Program and the direction the U.S. industry is taking may prompt some further regulatory requirements. Given the mature status of our integrity management programs, potential changes are not expected to have a material impact on the organization. We have very limited NEB regulated assets, so the amendments to the NEB Management Systems and Performance Measures are not expected to have a significant impact on our business. Union Gas utilizes a comprehensive and integrated Operations Management System (OMS) to manage the operations of the organization. We have aligned our OMS with the new Enbridge Integrated Management System framework, ensuring compliance with both legal and regulatory requirements and the Enbridge corporate standard. We have taken the NEB requirements into account and have enhanced our OMS to be able to meet the requirements. The OMS provides the necessary structure and discipline to ensure we operate in a way that provides for demonstrated legal and regulatory safety and compliance.

Competition Risk

As our distribution business is regulated by the OEB, it is generally not subject to third-party competition within our distribution franchise area. However, as a result of a 2006 decision by the OEB, physical bypass of Union Gas' system may be permitted, even within our franchise area. In addition, the OEB decision in the Generic Proceeding on Community Expansion provides a framework that facilitates the entry of new participants and allows for competition as it pertains to serving rural and First Nations communities that do not currently have access to natural gas.

Union Gas competes with other forms of energy available to its customers and end-users, including electricity, coal, propane and fuel oils. Factors that influence the demand for natural gas include price changes, the availability of natural gas and other forms of energy, the level of business activity, conservation, legislation, governmental regulations, the ability to convert to alternative fuels, weather and other factors.

Storage Market Risk

We sell our storage services based on seasonal natural gas market price spreads and volatility. If seasonal natural gas market spreads or volatility deviate from historical norms or there is significant growth in the amount of storage capacity available to natural gas markets relative to demand, our approach to managing our market-based storage capacity through a portfolio of varying contract terms may not protect us from significant variations in storage revenues, including possible declines as contracts renew.

Our standard storage contract terms do not allow for automatic renewals but typically have contract terms of one to five years. Storage prices are subject to market conditions at the time the contracts are renegotiated. Given the changes occurring to the Province's power generation markets, there is risk associated with the renegotiation of expiring storage contracts with the Province's power generators, including volume and price risk.

Gas Measurement Risk

In determining the quantities of gas delivered and received, differences arise from the measurement process. The cost of these differences is referred to as unaccounted for gas (UFG). Rates for storage, transmission and distribution of gas, approved by the OEB effective January 2013, were reset to recover an estimate of UFG based on actual experience in the previous three years, which was lower than amounts previously included in rates. Variances between the estimate included in rates and the actual cost of UFG result from measurement and estimation errors. Under the current incentive regulation framework, the impact on our financial results arising from these variances is limited to $5 million.

Financing Risk

Our business is financed to a large degree through debt. The maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from assets. Accordingly, we rely on access to both short-term and long-term capital markets as a source of liquidity for capital requirements not satisfied by the cash flow from operations and to fund investments originally financed through debt. Our long-term debt is currently rated investment-grade by various rating agencies. If the rating agencies were to rate us below investment-grade, our borrowing costs would increase, perhaps significantly. In addition, we would likely be required to pay a higher interest rate in future financings and our potential pool of investors and funding sources could decrease.

We are subject to long-term debt covenants that include a limitation on the payment of dividends and requirements to satisfy specific interest coverage ratios prior to the issuance of additional long-term debt. Although we do not anticipate any impact to our current financing plans, reduced earnings may limit the payment of future dividends and the level of new long-term debt available to us. We maintain a revolving credit facility to backstop our commercial paper programs for short-term borrowings. This facility includes a financial covenant which limits the amount of debt that can be outstanding as a percentage of total capital. Failure to maintain this covenant could preclude us from issuing commercial paper or borrowing under the revolving credit facility and could require immediate pay down of any outstanding drawn amounts under other revolving credit agreements, which could adversely affect our cash flow.

If we are not able to access capital at competitive rates, our ability to finance operations and implement our strategy may be adversely affected. Restrictions on our ability to access financial markets may also affect our ability to execute our business plan as scheduled. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for future growth. Any downgrade or other event negatively affecting the credit ratings could make our costs of borrowing higher or access to funding sources more limited.

Human Resources Risk

Union Gas' workforce consists of both unionized and non-unionized employees. Labour disruptions associated with the collective bargaining process can affect our ongoing operations. Projected changes in workforce demographics and a future shortage of skilled trades represent issues that are being addressed by Union Gas. All of Union Gas' collective agreements expire between December 2017 and May 2018. The labour relations group is in the process of meeting with the various unions to negotiate new agreements.

Performance Risk

We have extensive contractual relationships with natural gas producers, customers, marketers, commercial enterprises, industrial companies and others. The risk of non-performance by us or a contracting party may be analyzed and mitigated but it cannot be entirely eliminated and could affect our earnings, financial position and cash flows. Ongoing consolidation of customers and partners may increase the severity of a default.

Litigation Risk

Union Gas, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, we have no reason to believe that the ultimate outcome of such matters currently known to us could have a material effect on our Financial Statements.

Facility Risk

We carry on business through a large and complex array of natural gas transmission, storage and distribution assets. These facilities, like any other industrial operations, are subject to outages from time to time. Depending on circumstances, such outages may result in loss of revenues and/or increased maintenance costs.

Political Risk

The Province is operating with a large financial deficit and significant spending commitments. As such, it is expected that the current provincial Government may look for new sources of revenues, including non-tax revenue streams such as fees and levies. At this time, we do not anticipate any material financial impact to Union Gas.

Environmental, Health and Safety Risk

There are a variety of hazards and operating risks inherent in natural gas storage transmission and distribution activities, such as leaks, explosions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in significant injury, loss of human life, significant damage to property, environmental pollution and impairment of operations, any of which could result in substantial losses. For pipeline and storage assets located near populated areas, including residential areas, commercial business centres, industrial sites and other public gathering areas, the level of damage resulting from these risks could be greater. We do not maintain insurance coverage against all of these risks and losses, and any insurance coverage we might maintain may not fully cover the damages caused by these risks and losses. Therefore, should any of these risks materialize, it could have a material adverse effect on our business, earnings, financial condition and cash flows.

Protecting Against Potential Terrorist Activities

The potential for terrorism because of the high profile of the natural gas industry has subjected our operations to increased risks that could have a material adverse effect on our business. This risk is particularly great for companies, like ours, operating in any energy infrastructure industry that handles volatile gaseous and liquid hydrocarbons. The potential for terrorism, including cyber-terrorism, has subjected our operations to increased risks that could have a material effect on our business. In particular, we may experience increased capital and operating costs to implement increased security for our facilities and pipelines, such as additional physical facility and pipeline security and additional security personnel. Moreover, any physical damage to high profile facilities resulting from acts of terrorism may not be covered, or covered fully, by insurance. We may be required to expend material amounts of capital to repair any facilities, the expenditure of which could adversely affect our cash flows and business. A cyber attack could also lead to a significant interruption in our operations or unauthorized release of confidential information or otherwise protected information, which could damage our reputation or lead to financial losses.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Pension Risk

Our costs of providing defined benefit pension plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rates used to measure pension liabilities, actuarial gains and losses, future government regulation and our contributions made to the plans. Without sustained growth in the pension plan investments over time to increase the value of our plan assets, and depending upon the other factors impacting our costs as listed above, we could experience net asset, expense and funding volatility. This volatility could have a material effect on our earnings and cash flows.

Land Rights

Various aboriginal groups in Ontario have claimed aboriginal and treaty rights in areas where Union Gas' facilities, and the gas supply areas served by those facilities, are located. In addition to aboriginal groups, other landowners have also claimed their rights in Union Gas' franchise area. The existence of these claims could give rise to future uncertainty regarding land tenure and expansion depending upon their negotiated outcome. We continue to proactively plan and manage the risks associated with these issues and work with provincial government regulators in that regard.

Capital Project Execution Risk

A portion of our growth is accomplished through the construction of new pipelines and storage facilities as well as the expansion of existing facilities.

Construction of these facilities is subject to various regulatory, development, operational and market risks, including: the ability to obtain necessary approvals and permits from regulatory agencies and municipalities on a timely basis and on acceptable terms, and to maintain those approvals and permits issued and satisfy the terms and conditions imposed therein; the availability of skilled labour, equipment, and materials to complete expansion projects; potential changes in federal, provincial and local statutes and regulations, including environmental requirements, that may prevent a project from proceeding or increase the anticipated cost of the project; impediments on our ability to acquire rights-of-way or land rights on a timely basis and on acceptable terms; the ability to construct projects within anticipated costs, including the risk of cost overruns resulting from inflation, foreign exchange or increased costs of equipment, materials or labour, weather, geologic conditions, or other factors beyond our control, that may be material; and general economic factors that affect the demand for natural gas infrastructure.

Any of these risks could prevent a project from proceeding, delay its completion or increase its anticipated costs. As a result, new facilities may not achieve their expected investment return, which could affect our earnings, financial position and cash flows.

Shale Gas Development

Recent community and political pressures have arisen around the production and transmission of natural gas originating from shale basins. Although we continue to believe that natural gas will remain a viable energy solution for Canada and the U.S., these pressures could increase costs and/or cause a slowdown in pipeline project development and/or the production of natural gas from these shale basins. This could negatively affect our growth plans and our access to this natural gas supply.

Foreign Exchange Risk

Foreign exchange risk is the risk of gains and losses due to the volatility of currency exchange rates. The Company generates certain revenues denominated in United States dollars (USD). As a result, the Company's earnings and cash flows are exposed to fluctuations resulting from USD exchange rate variability.

During the third quarter of 2017, Union Gas took assignment of a number of EGD customer storage contracts, some of which were denominated in USD. EGD also novated, to Union Gas, cash flow hedges that were used to manage exposure to changes in currency exchange rates in the assigned storage contracts.

RELATED PARTY TRANSACTIONS

We occasionally perform services for and incur costs on behalf of Enbridge, Spectra Energy and its affiliates (related parties), which are subsequently reimbursed. Likewise, certain related parties may perform services for or incur costs on behalf of us, which are then reimbursed by us. We also provide and purchase gas, storage and transportation services to related parties. These transactions are in the normal course of operations and are recorded at exchange amounts agreed to between the related parties.

In addition, related parties perform centralized corporate functions for us, pursuant to agreements with related parties, including legal, accounting, compliance, treasury, information technology and other areas, as well as certain engineering and other services. We reimburse related parties for the expenses to provide these services as well as other expenses they incur on our behalf. Related parties charge such expenses based on the cost of actual services provided or using various allocation methodologies based on our percentage of assets, employees, earnings or other measures, as compared to Enbridge and Spectra Energy's other related parties.

In the normal course of operations, we provide or obtain funds from Westcoast on an unsecured basis. We also have a promissory note to borrow up to $150 million from GLBE on an unsecured basis.

On July 31, 2017, we entered into a Gas Storage Service Agreement (GSSA) with EGD, a new affiliated company under common control as a result of the Merger, whereby we contracted all of EGD's unregulated storage space and deliverability effective September 2017. In conjunction with the GSSA, we entered into a Storage Contracts Assignment Agreement with EGD whereby we took assignment of EGD's customer contracts related to the assigned unregulated storage space, effective September 2017. On September 29, 2017, EGD novated all of its derivative instruments relating to foreign exchange forward contracts to the Company.

Our transactions with related parties are as follows:

($millions)	**Storage and transportation revenue**	**Gas commodity, storage and transportation expense**	**Shared service charges (receipts)[a]**	**Total**
2017				
St Clair Pipelines Partnership, a division of Westcoast	—	1	—	1
Pipeline and Field Services, a division of Westcoast	—	—	(4)	(4)
Westcoast Energy Inc.	—	—	(1)	(1)
Spectra Energy Gas Transmission LLC	—	—	12	12
Sarnia Airport Storage Pool Limited Partnership	(1)	5	—	4
Market Hub Partners L.P.	—	1	—	1
Enbridge Gas Distribution Inc.	(113)	7	—	(106)
Tidal Energy Marketing Inc.	(4)	—	—	(4)
Tidal Energy Marketing (US) LLC	—	5	—	5
St. Lawrence Gas Company Inc.	(1)	—	—	(1)
Express-Platte Pipeline L.P.	—	—	(1)	(1)
Total	(119)	19	6	(94)
2016				
St Clair Pipelines 1996, a division of Westcoast	—	—	(2)	(2)
Pipeline and Field Services, a division of Westcoast	—	—	(4)	(4)
Spectra Energy Empress L.P.	—	21	—	21
Spectra Energy Gas Transmission LLC	—	—	21	21
Sarnia Airport Storage Pool Limited Partnership	—	4	—	4
Total	—	25	15	40

[a]Excludes compensation arrangements.

Net amounts due from (to) related parties are as follows:

($millions), net	**2017**	2016
Enbridge Gas Distribution Inc.	**11**	—
Tidal Energy Marketing Inc.	**1**	—
Spectra Energy Gas Transmission LLC	**(4)**	(1)
Enbridge Inc.	**(2)**	—
Westcoast Energy Inc.	**—**	(253)
Other	**1**	—
Total[a]	**7**	(254)

[a]At December 31, 2017, $9 million (2016 – $5 million) is recognized in Accounts payable and accrued charges, $16 million (2016 – $4 million) is recognized in Accounts receivable and other, and $nil (2016 – $253 million) is recognized in Short-term borrowings on the Balance Sheets.

LIQUIDITY AND CAPITAL RESOURCES

We invest surplus cash in short-term investment grade money market instruments with highly creditworthy counterparties.

We will rely upon cash flows from operations and various financing transactions, which may include issuances of short-term and long-term debt, capital contributions and utilization of loans from Westcoast and GLBE, to fund our liquidity and capital requirements. We have access to a revolving credit facility that is used principally as a back-stop for our commercial paper program, which supports our short-term working capital fluctuations and temporary funding of capital expenditures.

Changes in Cash Flow	For the Years Ended December 31,	
($millions)	**2017**	2016
Operating activities	**724**	439
Investing activities	**(1,030)**	(1,036)
Financing activities	**298**	619

Operating Activities

Union Gas' heating season extends from approximately November through March. We begin the heating season with near-capacity natural gas inventory levels which are drawn throughout the heating season. December year-end inventory levels decrease and thus contribute to a positive cash flow from operations during the first quarter. After the heating season ends, inventory is replenished for the next heating season. During the third quarter, gas inventory injections typically exceed withdrawals, negatively affecting cash flows. During the fourth quarter inventory decreases as withdrawals exceed injections.

Some of our customers purchase gas directly from marketers. Marketers typically deliver gas to us evenly throughout the year, whereas most of their customers use gas based on seasonality. As part of our normal billing process, we bill the marketers' customers as gas is used and remit this cash to the marketer when gas is delivered to us. Therefore, during the first and fourth quarters of the year, customers typically use more gas than is delivered to us and we collect cash from the marketers' customers creating a positive cash flow. During the second and third quarters, marketers deliver more gas than their customers use, thus creating a negative cash flow. These are normal seasonal trends.

Cash provided by operating activities increased primarily due to changes in working capital, specifically related to the GHG compliance obligations created by the Company's customers.

Investing Activities

Investing activities include capital expenditures for Property, plant and equipment and Intangible assets. The tables below are a summary of capital expenditures:

	For The Years Ended December 31,		
	2018	2017	2016
	(estimated)		
Storage and transmission	23%	61%	73%
Distribution	67%	33%	24%
General equipment	10%	6%	3%
Total capital expenditures	100%	100%	100%

	For The Years Ended December 31,		
($millions)	2018	2017	2016
	(estimated)		
Expansion projects	336	528	834
Maintenance projects	247	225	202
Total capital expenditures	583	753	1,036

Capital expenditures for 2017 were lower compared to 2016 primarily due to the Dawn to Parkway Expansion and Burlington-Oakville projects that were placed into service in 2016.

In 2017, the following key expansion projects were placed into service:

- 2017 Dawn to Parkway – A 0.4 Bcf/d expansion of the Dawn to Parkway transmission system consisting of the addition of a new 44,500 horsepower compressor at each of our Dawn, Lobo and Bright Compressor Stations, which were placed into service in the third and fourth quarters of 2017.
- Panhandle Reinforcement – 0.1 Bcf/d of transmission capacity along Union Gas' Panhandle System, meeting future residential, commercial and industrial demands along the Chatham and Windsor corridor. The project consisted of replacing 40 km of 16 inch pipe with 36 inch pipe and station modifications at Dawn and other Panhandle stations. The project went into service in November 2017.
- Community Expansion – Union Gas brought natural gas to two new communities in 2017, Lambton Shores and Kettle Point First Nation and Milverton. Approximately 60 kms of pipeline was installed which will enable us to attach over 1,000 customers.

The 2018 expansion capital expenditures reflect our continued assessment of the timing of projected long-term market requirements and general economic conditions. Significant 2018 expansion project expenditures are expected to include:

- Community Expansion – Plans are in place to provide natural gas to continue community expansion, with an additional three communities in 2018. All of these projects will enable long term organic growth.
- Sudbury Lateral – The 2018 Sudbury Lateral project entails the replacement of two separate sections of the pipeline originally installed in 1958. The construction involves replacing 19.8 km of the NPS 10 and NPS 12 pipeline with NPS 12 pipeline between Coniston Primary Station and Walden Town Border Station. The project will improve reliability on the Sudbury System and by increasing the diameter of the replacement line, allow for future growth.
- Kingsville Transmission Reinforcement – This pipeline project will provide 0.06 Bcf/d of capacity to serve firm demand growth along Union Gas' Panhandle System in southwestern Ontario. The project consists of the construction of a new 19 km NPS 20 pipeline originating at Union Gas' existing Panhandle Transmission pipeline and a new transmission station in the Kingsville area. The expected capital cost of this project is approximately $106 million and will be filed with the OEB in the first quarter of 2018. Subject to OEB approval of the facilities and related recovery under the Incremental Capital Module (ICM) included in the MAADs application, construction will begin in the spring of 2019 with an expected in-service date of November 1, 2019.

Consistent with 2017, the 2018 maintenance expenditures are for maintaining the integrity of existing pipelines and related infrastructure.

Investing activities in 2017 also included cash flows related to GHG compliance instruments obtained by the Company that will be used to relieve customers' GHG obligations following the completion of the initial compliance period of January 1, 2017 through December 31, 2020.

As outlined in the financing activities discussion that follows, we have sufficient financing available to meet our investing requirements. Management expects that financing of 2018 projects will be done through a combination of cash generated from operations, available debt facilities, capital contributions and issuance of long-term debt.

Financing Activities

The primary factors decreasing cash flow from financing activities for 2017 compared to 2016 was the repayment of short-term borrowings, partially offset by lower repayment of debt in 2017 compared to 2016, a $30 million capital contribution received from GLBE in 2017 and an increase in commercial paper.

The declaration of dividends on the Common shares is at the discretion of the Board. In order to maintain the common equity component of the capital structure at the level approved by the OEB, we typically pay dividends to our parent company based on net income, less earnings reinvested in expansion capital projects. For 2017, no dividends were paid to GLBE, due to our significant investment in expansion capital projects (2016 – $nil).

Available Credit Facility and Restrictive Debt Covenants

			Commercial Paper Debt Outstanding at	
($millions)	**Expiration Date**	**Credit Facility Capacity**	**December 31, 2017**	December 31, 2016
Multi-year syndicated[a]	2021	700	**485**	333

[a] The credit facility contains a covenant requiring the debt-to-total capitalization ratio, as defined in the agreement, to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year. The ratio was 67.6% at December 31, 2017 (December 31, 2016 – 69.0%). Commercial paper issuances, net of discount, are back-stopped by the credit facility.

This facility is intended to be used primarily to manage the significant changes in working capital experienced by Union Gas as a result of volumes and prices associated with natural gas purchases and sales. Most of the short-term cash requirements are funded through issuing commercial paper at rates generally below the lender's prime rate. Our 2017 commercial paper peaked in October at $700 million (2016 – peaked in December at $333 million).

The available credit facility carried a weighted average standby fee of 0.085% on the unused portion.

The issuance of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of December 31, 2017 and December 31, 2016 there were no letters of credit issued or revolving borrowings outstanding under the credit facility. The majority of our short-term cash requirements are funded through the issuance of commercial paper. The weighted average rate on outstanding commercial paper as of December 31, 2017 was 1.28% (2016 – 0.87%). The weighted average days to maturity on outstanding commercial paper as of December 31, 2017 was fourteen days (2016 – 8 days).

Our credit agreement contains various financial and other covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreement. As of December 31, 2017 and December 31, 2016, we were in compliance with those covenants. In addition, the credit agreement allows for the acceleration of payments or termination of the agreement due to non-payment, or in some cases, due to the acceleration of other significant indebtedness of the borrower.

Total interest paid on short term debt in 2017 was $6 million (2016 – $1 million).

Union Gas and certain affiliates have, in aggregate, access to a $400 million demand letter of credit facility. As of December 31, 2017, Union Gas had no outstanding letters of credit under this facility.

Other Financing Matters

We maintain a current base shelf prospectus with the Canadian securities regulators, which enables ready access to Canadian public debt capital markets. On March 28, 2017, we filed a new $1.5 billion base shelf prospectus which provides for the issuance of medium-term note debentures. The new shelf prospectus replaces the previous one that expired on January 4, 2017. As of December 31, 2017, we had $1 billion available for the issuance of medium-term note debentures under the base shelf prospectus, which expires on April 28, 2019.

In November 2017, we issued $250 million of unsecured 2.88% medium-term note debentures, due November 2027 and $250 million of unsecured 3.59% medium-term note debentures, due November 2047. Net proceeds from the offerings were used for repayment of short-term debt and debt maturities, capital expenditures and general corporate purposes.

OUTSTANDING SHARES[(a)]

	December 31, 2017	December 31, 2016
Preferred Shares		
5.5% Cumulative Redeemable Class A Preferred Shares, Series A	**47,672**	47,672
6% Cumulative Redeemable Class A Preferred Shares, Series B	**90,000**	90,000
5% Cumulative Redeemable Class A Preferred Shares, Series C	**49,500**	49,500
4.88% Cumulative Redeemable Convertible Class B Preferred Shares, Series 10	**4,000,000**	4,000,000
Common shares	**57,822,650**	57,822,650

(a) Outstanding share information is provided as of February 16, 2018.

CONTINGENCIES AND COMMITMENTS

Environmental, Health and Safety

In April 2016, the MOECC issued a Director’s Order (Order) naming Union Gas, along with other parties, as an impacted property owner in connection with a contaminated site adjacent to a property of Union Gas in Hamilton. In May 2016, Union Gas appealed the Order, and in June 2016, the Environmental Review Tribunal (Tribunal), on consent of the MOECC’s Director, stayed the application of parts of the Order. The Tribunal has extended the stay of the Order several times, which has allowed the owner of the property (with the cooperation of the adjacent owners) to prepare a plan of action, including discussions with the MOECC and other neighbours (City of Hamilton and Infrastructure Ontario). Union Gas continues to monitor the matter, and to cooperate with the owner of the source property, the MOECC and other adjacent owners. The risk of material environmental liability is unknown at this time.

Contractual Obligations

The table below is a summary of our contractual payment obligations, due by period.

($millions)	Total	2018	2019-2020	2021-2022	Thereafter
Long-term debt [a]	6,503	570	294	607	5,032
Operating leases	33	7	13	13	—
Purchase obligations[b]	2,407	509	473	311	1,114
Retirement plan contributions[c]	20	20	—	—	—
Total contractual obligations[d]	8,963	1,106	780	931	6,146

[a] Includes estimated scheduled interest payments over the life of the associated debt.

[b] Includes: firm capacity payments that provide us with uninterrupted firm access to natural gas transportation and storage; contractual obligations to purchase physical quantities of natural gas; contracts for software and consulting or advisory services; and contractual obligations for engineering, procurement and construction costs for pipeline projects. Due to a timing uncertainty, all procurement obligations have been included in 2018 as we are unable to reasonably estimate the payments due by period.

[c] We are unable to reasonably estimate retirement plan contributions beyond 2018 due primarily to uncertainties about market performance of plan assets.

[d] Excludes cash obligations for asset retirement activities. The amount of cash flows to be paid to settle the asset retirement obligations is not known with certainty as Union Gas may use internal resources or external resources to perform retirement activities. Amounts also exclude reserves for litigation, environmental remediation, annual insurance premiums that are necessary to operate the business and regulatory liabilities because Union Gas is uncertain as to the amount and/or timing of when cash payments will be required. Also, amounts exclude deferred income taxes and investment tax credits on the Balance Sheets since cash payments for income taxes are determined based primarily on taxable income for each discrete fiscal year. Our analysis also indicated that there are no expected payments and interest related to uncertain tax positions for 2018. We are unable to reasonably estimate the timing of uncertain tax positions and interest payments in years beyond 2018 due to uncertainties in the timing of cash settlements with taxing authorities.

NEW ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

Accounting Standards Update (ASU) 2014-09 was issued in May 2014 with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the present standards along with additional disclosures. The new standard is effective January 1, 2018. The new standard permits either a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption.We have decided to adopt the revenue standard using the modified retrospective method.

We have reviewed our revenue contracts in order to evaluate the effect of the new standard on our revenue recognition practices. Based on our assessment, we do not anticipate any material differences in the amount or timing of revenue recognition under the new standard.

In addition, we are also in the process of implementing appropriate changes to business processes, systems and controls to support the recognition and disclosure requirements of the new standard and we have developed and tested processes to generate the new disclosures which will be required commencing in the first quarter of 2018.

Recognition and Measurement of Financial Assets and Liabilities

ASU 2016-01 was issued in January 2016 with the intent to address certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative, and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investments of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using exit price. The accounting update is effective January 1, 2018 and will be applied on a prospective basis. We do not expect the adoption of this accounting update to have a material impact on our Financial Statements.

Recognition of Leases

ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease agreements to recognize key lease assets and lease liabilities on the Balance Sheet and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset.We are currently gathering a complete inventory of our lease contracts in order to assess the impact of the new standard on our Financial Statements. The accounting update is effective January 1, 2019 and will be applied using a modified retrospective approach.

Improvements to Employee Share-Based Payment Accounting

Effective January 1, 2017, we adopted ASU 2016-09 and applied certain amendments on a modified retrospective basis with the remaining amendments applied on a prospective basis. The new standard was issued with the intent of simplifying and improving several aspects of accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the Statement of Cash Flows. The adoption of the pronouncement did not have a material impact on our Financial Statements.

Accounting for Credit Losses

ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board believes will result in more timely recognition of such losses. We are currently assessing the impact of the new standard on our Financial Statements. The accounting update is effective January 1, 2020.

Simplifying Cash Flow Classification

ASU 2016-15 was issued in August 2016 with the intent of reducing diversity in practice of how certain cash receipts and cash payments are classified in the Statement of Cash Flows. The new guidance addresses eight specific presentation issues. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis. We have assessed the eight specific presentation issues and the adoption of this accounting standard does not have a material impact on our Financial Statements.

Clarifying the Presentation of Restricted Cash in the Statement of Cash Flows

ASU 2016-18 was issued in November 2016 with the intent to clarify guidance on the classification and presentation changes in Restricted cash and restricted cash equivalents within the Statement of Cash Flows. The amendments require that changes in Restricted cash and restricted cash equivalents be included with Cash and cash equivalents when reconciling the opening and closing period amounts shown on the Statement of Cash Flows. We currently present the changes in Restricted cash and restricted cash equivalents under operating activities in the Statement of Cash Flows. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis. We will amend the presentation in the Statement of Cash Flows to include restricted cash and restricted cash equivalents with Cash and cash equivalents and we will retrospectively reclassify all periods presented.

Improving the Presentation of Net Periodic Benefit Cost related to Defined Benefit Plans

ASU 2017-07 was issued in March 2017 primarily to improve the income statement presentation of the components of net periodic pension cost and net periodic postretirement benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. In addition, only the service-cost component of net benefit cost is eligible for capitalization. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis for the income statement presentation component and on a prospective basis for the capitalization component. We do not expect the adoption of this accounting update to have a material impact on our Financial Statements.

Clarifying Guidance on the Application of Modification Accounting on Stock Compensation

ASU 2017-09 was issued in May 2017 with the intent to clarify the scope of modification accounting and when it should be applied to a change to the terms or conditions of a share based payment award. Under the new guidance, modification accounting is required for all changes to share based payment awards, unless all of the following are met: 1) there is no change to the fair value of the award, 2) the vesting conditions have not changed, and 3) the classification of the award as an equity instrument or a debt instrument has not changed. The accounting update is effective January 1, 2018 and will be applied on a prospective basis. We do not expect the adoption of this accounting update to have a material impact on our Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

We have established and maintained disclosure controls and procedures designed to provide reasonable assurance that: (a) material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management, with the participation of the President and Vice President, Finance, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017, and, based upon this evaluation, the President and the Vice President, Finance have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), are effective for the purposes set out above.

Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with U.S. GAAP. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Our management, with the participation of our President and Vice President, Finance, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by NI 52-109, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the President and Vice President, Finance, we have evaluated changes in internal control over financial reporting that occurred during the fiscal quarter and year ended December 31, 2017 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Our Board has reviewed and approved this MD&A and the attached audited Financial Statements prior to their release.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

The application of accounting policies and estimates is an important process that continues to evolve as Union Gas' operations change and accounting guidance is issued. Union Gas has identified a number of critical accounting policies and estimates that require the use of significant estimates and judgments.

Management bases its estimates and judgments on historical experience and on other various assumptions that they believe are reasonable at the time of application. The estimates and judgments may change as time passes and more information becomes available. If estimates and judgments are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information. Union Gas discusses its critical accounting policies and estimates and other significant accounting policies with senior members of management and the Board.

Regulatory Accounting

The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers or recording liabilities for amounts that are expected to be returned to customers or for instances where the regulator provides current rates that are intended to recover costs that are expected to be incurred in the future. Accordingly, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under U.S. GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders to other regulated entities and the effect of competition. Based on this assessment, we believe our existing regulatory assets are probable of recovery. Total regulatory assets were $604 million as of December 31, 2017 and $557 million as of December 31, 2016. Total regulatory liabilities were $480 million as of December 31, 2017 and $430 million as of December 31, 2016.

Unbilled Revenue

Revenues from the transportation, storage, distribution and sales of natural gas are recognized when either the service is provided or the product is delivered. Revenues related to these services provided or products delivered but not yet billed are estimated each month. Gas sales and distribution revenue and gas commodity costs are recorded on the basis of regular meter readings and estimates of the unbilled customer usage. The unbilled estimate covers the period of the last meter reading date to the end of each month and is calculated using the number of days unbilled, heating degree-days and historical consumption per heating degree-day. Unbilled revenue recorded at December 31, 2017 was $202 million (2016 – $133 million) which was included in Accounts receivable and other on the Balance Sheets. Included in unbilled revenue are natural gas costs passed through to customers without a mark-up. At December 31, 2017 $116 million (2016 – $78 million) was included in unbilled revenue for the cost of natural gas.

Pension and Other Postretirement Benefits

The calculations of pension and other postretirement expense and liabilities require the use of numerous assumptions. Changes in these assumptions can result in different reported expense and liability amounts, and future actual experience can differ from the assumptions. We believe that the most critical assumptions used in the accounting for pension and OPEBs are the expected long-term rate of return on plan assets, the assumed discount rate and the medical and prescription drug cost trend rate assumptions.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension and postretirement plans will impact future pension expense and funding.

The expected return on plan assets is important since certain pension plans are funded. Expected long-term rates of return on plan assets are developed by using a weighted average of expected returns for each asset class to which the plan assets are allocated. For 2017, the assumed average return for the pension plan assets was 6.90%. The OPEB plans are not funded.

Since pension and OPEB costs and obligations are measured on a discounted basis, the discount rates used to determine the net periodic benefit cost and the benefit obligation are significant assumptions. Discount rates used for our defined benefit and OPEB plans are based on the yields constructed from a portfolio of high-quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plans. A discount rate of 3.81% was used to calculate the 2017 net benefit cost, and represents a weighted average of the applicable rates. A discount rate of 3.53% was used to calculate the 2017 year-end benefit obligation and represents a weighted average of the applicable rates. The weighted average discount rate used to determine the benefit obligation decreased approximately 0.28% during 2017. The decrease in the benefit obligation discount rate and actuarial experience during 2017 resulted in an increase in benefit obligation at December 31, 2017 compared to December 31, 2016.

The following sensitivity analysis identifies the impact on the December 31, 2017 Financial Statements of a 0.5% change in key pension and OPEB assumptions.

	Pension		**OPEB**	
($millions)	Obligation	Expense	Obligation	Expense
Decrease in discount rate	64	5	5	—
Decrease in expected return on assets	—	4	N/A	N/A
Decrease in rate of salary increase	(9)	(2)	—	—

Asset Retirement Obligations

There is considerable judgment and measurement uncertainty in determining the value of the asset retirement obligations, Union Gas must estimate such factors as timing of settlements and abandonment or remediation costs. These estimates require extensive judgment about the nature, cost and timing of the settlement. Any changes in the estimates can impact the Asset retirement obligations and Property, plant and equipment, net. To arrive at the timing of settlements of abandoning pipelines, Union Gas uses historical results to predict future costs and other significant inputs into the calculation.

The Financial Statements and all information in this report have been prepared by and are the responsibility of management. The Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America and include certain estimated amounts, which are based on informed judgements to ensure fair representation in all material respects. When alternative accounting methods exist, management has chosen those it considers most appropriate.

Management depends upon Union Gas Limited's system of internal controls and formal policies and procedures to ensure the consistency, integrity and reliability of accounting and financial reporting and to provide reasonable assurance that assets are safeguarded and that transactions are properly executed in accordance with management's authorization. Management is also supported and assisted by a program of internal audit services.

The Board of Directors (the Board) is responsible for ensuring that management fulfils its responsibility for financial reporting and for final approval of the Financial Statements.

The Board meets regularly with management, the internal auditors and the shareholders' auditors to review the Financial Statements, the Independent Auditor's Report and other auditing and accounting matters to ensure that each group is properly discharging its responsibilities.

The shareholders' auditors have full and free access to the Board, as does the Director of Internal Audit Services.

PricewaterhouseCoopers LLP performed an independent audit of the 2017 Financial Statements, as described in their Independent Auditor's Report.

Deloitte LLP performed an independent audit of the 2016 Financial Statements, as described in their Independent Auditor's Report, included in the 2016 Annual Report.

February 16, 2018

Stephen W. Baker	Wendy H. Zelond
President	Vice President, Finance

February 16, 2018

Independent Auditor's Report

To the Shareholders of
Union Gas Limited

We have audited the accompanying financial statements of Union Gas Limited, which comprise the balance sheet as at December 31, 2017 and the statement of operations and comprehensive income, equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Union Gas Limited as at December 31, 2017 and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter
The financial statements at December 31, 2016 and for the year then ended, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in their report dated February 26, 2017.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the Years Ended December 31 ($millions)	**2017**	2016
Revenues		
Gas sales and distribution revenue	**1,873**	1,529
Storage and transportation revenue (note 11)	**363**	299
Other revenue	**24**	21
Total Revenues	**2,260**	1,849
Expenses		
Gas commodity, storage and transportation costs (note 11)	**1,070**	738
Operating and maintenance (note 11)	**428**	414
Depreciation and amortization	**265**	239
Property taxes and other	**75**	71
Total Expenses	**1,838**	1,462
Income before interest and income taxes	**422**	387
Interest expense (notes 11 and 12)	**171**	161
Income before income taxes	**251**	226
Income tax expense (note 6)	**16**	21
Net income	**235**	205
Preferred shares dividends	**3**	3
Net income applicable to common shares	**232**	202
Other comprehensive loss, net of tax		
Pension and benefits impact (net of tax of (3) and (3) respectively) (note 15)	**(9)**	(7)
Comprehensive income applicable to common shares	**223**	195

The accompanying notes are an integral part of these Financial Statements.

BALANCE SHEETS

As at December 31 ($millions)	**2017**	2016
Assets		
Current assets		
Cash and cash equivalents	**19**	27
Restricted cash (note 3)	**13**	15
Accounts receivable and other (notes 2, 4 and 11)	**759**	801
Income taxes receivable (note 6)	**38**	29
Inventories (note 2 and 5)	**163**	245
Total current assets	**992**	1,117
Property, plant and equipment, net (note 7)	**6,913**	6,426
Intangible assets, net (note 8)	**368**	82
Regulatory and other assets (notes 2 and 9)	**643**	602
Total Assets	**8,916**	8,227
Liabilities and Equity		
Current liabilities		
Short-term borrowings (note 11)	**—**	253
Commercial paper (note 12)	**485**	333
Accounts payable and accrued charges (notes 10 and 11)	**730**	878
Current maturities of long-term debt (note 12)	**400**	125
Total current liabilities	**1,615**	1,589
Long-term liabilities		
Long-term debt (note 12)	**3,393**	3,295
Deferred income taxes (note 6)	**564**	516
Asset retirement obligations (note 16)	**399**	417
Regulatory and other liabilities (notes 2 and 9)	**884**	602
Total long-term liabilities	**5,240**	4,830
Total Liabilities	**6,855**	6,419
Preferred Shares (note 13)	**110**	110
Equity		
Common shares, unlimited shares authorized, 57,822,650 outstanding (note 14)	**657**	627
Retained earnings	**1,485**	1,253
Accumulated other comprehensive loss	**(195)**	(186)
Paid-in capital	**4**	4
Total Equity	**1,951**	1,698
Total Liabilities and Equity	**8,916**	8,227

The accompanying notes are an integral part of these Financial Statements.

Approved by the Board

Director

Director

STATEMENTS OF CASH FLOWS

For the Years Ended December 31 ($millions)	**2017**	2016
Operating Activities		
Net income	**235**	205
Items not affecting cash		
Depreciation and amortization	**268**	239
Loss on disposal of assets	**—**	1
Deferred income taxes	**(17)**	8
Changes in working capital (note 20)	**238**	(14)
Net cash provided by operating activities	**724**	439
Investing Activities		
Additions to property, plant and equipment	**(725)**	(1,012)
Additions to intangibles	**(305)**	(24)
Net cash used in investing activities	**(1,030)**	(1,036)
Financing Activities		
Net (decrease) increase in short-term borrowings	**(253)**	197
Net increase in commercial paper	**152**	126
Long-term debt issued, net of issue costs	**497**	499
Long-term debt repayments	**(125)**	(200)
Capital contribution received	**30**	—
Dividends paid	**(3)**	(3)
Net cash provided by financing activities	**298**	619
Change in cash and cash equivalents, during the year	**(8)**	22
Cash and cash equivalents, beginning of year	**27**	5
Cash and cash equivalents, end of year	**19**	27
Supplementary Disclosure of Cash Flow Information:		
Cash payments of interest, net of amounts capitalized	**169**	158
Cash payments of income taxes, net of refunds received	**34**	9
Property, plant and equipment noncash accruals	**9**	24

The accompanying notes are an integral part of these Financial Statements.

STATEMENTS OF EQUITY

($millions)	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Paid-in Capital	Total
December 31, 2016	627	1,253	(186)	4	1,698
Net income	—	235	—	—	235
Other comprehensive loss	—	—	(9)	—	(9)
Capital contribution received (note 14)	30	—	—	—	30
Dividends					
Preferred shares	—	(3)	—	—	(3)
December 31, 2017	657	1,485	(195)	4	1,951
December 31, 2015	627	1,051	(179)	4	1,503
Net income	—	205	—	—	205
Other comprehensive loss	—	—	(7)	—	(7)
Dividends					
Preferred shares	—	(3)	—	—	(3)
December 31, 2016	627	1,253	(186)	4	1,698

The accompanying notes are an integral part of these Financial Statements.

UNION GAS LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. Summary of Operations and Significant Accounting Policies

The terms "Union Gas" or "the Company" as used in these Financial Statements refer to Union Gas Limited unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Union Gas. Union Gas' common shares are held by Great Lakes Basin Energy L.P. (GLBE), a wholly-owned limited partnership of Westcoast Energy Inc. (Westcoast). Westcoast is an indirect wholly-owned subsidiary of Spectra Energy Corp (Spectra Energy).

On February 27, 2017 Enbridge Inc. (Enbridge) and Spectra Energy completed a stock-for-stock merger transaction (the Merger) pursuant to which Enbridge acquired all of the issued and outstanding common shares of Spectra Energy. As a result of the Merger, Enbridge and its subsidiaries own Union Gas through their ownership of Spectra Energy.

Nature of Operations

Union Gas owns and operates natural gas distribution, storage and transmission facilities in Ontario. The Company distributes natural gas to customers in northern, southwestern and eastern Ontario and provides natural gas storage and transportation services for other utilities and energy market participants. The property, plant and equipment of the Company consist primarily of pipeline, storage and compression facilities used in the distribution, storage and transportation of natural gas.

Basis of Presentation

The Financial Statements of the Company include the standalone accounts of the Company and have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). All amounts are presented in millions of Canadian dollars except where noted.

In 2014, Canadian securities regulators approved the extension of the Company's exemptive relief to continue reporting under U.S. GAAP instead of International Financial Reporting Standards (IFRS) until the earlier of January 1, 2019, and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

Use of Estimates

The preparation of the Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Significant estimates and assumptions used in the preparation of the Financial Statements include, but are not limited to: estimates of revenue; carrying values of regulatory assets and liabilities; unbilled revenues; depreciation rates and carrying value of property, plant and equipment; amortization rates and carrying value of intangible assets; fair value of financial instruments; provisions for income taxes; assumptions used to measure retirement and Other Postretirement Benefits (OPEB); commitments and contingencies; and fair value of Asset Retirement Obligations (ARO). Actual amounts could differ from these estimates.

Regulation

The Company is regulated by the Ontario Energy Board (OEB) pursuant to the provisions of the *Ontario Energy Board Act, (1998)*, which is part of a package of legislation known as the *Energy Competition Act, (1998)*. This legislation provides an opportunity for different forms of regulation and increased competition in the energy (electricity and natural gas) industry in Ontario. The Company is subject to regulation with respect to the rates that it may charge its customers, system expansion or facility abandonment, adequacy of service, public safety aspects of pipeline system construction and certain accounting principles. The OEB has determined that it will forbear from regulating the prices for long-term storage services. The Storage Forbearance Decision created an unregulated storage operation within the Company and provides the framework required to support new storage investments.

The OEB is mandated to approve rates that are just and reasonable. Utility earnings are regulated by the OEB under cost of service regulation, on the basis of a return on rate base for a future period. Under cost of service regulation, a rate application process leads to the implementation of new rates intended to provide a utility with the opportunity to earn an allowed rate of return. The actual rate of return achieved by the Company may vary from the rate allowed by the OEB as a result of unexpected changes in weather, average use per customer, inflation, the price of competing fuels, interest rates, general economic conditions and its ability to achieve forecasted revenues and manage costs.

Effective January 1, 2014, the Company began a five year incentive regulation term. The incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts.

As part of the Company’s OEB-approved incentive regulation framework, an earnings sharing mechanism exists whereby earnings in excess of 100 basis points above the benchmark return on equity are shared with ratepayers as a reduction in earnings during the year, if applicable.

The Company follows U.S. GAAP, which may differ for regulated operations from those otherwise expected in non rate-regulated businesses. As a result, the Company records assets and liabilities that result from the regulated ratemaking process that may not be recorded under U.S. GAAP for non rate-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Management believes the existing regulatory assets are probable of recovery. This determination reflects the current political and regulatory climate at the provincial and national levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the asset write-offs could be recognized in current period earnings.

Revenue Recognition

Revenues from the transportation, storage, distribution and sales of natural gas are recognized when either the service is provided or the product is delivered and collection is reasonably assured. Revenues related to these services provided or products delivered but not yet billed are estimated each month. Estimates are based on historical consumption patterns and heating degree days experienced. Heating degree days is a measure of coldness that is indicative of volumetric requirements for natural gas utilized for heating purposes in the Company's franchise areas.

Gas Sales and Cost of Gas

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer volume usage since the last meter reading date to the end of the reporting period applied using OEB approved rates. Cost of gas is recorded using amounts approved by the OEB in the determination of customer sales rates. Differences between the OEB approved reference amounts and those costs actually incurred are deferred on the Balance Sheets for future disposition subject to approval by the OEB.

In determining the quantities of gas delivered and received, differences arise from the measurement process. The Company includes in the cost of gas an estimated amount of these differences based upon the methodology used by the OEB in the determination of rates for storage, transmission and distribution of gas. Annual fluctuations from the estimated level are recognized in earnings during the year.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments, with an original maturity of three months or less.

Derivative Instruments and Hedging

Cash Flow Hedges

The Company uses cash flow hedges to manage its exposure to changes in currency exchange rates related to unregulated storage revenues. The effective portion of the change in the fair value of a cash flow hedging instrument is recorded under Other comprehensive income/loss (OCI) and is reclassified to earning when the hedged item impacts earnings. Any hedge ineffectiveness is recorded in current period earnings.

If a derivative instrument designated as a cash flow hedge ceases to be effective or is terminated, hedge accounting is discontinued and the gain or loss at that date is deferred in OCI and is recognized concurrently with the related transaction. If a hedged anticipated transaction is no longer probable, the gain or loss is recognized immediately in earnings. Subsequent gains and losses from derivative instruments for which hedge accounting has been discontinued are recognized in earnings in the period in which they occur.

Classification of Derivatives

The Company recognizes the fair value of derivative instruments on the Balance Sheet as current and long-term assets or liabilities depending on the timing of the settlements and the resulting cash flows associated with the instruments. Fair value amounts related to cash flows occurring beyond one year are classified as non-current.

Cash inflows and outflows related to derivative instruments are classified as Operating activities on the Statement of Cash Flows.

Income Taxes

The liability method of accounting for income taxes is followed. Deferred income tax assets and liabilities are recorded based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Deferred income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse. For the Company's regulated operations, a deferred income tax liability is recognized with a corresponding regulatory asset to the extent taxes can be recovered through rates. Any interest and/or penalty incurred related to tax is reflected in Income tax expense.

Inventories

Gas in storage for resale to customers is carried at reference prices approved by the OEB in the determination of customer sales rates. The difference between the approved cost and the actual cost of the gas purchased is deferred on the Balance Sheets for future disposition subject to approval by the OEB. Inventories of materials and supplies are valued at the lower of average cost or net realizable value.

Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at historical cost less accumulated depreciation and amortization. The Company capitalizes all construction-related direct labour and material costs, as well as indirect construction costs. Indirect costs include general engineering and the cost of funds used during construction. The costs of renewals and betterments that extend the useful life or increase the expected output of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects that do not extend the useful life or increase the expected output of property, plant and equipment are expensed as incurred.

Regulated depreciation is computed based on the asset's average service life using the straight-line method. Unregulated depreciation is computed based on management's assumption of useful life using the straight-line method.

When regulated property, plant and equipment is retired, the original cost plus the cost of retirement, less salvage value, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated property, plant and equipment is retired, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the applicable regulatory body.

Intangible Assets

Intangible assets consists of computer software and greenhouse gas (GHG) compliance instruments. The GHG compliance instruments are purchased by the Company for itself and most of its customers in order to meet Cap and Trade compliance obligations in the Province of Ontario (the Province). Purchased GHG compliance instruments are recorded at their original cost and are not amortized, as they will be used to satisfy compliance obligations as they come due. Computer software is amortized on a straight line basis.

Asset Retirement Obligations

The Company recognizes AROs for legal commitments associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal use of the asset and conditional AROs in which the timing or method of settlement are conditional on a future event that may or may not be within the Company's control. The fair value of a liability for an ARO is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and is added to the carrying amount of the associated asset. This additional carrying amount is depreciated over the estimated useful life of the asset.

Stock-Based Compensation

Union Gas employees participate in a stock-based compensation plan sponsored by Enbridge, subsequent to the Merger. For employee awards, equity-classified and liability-classified stock-based compensation cost is measured at the grant date based on the fair value of the award. Liability classified stock-based compensation cost is re-measured at each reporting period until settlement. Related compensation expense is recognized over the requisite service period, which generally begins on the date the award is granted through the earlier of the date the award vests, the date the employee becomes retirement-eligible, or the date the award market condition is met. Awards, including stock options, granted to employees that are already retirement-eligible are deemed to have vested immediately upon issuance, and therefore, compensation cost for those awards is recognized on the date such awards are granted.

Pension and Other Postretirement Benefits

The Company maintains pension plans which provide defined benefit and defined contribution pension benefits.

Defined benefit pension plan costs are determined using actuarial methods and are funded through contributions determined using the projected benefit method, which incorporates management's best estimates of future salary levels, other cost escalations, retirement ages of employees and other actuarial factors including discount rates and mortality.

The Company determines discount rates by reference to rates of high-quality long-term corporate bonds with maturities that approximate the timing of future payments the Company anticipates making under each of the respective plans. Net benefit cost is charged to earnings and includes:

- Cost of pension plan benefits provided in exchange for employee services rendered during the year;
- Interest cost of pension plan obligations;
- Expected return on pension plan assets;

- Amortization of the prior service costs and amendments on a straight-line basis over the expected average remaining service period of the active employee group covered by the plans; and
- Amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, over the expected average remaining service life of the active employee group covered by the plans.

Actuarial gains and losses arise from the difference between actual vs. expected plan experience, which include differences between the expected rate of return on plan assets and the actual rate of return for that period, differences in salary, inflation, retirement and termination experience. The actuarial gains and losses also include the impact of changes in the actuarial assumptions used to determine the accrued benefit obligation from one year end to the other.

Pension plan assets are measured at fair value. The expected return on pension plan assets is determined using market related values and assumptions on the specific invested asset mix within the pension plans. The market related values reflect estimated return on investments consistent with long-term historical averages for similar assets.

The Company also maintains supplemental pension plans that provide pension benefits in excess of the basic plans for certain employees.

For defined contribution plans, contributions made by the Company are expensed in the period in which the contribution occurs.

The Company also provides Postretirement benefits other than pensions, including group health care and life insurance benefits for eligible retirees, their spouses and qualified dependents. The cost of such benefits is accrued during the years in which employees render service.

The overfunded or underfunded status of defined benefit pension and Postretirement benefit plans is recognized as Regulatory and other assets, Accounts payable and accrued charges, or Regulatory and other liabilities on the Balance Sheets. A plan's funded status is measured as the difference between the fair value of plan assets and the plan's projected benefit obligation. Any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of OCI, net of tax, until they are amortized to be recognized as a component of benefit expense within Operating and maintenance expenses in the Statements of Operations and Comprehensive Income. See note 15 for further discussion.

Commitments and Contingencies

Liabilities for other commitments and contingencies are recognized when, after fully analyzing available information, the Company determines it is either probable that an asset has been impaired, or a liability has been incurred, and the amount of the impairment or loss can be reasonably estimated. When a range of probable loss can be estimated, the Company recognizes the most likely amount, or if no amount is more likely than another, the minimum of the range of probably loss is accrued. The Company expenses legal costs associated with loss contingencies as such costs are incurred.

New Accounting Pronouncements

Revenue from Contracts with Customers

Accounting Standards Update (ASU) 2014-09 was issued in May 2014 with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the present standards in addition to additional disclosures. The new standard is effective January 1, 2018. The new standard permits either a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption. The Company has decided to adopt the revenue standard using the modified retrospective method.

The Company has reviewed its revenue contracts in order to evaluate the effect of the new standard on its revenue recognition practices. Based on this assessment, the Company does not anticipate any material differences in the amount or timing of revenue recognition under the new standard.

In addition, the Company is in the process of implementing appropriate changes to business processes, systems and controls to support the recognition and disclosure requirements of the new standard and has developed and tested processes to generate the new disclosures which will be required commencing in the first quarter of 2018.

Recognition and Measurement of Financial Assets and Liabilities

ASU 2016-01 was issued in January 2016 with the intent to address certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative, and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investments of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using exit price. The accounting update is effective January 1, 2018 and will be applied on a prospective basis. The Company does not expect the adoption of this accounting update to have a material impact on the Company's Financial Statements.

Recognition of Leases

ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease agreements to recognize key lease assets and lease liabilities on the Balance Sheet and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. The Company is currently gathering a complete inventory of its lease contracts in order to assess the impact of the new standard on the Company's Financial Statements. The accounting update is effective January 1, 2019 and will be applied using a modified retrospective approach.

Improvements to Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted ASU 2016-09 and applied certain amendments on a modified retrospective basis with the remaining amendments applied on a prospective basis. The new standard was issued with the intent of simplifying and improving several aspects of accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the Statement of Cash Flows. The adoption of the pronouncement did not have a material impact on the Company's Financial Statements.

Accounting for Credit Losses

ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board believes will result in more timely recognition of such losses. The Company is currently assessing the impact of the new standard on the Company's Financial Statements. The accounting update is effective January 1, 2020.

Simplifying Cash Flow Classification

ASU 2016-15 was issued in August 2016 with the intent of reducing diversity in practice of how certain cash receipts and cash payments are classified in the Statement of Cash Flows. The new guidance addresses eight specific presentation issues. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis. The Company has assessed the eight specific presentation issues and the adoption of this accounting standard does not have a material impact on the Company's Financial Statements.

Clarifying the Presentation of Restricted Cash in the Statement of Cash Flows

ASU 2016-18 was issued in November 2016 with the intent to clarify guidance on the classification and presentation changes in Restricted cash and restricted cash equivalents within the Statement of Cash Flows. The amendments require that changes in Restricted cash and restricted cash equivalents be included with Cash and cash equivalents when reconciling the opening and closing period amounts shown on the Statement of Cash Flows. The Company currently presents the changes in Restricted cash and restricted cash equivalents under operating activities in the Statement of Cash Flows. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis. The Company will amend the presentation in the Statement of Cash Flows to include restricted cash and restricted cash equivalents with Cash and cash equivalents and the Company will retrospectively reclassify all periods presented.

Improving the Presentation of Net Periodic Benefit Cost related to Defined Benefit Plans

ASU 2017-07 was issued in March 2017 primarily to improve the income statement presentation of the components of net periodic pension cost and net periodic postretirement benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. In addition, only the service-cost component of net benefit cost is eligible for capitalization. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis for the income statement presentation component and on a prospective basis for the capitalization component. The Company does not expect the adoption of this accounting update to have a material impact on the Company's Financial Statements.

Clarifying Guidance on the Application of Modification Accounting on Stock Compensation

ASU 2017-09 was issued in May 2017 with the intent to clarify the scope of modification accounting and when it should be applied to a change to the terms or conditions of a share based payment award. Under the new guidance, modification accounting is required for all changes to share based payment awards, unless all of the following are met: 1) there is no change to the fair value of the award, 2) the vesting conditions have not changed, and 3) the classification of the award as an equity instrument or a debt instrument has not changed. The accounting update is effective January 1, 2018 and will be applied on a prospective basis. The Company does not expect the adoption of this accounting update to have a material impact on the Company's Financial Statements.

2. Regulatory Matters

Regulatory Assets and Liabilities

The Company recorded the following assets and liabilities that result from the regulated ratemaking process that would not be recorded under U.S. GAAP for non-regulated entities. See note 1 for further discussion.

($millions)	Financial Statement Location	**December 31, 2017**	December 31, 2016	Recovery/Settlement Period
Regulatory assets[a]				
Non-gas commodity deferrals	Accounts receivable and other	**74**	82	Less than 1 year
Gas in storage inventory[b]	Inventories	**—**	13	Less than 1 year
Deferred income taxes – long-term[c] [d]	Regulatory and other assets	**530**	462	Over the remaining life of the assets
Total regulatory assets		**604**	557	
Regulatory liabilities[a]				
Deferred income taxes – current[c]	Accounts payable and accrued charges	**7**	7	Less than 1 year
Non-gas commodity deferrals	Accounts payable and accrued charges	**16**	16	Less than 1 year
Gas cost deferrals[e]	Accounts payable and accrued charges	**4**	13	Less than 1 year
Gas in storage inventory[b]	Inventories	**21**	—	Less than 1 year
Asset removal costs[c] [f]	Regulatory and other liabilities	**432**	394	Over the remaining life of the assets
Total regulatory liabilities		**480**	430	

[a] All regulatory assets and liabilities are excluded from rate base unless otherwise noted.

[b] Gas in storage is recorded at reference prices approved by OEB. In the absence of rate-regulation, inventory would be valued at the lower of cost or market value.

[c] All or a portion of the balance is included in rate base.

[d] Under the current OEB-authorized rate structure, income tax costs are recovered in rates based on the current income tax payable and do not include accruals for deferred income tax. However, as income taxes become payable as a result of the reversal of timing differences that created the deferred income taxes, it is expected that rates will be adjusted to recover these taxes. Since substantially all of these timing differences are related to property, plant and equipment costs, recovery of these regulatory assets is expected to occur over the life of those assets.

[e] These regulatory liabilities represent gas cost collections from customers under approved rates that vary from the actual cost of gas for the associated periods. The Company files an application quarterly with the OEB to ensure that customers' rates are updated to reflect published forward-market prices. The difference between the approved and actual cost of gas is deferred for future repayment to or refund from customers.

[f] These regulatory liabilities represent collections from customers under approved rates for future asset removal activities that are expected to occur associated with its regulated facilities.

Rate Related Information

The Company's distribution rates, beginning January 1, 2014 are set under a five-year incentive regulation framework. The incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts. The framework allows for:

- annual inflationary rate increases, offset by a productivity factor of 60% of inflation, such that the annual net rate escalator in each year is 40% of inflation,
- rate increases or decreases in the small volume customer classes where average use declines or increases,

- certain adjustments to base rates,
- the continued pass-through of gas commodity, upstream transportation and demand side management costs,
- the additional pass-through of costs associated with major capital investments and certain fuel variances,
- an allowance for unexpected cost changes that are outside of management's control,
- equal sharing of tax changes between the Company and its customers, and
- an earnings sharing mechanism that permits the Company to fully retain the return on equity from utility operations up to 9.93%, share 50% of any earnings between 9.93% and 10.93% with customers, and share 90% of any earnings above 10.93% with customers.

Annual Non-Gas Commodity Deferral Accounts Disposition

Non-gas commodity deferral accounts are filed for approval of disposition annually and typically collected or recovered over six months. In August 2017, the OEB approved collection of the 2016 non-gas commodity deferral account balances of $43 million beginning October 1, 2017.

Demand Side Management (DSM)

In December 2017, after receiving final audit results, the Company filed an application with the OEB for the disposition of the 2015 DSM deferral account balances. The impact is a net receivable from customers of approximately $8 million. Union Gas has requested a decision from the OEB in the first quarter of 2018 to allow recovery from customers to begin in the second quarter of 2018.

Application to Amalgamate

In November 2017, the Company and Enbridge Gas Distribution Inc. (EGD), an affiliate of the Company, (together, the Applicants) filed an application with the OEB to amalgamate, in accordance with the OEB's guidance for Mergers, Acquisitions, Amalgamations and Divestitures (MAAD), with an effective date of January 1, 2019. Under the OEB's MAAD policy, the Applicants are seeking to defer rate rebasing for ten years to allow the utilities to identify and leverage best practices and implement integrated solutions. This filing initiated the regulatory review process which will continue through 2018 with a decision from the OEB expected in the second half of 2018.

Subsequent to the above application, also in November 2017, Union Gas and EGD submitted a second, related, application. The application seeks an order approving a rate setting mechanism for the ten year rebasing period effective January 1, 2019 that would apply if Enbridge proceeds with the amalgamation of the Company and EGD. The Applicants are seeking approval of a price cap mechanism which includes an annual rate escalation at inflation; continues to pass through certain costs; allows for pass through of capital expenditures in excess of an OEB approved threshold; and allows for non-routine adjustments with a materiality threshold of $1 million.

The final decision on whether to proceed with the amalgamation is subject to the completion of the regulatory process and Union Gas, EGD, and Enbridge's review and assessment of the regulatory outcomes and their respective Board of Directors approvals.

3. Restricted Cash

The Company had $13 million of restricted funds at December 31, 2017. At December 31, 2016, the Company had $37 million of restricted funds, with $15 million classified as Restricted cash and $22 million classified as Regulatory and other assets. These restricted funds are related to money received from the Province under the Green Investment Fund (GIF) program. The purpose of the GIF program is to reduce the GHG emissions in the residential sector. The Company's use of the funds is limited to eligible capital expenditures for the purpose of executing the program. The Company will manage the GIF program separately from its core regulated activities. There is no earnings impact relating to the GIF program. Any unspent funds must be returned to the Province at the expiry of the agreement on May 31, 2019, or should the Province elect to terminate the agreement at any time prior to is expiration date.

Changes in restricted balances are presented within Operating Activities on the Company's Statements of Cash Flows.

4. Accounts Receivable and Other

($millions)	**December 31, 2017**	December 31, 2016
Trade receivables	**209**	161
Unbilled revenue	**202**	133
Gas imbalances[a]	**251**	410
Regulatory assets – current	**74**	82
Other	**29**	20
Allowance for doubtful accounts	**(6)**	(5)
Total Accounts receivable and other	**759**	801

[a] The Company, in the normal course of its operations, experiences imbalances in natural gas volumes between interconnecting pipelines and provides gas balancing services to customers. Natural gas volumes owed to or from the Company are valued at natural gas market prices as of the Balance Sheet dates. As the settlement of imbalances is done with gas volumes, changes in the balances do not have an impact on the Company's cash flow from operating activities.

5. Inventories

Gas in storage includes gas for delivery to customers and for use in the Company's operations. Inventories of materials and supplies are for use in the Company's operations.

($millions)	**December 31, 2017**	December 31, 2016
Gas in storage	**140**	222
Materials and supplies	**23**	23
Total Inventories	**163**	245

6. Income Taxes

Income Tax Rate Reconciliation

($millions)	**2017**	2016
Income before income taxes	**251**	226
Canadian federal statutory income tax rate	**15.0%**	15.0%
Expected federal taxes at statutory rate	**38**	34
Increase (decrease) resulting from:		
Provincial income taxes	**—**	5
Part VI.1 tax, net of federal Part 1 deduction	**8**	5
Deferred income tax adjustments related to rate regulated operations	**(31)**	(25)
Other	**1**	2
Income tax expense	**16**	21
Effective income tax rate	**6.4%**	9.3%

Components of Pretax Earnings and Income Taxes

($millions)	**2017**	2016
Current income taxes	**33**	13
Deferred income taxes (recovery) expense	**(17)**	8
Income taxes expense	**16**	21

Components of Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between carrying amounts of assets and liabilities and their respective tax bases. Major components of deferred income tax assets and liabilities are as follows:

($millions)	**December 31, 2017**	December 31, 2016
Deferred income tax liabilities		
Property, plant and equipment	**(445)**	(405)
Regulatory assets	**(139)**	(121)
Other	**(15)**	(22)
Total deferred income tax liabilities	**(599)**	(548)
Deferred income tax assets		
Pension	**35**	32
Total deferred income tax assets	**35**	32
Net deferred income tax liabilities	**(564)**	(516)

Unrecognized Tax Benefits

($millions)	**December 31, 2017**	December 31, 2016
Unrecognized tax benefits at beginning of year	**38**	28
Gross increases related to prior year tax positions	**7**	8
Gross decreases related to prior year tax positions	**(2)**	—
Gross increases related to current year tax positions	**3**	3
Reductions due to lapse of statute of limitations	**(1)**	(1)
Unrecognized tax benefits at end of year	**45**	38

The unrecognized tax benefits as at December 31, 2017, if recognized, would reduce the Company's annual effective income tax rate. Although uncertain, the Company believes it is reasonably possible that the total amount of unrecognized tax benefits could decrease by $35 million prior to December 31, 2018. The anticipated changes in unrecognized tax benefits relate to the expiration of statutes of limitations and expected audit settlements.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income taxes. Income taxes for the year ended December 31, 2017 included $nil (2016 – $nil) interest and penalties. As at December 31, 2017, interest and penalties of $1 million (2016 – $1 million) have been accrued.

The Company remains subject to examination for income tax returns for years 2009 through 2016.

7. Property, Plant and Equipment, net

($millions)	Useful Life	**December 31, 2017**	December 31, 2016
	(years)		
Plant			
Natural gas transmission	20 - 58	**3,242**	2,734
Natural gas distribution	25 - 60	**4,887**	4,697
Storage	10 - 50	**1,187**	924
Land rights and rights of way	48 - 61	**141**	137
Other buildings and improvements	2 - 42	**63**	62
Equipment	4 - 15	**80**	82
Vehicles	6	**60**	57
Land	—	**94**	90
Construction in progress	—	**40**	349
Other	15 - 18	**17**	21
Total Property, plant and equipment		**9,811**	9,153
Total accumulated depreciation and amortization		**2,898**	2,727
Total Property, plant and equipment, net		**6,913**	6,426

The Company had no capital leases at December 31, 2017 or 2016.

96% of the Company's property, plant and equipment is regulated with estimated useful lives based on rates approved by the OEB. Composite weighted-average depreciation rates were 2.73% for 2017 and 2.76% for 2016.

The Company capitalized interest of $8 million in 2017 and $11 million in 2016.

8. Intangible Assets, net

($millions)	**December 31, 2017**	December 31, 2016
Intangible assets	**410**	116
Less: Accumulated amortization	**42**	34
Intangible assets, net	**368**	82

Intangible assets consists of computer software and GHG compliance instruments. As of January 31, 2017, GHG compliance instruments were purchased by the Company for itself and most of its customers in order to meet Cap and Trade compliance obligations in the Province. Purchased GHG compliance instruments are recorded at their original cost and are not amortized, as they will be used to satisfy compliance obligations as they come due. Computer software is amortized on a straight line basis over a period of 4 – 10 years.

The Company capitalized interest of $nil in 2017 and $1 million in 2016 related to software.

All of the Company's computer software was developed or obtained for internal use.

Amortization expense of intangible assets totaled $19 million in 2017 and $15 million in 2016. Estimated amortization expense for the next five years is as follows:

($millions)	**2018**	**2019**	**2020**	**2021**	**2022**
Estimated amortization expense	21	19	17	10	4

9. Regulatory and Other Assets and Liabilities

($millions)	**December 31, 2017**	December 31, 2016
Deferred income taxes – long-term (note 2)	**530**	462
Restricted cash	**—**	22
Goodwill	**12**	12
Pension assets	**33**	27
Balancing gas	**56**	67
Major spare parts	**10**	10
Other	**2**	2
Total Regulatory and other assets	**643**	602
Asset removal costs (note 2)	**432**	394
Pension liabilities	**167**	147
Unrecognized tax benefits	**45**	38
GIF payable	**—**	22
GHG compliance liabilities[a]	**238**	—
Other	**2**	1
Total Regulatory and other liabilities	**884**	602

[a] Under Cap and Trade regulation in the Province, the Company is required to meet GHG compliance obligations for most of its customers' use of natural gas as well as for emissions from its own operations. The Company will be required to relieve its compliance liability through the submission of compliance instruments following the completion of the initial compliance period of January 1, 2017 through December 31, 2020.

10. Accounts Payable and Accrued Charges

($millions)	**December 31, 2017**	December 31, 2016
Gas imbalances[a]	**251**	410
Accrued liabilities	**199**	170
Trade payables	**127**	142
Security deposits	**43**	39
Interest payable	**37**	37
Contractual holdbacks	**27**	34
Regulatory liabilities – current	**27**	36
Taxes payable	**19**	10
Total Accounts payable and accrued charges	**730**	878

[a] The Company, in the normal course of its operations, experiences imbalances in natural gas volumes between interconnecting pipelines and provides gas balancing services to customers. Natural gas volumes owed to or from the Company are valued at natural gas market prices as of the Balance Sheet dates. As the settlement of imbalances is done with gas volumes, changes in the balances do not have an impact on the Company's cash flow from operating activities.

11. Related Party Transactions

The Company occasionally performs services for and incur costs on behalf of Enbridge, Spectra Energy and its affiliates (related parties), which are subsequently reimbursed. Likewise, certain related parties may perform services for or incur costs on behalf of the Company, which are then reimbursed by the Company. The Company also provides and purchases gas, storage and transportation services to related parties. These transactions are in the normal course of operations and are recorded at exchange amounts agreed to between the related parties.

In addition, related parties perform centralized corporate functions for the Company, pursuant to agreements with related parties, including legal, accounting, compliance, treasury, information technology and other areas, as well as certain engineering and other services. The Company reimburses related parties for the expenses to provide these services as well as other expenses they incur on the Company's behalf. Related parties charge such expenses based on the cost of actual services provided or using various allocation methodologies based on the Company's percentage of assets, employees, earnings or other measures, as compared to Enbridge and Spectra Energy’s other related parties.

In the normal course of operations, the Company provides or obtains funds from Westcoast on an unsecured basis. The Company also has a promissory note to borrow up to $150 million from GLBE on an unsecured basis.

On July 31, 2017, the Company entered into a Gas Storage Service Agreement (GSSA) with EGD, a new affiliated company under common control as a result of the Merger, whereby the Company contracted all of EGD's unregulated storage space and deliverability effective September 2017. In conjunction with the GSSA, the Company entered into a Storage Contracts Assignment Agreement with EGD whereby the Company took assignment of EGD's customer contracts related to the assigned unregulated storage space, effective September 2017. On September 29, 2017, EGD novated all of its derivative instruments relating to foreign exchange forward contracts to the Company.

The Company's transactions with related parties are as follows:

($millions)	Storage and transportation revenue	Gas commodity, storage and transportation expense	Shared service charges (receipts)[a]	Total
2017				
St Clair Pipelines Partnership, a division of Westcoast	—	1	—	1
Pipeline and Field Services, a division of Westcoast	—	—	(4)	(4)
Westcoast Energy Inc.	—	—	(1)	(1)
Spectra Energy Gas Transmission LLC	—	—	12	12
Sarnia Airport Storage Pool Limited Partnership	(1)	5	—	4
Market Hub Partners L.P.	—	1	—	1
Enbridge Gas Distribution Inc.	(113)	7	—	(106)
Tidal Energy Marketing Inc.	(4)	—	—	(4)
Tidal Energy Marketing (US) LLC	—	5	—	5
St. Lawrence Gas Company Inc.	(1)	—	—	(1)
Express-Platte Pipeline L.P.	—	—	(1)	(1)
Total	(119)	19	6	(94)
2016				
St Clair Pipelines 1996, a division of Westcoast	—	—	(2)	(2)
Pipeline and Field Services, a division of Westcoast	—	—	(4)	(4)
Spectra Energy Empress L.P.	—	21	—	21
Spectra Energy Gas Transmission LLC	—	—	21	21
Sarnia Airport Storage Pool Limited Partnership	—	4	—	4
Total	—	25	15	40

[a]Excludes compensation arrangements.

Net amounts due from (to) related parties are as follows:

($millions), net	2017	2016
Enbridge Gas Distribution Inc.	**11**	—
Tidal Energy Marketing Inc.	**1**	—
Spectra Energy Gas Transmission LLC	**(4)**	(1)
Enbridge Inc.	**(2)**	—
Westcoast Energy Inc.	**—**	(253)
Other	**1**	—
Total[a]	**7**	(254)

[a]At December 31, 2017, $9 million (2016 – $5 million) is recognized in Accounts payable and accrued charges, $16 million (2016 – $4 million) is recognized in Accounts receivable and other, and $nil (2016 – $253 million) is recognized in Short-term borrowings on the Balance Sheets.

12. Debt and Credit Facilities

Summary of Debt and Related Terms

($millions)		**December 31, 2017**	December 31, 2016
9.70%	1992 Series II debentures, due November 6, 2017	—	125
5.35%	Series 6, due April 27, 2018	**200**	200
8.75%	1993 Series debentures, due August 3, 2018	**125**	125
8.65%	Senior debentures, due October 19, 2018	**75**	75
2.76%	Series 11, due June 2, 2021	**200**	200
4.85%	Series 6, due April 25, 2022	**125**	125
3.79%	Series 10, due July 10, 2023	**250**	250
3.19%	Series 13, due September 17, 2025	**200**	200
8.65%	1995 Series debentures, due November 10, 2025	**125**	125
2.81%	Series 14, due June 1, 2026	**250**	250
2.88%	Medium term note debentures, due November 22, 2027	**250**	—
5.46%	Series 6, due September 11, 2036	**165**	165
6.05%	Series 7, due September 2, 2038	**300**	300
5.20%	Series 8, due July 23, 2040	**250**	250
4.88%	Series 9, due June 21, 2041	**300**	300
4.20%	Series 12, due June 2, 2044	**500**	500
3.80%	Series 15, due June 1, 2046	**250**	250
3.59%	Medium term note debentures, due November 22, 2047	**250**	—
Long-term debt principal (including current maturities)		**3,815**	3,440
Less: Unamortized debt discount		**7**	7
Less: Debt issue costs		**15**	13
Add: Commercial paper		**485**	333
Total debt		**4,278**	3,753
Less: Current maturities of long-term debt		**400**	125
Less: Commercial paper		**485**	333
Total Long-term debt		**3,393**	3,295

The Company's long-term debt is unsecured. Principal repayment requirements on long-term debt are as follows:

($millions)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Long-term debt[(a)]	3,815	400	—	—	200	125	3,090

[(a)] Excludes commercial paper of $485 million.

Under the terms of the trust indentures relating to certain debentures, the Company has agreed to several covenants including a limitation on the payment of dividends. As of December 31, 2017 and 2016, the Company is in compliance with all such covenants.

Total interest expense on long-term debt in 2017 was $171 million (2016 – $169 million).

Available Credit Facility and Restrictive Debt Covenants

($millions)	Expiration Date	Credit Facility Capacity	Commercial Paper Debt Outstanding at December 31, 2017	December 31, 2016
Multi-year syndicated [(a)]	2021	700	**485**	333

[(a)] The credit facility contains a covenant requiring the debt-to-total capitalization ratio, as defined in the agreement, to not exceed 75% and a provision which requires the Company to repay all borrowings under the facility for a period of two days during the second quarter of each year. The ratio was 67.6% at December 31, 2017 (December 31, 2016 – 69.0%). Commercial paper issuances, net of discount, are back-stopped by the credit facility.

The available credit facility carried a weighted average standby fee of 0.085% on the unused portion.

The issuance of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of December 31, 2017 and December 31, 2016 there were no letters of credit issued or revolving borrowings outstanding under the credit facility. The majority of the Company's short-term cash requirements are funded through the issuance of commercial paper. The weighted average rate on outstanding commercial paper as of December 31, 2017 was 1.28% (2016 – 0.87%). The weighted average days to maturity on outstanding commercial paper as of December 31, 2017 was fourteen days (2016 – 8 days).

The Company's credit agreement contains various financial and other covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreement. As of December 31, 2017 and December 31, 2016, the Company was in compliance with those covenants. In addition, the credit agreement allows for the acceleration of payments or termination of the agreement due to non-payment, or in some cases, due to the acceleration of other significant indebtedness of the borrower.

Total interest paid on short term debt in 2017 was $6 million (2016 – $1 million).

The Company and certain affiliates have, in aggregate, access to a $400 million demand letter of credit facility. As of December 31, 2017, the Company had no outstanding letters of credit under this facility.

13. Preferred Shares

	Authorized	Outstanding			
		December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
	(shares)	*(shares)*		*($millions)*	
Class A	202,072				
5.5% Series A		**47,672**	47,672	**3**	3
6% Series B		**90,000**	90,000	**5**	5
5% Series C		**49,500**	49,500	**2**	2
4.88% Class B, Series 10	Unlimited	**4,000,000**	4,000,000	**100**	100
				110	110

The Class A, Series A and Class A, Series C Preferred Shares are cumulative and redeemable at $50.50 per share. The Company is obligated to offer to purchase $170,000 of Series A and $140,000 of Series C shares annually at the lowest price obtainable, but not exceeding $50 per share.

The Class A, Series B Preferred Shares are cumulative and redeemable at $55 per share at the option of the Company.

The Class B, Series 10 Preferred Shares are cumulative and redeemable at $25 per share at the option of the Company and, at the option of the holders, convertible back into Series 11 shares once every five years commencing

January 1, 2014. The holders of the Class B, Series 10 Preferred shares did not exercise their option on January 1, 2014 and their next optional conversion date is January 1, 2019. The Company may redeem at any time all, but not less than all, of the outstanding Series 10 Shares. The dividend rate of the Series 10 Shares is floating at an annual rate equal to 80% of the prime rate until December 31, 2018.

The Company has an unlimited number of authorized 4.79% Class B, Series 11 Preferred Shares. These shares are cumulative and redeemable at $25 per share at the option of the Company, and at the option of the holders, convertible back into Series 10 shares, commencing on January 15, 2026 and on each fifth anniversary thereafter (each such anniversary, a Series 11 Conversion Date). Additionally, these shares are redeemable at $25.50 per share at the option of the Company on any date after January 15, 2026 that is not a Series 11 Conversion Date. At December 31, 2017 and December 31, 2016 none of these shares were issued or outstanding.

The shares are not subject to any sinking fund or mandatory redemption and are not convertible into any other type of securities other than Preferred shares. As these shares are not solely in the control of the Company, they have been classified as temporary equity on the Balance Sheets.

14. Share Capital

On January 31, 2017, the Company received a $30 million capital contribution from GLBE in respect of the Common shares of the Company. There were no Common shares issued as a result of this transaction.

15. Pension and Other Postretirement Benefits

Pension Plans

The Company maintains registered and non-registered, contributory and non-contributory pension plans which provide defined benefit and/or defined contribution pension benefits covering substantially all employees. The Company also maintains supplemental pension plans that provide pension benefits in excess of the basic plans for certain employees.

Defined Benefit Plans

Benefits payable from the defined benefit plans are based on each plan participant's years of service and final average remuneration. The Company's contributions are made in accordance with independent actuarial valuations and are invested primarily in publicly-traded equity and fixed income securities.

Defined Contribution Plans

Contributions are generally based on each plan participant's age, years of service and current eligible remuneration. For defined contribution plans, benefit costs equal amounts required to be contributed by the Company.

Other Postretirement Benefits

OPEB primarily includes supplemental health and dental, health spending accounts and life insurance coverage for qualifying retired employees on a non-contributory basis. The OPEB plans are not funded.

Benefit Obligation, Plan Assets and Funded Status

The following table details the changes in the benefit obligation, the fair value of plan assets and the recorded asset or liability for the Company's defined benefit pension plans and OPEB plans.

	Pension		OPEB	
($millions)	**2017**	2016	**2017**	2016
Change in benefit obligation				
Benefit obligation, at beginning of year	**917**	877	**61**	63
Service cost	**23**	19	**1**	1
Interest cost	**35**	35	**2**	3
Actuarial loss (gain)	**43**	22	**2**	(4)
Participant contributions	**4**	4	**—**	—
Benefits paid	**(43)**	(40)	**(2)**	(2)
Plan amendments	**—**	—	**(1)**	—
Benefit obligation, end of year [(a)]	**979**	917	**63**	61
Change in plan assets				
Fair value of plan assets, beginning of year	**854**	842	**—**	—
Actual return on plan assets	**73**	47	**—**	—
Benefits paid	**(43)**	(40)	**(2)**	(2)
Employer contributions	**16**	4	**2**	2
Participant contributions	**4**	4	**—**	—
Expected non-investment expenses	**—**	(3)	**—**	—
Fair value of plan assets, end of year	**904**	854	**—**	—
Underfunded status at end of year	**(75)**	(63)	**(63)**	(61)

	Pension		OPEB	
($millions)	**2017**	2016	**2017**	2016
Underfunded status at end of year				
Current Liabilities – Other	**(2)**	(2)	**(2)**	(2)
Deferred Credits and Other Liabilities – Regulatory and Other	**(106)**	(88)	**(61)**	(59)
Other Assets – Other	**33**	27	**—**	—
Underfunded status at end of year	**(75)**	(63)	**(63)**	(61)

[(a)] For pension plans, the benefit obligation is the projected benefit obligation. For OPEB plans, the benefit obligation is the accumulated postretirement benefit obligation. The accumulated benefit obligation for the Company's pension plans was $917 million as at December 31, 2017 (2016 – $866 million).

At December 31, 2017, pension plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations of $574 million (2016 – $519 million), accumulated benefit obligations of $517 million (2016 – $475 million), and plan assets with a fair value of $466 million (2016 – $428 million).

Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)

The amounts of pre-tax AOCI relating to the Company's pension and OPEB plans are as follows:

	Pension		OPEB	
($millions)	**2017**	2016	**2017**	2016
Net actuarial loss (gain)	**269**	257	**(4)**	(6)
Prior service cost	**1**	2	**(1)**	—
Total amounts recognized in AOCI, pre-tax	**270**	259	**(5)**	(6)

Net Benefit Costs Recognized

The components of net benefit cost and other amounts recognized in pre-tax OCI related to the Company's pension and OPEB plans are as follows:

	Pension		OPEB	
($millions)	**2017**	2016	**2017**	2016
Net Benefit Costs				
Service cost	**23**	22	**1**	1
Interest cost	**35**	35	**2**	3
Expected return on plan assets	**(57)**	(57)	**—**	—
Amortization of actuarial loss and prior service cost	**15**	18	**—**	—
Net defined benefit and OPEB costs	**16**	18	**3**	4
Defined contribution benefit costs	**6**	6	**—**	—
Net benefit costs recognized	**22**	24	**3**	4
Amount recognized in Other Comprehensive Income				
Prior service cost	**—**	—	**(1)**	—
Net actuarial loss (gain) arising during the year	**26**	32	**2**	(4)
Amortization of actuarial loss and prior service cost	**(15)**	(18)	**—**	—
Total amount recognized in other comprehensive income	**11**	14	**1**	(4)
Total amount recognized in Comprehensive Income	**33**	38	**4**	—

The Company estimates that approximately $22 million related to pension plans and $nil related to OPEB plans at December 31, 2017 will be reclassified from AOCI into net income in the next 12 months.

Actuarial Assumptions

The weighted average assumptions made in the measurement of the benefit obligations and net benefit cost of the Company's pension and OPEB plans are as follows:

	Pension		OPEB	
	2017	2016	**2017**	2016
Benefit Obligations				
Discount rate	**3.53%**	3.81%	**3.58%**	3.81%
Rate of salary increase	**3.04%**	3.00%	**3.22%**	3.00%
Net Benefit Costs				
Discount rate	**3.81%**	4.03%	**3.81%**	4.03%
Rate of salary increase	**3.00%**	3.00%	**3.47%**	3.00%
Rate of return on plan assets	**6.90%**	7.15%	**N/A**	N/A

Assumed Health Care Cost Trend Rates

The assumed rates for the next year used to measure the expected cost of benefits are as follows:

	2017	2016
Health care cost trend rate assumed for next year	**5.37%**	5.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.36%**	5.00%
Year that the rate reaches the ultimate trend rate	**2034**	2017

A 1% point change in the assumed health care cost trend rate would have the following effects for the year ended December 31, 2017:

($millions)	**1% Point Increase**	**1% Point Decrease**
Effect on total service and interest costs	**1**	**—**
Effect on accumulated postretirement benefit obligations	**2**	**(2)**

Plan Assets

Pension plan assets are maintained in a master trust. The investment objective of the master trust is to achieve reasonable returns on trust assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for plan participants. The asset allocation targets were set after considering the investment objective and the risk profile with respect to the trusts. Equities are held for their high expected return. Other equity and fixed income securities are held for diversification. Investments within asset classes are diversified to achieve broad market participation and reduce the effects of individual managers or investments. The Company regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate.

The asset allocation targets and major categories of plan assets are as follows:

Asset Category	**Target Allocation**	**December 31, 2017**	December 31, 2016
Equity securities	40%	**59%**	59%
Fixed income securities	45%	**41%**	41%
Other	15%	**—%**	—%
Total	100%	**100%**	100%

The following table summarizes the fair value of plan assets for the Company's pension plans recorded at each fair value hierarchy level, as determined in accordance with the valuation techniques described in note 17:

($millions)	Total	Level 1	Level 2	Level 3
December 31, 2017				
Cash and cash equivalents	4	4	—	—
Equity securities	532	249	283	—
Fixed income securities	368	368	—	—
Total	904	621	283	—
December 31, 2016				
Cash and cash equivalents	3	3	—	—
Equity securities	501	242	259	—
Fixed income securities	350	350	—	—
Total	854	595	259	—

Expected Benefit Payments and Employer Contributions

($millions)	2018	2019	2020	2021	2022	2023-2027
Pension	44	45	46	48	48	254
OPEB	2	2	3	3	3	16

In 2018, the Company expects to contribute approximately $20 million and $2 million to the pension plans and OPEB plans, respectively.

Retirement Savings Plan

In addition to the retirement plans discussed above, the Company also has defined contribution employee savings plans available to eligible employees. Employees may participate in a matching contribution where the Company matches a certain percentage of before-tax employee contributions of up to 5% of eligible pay per pay period. The Company expensed pre-tax employer matching contributions of $8 million in both 2017 and 2016.

16. Asset Retirement Obligations

The Company's AROs relate to the legal obligation to disconnect, purge and cap abandoned pipelines, capping abandoned storage wells, and in some buildings, special handling and disposition of asbestos if it is disturbed.

The Company has non-asbestos AROs which include easements and some railway license agreements relating to pipeline assets located on land which the Company does not own. The Company has not recognized a liability in regard to the non-asbestos ARO because the fair value of the ARO cannot be reasonably estimated. The Company's pipeline system is considered a critical component of its business and is expected to be maintained and remain in place indefinitely. Natural gas supplies are also considered sufficient for the Company to operate in the long-term.

AROs are adjusted each period for liabilities incurred or settled during the period, accretion expense and any revisions made to the estimated cash flows.

Reconciliation of Changes in Asset Retirement Obligation Liabilities

The liability for the expected cash flows as recognized in the Financial Statements reflect discount rates ranging from 4.22% to 5.50% (2016 – 4.22% to 5.50%). A reconciliation of movements in the Company's ARO is as follows:

($millions)	**December 31, 2017**	December 31, 2016
Balance, beginning of year	**417**	440
Accretion expense	**19**	20
Liabilities incurred	**5**	7
Liabilities settled	**(8)**	(7)
Revisions in estimated cash flows	**(34)**	(43)
Balance, end of year	**399**	417

17. Risk Management and Financial Instruments

The Company's earnings, cash flows and OCI are subject to movements in natural gas prices and foreign exchange rates. Portions of these risks are borne by customers through certain regulatory mechanisms. Corporate risk management policies, processes and systems have been designed by the ultimate parent, Enbridge, to mitigate these risks.

The following summarizes the types of risks to which the Company is exposed and any applicable risk management instruments used to mitigate them.

Commodity Price Risk

Fluctuations in natural gas prices affect the Company's gas purchase costs for the Company's own operating requirements as well as for the gas supply costs the Company incurs for and collect from their system customers. The Company's gas procurement policy primarily includes contracts with pricing mechanisms that reflect monthly and daily variations in the price of gas. Commodity price volatility and absolute price levels also impact the amount of natural gas used by customers. Fluctuations in natural gas prices are borne by the customer in accordance with OEB directive.

Foreign Exchange Risk

Foreign exchange risk is the risk of gains and losses due to the volatility of currency exchange rates. The Company generates certain revenues denominated in U.S. dollars. As a result, the Company’s earnings and cash flows are exposed to fluctuations resulting from U.S. dollars exchange rate variability.

During the third quarter of 2017, Union Gas took assignment of a number of EGD customer storage contracts, some of which were denominated in U.S. dollars. EGD also novated, to Union Gas, cash flow hedges that were used to manage exposure to changes in currency exchange rates in the assigned storage contracts.

Derivative Instruments

At December 31, 2017, the Company had approximately $1 million related to derivative instruments used as foreign exchange cash flow hedges (2016 – $nil), included in Accounts receivable and other and Regulatory and other assets. This amount is recorded at fair value as described below.

The Company's derivative instruments relating to foreign exchange forward contracts mature through 2023 and have a notional principal of $21 million (U.S. $17 million) (2016 – $nil).

Fair Value Measurements

Financial instruments recorded at fair value on the Balance Sheets are valued using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1

Level 1 valuations represent quoted unadjusted prices for identical instruments in active markets.

Level 2 Valuation Techniques

Fair values of the Company's financial instruments that are actively traded in the secondary market are determined based on market-based prices. These valuations may include inputs such as quoted market prices of the exact or similar instruments, broker or dealer quotations, or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency. The fair value of the Company's pension plan assets designated as Level 2 financial instruments is determined through the market approach valuation technique using observable inputs including matrix pricing and market corroborated pricing. The fair value of foreign exchange contracts are also determined through the market value approach based on the extrapolation of observable future prices and rates. The fair value of other financial instruments relating to pension assets is disclosed in note 15.

Level 3 Valuation Techniques

Level 3 valuation techniques include the use of pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The fair value of the Company's pension plan assets designated as Level 3 financial instruments is determined through the market approach valuation technique using unobservable inputs including investment manager pricing for private placements and private equities.

There were no transfers between levels during the year ended December 31, 2017.

Financial Instruments

The fair values of financial instruments that are recorded and carried at book value are summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts that could have been realized in current markets.

	December 31, 2017		December 31, 2016	
($millions)	**Book Value**	**Fair Value**	Book Value	Fair Value
Long-term debt, including current maturities[(a)]	**3,815**	**4,327**	3,440	3,888

(a) Excludes unamortized items.

The fair value of the Company's Long-term debt is determined based on market-based prices as described in the Level 2 valuation technique described above.

The fair values of Cash and cash equivalents, Accounts receivable and other, Accounts payable and accrued charges, Short-term borrowings and Commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk for the Company at period end is the carrying value of its financial assets. The Company's principal customers for natural gas transportation and storage services are industrial end-users, marketers, local distribution companies and utilities. The Company's distribution customers are primarily industrial and residential end-users. These concentrations of customers may affect the Company's overall credit risk.

The Company, in the normal course of its operations, provides gas loans to other parties from its holdings of gas in storage. The replacement cost of gas loans at December 31, 2017 is $93 million receivable (2016 – $84 million receivable). The Company manages its credit exposure related to gas loans by subjecting these parties to the same credit policies it uses for all customers, and obtaining collateral when appropriate.

The Company manages its credit risk on Cash and cash equivalents by dealing solely with reputable banks and financial institutions. To manage its credit risk on Accounts receivable, the Company performs ongoing credit reviews of all its customers. In cases where the credit quality of a customer does not meet the Company's requirements, a cash deposit, letter of credit or parental guarantee is required. Deposits held by the Company at December 31, 2017 amounted to $43 million (2016 – $39 million). Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable may be uncollectible and therefore should be included in the allowance for doubtful accounts.

Entering into derivative financial instruments may also result in exposure to credit risk. The Company has entered into risk management transactions with institutions that possess investment grade credit ratings.

The Company continues to utilize its established risk management policies and procedures to ensure the appropriate monitoring of customer credit positions and, based on current evaluations, does not expect any significant negative impacts associated with these positions.

The following table sets forth details of the age of trade receivables that are not impaired as well as the allowance for the doubtful accounts:

($millions)	**December 31, 2017**	December 31, 2016
Current	**386**	275
30 Days over due	**13**	10
60 Days over due	**4**	3
90+ Days over due	**8**	6
Total trade accounts receivable	**411**	294
Allowance for doubtful accounts	**(6)**	(5)
Total trade accounts receivable, net[a]	**405**	289

[a] The carrying amount of accounts receivable is impacted by changes in gas prices, which may fluctuate significantly from year to year.

For the years ended December 31, 2017 and 2016, no one customer accounted for more than 10% of sales or 10% of receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has credit facilities available to help meet short-term financing needs (note 12).

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at December 31, 2017:

($millions)	**Total**	**2018**	**2019-2020**	**2021-2022**	**Thereafter**
Commercial paper	485	485	—	—	—
Accounts payable and accrued charges	730	730	—	—	—
Long-term debt (including principal and interest)	6,503	570	294	607	5,032
Total	7,718	1,785	294	607	5,032

18. Stock Based Compensation

Until the close of the Merger, the Spectra Energy Corp 2007 Long-Term Incentive Plan (the 2007 LTIP), as amended and restated, provided for the granting of stock options, restricted and unrestricted stock awards and units, and other equity-based awards, to employees and other key individuals who performed services for Spectra Energy, including certain employees of Union Gas.

Performance and phantom awards granted under the 2007 LTIP typically became 100% vested on a three-year anniversary of the grant date. Options granted under the 2007 LTIP were issued with exercise prices equal to the fair market value of Spectra Energy common stock on the grant date, has ten-year terms and vested ratably over a three-year term.

Upon the close of the Merger or shortly thereafter, most Performance awards under the 2007 LTIP vested except for a portion of performance awards which were converted to 0.984 of Enbridge common stock that would time-vest at the end of 2018 if employment is continued. Likewise, Phantom awards were converted to 0.984 of Enbridge common stock that will vest as originally scheduled under the 2007 LTIP if employment is continued. The 2007 LTIP ceased after the Merger and qualified Union Gas employees may participate in a long-term incentive plan under Enbridge thereafter. There was no compensation expense recognized under a new long-term incentive plan under Enbridge in 2017.

Spectra Energy (and Enbridge after the Merger) allocated to Union Gas pre-tax stock-based compensation expense included in Operating Income for 2017 and 2016 as follows, the components of which are described further below:

Performance Awards

Under the 2007 LTIP, Spectra Energy granted stock-based performance awards. The performance awards generally vested over three years at the earliest, if performance metrics were met. The then unvested and outstanding performance awards granted previously contained market conditions based on the total shareholder return of Spectra Energy common stock relative to a pre-defined peer group. The equity-classified awards with market conditions were valued using the Monte Carlo valuation method.

Pre-tax compensation expense recorded by the Company for the years ended December 31, 2017 and 2016 for Performance awards were $2 million annually. The total fair value of the Performance awards vested was U.S. $6 million in 2017 and U.S. $1 million in 2016.

Phantom Awards

Under the 2007 LTIP, Spectra Energy also granted stock-based phantom awards. The phantom awards generally vested over three years. The liability-classified awards settled in cash at vesting. The liability-classified awards were remeasured at each reporting period until settlement.

Pre-tax compensation expense recorded by the Company for the years ended December 31, 2017 and 2016 for Phantom awards were $2 million annually. The total fair value of the Phantom awards vested was U.S. $1 million in 2017 and U.S. $1 million in 2016.

19. Guarantees

The Company has various financial guarantees which are issued in the normal course of business. The Company enters into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party. To varying degrees, these agreements involve elements of performance and credit risk, which are not included on the Balance Sheets. The possibility of having to perform under these guarantees is largely dependent upon future operations of other third parties or the occurrence of certain future events. The Company's potential exposure under these agreements can range from a specific dollar amount to an unlimited dollar amount depending on the nature of the claim and the particular transaction. The Company is unable to estimate the total potential amount of future payments under these agreements due to several factors, such as unlimited exposure under certain guarantees.

20. Changes in Working Capital

($millions)	**December 31, 2017**	December 31, 2016
GHG compliance liabilities	**238**	—
Accounts receivable	**(114)**	(126)
Inventories	**19**	40
Accounts payable and accrued charges	**75**	35
Income tax receivable	**(9)**	(5)
Accumulated other comprehensive loss	**15**	19
Other	**14**	23
Total Changes in working capital	**238**	(14)

21. Commitments and Contingencies

Commitments

The table below is a summary of the Company's commitments, not otherwise disclosed in the Financial Statements, due by period.

($millions)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Operating leases	33	7	6	7	6	7	—
Purchase obligations[a]	2,407	509	260	213	165	146	1,114
Total commitments	2,440	516	266	220	171	153	1,114

[a] Includes: firm capacity payments that provide the Company with uninterrupted firm access to natural gas transportation and storage; contractual obligations to purchase physical quantities of natural gas; contracts for software and consulting or advisory services; and contractual obligations for engineering, procurement and construction costs for pipeline projects. Due to a timing uncertainty, all procurement obligations have been included in 2018 as the Company is unable to reasonably estimate the payments due by period.

Contingencies

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated.

In April 2016, the Ontario Ministry of the Environment and Climate Change (MOECC) issued a Director's Order (Order) naming the Company, along with other parties, as an impacted property owner in connection with a contaminated site adjacent to a property of the Company in Hamilton. In May 2016, the Company appealed the Order, and in June 2016, the Environmental Review Tribunal (Tribunal), on consent of the MOECC's Director, stayed the application of parts of the Order. The Tribunal has extended the stay of the Order several times, which has allowed the owner of the property (with the cooperation of the adjacent owners) to prepare a plan of action, including discussions with the MOECC and other neighbours (City of Hamilton and Infrastructure Ontario). The Company continues to monitor the matter, and to cooperate with the owner of the source property, the MOECC and other adjacent owners. The risk of material environmental liability is unknown at this time.

Other than the potential contingency noted above, of which the impact is unknown, the Company has no reason to believe that the ultimate outcome of these matters could have a significant impact on its Financial Statements.

Tax Matters

The Company maintains tax liabilities related to uncertain tax positions. While fully supportable in the Company's view, these tax positions, if challenged by tax authorities, may not be fully sustained on review.

DIRECTORS

Cynthia L. Hansen
Stephen W. Baker
David G. Unruh

OFFICERS

Stephen W. Baker
President

Cynthia L. Hansen
Chair and Executive Vice President, Utilities & Power Operations

Allen C. Capps
Controller

David G. Simpson
Vice President, Regulatory, Lands and Public Affairs

Tanya C. Mushynski
Vice President, Law

James G. Redford
Vice President, Business Development - Storage and Transmission

Paul Rietdyk
Vice President, Engineering, Construction and Storage and Transmission Operations

Michael G.P. Shannon
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Assistant Controller

Wanda M. Opheim
Treasurer

Maximilian G. Chan
Assistant Treasurer

Tyler W. Robinson
Vice President and Corporate Secretary

David Taniguchi
Assistant Corporate Secretary

Kelly L. Gray
Assistant Corporate Secretary

CORPORATE INFORMATION

Transfer Agent and Registrar **AST Trust Company**

Union Gas Limited Preferred shares are listed on the Toronto Stock Exchange
Class A Preferred, Series A - 5½% (UNG.PR.C)

Class A Preferred, Series B - 6% (UNG.PR.D)

REGISTERED OFFICE

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