



uniongas
A Spectra Energy Company

May 22, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, ON
M4P 1E4

**Re: Union Gas 2008 Earning Sharing and Incentive Regulation Review
(EB-2009-0101)**

Dear Ms. Walli:

Enclosed is an update to Union's Evidence, Exhibit A including Appendix C, Schedule 2, Schedule 4, and Schedule 9.

If you have any questions concerning this application and evidence please contact me at (519) 436-4521.

Yours truly,

[original signed by]

Marian Redford
Manager, Regulatory Initiatives

cc M. Penny (Torys)
A. Pye (OEB)
EB-2008-0220 Intervenors



April 17, 2009

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2009-0101 – Corrections to Evidence

On April 2, 2009 Union Gas filed its 2008 Earnings Sharing and Incentive Regulation Review (EB-2009-0101). Union's evidence requires the following corrections:

Page	Line	Filed April 2 nd	Revision
8	15	7.4	8.0
8	16	5.8	6.1
12	14	Shared Service Mechanism	Shared Savings Mechanism
23	7	11,503	11,153
23	8	1,323,640	1,232,290

Please find enclosed pages 8, 12 and 23 of Union's evidence updated to include the above corrections.

If you have any questions concerning this application and evidence, please contact me at (519) 436-4521.

Yours truly,

[original signed by]

Marian Redford
Manager, Regulatory Initiatives

cc M. Penny (Torys)
R. Battista (OEB)
D. Campbell (OEB)
EB-2008-0220 Intervenors



uniongas

A Spectra Energy Company

April 2, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, ON
M4P 1E4

**Re: Union Gas 2008 Earning Sharing and Incentive Regulation Review
(EB-2009-0101)**

Dear Ms. Walli:

Enclosed is the application and evidence submitted by Union Gas Limited (“Union”) concerning the calculation of its 2008 utility earnings for the purposes of earnings sharing.

The approved IR mechanism provides for the sharing (50/50 between Union and its customers) of actual utility earnings greater than 200 basis points over the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan. Union's 2008 actual utility earnings exceeded this threshold. Union is, therefore, seeking an order or orders approving \$15.2 million as the customer portion of earnings sharing in 2008 and the proposed disposition that amount to Union's customers.

The approved IR mechanism also provides for a review of the IR mechanism if Union's weather normalized utility earnings vary by 300 basis points or more above or below the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.

Union's weather normalized utility earnings for 2008 have exceeded that threshold by 30 basis points. Union is not proposing any changes to the price cap mechanism or the basis on which rates will be set during the remainder of the IR term.

On Wednesday, April 8, 2009 from 2:30 p.m. to 4:30 p.m. Union will host an information session at one of the hearing rooms at the Board's Office, 2300 Yonge St., 25th Floor, Toronto. At the session Union will summarize the filed material on earnings sharing and the disposition of deferral accounts which was filed on March 31, 2009 (EB-2009-0052). Union will field questions in order to facilitate an open dialogue among the parties.

Please RSVP by email to Joanne Clark (jlark@uniongas.com) by Monday, April 6, 2009. Once finalized the exact location of the meeting will be communicated.

Union will be providing intervenor funding for the information session attendance. Post the meeting, participants are asked to submit an invoice directly to Joanne Clark for the funding.

If you have any questions concerning this application and evidence please contact me at (519) 436-4521.

Yours truly,

[original signed by]

Marian Redford
Manager, Regulatory Initiatives

cc M. Penny (Torys)
A. Pye (OEB)
EB-2008-0220 Intervenors

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders amending or varying the rate or rates charged to customers as of July 1, 2009 in connection with the sharing of 2008 earnings under the incentive rate mechanism approved by the Ontario Energy Board on January 17, 2008

APPLICATION

1. Union Gas Limited (“Union”) is a business corporation, incorporated under the laws of Ontario, with its head office in the Municipality of Chatham-Kent.
2. Union conducts an integrated natural gas utility business that combines the operations of selling, distributing, transmitting and storing gas within the meaning of the *Ontario Energy Board Act, 1998* (the “Act”).
3. In EB-2007-0606, Union applied to the OEB for an order, among other things, approving or fixing just and reasonable rates and other charges for the sale, distribution, storage and transmission of gas by Union effective January 1, 2008 by means of an incentive rate (IR) mechanism.
4. The approved IR mechanism provides for the sharing (50/50 between Union and its customers) of actual utility earnings greater than 200 basis points over the amount calculated annually by the application of the Board’s ROE formula in any year of the IR plan.

5. Union's 2008 actual utility earnings exceeded this threshold. Union is, therefore, seeking an order or orders approving \$15.2 million as the customer portion of earnings sharing in 2008 and the proposed disposition of that amount to Union's customers.
6. The approved IR mechanism also provides for a review of the IR mechanism if Union's weather normalized utility earnings vary by 300 basis points or more above or below the amount calculated annually by the application of the Board's ROE formula in any year of the IR plan.
7. Union's weather normalized utility earnings for 2008 have exceeded that threshold. Union is not, however, seeking any relief in connection with this review, other than the continuation of the approved IR mechanism in accordance with its terms for the balance of the IR term.
8. Union also applies to the OEB for such interim order or orders approving interim rates or other charges and accounting orders as may from time to time appear appropriate or necessary.
9. Union further applies to the Board for all necessary orders and directions concerning pre-hearing and hearing procedures for the determination of this application.
10. This application is supported by written evidence. This evidence may be amended from time to time as required by the OEB, or as circumstances may require.
11. The persons affected by this application are the customers resident or located in the municipalities, police villages and Indian reserves served by Union, together with those to whom Union sells gas, or on whose behalf Union distributes, transmits or stores gas. It is impractical to set out in this application the names and addresses of such persons because they are too numerous.

12. The address of service for Union is:

Union Gas Limited
P.O. Box 2001
50 Keil Drive North
Chatham, Ontario N7M 5M1
Attention: Marian Redford
Manager, Regulatory Initiatives

Telephone: 519.436.4521
Fax: 519.436.4641

- and -

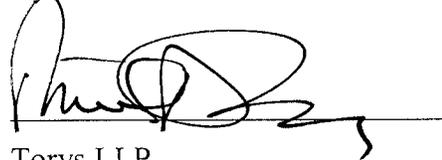
Torys LLP
Suite 3000, P.O. Box 270
79 Wellington St. W.
Toronto-Dominion Centre
Toronto, Ontario M5K 1N2
Attention: Michael A. Penny

Telephone: 416.865.7526
Fax: 416.865.7380

DATED: April 2, 2009.

UNION GAS LIMITED

By its Solicitors



Torys LLP
Suite 3000, P.O. Box 270
79 Wellington St. W.
Toronto-Dominion Centre
Toronto, Ontario M5K 1N2
Attention: Michael A. Penny

Telephone: 416.865.7526
Fax: 416.865.7380

The purpose of this evidence is to provide an update to the 2009 – 2010 utility forecast provided in Exhibit A, Appendix C. The two changes that have been incorporated into the forecast relate to:

1. C1 short-term transportation and exchange revenue (2009 only)
2. Preferred share dividend (2009 and 2010)

Both changes have the effect of increasing Union's forecast of utility earnings.

1. C1 SHORT-TERM TRANSPORTATION AND EXCHANGE REVENUE

Union has updated its 2009 forecast of C1 short-term transportation and exchange revenue to include an additional \$4 million. The updated 2009 forecast of C1 short-term transportation and exchange revenue is \$22 million, which is \$1 million less than 2008 actual C1 short-term transportation and exchange revenue. The update reflects Union's expectation that the market conditions for exchanges in 2009 will be more favourable than anticipated at the time the original forecast was prepared.

2. PREFERRED SHARE DIVIDEND

Union has updated its 2009 and 2010 forecast to incorporate Union's expectation that the preferred share dividends paid in 2009 and 2010 will be lower than anticipated at the time the original 2009 and 2010 forecast was prepared. In the original forecast Union assumed that the level of preferred share dividends in 2009 and 2010 would be similar to what they were in 2008. The dividend payout on preferred shares floats with the prime lending rate. A new prime lending rate of 2.25% was recently established after the Bank of Canada cut its lending rate to 0.25% on April 21st. When setting the new rate the Bank of Canada indicated that it would likely remain at 0.25% until the middle of 2010. As a

result of incorporating this change Union is forecasting preferred share dividends to be approximately \$3 million less than in the original forecast.

Union has updated Exhibit A, Appendix C, Schedules 2, 4 and 9 to reflect the impacts of the above noted changes. The updated 2009 and 2010 forecast results in a ROE of 10.37% and 8.94% respectively.

1 **2008 EARNINGS SHARING AND INCENTIVE REGULATION REVIEW**

2
3 In January of 2008, the Board approved the EB-2007-0606 Settlement Agreement for
4 Union's Incentive Regulation ("IR") framework, effective January 1, 2008. As part of
5 the approved Settlement Agreement, the parties agreed at Section 10.1 that there would
6 be an earnings sharing mechanism:

7
8 *"... based on actual, utility earnings. If in any calendar year Union's actual utility return*
9 *on equity is more than 200 basis points over the amount calculated annually by the*
10 *application of the Board's ROE formula in any year of the IR plan, then such excess*
11 *earnings will be shared 50/50 between Union and its customers. For the purposes of the*
12 *earnings sharing mechanism, Union shall calculate its earnings using the regulatory*
13 *rules prescribed by the Board from time to time, and shall not make any material changes*
14 *in accounting practices that have the effect of reducing utility earnings. All revenues that*
15 *would be included in revenues in a cost of service application shall be included in the*
16 *earnings calculation and only those expenses (whether operating or capital) that would*
17 *be allowable as deductions from earnings in a cost of service application shall be*
18 *included in the earnings calculation.*

19
20 *Parties acknowledge that the DSM related Shared Savings Mechanism (SSM) and Lost*
21 *Revenue Adjustment Mechanism (LRAM) and storage related deferral accounts are*
22 *outside of the earnings sharing mechanism identified above."*

23
24
25
26 At Section 9.1 of the Settlement Agreement parties also made provision for a review of
27 the IR Mechanism at section 9.1 under which;

28 *"...if there is a 300 basis point or greater variance in weather normalized utility earnings*
29 *above or below the amount calculated annually by the application of the Board's ROE*
30 *formula in any year of the IR plan, Union will file an application to the Board, with*
31 *appropriate supporting evidence, for a review of the price cap mechanism."*

32
33
34

1 Further, at Section 11 of the Settlement Agreement, Union agreed to provide utility
2 financial information for the most recent historical year in a manner consistent with that
3 provided in Union's 2007 Rate Case (EB-2005-0520).

4

5 The benchmark return on equity ("ROE") for 2008 is 8.81%. Union's actual ROE from
6 utility operations in 2008 was 12.49% or 368 basis points above the 2008 benchmark
7 ROE. This results in earnings sharing for 2008 of \$15.2 million. Normalizing for weather
8 reduces Union's 2008 ROE from utility operations to 12.11%. For 2008, Union is 330
9 basis points above the benchmark ROE, triggering the IR review threshold provision at
10 Section 9.1 of the EB-2007-0606, Settlement Agreement.

11

12 The purpose of this submission is to:

- 13 1. Provide Union's calculation of its 2008 utility earnings for the purposes of
14 earnings sharing and the IR review threshold provision pursuant to Sections 9.1
15 and 10.1 of Settlement Agreement; and
- 16 2. Provide Union's evidence pursuant to section 9.1 of the Settlement Agreement for
17 review of the IR framework. Union's evidence supports the continuation of
18 existing IR framework without amendments to the current parameters or the base
19 upon which rates are set.

20

21 Union has also attached, at Appendix A, Union's 2008 Financial Reporting Package
22 pursuant to Section 11 of the Settlement Agreement.

1

2 Union's evidence is organized under the following headings:

- 3 1. 2008 Utility Results
- 4 2. 2008 Earnings Sharing Calculation
- 5 3. Need for Review of the IR Mechanism
- 6 4. 2009 – 2010 Utility Financial Forecast
- 7 5. Summary
- 8 6. 2008 Earnings Sharing Allocation and Disposition

9

10 **2008 UTILITY RESULTS**

11

12 For the year ended December 31, 2008 Union's actual revenue sufficiency from utility
13 operations is \$66.6 million above the 2007 Board approved level. Table below
14 summarizes the results from Union's actual utility operations for 2008.

1

<p style="text-align: center;">Table 1 Calculation of Revenue Deficiency/(Sufficiency) from Utility Operations For the Year Ended December 31, 2008 (\$millions)</p>				
Line No.	Particulars	Board Approved 2007	Actual 2008	Increase/ (decrease)
		(a)	(b)	(c)
1	Gas sales and distribution revenue	1,796.8	1,865.6	
2	Cost of gas	<u>1,134.3</u>	<u>1,178.9</u>	
3	Gas distribution margin	662.5	686.7	24.2
4	Transportation	127.4	165.1	37.7
5	Other revenue	24.4	26.3	1.9
6	Expenses	567.4	568.3	0.9
7	Income taxes	<u>8.7</u>	<u>26.1</u>	<u>17.4</u>
8	Utility income	238.1	283.8	45.7
9	Cost of capital	<u>259.5</u>	<u>257.6</u>	<u>(1.9)</u>
10	Revenue deficiency/(sufficiency) after tax	21.4	(26.2)	(47.6)
11	Provision for income taxes on deficiency/ (sufficiency)	<u>12.1</u>	<u>(13.2)</u>	<u>(25.3)</u>
12	Distribution revenue deficiency/(sufficiency)	33.5	(39.3)	(72.8)
13	Storage premium adjustment	<u>33.5</u>	<u>27.3</u>	<u>(6.2)</u>
14	Total revenue deficiency/(sufficiency)	<u><u>0.0</u></u>	<u><u>(66.6)</u></u>	<u><u>(66.6)</u></u>

2

3

4 The primary drivers of Union's 2008 financial results relative to 2007 Board approved
5 are provided in detail below.

6

1 **GAS DISTRIBUTION MARGIN**

2 Gas distribution margin for 2008 was \$24.2 million over the 2007 Board approved level.
3 This was primarily driven by increases in infranchise contract delivery revenues of \$9.9
4 million, increased general service revenues of \$ 9.7 million offset by decreases in other
5 cost of gas items.

6

7 **2008 Infranchise Contract Delivery Revenue**

8 Infranchise contract delivery revenue growth in 2008 over 2007 Board approved levels
9 was the result of the following:

- 10 a. Two new large gas fired power generation plants increased revenues by \$3.2
11 million in 2008 over 2007 Board approved;
- 12 b. Favourable weather in 2008, unplanned coal and nuclear power generation
13 outages, restricted electricity transmission access to Eastern Ontario electricity
14 markets and favourable natural gas versus residual oil prices resulted in increased
15 discretionary gas fired power generation at OPG Lennox. For 2008, this resulted
16 in additional infranchise contract revenue of \$2.6 million;
- 17 c. Increased net production in the large integrated steel market, the greenhouse
18 market and other contract markets resulted in increased infranchise contract
19 revenues in 2008 of \$9.2 million. This was offset by rate class migration from
20 contract to general service of \$2.1 million. The increased delivery revenue was
21 driven by strong economic conditions both in North American and global markets
22 for the first three quarters of 2008; and

1 d. Permanent demand destruction, offsetting the contract revenue increases described
2 above, of \$3.0 million is a direct result of significant additional plant closures in
3 Union's large infranchise contract markets.
4

5 2008 General Service Revenues

6 The actual total general service delivery revenue in 2008 was \$574.9 million (Appendix
7 A, Schedule 9, Column (r), line 6), prior to adjustments, compared to the 2007 Board
8 approved forecast of \$565.2 million (Appendix A, Schedule 9, Column (f), line 6). The
9 primary contributors to the variance of \$9.7 million were colder than normal weather in
10 2008 (\$3.6 million) and rate class migration from contract rate classes to general service
11 rate classes (\$2.1 million). The remaining variance of \$4.0 million was due to variances
12 in the forecast level of customer additions, demand price elasticity related normalized
13 average consumption ("NAC") variances, non demand side management ("DSM")
14 related energy conservation, the Average Use ("AU") factor and the unbilled revenue
15 accrual.
16

17 TRANSPORTATION REVENUE

18 Revenue from exfranchise transportation services increased by \$37.7 million in 2008
19 relative to 2007 Board approved levels. This was primarily driven by increases in short-
20 term transportation and exchange revenue of \$23.3 million. Increases in long-term
21 transportation revenue of \$14.5 million as a result of the expansion of Union's Dawn
22 Trafalgar transmission system, offset by increases in depreciation and cost of capital

1 identified below, also contributed to the increased transportation revenue in 2008. The
2 increase in short-term transportation and exchange revenue is explained in more detail
3 below.

4

5 Short-Term Transportation and Exchange Revenue

6 As noted above, short-term transportation and exchange revenues accounted for \$23.3
7 million of the \$37.7 million increase in exfranchise transportation revenue in 2008 over
8 2007 Board approved levels. The increased revenue was a result of increased customer
9 activity and service values due to colder than normal weather late in the year and new
10 market opportunities. In addition, Union put a greater focus on the gas supply
11 transportation portfolio optimization starting in 2007. This focus continued through 2008.
12 Union also invested in incremental sales staff to capture the incremental revenue
13 opportunities and deliver these services to customers. Union's approach to the marketing
14 of transactional services and the financial results for 2008 were the direct result of the IR
15 framework and the elimination of the transportation deferral accounts.

16

17 Union notes that Board approved distribution rates in 2008 include \$6.9 million in short-
18 term transportation and exchange margin. To achieve the total net margin of \$6.9 million
19 as embedded in the 2008 distribution rates, Union must achieve gross transactional
20 revenue (before deduction of costs) of approximately \$10 to \$12 million.

21

1 **EXPENSES**

2 Expenses include operating and maintenance expenses, depreciation, and property and
3 capital taxes. The increase in expenses of \$0.9 million (Appendix A, Schedule 2) is
4 driven by an increase in depreciation of \$6.5 million as a result of the expansion of
5 Union's system offset by reductions in O&M of \$2.9 million, and property and capital
6 taxes of \$2.7 million.

7
8 **INCOME TAXES**

9 The increase in income tax expense from 2007 Board approved levels of \$8.7 million
10 (Appendix A, Schedule 14, Column (a), line 13) to \$26.1 million (Appendix A, Schedule
11 14, Column (c), line 13) is attributable to higher earnings in 2008.

12
13 **COST OF CAPITAL**

14 The decrease in return of \$1.9 million (Appendix A, Schedule 4, line 6) is driven by
15 reductions in interest rates that decreased costs by \$8.0 million offset by increases in rate
16 base investment that increased costs by \$6.1 million.

17
18 **STORAGE PREMIUM ADJUSTMENT**

19 Union's financial results from utility operations for 2008 are further adjusted to recognize
20 the benefit of the storage margin incorporated into approved rates. The 2007 rates
21 approved by the Board for utility services included storage margin of \$33.5 million (EB-
22 2005-0520, Rate Order Working Papers, Schedule 24). This represented 90% of the

1 forecast revenue excess generated from long-term and short-term market priced storage
2 services.

3

4 In 2008, as a result of the Board's decision in the Natural Gas Electric Interface Review
5 ("NGEIR"), the amount of the storage margin included in rates was reduced to \$27.3
6 million (EB-2007-0606, Rate Order Working Papers, Schedule 16). This represents 75%
7 of the forecast revenue excess generated from long-term storage services and 71% of the
8 forecast revenue excess on short-term storage services. (EB-2005-0551 – NGEIR
9 decision, p. 107)

10

11 **2008 EARNING SHARING CALCULATION**

12

13 As indicated above, Union's financial results from utility operations for 2008 after the
14 storage premium adjustment generated an ROE 368 basis points above the 8.81%
15 calculated for 2008 by the application of the Board's ROE formula. This results in an
16 amount for earnings sharing of \$15.2 million (Appendix B, Schedule 1, Column (d), line
17 28). Normalizing for weather reduces the excess ROE to 330 basis points above the
18 8.81%, 30 basis points above the 300 basis point trigger for review of the price cap
19 mechanism.

20

21 The calculation of earnings sharing under Union's current incentive regulation
22 framework is based on actual, utility earnings. The calculation for the IR review

1 threshold provision is based on actual utility earnings normalized for weather. Prior to the
2 NGEIR decision, the calculation of earnings subject to sharing was based on total
3 corporate earnings adjusted for Shared Savings Mechanism (“SSM”) and Union’s share
4 of storage and transportation margin. The Board found in the NGEIR decision that
5 exfranchise storage in Ontario is competitive and that storage margin, subject to any
6 phase out or continued sharing provisions, should accrue to the company. Accordingly,
7 revenues and costs for unregulated storage services are excluded from the earnings
8 sharing calculation.

9

10 The calculation of earnings sharing for 2008 is found at Appendix B, Schedule 1. To
11 calculate actual utility earnings Union starts in column (a) with Union’s total corporate
12 revenues and operating expenses as reported in the annual financial statements; column
13 (b) removes revenues and costs associated with Union’s unregulated storage operations;
14 column (c) makes adjustments that would normally be made under cost of service to
15 arrive at utility earnings before interest and income taxes. To arrive at utility earnings for
16 the purposes of earnings sharing, deemed interest, income taxes and preferred dividends
17 are calculated and deducted from utility earnings before interest and income taxes. The
18 adjustments are discussed in more detail below.

19

20 **UNREGULATED STORAGE OPERATIONS**

21 As a result of the NGEIR decision, it is necessary for Union to separate the revenues and
22 costs associated with its unregulated storage operations from the revenues and costs of its

1 regulated operations. Costs attributable to unregulated storage activities are determined
2 consistent with the Board's findings in the NGEIR decision that the 2007 cost allocation
3 study was adequate for the purposes of separating regulated and unregulated costs
4 (NGEIR decision, pp. 73-74). The 2008 unregulated storage costs include an allocation
5 of shared costs based on the 2007 cost allocation methodology and incremental costs
6 directly attributable to investments in unregulated storage.

7
8 The revenues and costs for Union's unregulated storage operations are shown in column
9 (b) of Appendix B, Schedule 1. Revenues from short-term and long-term storage services
10 priced at market net of the amount deferred for ratepayers appear at column (b), line 2.

11 Cost of gas (column (b), line 5) consists of the cost of compressor fuel and unaccounted
12 for gas attributable to the unregulated storage activity. O&M expenses (column (b), line
13 6) includes O&M costs attributable to storage assets included in the 2007 Board approved
14 cost study and incremental O&M attributable to new storage investments made
15 subsequent to the 2007 cost study. Depreciation expenses (column (b), line 7) relate to
16 storage assets included in the 2007 cost study and new storage investments made
17 subsequent to the 2007 cost study.

18

19 **OTHER ADJUSTMENTS TO CALCULATE INCOME BEFORE INTEREST AND TAXES**

20 Section 10.1 of the Settlement Agreement states that Union must include in the
21 calculation of earnings sharing:

22 *"All revenues that would be included in revenues in a cost of service application shall be*
23 *included in the earnings calculation and only those expenses (whether operating or*

1 *capital) that would be allowable as deductions from earnings in a cost of service*
2 *application shall be included in the earnings calculation.*

3
4 *Parties acknowledge that the DSM related Shared Savings Mechanism (SSM) and Lost*
5 *Revenue Adjustment Mechanism (LRAM) and storage related deferral accounts are*
6 *outside of the earnings sharing mechanism identified above.”*
7
8
9

10 Consistent with Section 10.1 of the Settlement Agreement, Union is making the
11 following adjustments (Appendix B, Schedule 1, column (c)):

- 12 1. Unbilled customer charge revenue adjustment
- 13 2. Normalization of unaccounted for gas (“UFG”)
- 14 3. Shared Savings Mechanism (“SSM”) incentive payments
- 15 4. Charitable donations
- 16 5. Reorganization hearing costs
- 17 6. Interest on customer deposits

18
19 *Unbilled Customer Charge Revenue Adjustment*

20 Actual revenue reported for 2008 includes a one-time accounting adjustment to true up
21 the unbilled revenue accrual to reflect the current rate structure and billing cycles. Union
22 has removed the impact of this adjustment from revenue for earnings sharing as it does
23 not reflect operating revenues that would be included in a cost of service application.

24
25 Gas sales revenue is recorded on the basis of regular meter readings and estimates of
26 customer usage since the last time the meter was read. The monthly unbilled estimate is
27 based on volume estimates as well as an amount of customer charge revenue for the

1 portion of the month unbilled. In 2008, the unbilled fixed customer charge revenue
2 estimate was adjusted to true up days unbilled of 15 used in previous estimates to 20 days
3 per month unbilled based on an analysis of Union's billing cycles. The true up in
4 revenues of \$3.6 million was required to catch up prior period estimates. The 2008
5 adjusted general service revenue is \$571.3 million.

6

7 *Normalization of Unaccounted for Gas*

8 Actual UFG is subject to significant monthly and annual volatility and is primarily
9 attributable to metering variances across Union's system. As a result, UFG is calculated
10 using a weighted average of the previous three years actual experience when setting rates
11 under cost of service. Consistent with the Section 10.1 of the Settlement Agreement,
12 Union has normalized UFG for 2008 using the weighted average of three years
13 methodology for purposes of the calculation of utility earnings subject to sharing. The
14 calculation of the \$15.6 million adjustment increasing UFG is found at Appendix B,
15 Schedule 3, line 28.

16

17 *Shared Savings Mechanism*

18 Other revenue includes the revenue recorded from the SSM of \$7.5 million. The SSM is
19 an incentive to the company to encourage it to actively pursue DSM activities to achieve
20 results beyond the targeted levels. To ensure that the full amount of the SSM accrues to
21 the company and that the incentive is maintained, the SSM revenue is removed from the

1 earnings sharing calculation. This treatment is in accordance with the EB-2007-0606
2 Settlement Agreement and with past earnings sharing calculations.

3

4 *Charitable Donations*

5 Charitable donations are costs incurred by the utility that are not recovered from
6 customers in rates. The reduction in costs of \$0.4 million follows the treatment of
7 charitable donations under cost of service ratemaking and the Settlement Agreement.

8

9 *Reorganization Transaction Costs*

10 In 2008, the company made application to the Board to transfer all of the voting shares of
11 Union to a limited partnership (EB-2008-0304). In the Board's EB-2008-0304 decision,
12 the Board required that all of the costs of the transaction be borne by the company.
13 Accordingly, Union has removed \$0.1 million from the operation expenses in the
14 calculation of utility earnings.

15

16 *Interest on Customer Deposits*

17 Interest on customer deposits of \$0.5 million paid out during the year (recorded in the
18 company's accounts as interest expense) is included in the expenses allowable as
19 deductions from earnings consistent with the treatment under cost of service ratemaking
20 and the Settlement Agreement.

21

1 **CALCULATION OF EARNINGS**

2 Determining the amount of earnings for sharing requires a calculation of interest,
3 dividends and income taxes based on the utility rate base to arrive at utility earnings to
4 common shareholder. The amount of the storage premium is then added to earnings to
5 calculate the ROE to compare to the threshold return. These calculations and amounts
6 are discussed further below:

7

8 *Interest, Dividends and Income Taxes*

9 The approach used to calculate interest and income taxes to determine earnings subject to
10 sharing is the same approach used for rate making under cost of service.

- 11 • Utility interest expense of \$146.4 million is calculated using actual utility rate
12 base, deemed capital structure, and actual average interest rates adjusted for fees
13 and other costs. The calculation can be found at Appendix A, Schedule 4, Column
14 (e), line 3.
- 15 • Preferred share dividend is based on deemed capital structure and cost of capital.
- 16 • Current utility income taxes are calculated using utility income before interest and
17 taxes, deduct deemed interest costs, permanent and timing differences to arrive at
18 taxable income times current tax rates. The calculation can be found at Appendix
19 A, Schedule 14.
- 20 • Deferred taxes are based on the actual drawdown applicable to the year.

21

1 Storage Premium Adjustment

2 Earnings from utility operations are increased by the portion of the storage premium
3 reflected in approved rates to determine utility earnings subject to sharing. In 2008, the
4 amount of the ratepayer benefit is \$27.3 million pre tax which is 75% of the forecast
5 revenue excess generated from long-term storage services of \$11.2 million and 71% of
6 the forecast revenue excess on short-term storage services of \$16.1 million (EB-2007-
7 0660, Rate Order Working Papers, Schedule 16). The after tax earnings impact of the
8 premium in 2008 is \$10.7 million and \$7.5 million respectively.

9

10 Return on Equity

11 Actual ROE is determined using utility earnings calculated as described above divided by
12 deemed common equity at 36% of actual utility rate base. The actual 2008 ROE is
13 12.49% (Appendix B, Schedule 1, column (d), line 24).

14

15 Earnings Subject to Sharing

16 The actual ROE is compared to the ROE generated by applying the Board's approved
17 ROE formula. If the difference between the actual ROE and the benchmark ROE is
18 greater than 200 basis points, the excess earnings are shared 50/50 between Union and its
19 ratepayers. For 2008, the difference is 368 basis points or \$10.1 million, after tax
20 (Appendix B, Schedule 1, column (d), line 27). When grossed up for income taxes, the
21 amount of the earnings sharing is \$15.2 million (Appendix B, Schedule 1, column (d),
22 line 28).

1

2 **CALCULATION OF THE INCENTIVE REGULATION REVIEW THRESHOLD PROVISION**

3 Union's 2008 weather normalized utility earnings for the purposes of the IR review
4 threshold calculation include all the adjustments made to arrive at utility earnings for
5 sharing purposes as well as an adjustment to reduce revenues by \$6.9 million as a result
6 of colder than normal weather. The calculation of earnings for the purposes of the IR
7 review threshold is provided at Appendix B, Schedule 2.

8

9 The 2008 ROE related to the IR review threshold is 12.11% (Appendix B, Schedule 2,
10 column (d), line 24). This compares to the benchmark ROE of 8.81% resulting in
11 earnings that are 330 basis points above the Board's benchmark ROE.

12

13 **NEED FOR REVIEW OF THE INCENTIVE REGULATION MECHANISM**

14

15 As indicated above, Union's 2008 normalized earnings exceed the 300 basis point review
16 threshold, triggering the requirement to file an application with the Board for review of
17 the IR mechanism. It is Union's view that the existing IR parameters agreed to as part of
18 the EB-2007-0606, Settlement Agreement remain appropriate and should not be adjusted
19 as a result of this application. Specifically, Union does not believe that the base upon
20 which rates are set or the pricing formula, including the approved X factor of 1.82 %,
21 should be adjusted based on 2008 actual results.

22

1 Union takes this view for a number of reasons. The drivers of 2008 actual utility earnings
2 do not point to any fundamental flaw in the IR framework. The primary drivers of 2008
3 earnings are increased distribution revenue in the general service and infranchise contract
4 market and increased short-term transportation and exchange revenue. The increase in
5 infranchise distribution revenue experienced in 2008 arose from unusual circumstances,
6 and, in any event, not expected to continue in 2009 or 2010 as a result of the global
7 economic recession. Customers will continue to receive half of all actual earnings over
8 the sharing threshold, should the threshold be exceeded in subsequent years.

9

10 The increase in short-term transportation and exchange revenue in 2008 was the result of
11 increased customer activity and service values due to colder than normal weather late in
12 the year and new market opportunities. Further, Union put a greater focus on the gas
13 supply transportation portfolio optimization starting in 2007 and continuing through
14 2008. Union invested in incremental sales staff to capture the incremental revenue
15 opportunities and deliver these services to customers. Union's proactive approach to
16 optimizing short-term transportation opportunities is the behaviour that IR and the
17 associated elimination of the short-term transportation deferral accounts was intended to
18 drive. As a result of the IR framework both customers and the company are benefiting in
19 2008 through earnings sharing.

20

21 The revenue growth in 2008 will not continue in 2009 and 2010 because of the global
22 economic recession. The recession will continue to put significant downward pressure on

1 Union's earnings over the remainder of the IR term. Union has provided its 2009 -2010
2 forecast below. In neither 2009 nor 2010 is Union expected to exceed the earnings
3 sharing threshold of 200 basis points or the 300 basis points IR review threshold. The
4 recession will also result in lower GDP IPI FDD over the remainder of the IR term. With
5 a fixed productivity factor of 1.82% rates may actually decline over the IR term. At the
6 very least rates are expected to be flat, as is the case in 2009. Given the economic outlook
7 and the expected impact on Union's earnings, no adjustment to the current IR framework
8 is required.

9
10 It is Union's view IR is working as it was intended. Ratepayers will not be harmed by
11 continuing with the existing parameters. In fact, for 2008, ratepayers will receive \$15.2
12 million benefit associated with earnings sharing and will continue to be in a position to
13 share in any benefits should the earnings thresholds be exceeded in subsequent years. An
14 assessment of the 5-year parameters on the basis of a single year's results is not
15 appropriate. The OEB, utilities and intervenors have invested significant time and money
16 to arrive at these parameters.

17
18 Finally, the current IR framework creates an environment of regulatory certainty for
19 Union and Spectra that supports and enables longer term investment strategies.
20 Regulatory certainty also allows Union to maintain its employment level across Ontario
21 in the current economic environment. Any significant change to the IR framework will
22 increase regulatory uncertainty which could negatively impact the potential to attract

1 future capital and Union's ability to maintain employment at current levels in this
2 economy.

3

4 **2009 AND 2010 UTILITY FINANCIAL FORECAST**

5

6 Union's 2009-2010 forecasts, incorporating the impact of the global economic recession,
7 support the position that no change to the price cap formula or to the base upon which it
8 operates is required. Union is not expected to exceed either the threshold for earnings
9 sharing or the IR review threshold provision in 2009 or 2010.

10

11 Union's utility forecast for 2009 and 2010, taking into account the impacts of the
12 recession, has been provided in Appendix C, Schedules 1 - 9. The forecast assumptions
13 for 2009 and 2010 include the impact of the significant change in the economic
14 environment. The forecast presented in the accompanying schedules incorporates
15 adjustments which are primarily related to the impact that fewer housing starts will have
16 on customer additions and the impact the economic recession will have on commercial
17 and industrial contract demand as explained further below.

18

19 **SUMMARY OF FORECAST**

20 A comparison of the 2009 forecast to 2008 actual results and the 2010 forecast to the
21 2009 forecast has been provided at Appendix C, Schedule 2.

22

1 As can be seen on Appendix C, Schedule 2, the main contributors to a reduction in ROE
2 between the 2009 forecast and 2008 actual results are the following:

3 a) Decrease in gas sales margin: this is primarily the result of lower contract market
4 revenue as a result of the recession as referenced above.

5 b) Increase in O&M: The 2009 forecast reflects inflationary increases. The forecast
6 also includes increases in DSM spending of \$1.9 million. Inflation assumptions
7 have been identified at Appendix C, Schedule 1.

8 c) Increases in depreciation, property tax and interest: These are primarily the result
9 of increases in rate base.

10 d) Increase in rate base: Rate base adjustments reflect the capital expenditures
11 identified on Appendix C, Schedule 7.

12

13 As can be seen from Appendix C, Schedule 2, the main contributors to a reduction in
14 ROE between the 2010 forecast and 2009 forecast are the following:

15 a) Decrease in gas sales margin: this is primarily the result of higher winter peaking
16 service (“WPS”) costs.

17 b) Increase in O&M: The 2010 forecast reflects inflationary increases. The forecast
18 also includes increases in DSM spending of \$2.0 million. Inflation assumptions
19 have been identified at Appendix C, Schedule 1.

20 c) Increases in depreciation and property tax: These are primarily the result of
21 increases in rate base.

22 d) Decrease in capital tax: This is primarily the result of lower capital tax rates.

1

2 As identified on Appendix C, Schedule 2, line 23, Union's 2009 and 2010 forecast results
3 in a ROE of 9.92% and 8.66% respectively compared to the benchmark ROE of 8.47%
4 for 2009, which is the outcome of using the October 2008 consensus forecast in the
5 OEB's ROE formula. For purposes of calculating the amount of earnings to be shared
6 with customers and the IR review threshold in 2010, the October 2009 consensus forecast
7 will be used in the formula. Union does not anticipate that it will exceed either the
8 earnings sharing or the IR review thresholds in 2010.

9

10 A more detailed description of the impacts on Union's expected revenue for 2009 and
11 2010 is provided below.

12

13 *General Service Revenues*

14 As a result of the recession and the corresponding reduction in Ontario housing starts,
15 Union anticipates significantly lower growth in the number of billed customers in both
16 2009 and 2010. Ontario housing starts are expected to decline by 33% in 2009
17 (Consensus Economics Report). Also as a result of the recession, customer attrition will
18 rise due to commercial bankruptcies, plant closures and customer credit related issues.

19

20 Union is forecasting customer additions of 3,232 in 2009. This results in total number
21 billed customers in 2009 of 1,312,137. Customer additions for 2009 are significantly
22 lower than the 2008 customer additions of 20,069. Accordingly, Union has reduced the

1 2009 total general service delivery revenue forecast to \$569 million (Appendix C,
2 Schedule 3, Column (b), line 1). This represents a \$2 million reduction from 2008 actual
3 revenue after the unbilled revenue adjustment of \$571 million (Appendix C, Schedule 3,
4 Column (a), line 1).

5

6 The 2010 forecast reflects the lingering impact of the economic recession. For 2010,
7 Union is forecasting customer additions of 11,153. This results in forecasted billed
8 customers of 1,323,290 for 2010 compared to the 2009 forecasted billed customers of
9 1,312,137. Customer additions in 2010 remain significantly lower than that experienced
10 in 2008.

11

12 *Infranchise Contract Delivery Revenue*

13 The favourable economic conditions in early 2008 have deteriorated drastically in 2009
14 and are projected to continue to deteriorate into 2010. Union has reduced the forecast of
15 total infranchise contract delivery revenue for 2009 and 2010 to \$121 million and \$118
16 million, respectively (Appendix C, Schedule 3, line 2). This results in a decrease in
17 infranchise contract delivery revenue of \$6.0 million in 2009 and \$9.0 million in 2010,
18 respectively.

19

1 The revenue forecast variances are driven by:

2 a. Continued revenue growth in gas fired power generation of \$3.9 million in 2009
3 and \$6.1 million in 2010. This is the result of continued growth in production
4 from two new large power plants and the addition of a third plant in 2009;

5 b. Decreased production at OPG Lennox as a result of additional new high
6 efficiency gas fired power generation plants coming into service in 2008, 2009
7 and 2010. In addition, Ontario's peak electricity demand for industrial markets
8 has decreased significantly in the first quarter of 2009 and is not expected to
9 recover until later in 2010. Also an additional electric transmission
10 interconnection tie with Quebec is expected to be in place starting 2009,
11 reinforcing the supply of electricity to Eastern Ontario markets. Finally, natural
12 gas pricing is not expected to remain competitive with residual fuel oil according
13 to forward price forecasts for 2009 and 2010. This is expected to result in a
14 decrease of infranchise contract revenue of \$2.5 million in 2009 and \$2.6 million
15 in 2010;

16 c. Decreases in net contract customer production driven by:

17 i) The demands of large integrated steel customers decreased substantially
18 starting in November 2008. There has been a substantial decrease in the
19 demand for steel products worldwide. This has led all three of Union's large
20 steel customers to cancel plans that would have increased production and
21 reduce base production below historical levels, reducing natural gas
22 demand. This is demonstrated by the recent announcement by US Steel to

1 indefinitely shut down operations at both the Hamilton and Lake Erie
2 integrated steel plant sites. The impact of the reduced demand for natural
3 gas as a result of reduced steel production on the 2009 and 2010 forecast are
4 decreases of \$2.8 million and \$3.7 million, respectively;

5 ii) A decrease in the greenhouse natural gas demand is expected due to a
6 reversal of the forecasted price relationships between oil and gas. The
7 impact on 2009 and 2010 forecasts are decreases of \$0.7 million and \$0.8
8 million, respectively;

9 iii) A decrease in revenues resulting from net production and rate impacts for
10 both new and existing contract customer operations in all sectors for 2009 of
11 \$0.3 million and slight increase of \$0.3 million in 2010; and

12 d. In response to the recession, Union is forecasting a large incremental increase in
13 contract industrial plant closures. The total decrease for 2009 and 2010 forecast is
14 \$3.8 million and \$8.4 million, respectively.

15
16 Transportation Revenue

17 Union is forecasting revenue from exfranchise transportation services of \$165 million for
18 2009 and 2010 (Appendix C, Schedule 4, line 10). This is the same level as the actual
19 revenue for 2008. The revenue forecast for exfranchise transportation services consists of
20 revenue from long-term transportation services (M12) and short-term transactional
21 services. For 2009 and 2010, revenue from long-term transportation services is increasing

1 as a result of demand growth. This increase is offset by expected reductions in short-term
2 transactional revenue in 2009 and 2010.

3

4 *Short-Term Transportation and Exchange Revenue*

5 In 2009, short-term transportation and exchange revenue is forecast to be \$18 million
6 (Appendix C, Schedule 4, Column (b), line 6). This represents a \$5 million reduction to
7 the 2008 actual revenue of \$23 million. The demand for transactional services are very
8 dependant on market conditions and weather. Colder weather in the first two month of
9 2009 supported the activity generating higher revenues in the 2009 than expected. The
10 2009 forecast reflects Union's continued focus and proactive approach to optimization of
11 transportation assets by selling services early in 2008, prior to the precipitous decline in
12 the markets and commodity prices. Those contracts will sustain higher revenues into the
13 2009 winter season.

14

15 In 2010, transactional revenue is forecast to be \$14 million (Appendix C, Schedule 4,
16 Column (c), line 6) which is a \$4 million reduction to the 2009 forecast of \$18 million.
17 The reduction in the 2010 forecast reflects the continued downward pressure on
18 transactional activity and service values due to the economic downturn. Overall the
19 recession is expected to place significant downward pressure on Union's ability to sustain
20 or exceed the growth achieved in 2008. Union's customers are experiencing tighter credit
21 constraints, which raises the cost of capital and results in a higher cost of doing business.
22 Some counterparties, including major banks, have already completely withdrawn from

1 the market due to these conditions. Reduced industrial and commercial activity,
2 throughout the Northeast Canadian and US markets, will further lower the demand and/or
3 value for transportation transactional services that Union offers.

4

5 As indicated above, Union's 2008 Board approved distribution rates include a margin of
6 \$6.9 million. To generate \$6.9 million in margin, Union must achieve gross transactional
7 service revenue of approximately \$10 to \$12 million annually.

8

9 **SUMMARY**

10

11 Union's utility forecast for 2009 and 2010 does not support earnings continuing at 2008
12 levels. Infranchise distribution revenue (general service and contract) will decline,
13 relative to 2008, because of the global economic recession. Exfranchise transportation
14 revenue for core services will increase somewhat through 2009 and 2010. This growth is
15 offset by reductions in revenue from short-term transportation and exchange services in
16 2009 and 2010, primarily as a result of the recession. By 2010, the revenue from short-
17 term transportation and exchange will approach the level of revenue required to support
18 the margin built into infranchise delivery rates. At the same time, as Union is facing
19 downward pressure on revenues, it is forecasting increases in total operating expenses.
20 Overall, the forecasted ROE for 2009 and 2010 are 9.92% and 8.66% respectively
21 (Appendix C, Schedule 2, line 23). Based on Union's forecast for 2009 and 2010, Union

1 does not anticipate that it will exceed the earnings sharing threshold or the IR review
2 threshold in either year.

3

4 It is Union's view that there are no fundamental flaws with the current IR mechanism. IR
5 is working as it was intended to the benefit of ratepayers and the company. Ratepayers
6 will receive \$15.2 million of earnings sharing in 2008. Union does not believe that it is
7 appropriate to change the current IR mechanism based on a single year's financial results.
8 The current IR mechanism should be allowed to continue to operate without any change
9 to IR parameters or the basis on which rates are set.

10

11 **2008 EARNING SHARING: ALLOCATION AND DISPOSITION**

12

13 Union is proposing to allocate the 2008 earnings sharing of \$15.2 million to rate classes
14 based on the allocation of the 2007 approved ROE. The allocation of earnings sharing to
15 rate classes appears at Appendix D, Schedule 1. Union's allocation proposal is consistent
16 with how Union allocated, and the Board approved, earnings sharing for 2003, 2005 and
17 2006.

18

19 Consistent with Section 11.1 of the EB-2007-0606 Settlement Agreement, Union is
20 proposing to dispose of the earnings sharing amount July 1, 2009. The timing is
21 consistent with the timing proposed for disposition of Union's 2008 deferral account
22 balances. For General Service rate classes Rate M1, Rate M2, Rate 01 and Rate 10,

1 Union proposes to dispose of the earnings sharing credits prospectively by a temporary
2 delivery price adjustment for the period July 1, 2009 to December 31, 2009. For in-
3 franchise contract and ex-franchise rate classes, Union proposes to dispose of these
4 credits as a one time adjustment to customer bills.

5

6 The impact of the proposed disposition on general service customers in the Southern
7 Operations area and Northern and Eastern Operations area appears at Appendix D,
8 Schedule 2. For a residential customer with an annual consumption of 2,600 m³, the
9 delivery-related credit for the period July 1, 2009 to December 31, 2009 is \$4.72 in the
10 Southern Operations area and \$8.13 in the Northern and Eastern Operations area.

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UNION GAS LIMITED
 Calculation of Revenue Deficiency/(Sufficiency)
Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
1	Operating revenue	1,948,549	1,967,221	2,057,004
2	Cost of service	<u>1,710,465</u>	<u>1,719,916</u>	<u>1,773,224</u>
3	Utility income	238,084	247,305	283,781
4	Requested return	<u>259,490</u>	<u>251,931</u>	<u>257,617</u>
5	Revenue deficiency / (sufficiency) after tax	21,407	4,626	(26,163)
6	Provision for income taxes on deficiency / (sufficiency)	<u>12,104</u>	<u>2,616</u>	<u>(13,180)</u>
7	Total revenue deficiency / (sufficiency)	<u><u>33,511</u></u>	<u><u>7,242</u></u>	<u><u>(39,343)</u></u>

UNION GAS LIMITED
 Statement of Utility Income
 Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
	Operating Revenues:			
1	Gas Sales	1,796,757	1,811,101	1,865,629
2	Transportation	127,358	126,271	165,087
3	Other	24,434	29,849	26,288
4	Earnings Sharing			-
5		<u>1,948,549</u>	<u>1,967,221</u>	<u>2,057,004</u>
	Operating Expenses:			
6	Cost of gas	1,134,293	1,147,977	1,178,854
7	Operating and maintenance expenses	325,623	318,041	322,571
8	Depreciation	173,780	168,465	180,253
9	Other financing	315	636	535
10	Property and capital taxes	<u>67,709</u>	<u>64,476</u>	<u>64,942</u>
11		<u>1,701,720</u>	<u>1,699,595</u>	<u>1,747,155</u>
12	Utility income before income taxes	246,829	267,626	309,849
13	Income taxes	<u>8,745</u>	<u>20,322</u>	<u>26,069</u>
14	Total utility income	<u><u>238,084</u></u>	<u><u>247,305</u></u>	<u><u>283,781</u></u>

UNION GAS LIMITED
Statement of Earnings Before Interest and Taxes
Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved				2007 Actual				2008 Actual			
		Corporate (a)	Non-Utility Storage (b)	Adjustments (c)	Utility (d)=(a)-(b)+(c)	Corporate (e)	Non-Utility Storage (f)	Adjustments (g)	Utility (h)=(e)-(f)+(g)	Corporate (i)	Non-Utility Storage (j)	Adjustments (k)	Utility (l)=(i)-(j)+(k)
	Operating Revenues:												
1	Operating revenue	1,796,757			1,796,757	1,811,101	-		1,811,101	1,869,283	-	(3,654) i	1,865,629
2	Storage & Transportation	191,444	60,019	(4,067)	127,358	214,685	86,492	(1,922)	126,271	243,317	78,230	-	165,087
3	Other	24,434			24,434	37,076	-	(7,227)	29,849	33,818	-	(7,530) ii	26,288
4	Earnings Sharing									(15,203)	-	15,203	-
5		<u>2,012,635</u>	<u>60,019</u>	<u>(4,067)</u>	<u>1,948,549</u>	<u>2,062,862</u>	<u>86,492</u>	<u>(9,149)</u>	<u>1,967,221</u>	<u>2,131,215</u>	<u>78,230</u>	<u>4,019</u>	<u>2,057,004</u>
	Operating Expenses:												
6	Cost of gas	1,135,842	1,549		1,134,293	1,156,199	8,222	-	1,147,977	1,171,320	8,082	15,616 iii	1,178,854
7	Operating and maintenance expenses	333,029	7,002	(404)	325,623	327,429	12,264	2,876	318,041	335,115	12,028	(516) iv	322,571
8	Depreciation	178,502	4,722		173,780	173,816	5,351	-	168,465	185,219	4,966	-	180,253
9	Other financing			315	315	-	-	636	636	-	-	535 v	535
10	Property and capital taxes	68,671	962		67,709	65,439	963	-	64,476	65,895	953	-	64,942
11		<u>1,716,044</u>	<u>14,235</u>	<u>(89)</u>	<u>1,701,720</u>	<u>1,722,883</u>	<u>26,800</u>	<u>3,512</u>	<u>1,699,595</u>	<u>1,757,549</u>	<u>26,029</u>	<u>15,635</u>	<u>1,747,155</u>
12	Earnings Before Interest and Taxes	<u>296,591</u>	<u>45,784</u>	<u>(3,978)</u>	<u>246,829</u>	<u>339,979</u>	<u>59,692</u>	<u>(12,661)</u>	<u>267,626</u>	<u>373,666</u>	<u>52,201</u>	<u>(11,616)</u>	<u>309,849</u>

Notes:

i)	Adjustment includes: Weather normalization adjustment Accounting adjustment	-	<u>(3,654)</u>	<u>(3,654)</u>
ii)	Shared Savings Mechanism			
iii)	Adjustment includes: UFG Normalization Adjustment			15,616
iv)	Donations EB-2008-0304 costs		(394)	<u>(122)</u> <u>(516)</u>
v)	Customer deposit interest			

UNION GAS LIMITED
 Summary of Cost of Capital
 Year Ended December 31

Line No.	Particulars	2007 Board Approved			2007 Actual				2008 Actual				
		Utility Capital Structure		Cost Rate	Return	Utility Capital Structure		Cost Rate	Return	Utility Capital Structure		Cost Rate	Return
		(\$000's)	(%)	%	(\$000's)	(\$000's)	(%)	%	(\$000's)	(\$000's)	(%)	%	(\$000's)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	
1	Long-term debt	2,016,833	61.66	7.66%	154,389	2,039,368	63.68	7.47%	152,341	1,945,102	58.10	7.38%	143,546
2	Unfunded short-term debt	<u>(28,980)</u>	-0.89	1.58%	<u>(457)</u>	<u>(95,150)</u>	<u>(2.97)</u>	4.04%	<u>(3,844)</u>	<u>92,587</u>	2.77	3.03%	<u>2,805</u>
3	Total debt	1,987,853	60.77	7.74%	153,932	1,944,218	60.71		148,497	2,037,689	60.87		146,351
4	Preference shares	105,519	3.23	4.74%	4,998	105,519	3.29	4.71%	4,970	104,882	3.13	4.85%	5,088
5	Common equity	<u>1,177,522</u>	<u>36.00</u>	8.54%	<u>100,560</u>	<u>1,152,977</u>	<u>36.00</u>	8.54%	<u>98,464</u>	<u>1,205,196</u>	<u>36.00</u>	8.81%	<u>106,178</u>
6	Total rate base	<u>3,270,894</u>	<u>100.00</u>		<u>259,490</u>	<u>3,202,714</u>	<u>100.00</u>		<u>251,931</u>	<u>3,347,767</u>	<u>100.00</u>		<u>257,617</u>

UNION GAS LIMITED
 Total Weather Normalized Throughput Volume by Service Type and Rate Class
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars (10 ³ m ³)	2007 Board Approved						2007 Actual						2008 Actual					
		System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	General Service																		
1	Rate M1 Firm	-	-	-	-	-	-	-	-	-	-	-	1,945,071	673,137	309,036	22,750	-	-	2,949,994
2	Rate M2 Firm	2,249,002	1,377,551	105,414	230,800	-	3,962,767	2,261,354	1,250,828	259,102	328,921	-	4,100,205	405,041	350,731	55,958	291,853	-	1,103,582
3	Rate 01 Firm	502,613	400,625	-	2,073	-	905,311	517,285	392,257	-	2,674	-	912,216	456,460	453,044	-	7,315	-	916,820
4	Rate 10 Firm	135,308	139,784	-	106,277	-	381,369	122,881	123,290	-	126,843	-	373,014	127,641	107,976	-	121,217	-	356,834
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	2,886,923	1,917,960	105,414	339,150		5,249,447	2,901,520	1,766,375	259,102	458,438		5,385,435	2,934,212	1,584,888	364,994	443,136		5,327,230
	Wholesale - Utility																		
7	Rate M9 Firm	-	-	-	24,506	-	24,506	-	-	-	20,205	-	20,205	-	-	-	30,705	-	30,705
8	Rate M10 Firm	202	-	-	-	-	202	134	45	-	-	179	49	166	-	-	-	215	215
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Total Wholesale - Utility	202			24,506		24,708	134	45		20,205		20,384	49	166		30,705		30,920
	Contract																		
11	Rate M4	23,609	-	-	429,418	-	453,027	17,274	239	-	501,818	519,331	22,231	2,988	-	495,796	-	521,014	
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	277,546	-	277,546	-	-	-	584,664	584,664	-	-	-	553,139	-	553,139	
14	Rate 20 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Rate 20 Transportation	24,982	-	-	146,571	354,035	525,588	20,011	-	-	140,936	290,794	451,741	24,918	-	-	133,872	322,008	480,799
16	Rate 100 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	2,275,112	2,275,112	-	-	-	-	2,015,382	2,015,382	46	-	-	1,964,988	1,965,033	
18	Rate T-1 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	4,889,989	4,889,989	-	-	-	-	3,825,444	3,825,444	-	-	-	3,759,158	3,759,158	
20	Rate T-3 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	321,455	321,455	-	-	-	-	276,239	276,239	-	-	-	273,898	273,898	
22	Rate M5	-	-	-	404,634	-	404,634	404	-	-	503,797	504,201	1,585	-	-	496,881	498,466		
23	Rate 25	41,048	-	-	-	63,597	104,645	186,288	-	-	-	421,889	101,202	-	-	205,684	306,886		
24	Rate 30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Total Contract	89,639			1,258,169	7,904,188	9,251,996	223,977	239		1,731,215	6,643,460	8,598,891	149,982	2,988		1,679,688	6,525,736	8,358,394
26	Total Throughput Volume	2,976,764	1,917,960	105,414	1,621,825	7,904,188	14,526,151	3,125,631	1,766,659	259,102	2,209,858	6,643,460	14,004,710	3,084,243	1,588,042	364,994	2,153,529	6,525,736	13,716,545

UNION GAS LIMITED
 Total Throughput Volume by Service Type and Rate Class
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars (10 ³ m ³)	2007 Board Approved						2007 Actual						2008 Actual					
		System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	<u>General Service</u>																		
1	Rate M1 Firm	-	-	-	-	-	-	-	-	-	-	-	2,001,534	689,099	316,657	22,280	-	-	3,029,570
2	Rate M2 Firm	2,249,002	1,377,551	105,414	230,800	-	3,962,767	2,203,603	1,225,632	247,849	322,241	3,999,325	411,776	359,663	57,677	300,940	-	-	1,130,056
3	Rate 01 Firm	502,613	400,625	-	2,073	-	905,311	512,281	374,782	-	4,232	891,295	565,722	359,274	-	6,876	-	-	931,872
4	Rate 10 Firm	135,308	139,784	-	106,277	-	381,369	131,118	128,277	-	107,240	366,635	134,284	117,419	-	110,348	-	-	362,051
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	<u>2,886,923</u>	<u>1,917,960</u>	<u>105,414</u>	<u>339,150</u>		<u>5,249,447</u>	<u>2,847,002</u>	<u>1,728,691</u>	<u>247,849</u>	<u>433,713</u>	<u>5,257,255</u>	<u>3,113,316</u>	<u>1,525,455</u>	<u>374,334</u>	<u>440,444</u>	<u>-</u>	<u>-</u>	<u>5,453,548</u>
	<u>Wholesale - Utility</u>																		
7	Rate M9 Firm	-	-	-	24,506	-	24,506	-	-	-	20,205	20,205	-	-	-	30,705	-	-	30,705
8	Rate M10 Firm	202	-	-	-	-	202	134	45	-	179	49	166	-	-	-	-	-	215
9	Rate 77 Firm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Total Wholesale - Utility	<u>202</u>			<u>24,506</u>		<u>24,708</u>	<u>134</u>	<u>45</u>		<u>20,205</u>	<u>20,384</u>	<u>49</u>	<u>166</u>		<u>30,705</u>			<u>30,920</u>
	<u>Contract</u>																		
11	Rate M4	23,609	-	-	429,418	-	453,027	17,274	239	-	501,818	519,331	22,231	2,988	-	495,796	-	-	521,014
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	277,546	-	277,546	-	-	-	584,664	584,664	-	-	-	553,139	-	-	553,139
14	Rate 20 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Rate 20 Transportation	24,982	-	-	146,571	354,035	525,588	20,011	-	-	140,936	290,794	451,741	24,918	-	133,872	322,008	-	480,799
16	Rate 100 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Rate 100 Transportation	-	-	-	-	2,275,112	2,275,112	-	-	-	-	2,015,382	2,015,382	46	-	-	1,964,988	-	1,965,033
18	Rate T-1 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Rate T-1 Transportation	-	-	-	-	4,889,989	4,889,989	-	-	-	-	3,825,444	3,825,444	-	-	-	3,759,158	-	3,759,158
20	Rate T-3 Storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Rate T-3 Transportation	-	-	-	-	321,455	321,455	-	-	-	276,239	276,239	-	-	-	273,898	-	-	273,898
22	Rate M5	-	-	-	404,634	-	404,634	404	-	-	503,797	504,201	1,585	-	-	496,881	-	-	498,466
23	Rate 25	41,048	-	-	-	63,597	104,645	186,288	-	-	-	421,889	101,202	-	-	205,684	-	-	306,886
24	Rate 30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Total Contract	<u>89,639</u>			<u>1,258,169</u>	<u>7,904,188</u>	<u>9,251,996</u>	<u>223,977</u>	<u>239</u>		<u>1,731,215</u>	<u>8,598,891</u>	<u>149,982</u>	<u>2,988</u>		<u>1,679,688</u>			<u>8,358,394</u>
26	Total Throughput Volume	<u>2,976,764</u>	<u>1,917,960</u>	<u>105,414</u>	<u>1,621,825</u>	<u>7,904,188</u>	<u>14,526,151</u>	<u>3,071,113</u>	<u>1,728,975</u>	<u>247,849</u>	<u>2,185,133</u>	<u>13,876,530</u>	<u>3,263,347</u>	<u>1,528,609</u>	<u>374,334</u>	<u>2,150,837</u>	<u>6,525,736</u>	<u>-</u>	<u>13,842,863</u>

UNION GAS LIMITED

Total Weather Normalized Gas Sales
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars (\$000's)	2007 Actual						2008 Actual					
		System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	<u>General Service</u>												
1	Rate M1 Firm	-	-	-	-	-	-	920,276	81,468	37,874	1,350	-	1,040,969
2	Rate M2 Firm	1,014,689	119,832	31,436	14,294	-	1,180,251	159,675	16,669	4,328	12,538	-	193,211
3	Rate 01 Firm	264,426	79,776	-	501	-	344,703	280,023	84,409	-	1,051	-	365,483
4	Rate 10 Firm	54,913	14,200	-	11,468	-	80,581	54,892	12,312	-	11,129	-	78,333
5	Rate 16 Interruptible	-	-	-	-	-	-	-	-	-	-	-	-
6	Total General Service	1,334,028	213,808	31,436	26,263	-	1,605,535	1,414,867	194,858	42,202	26,069	-	1,677,995
	<u>Wholesale - Utility</u>												
7	Rate M9 Firm	-	-	-	569	-	569	-	-	-	729	-	729
8	Rate M10 Firm	51	-	-	-	-	51	17	4	-	-	-	22
9	Rate 77 Firm	-	-	-	-	28	28	-	-	-	23	-	23
10	Total Wholesale - Utility	51	-	-	569	28	648	17	4	-	729	23	773
	<u>Contract</u>												
11	Rate M4	6,664	7	-	14,440	-	21,111	8,549	85	-	14,357	-	22,991
12	Rate M6	-	-	-	-	-	-	-	-	-	-	-	-
13	Rate M7	-	-	-	10,732	-	10,732	-	-	-	10,454	-	10,454
14	Rate 20 Storage	-	-	-	-	207	207	-	-	-	-	365	365
15	Rate 20 Transportation	7,685	-	-	7,222	5,059	19,966	10,186	-	-	8,176	5,218	23,581
16	Rate 100 Storage	-	-	-	-	1,764	1,764	-	-	-	-	1,594	1,594
17	Rate 100 Transportation	-	-	-	-	15,434	15,434	21	-	-	-	14,631	14,651
18	Rate T-1 Storage	-	-	-	-	10,558	10,558	-	-	-	-	9,785	9,785
19	Rate T-1 Transportation	-	-	-	-	42,158	42,158	-	-	-	-	44,573	44,573
20	Rate T-3 Storage	-	-	-	-	1,541	1,541	-	-	-	-	1,574	1,574
21	Rate T-3 Transportation	-	-	-	-	3,858	3,858	-	-	-	-	3,807	3,807
22	Rate M5	150	-	-	9,596	-	9,746	607	-	-	9,445	-	10,051
23	Rate 25	69,268	-	-	-	6,041	75,309	35,254	-	-	-	4,698	39,952
24	Rate 30	-	-	-	-	365	365	-	-	-	-	255	255
25	Total Contract	83,767	7	-	41,990	86,985	212,749	54,616	85	-	42,432	86,500	183,633
26	Total Revenue	1,417,846	213,815	31,436	68,822	87,013	1,818,932	1,469,500	194,948	42,202	69,230	86,523	1,862,402

UNION GAS LIMITED
 Sales Revenue by Service Type and
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars (\$000's)	2007 Actual						2008 Actual					
		System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	<u>General Service</u>												
1	Rate M1 Firm	-	-	-	-	-	-	923,380	\$ 82,345	\$ 38,222	\$ 1,326	\$	1,045,272
2	Rate M2 Firm	1,011,310	\$ 118,393	\$ 30,882	\$ 13,975	\$	\$ 1,174,560	159,946	17,031	4,386	12,908		\$ 194,271
3	Rate 01 Firm	263,976	78,288		623		342,887	289,214	76,482		1,018		366,713
4	Rate 10 Firm	55,372	14,454		10,431		80,257	55,238.58	12,817.04		10,565.10		78,620.72
5	Rate 16 Interruptible												
6	Total General Service	1,330,658	211,135	30,882	25,029		1,597,704	1,427,777	188,675	42,608	25,817		1,684,877
	<u>Wholesale - Utility</u>												
7	Rate M9 Firm				569		569				729		729
8	Rate M10 Firm	51					51	17	4				22
9	Rate 77 Firm					28	28					23	23
10	Total Wholesale - Utility	51			569	28	648	17	4		729	23	773
	<u>Contract</u>												
11	Rate M4	6,664	7		14,440		21,111	8,549	85		14,357		22,991
12	Rate M6												
13	Rate M7				10,732		10,732				10,454		10,454
14	Rate 20 Storage					207	207					365	365
15	Rate 20 Transportation	7,685			7,222	5,059	19,966	10,186			8,176	5,218	23,581
16	Rate 100 Storage					1,764	1,764					1,594	1,594
17	Rate 100 Transportation					15,434	15,434	21				14,631	14,651
18	Rate T-1 Storage					10,558	10,558					9,785	9,785
19	Rate T-1 Transportation					42,158	42,158					44,573	44,573
20	Rate T-3 Storage					1,541	1,541					1,574	1,574
21	Rate T-3 Transportation					3,858	3,858					3,807	3,807
22	Rate M5	150			9,596		9,746	607			9,445		10,051
23	Rate 25	69,268				6,041	75,309	35,254				4,698	39,952
24	Rate 30					365	365					255	255
25	Total Contract	83,767	7		41,990	86,985	212,749	54,616	85		42,432	86,500	183,633
26	Total Revenue	1,414,476	\$ 211,142	\$ 30,882	\$ 67,588	\$ 87,013	\$ 1,811,101	1,482,411	\$ 188,765	\$ 42,608	\$ 68,977	\$ 86,523	\$ 1,869,283

UNION GAS LIMITED
 Delivery Revenue by Service Type and Rate Class
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved					2007 Actual						2008 Actual						
		System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total	System Sales	ABC-T	ABC Unbundled	Bundled-T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
General Service																			
1	Rate M1 Firm	-	-	-	-	-	-	-	-	-	-	-	246,125	\$ 82,345	\$ 38,222	\$ 1,326	\$		368,018
2	Rate M2 Firm	253,336	133,485	12,252	11,336		410,409	242,976	\$ 118,393	\$ 30,882	\$ 13,975	\$	406,226	19,223	17,031	4,386	12,908		\$ 53,548
3	Rate 01 Firm	74,884	57,873		195		132,952	74,917	56,476		377		131,770	82,247	53,226		570		136,044
4	Rate 10 Firm	8,156	8,706		5,024		21,886	7,898	8,146		5,046		21,090	6,754	6,290		4,269		17,314
5	Rate 16 Interruptible																		
6	Total General Service	<u>336,376</u>	<u>200,064</u>	<u>12,252</u>	<u>16,555</u>		<u>565,247</u>	<u>325,791</u>	<u>183,015</u>	<u>30,882</u>	<u>19,398</u>		<u>559,086</u>	<u>354,349</u>	<u>158,893</u>	<u>42,608</u>	<u>19,074</u>		<u>574,923</u>
Wholesale - Utility																			
7	Rate M9 Firm				592		592				569		569				729		729
8	Rate M10 Firm	5					5	4					4	1	4				6
9	Rate 77 Firm						28						28						23
10	Total Wholesale - Utility	<u>5</u>			<u>592</u>		<u>625</u>	<u>4</u>			<u>569</u>		<u>601</u>	<u>1</u>	<u>4</u>		<u>729</u>		<u>758</u>
Contract																			
11	Rate M4	739			13,030		13,769	594	7		14,440		15,041	771	85		14,357		15,213
12	Rate M6																		
13	Rate M7				6,670		6,670				10,732		10,732				10,454		10,454
14	Rate 20 Storage					56	56				207		207					365	365
15	Rate 20 Transportation	522			1,940	4,982	7,444	442			1,890	4,983	7,315	800			1,890	5,218	7,907
16	Rate 100 Storage					1,767	1,767				1,764		1,764					1,594	1,594
17	Rate 100 Transportation					16,153	16,153				15,209		15,209	2				14,631	14,633
18	Rate T-1 Storage					8,206	8,206				10,558		10,558					9,785	9,785
19	Rate T-1 Transportation					46,827	46,827				42,158		42,158					44,573	44,573
20	Rate T-3 Storage					1,578	1,578				1,541		1,541					1,574	1,574
21	Rate T-3 Transportation					4,010	4,010				3,858		3,858					3,807	3,807
22	Rate M5				8,038		8,038	8			9,596		9,604	45			9,445		9,490
23	Rate 25	908				1,497	2,405	3,773			6,041		9,814	2,209				4,698	6,908
24	Rate 30										365		365					255	255
25	Total Contract	<u>2,169</u>			<u>29,678</u>		<u>85,076</u>	<u>4,817</u>	<u>7</u>		<u>36,658</u>		<u>86,684</u>	<u>3,827</u>	<u>85</u>		<u>36,146</u>		<u>126,557</u>
26	Total Revenue	<u>338,550</u>	<u>200,064</u>	<u>12,252</u>	<u>46,825</u>		<u>85,104</u>	<u>330,612</u>	<u>\$ 183,022</u>	<u>\$ 30,882</u>	<u>\$ 56,625</u>	<u>\$ 86,712</u>	<u>\$ 687,853</u>	<u>358,177</u>	<u>\$ 158,982</u>	<u>\$ 42,608</u>	<u>\$ 55,948</u>	<u>\$ 86,523</u>	<u>\$ 702,238</u>

UNION GAS LIMITED
 Total Customers by Service Type and Rate Class
 All Customer Rate Classes
 Year Ended December 31

Line No.	Particulars	2007 Board Approved					2007 Actual						2008 Actual						
		System Sales	ABC-T	ABC-Unbundled	Bundled T	T-Service	Total	Sales	ABC-T	ABC-Unbundled	Bundled T	T-Service	Total	System Sales	ABC-T	ABC-Unbundled	Bundled T	T-Service	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	<u>General Service</u>																		
1	Rate M1 Firm	-	-	-	-	-	-	-	-	-	-	-	682,343	197,999	118,126	1,022			999,490
2	Rate M2 Firm	663,740	297,276	34,458	1,690		997,164	648,457	242,959	96,253	1,862	989,531	2,469	2,306	379	836			5,990
3	Rate 01 Firm	172,580	125,484		166		298,230	176,161	120,560		258	296,979	187,418	113,310		292			301,020
4	Rate 10 Firm		1,344		300		2,973	1,008	1,036		282	2,326	1,142	960		303			2,405
5	Rate 16 Interruptible																		
6	Total General Service	<u>837,649</u>	<u>424,104</u>	<u>34,458</u>	<u>2,156</u>		<u>1,298,367</u>	<u>825,626</u>	<u>364,555</u>	<u>96,253</u>	<u>2,402</u>	<u>1,288,836</u>	<u>873,372</u>	<u>314,575</u>	<u>118,505</u>	<u>2,453</u>			<u>1,308,905</u>
	<u>Wholesale - Utility</u>																		
7	Rate M9 Firm				2		2				2						2		2
8	Rate M10 Firm	4					4	2	1			3	1	1					2
9	Rate 77 Firm					1	1				1	1							
10	Total Wholesale - Utility	<u>4</u>			<u>2</u>	<u>1</u>	<u>7</u>	<u>2</u>	<u>1</u>		<u>2</u>	<u>6</u>	<u>1</u>	<u>1</u>		<u>2</u>			<u>4</u>
	<u>Contract</u>																		
11	Rate M4	13			181		194	10	1		146	157	12	2				141	155
12	Rate M6																		
13	Rate M7				8		8				9	9						9	9
14	Rate 20 Storage																		
15	Rate 20 Transportation	10			20	35	65	5			20	57	3				19	35	57
16	Rate 100 Storage																		
17	Rate 100 Transportation					19	19					16	1					19	20
18	Rate T-1 Storage																		
19	Rate T-1 Transportation					68	68					53						53	53
20	Rate T-3 Storage																		
21	Rate T-3 Transportation					1	1				1	1						1	1
22	Rate M5				133		133				128	128	1				124		125
23	Rate 25	56				67	123	41				96	45					56	101
24	Rate 30											1							
25	Total Contract	<u>79</u>			<u>342</u>	<u>190</u>	<u>611</u>	<u>56</u>	<u>1</u>		<u>303</u>	<u>518</u>	<u>62</u>	<u>2</u>		<u>293</u>		<u>164</u>	<u>521</u>
26	Total Customers	<u>837,732</u>	<u>424,104</u>	<u>34,458</u>	<u>2,500</u>	<u>191</u>	<u>1,298,985</u>	<u>825,684</u>	<u>364,557</u>	<u>96,253</u>	<u>2,707</u>	<u>1,289,360</u>	<u>873,435</u>	<u>314,578</u>	<u>118,505</u>	<u>2,748</u>		<u>164</u>	<u>1,309,430</u>

UNION GAS LIMITED
 Revenue from Regulated Transportation of Gas
Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
1	M12 Transportation	120,667	119,211	132,662
2	M12 Transportation Overrun/Limited Firm	-	-	1,171
3	C1 Long Term Transportation	2,900	2,093	5,790
4	C1 Short Term Transportation and Exchanges	3,742	5,123	23,266
5	C1 Rebate Program	(2,178)	(1,874)	(0)
6	M13 - Local Production	864	649	529
7	M16	553	240	474
8	Other S&T Revenue	<u>810</u>	<u>829</u>	<u>1,193</u>
9	Total S&T Revenue	<u><u>127,358</u></u>	<u><u>126,271</u></u>	<u><u>165,087</u></u>

UNION GAS LIMITED
 Other Revenue
Year Ended December 31, 2008

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
1	Delayed payment charges	\$ 7,231	\$ 7,424 (1)	7,876
2	Account opening charges	5,858	7,332	6,851
3	Billing revenue	9,041	9,677	9,059
4	Mid market transactions	2,000	3,684 (2)	2,070
5	Other operating revenue	<u>304</u>	<u>1,732 (3)</u>	<u>432</u>
6	Total other revenue	<u>\$ 24,434</u>	<u>\$ 29,849</u>	<u>26,288</u>

Notes:

- (1) Late payment charges only excludes NSF cheque charges
- (2) Excludes Energy management consultancy fees
- (3) Other operating revenue includes the NSF cheque charges and Energy management consultancy fees

UNION GAS LIMITED
 Operating and Maintenance Expense by Cost Type
Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
1	Salaries/Wages	159,896	165,871	172,275
2	Benefits	55,621	56,365	51,366
3	Materials	9,132	9,973	10,696
4	Employee Training	12,798	12,034	13,714
5	Contract Services	50,061	51,194	55,317
6	Consulting	6,447	7,277	8,270
7	General	20,645	21,232	21,837
8	Transportation and Maintenance	7,523	7,317	8,159
9	Company Used Gas	4,911	3,167	3,548
10	Utility Costs	3,269	3,315	3,534
11	Communications	7,969	7,981	8,225
12	Demand Side Management Programs	11,874	11,569	12,471
13	Advertising	2,255	2,118	1,544
14	Insurance	7,004	8,030	7,240
15	Donations	404	377	451
16	Financial	2,884	1,361	2,117
17	Lease	3,202	3,382	3,198
18	Cost Recovery from Third Parties	(2,106)	(3,321)	(3,770)
19	Computers	4,226	4,234	4,263
20	Regulatory Hearing & OEB Cost Assessment	6,000	5,758	4,488
21	Outbound Affiliate Services	(5,741)	(6,476)	(7,768)
22	Inbound Affiliate Services	11,933	6,303	5,870
23	Bad Debt	11,600	7,600	9,100
24	Other	100	121	170
25	Total	<u>391,907</u>	<u>386,782</u>	<u>396,315</u>
26	Indirect Capitalization (OH)	(51,528)	(48,850)	(52,675)
27	Direct Capitalization (DCC)	<u>(7,350)</u>	<u>(7,250)</u>	<u>(8,590)</u>
28	Total	<u>333,029</u>	<u>330,682</u>	<u>335,050</u>
29	Non Utility Costs (1)	<u>(7,406)</u>	<u>(12,641)</u>	<u>(12,479)</u>
30	Total Net Utility Operating and Maintenance Expense	<u><u>325,623</u></u>	<u><u>318,041</u></u>	<u><u>322,571</u></u>

Notes:

(-1) Includes non utility storage allocation and charitable donations.

UNION GAS LIMITED
 Calculation of Utility Income Taxes
 Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
<u>Determination of Taxable Income</u>				
1	Utility income before interest and income taxes	246,829	267,626	309,849
Adjustments required to arrive at taxable utility income:				
2	Interest expense	(153,932)	(148,534)	(146,351)
3	Utility permanent differences	1,333	2,353	659
4		<u>94,230</u>	<u>121,445</u>	<u>164,157</u>
Utility timing differences				
5	Capital Cost Allowance	(163,089)	(148,200)	(169,534)
6	Depreciation	173,780	168,465	181,416
7	Depreciation through clearing	1,114	1,150	1,150
8	Other	(38,911)	(43,351)	(52,462)
9		<u>(27,106)</u>	<u>(21,936)</u>	<u>(39,430)</u>
10	Taxable income	<u>67,124</u>	<u>99,509</u>	<u>124,727</u>
<u>Calculation of Utility Income Taxes</u>				
11	Income taxes (line 10 * line 17)	24,245	35,943	41,784
12	Deferred tax drawdown	(15,500)	(15,621)	(15,715)
13	Total taxes	<u>8,745</u>	<u>20,322</u>	<u>26,069</u>
<u>Tax Rates</u>				
14	Federal tax	22.12%	22.12%	19.50%
15	Provincial tax	14.00%	14.00%	14.00%
16	Total tax rate	<u>36.12%</u>	<u>36.12%</u>	<u>33.50%</u>

UNION GAS LIMITED
 Calculation of Capital Consumption Allowance (CCA)
 Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved			2007 Actual			2008 Actual		
		Average CCA Balance	Rate (%)	Provision	Average CCA Balance	Rate (%)	Provision	Average CCA Balance	Rate (%)	Provision
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Class										
1	1 Buildings, structures and improvements, services, meters, mains		4%		1,689,449	4%	67,578	1,620,230	4%	64,746
2	2 Mains prior to 1988		6%	0	252,210	6%	15,133	337,903	6%	20,274
3	3 Buildings acquired before 1988		5%	0	5,821	5%	291	5,530	5%	277
4	6 Other buildings		10%	0	325	10%	33	292	10%	29
5	8 Compression assets, office furniture, equipment		20%	0	70,667	20%	14,133	75,091	20%	15,018
6	10 Transportation, computer equipment		30%	0	29,588	30%	8,876	27,554	30%	8,266
7	17 Roads, sidewalk, parking lot or storage areas		8%	0	1,560	8%	125	1,436	8%	115
8	38 Heavy work equipment		30%	0	3,500	30%	1,050	3,400	30%	1,020
9	41 Storage assets		25%	0	9,661	25%	2,415	8,676	25%	2,169
10	13 Leasehold improvements		N/A		4,201	N/A	192	895	N/A	192
11	12 Computer software, small tools		100%	0	13,323	100%	13,323	15,801	100%	15,801
12	45 Computers - Hardware acquired after March 22, 2004		45%	0	12,417	45%	5,588	4,897	45%	2,204
13	45.1 Computers - Hardware acquired after March 18, 2007		55%	0				7,232	55%	3,977
14	7 New compression acquired after February 23, 2005		15%	0	50,684	15%	7,603	137,901	15%	20,685
15	49 Transmission pipeline additions acquired after February 23, 2005		8%	0	148,263	8%	11,861	184,495	8%	14,760
16	Total	<u>0</u>		<u>\$ 0</u>	<u>2,291,669</u>		<u>148,200</u>	<u>2,431,334</u>		<u>169,534</u>

Notes:

(1) The CCA rate depends on the type of the leasehold and the terms of the lease

UNION GAS LIMITED
 Provision for Depreciation,
 Amortization and Depletion
Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved	2007 Actual	2008 Actual
1	Total provision for depreciation and amortization before adjustments (per page 3)		169,615	\$ 181,416
2	Adjustments: vehicle depreciation through clearing		1,150	1,150
3	Provision for depreciation amortization and depletion		<u>168,465</u>	<u>\$ 180,266</u>

UNION GAS LIMITED
Provision for Depreciation,
Amortization and Depletion
Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved			2007 Actual			2008 Actual		
		Average Plant (1) (a)	Rate (%) (b)	Provision (c)	Average Plant (1) (d)	Rate (%) (e)	Provision (f)	Average Plant (1) (g)	Rate (%) (h)	Provision (i)
	Intangible plant:									
1	Franchises and consents		\$		2,102	\$	102	2,102	Amortized	101
2	Intangible plant - Other				9,370		123	9,370	Amortized	123
3					11,472		225	11,472		224
	Local Storage Plant									
4	Structures and improvements		3.30%		2,514	3.30%	83	2,591	3.30%	85
5	Gas holders - storage		2.68%		4,473	2.68%	120	4,473	2.68%	120
6	Gas holders - equipment		3.68%		7,618	3.68%	280	7,663	3.68%	282
7					14,605		483	14,726		487
	Storage:									
8	Land rights		2.23%		31,978	2.23%	713	31,998	2.23%	714
9	Structures and improvements		2.34%		51,576	2.34%	1,207	52,743	2.34%	1,234
10	Wells and lines		2.66%		85,620	2.66%	2,277	86,371	2.66%	2,298
11	Compressor equipment		3.19%		222,664	3.19%	7,103	220,946	3.19%	7,048
12	Measuring & regulating equipment		4.30%		47,273	4.30%	2,033	47,427	4.30%	2,039
13	Other equipment									
14					439,111		13,333	439,483		13,333
	Transmission:									
15	Land rights		2.00%		33,067	2.00%	661	34,245	2.00%	685
16	Structures and improvements		2.66%		44,390	2.66%	1,181	48,252	2.66%	1,283
17	Mains		2.37%		943,264	2.37%	22,355	991,689	2.37%	23,503
18	Compressor equipment		3.52%		143,728	3.52%	5,059	223,310	3.52%	7,860
19	Measuring & regulating equipment		3.61%		127,194	3.61%	4,592	133,413	3.61%	4,816
20					1,291,643		33,848	1,430,908		38,148
	Distribution - Southern Operations:									
21	Land rights		1.67%		4,549	1.67%	76	4,839	1.67%	81
22	Structures and improvements		2.91%		61,520	2.91%	1,809	68,805	2.94%	2,021
23	Services - metallic		3.69%		111,195	3.69%	4,103	111,141	3.65%	4,059
24	Services - plastic		3.18%		668,617	3.18%	21,262	695,583	3.18%	22,119
25	Regulators		3.30%		62,920	3.30%	2,076	66,325	3.30%	2,189
26	Regulator and meter installations		3.51%		49,547	3.51%	1,739	53,865	3.51%	1,891
27	Mains - metallic		2.54%		371,265	2.54%	9,430	381,042	2.55%	9,721
28	Mains - plastic		2.34%		442,423	2.34%	10,353	459,888	2.34%	10,762
29	Measuring & regulating equipment		4.64%		23,410	4.64%	1,086	25,812	4.64%	1,198
30	Meters		3.70%		166,196	3.70%	6,149	169,612	3.70%	6,276
31	Other equipment									
32			\$		1,961,642	\$	58,084	2,036,912	\$	60,315

UNION GAS LIMITED
 Provision for Depreciation,
 Amortization and Depletion
 Year Ended December 31

Line No.	Particulars (\$000's)	2007 Board Approved			2007 Actual			2008 Actual		
		Average Plant (1) (a)	Rate (%) (b)	Provision (c)	Average Plant (1) (d)	Rate (%) (e)	Provision (f)	Average Plant (1) (g)	Rate (%) (h)	Provision (i)
	Distribution plant - Northern & Eastern Operations:									
1	Land rights		1.68%		8,559	1.68%	144	8,700	1.68%	146
2	Structures & improvements		3.13%		42,493	3.13%	1,410	41,745	3.25%	1,355
3	Services - metallic		3.58%		89,459	3.58%	3,203	91,149	3.58%	3,263
4	Services - plastic		3.19%		320,027	3.19%	10,209	330,989	3.19%	10,559
5	Regulators		3.34%		22,799	3.34%	761	23,732	3.34%	793
6	Regulator and meter installations		3.50%		25,237	3.50%	883	27,105	3.50%	949
7	Mains - metallic		2.52%		322,582	2.52%	8,129	334,249	2.52%	8,423
8	Mains - plastic		2.35%		181,132	2.35%	4,257	185,638	2.35%	4,363
9	Compressor equipment		3.34%		1,341	3.34%	45	1,341	3.34%	45
10	Measuring & regulating equipment		4.63%		85,942	4.63%	3,979	91,335	4.63%	4,229
11	Meters		3.67%		48,777	3.67%	1,790	49,256	3.67%	1,808
12	Other distribution equipment									
13					1,148,348		34,810	1,185,238		35,931
	General:									
14	Structures and improvements		2.13%		39,335	2.13%	926	41,389	2.32%	960
15	Office furniture and equipment		6.67%		16,944	6.67%	1,130	16,202	6.90%	1,118
16	Office equipment - computers		25.00%		71,911	25.00%	17,978	86,453	25.40%	21,960
17	Transportation equipment		10.07%		46,366	10.07%	4,669	46,705	10.21%	4,771
18	Heavy work equipment		4.55%		14,231	4.55%	647	13,764	4.46%	614
19	Tools and other equipment		6.67%		31,814	6.67%	2,122	32,864	6.79%	2,230
20	Communications equipment & structures		6.67%		21,281	6.67%	1,359	19,326	6.85%	1,325
21	Other equipment									
22					241,882		28,831	256,703		32,978
23	Sub-total				5,108,703		169,615	5,375,443		181,416
24	Total provision for depreciation and amortization			\$			\$ 169,615			\$ 181,416
25	Depreciation through clearing						1,150			1,150
26				\$	5,108,703		\$ 168,465	\$ 5,375,443		\$ 180,266

Notes:

(1) A simple average of the opening and closing plant balances was used to calculate the annual depreciation provision.

Difference in Capital #s --> 266,740
 Current year Dep --> 180,266 86,474

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Exhibit A

Appendix A

Schedule 17

Page 1 of 1

UNION GAS LIMITED
Capital Expenditure by Function
Includes IDC and Overheads
Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
1	Storage	10,024	4,168	6,577
2	Transmission	139,121	167,493	84,334
3	Distribution	89,565	130,389	113,112
4	General	49,943	40,687	30,724
5	Other	59,312	-	61,105
6	Total	<u>347,965</u>	<u>342,737</u>	<u>295,851</u>
7	Rate Base Reduction via ADR	<u>(35,000)</u>		
8		<u>312,965</u>		

UNION GAS LIMITED
Statement of Utility Rate Base
Year Ended December 31

Line No.	Particulars (\$000's)	Board Approved 2007 (a)	Actual 2007 (b)	Actual 2008 (c)
	<u>Gas Utility Plant</u>			
1	Gross plant at cost	5,170,809	5,145,936	5,448,662
2	Less: accumulated depreciation	<u>2,014,712</u>	<u>2,012,800</u>	<u>2,132,365</u>
3	Net utility plant	<u>3,156,097</u>	<u>3,133,136</u>	<u>3,316,297</u>
	<u>Working Capital and Other Components</u>			
4	Cash working capital	32,672	30,724	31,354
5	Gas in storage and line pack gas	188,792	158,726	132,045
6	Balancing gas	129,618	129,618	127,752
7	ABC receivable (gas in storage)	(53,791)	(62,901)	(68,198)
8	Inventory of stores, spare equipment	28,469	31,035	27,180
9	Prepaid and deferred expenses	2,741	3,233	2,317
10	Customer deposits	(43,902)	(49,859)	(63,688)
11	Customer interest	<u>(300)</u>	<u>(438)</u>	<u>(515)</u>
12	Total working capital and other components	<u>284,299</u>	<u>240,138</u>	<u>188,247</u>
13	Total rate base before deduction of accumulated deferred income taxes	3,440,396	3,373,274	3,504,544
14	Accumulated deferred income taxes	<u>169,502</u>	<u>170,560</u>	<u>156,777</u>
15	Total rate base	<u><u>3,270,894</u></u>	<u><u>3,202,714</u></u>	<u><u>3,347,767</u></u>

UNION GAS LIMITED
 Earnings Sharing Calculation
 Year Ended December 31, 2008

Line No.	Particulars (\$000's)	2008 (a)	Non-Utility Storage (b)	Adjustments (c)	2008 Utility (d)=(a)-(b)+(c)
Operating Revenues:					
1	Operating revenue	\$ 1,869,283	\$ -	\$ (3,654) i	1,865,629
2	Storage & Transportation	243,317	78,230	-	165,087
3	Other	33,818	-	(7,530) ii	26,288
4		<u>2,146,418</u>	<u>78,230</u>	<u>(11,184)</u>	<u>2,057,004</u>
Operating Expenses:					
5	Cost of gas	1,171,320	8,082	15,616 iii	1,178,854
6	Operating and maintenance expenses	335,115	12,028	(516) iv	322,571
7	Depreciation	185,219	4,966	-	180,253
8	Other financing	-	-	535 v	535
9	Property and capital taxes	65,895	953	-	64,942
10		<u>1,757,549</u>	<u>26,029</u>	<u>15,635</u>	<u>1,747,155</u>
11	Earning Before Interest and Taxes	<u>\$ 388,869</u>	<u>\$ 52,201</u>	<u>\$ (26,819)</u>	<u>\$ 309,849</u>
Financial Expenses:					
12	Long-term debt				143,546
13	Unfunded short-term debt				2,805
14					<u>146,351</u>
15	Utility income before income taxes				163,498
16	Income taxes				26,069
17	Preferred dividend requirements				5,088
18	Utility earnings				<u>132,341</u>
19	Long term storage premium subsidy (after tax)				10,676
20	Short term storage premium subsidy (after tax)				7,484
21					<u>18,160</u>
22	Earnings subject to sharing				<u>\$ 150,501</u>
23	Common equity				1,205,196
24	Return on equity (line 22 / line 23)				12.49%
25	Benchmark return on equity				10.81%
26	Earnings sharing % (line 24 minus line 25)				1.68%
27	Earnings sharing \$ (line 26 X line 23 X 50%)				<u>10,110</u>
28	Pre-tax earnings sharing (line 27 / (1 minus tax rate))				<u>\$ 15,203</u>

Notes:

i) Accounting adjustment

ii) Shared Savings Mechanism

iii) Unaccounted for Gas normalization adjustment

iv)	Donations	(394)
	EB-2008-0304 costs	<u>(122)</u>
		<u>(516)</u>

v) Customer deposit interest

UNION GAS LIMITED
 Off-Ramp Calculation
 Year Ended December 31, 2008

Line No.	Particulars (\$000's)	2008 (a)	Non-Utility Storage (b)	Adjustments (c)	2008 Utility (d)=(a)-(b)+(c)
Operating Revenues:					
1	Operating revenue	\$ 1,869,283	\$ -	\$ (10,535) i	1,858,748
2	Storage & Transportation	243,317	78,230	-	165,087
3	Other	33,818	-	(7,530) ii	26,288
4		<u>2,146,418</u>	<u>78,230</u>	<u>(18,065)</u>	<u>2,050,123</u>
Operating Expenses:					
5	Cost of gas	1,171,320	8,082	15,616 iii	1,178,854
6	Operating and maintenance expenses	335,115	12,028	(516) iv	322,571
7	Depreciation	185,219	4,966	-	180,253
8	Other financing	-	-	535 v	535
9	Property and capital taxes	65,895	953	-	64,942
10		<u>1,757,549</u>	<u>26,029</u>	<u>15,635</u>	<u>1,747,155</u>
11	Earning Before Interest and Taxes	\$ <u>388,869</u>	\$ <u>52,201</u>	\$ <u>(33,700)</u>	\$ <u>302,968</u>
Financial Expenses:					
12	Long-term debt				143,546
13	Unfunded short-term debt				<u>2,805</u>
14					<u>146,351</u>
15	Utility income before income taxes				156,617
16	Income taxes				23,764
17	Preferred dividend requirements				<u>5,088</u>
18	Utility earnings				<u>127,765</u>
19	Long term storage premium subsidy (after tax)				10,676
20	Short term storage premium subsidy (after tax)				<u>7,484</u>
21					<u>18,160</u>
22	Net earnings				\$ <u>145,925</u>
23	Common equity				1,205,196
24	Return on equity (line 22 / line 23)				12.11%
25	Benchmark return on equity				11.81%
26	Sufficiency / (Deficiency) % (line 24 minus line 25)				0.30%
27	Sufficiency / (Deficiency) \$ (line 26 X line 23)				<u>3,591</u>
28	Pre-tax sufficiency / (deficiency) (line 27 / (1 minus tax rate))				\$ <u>5,401</u>

Notes:

i)	Weather normalization adjustment	(6,881)
	Accounting adjustment	<u>(3,654)</u>
		<u>(10,535)</u>
ii)	Shared Savings Mechanism	
iii)	Unaccounted for Gas normalization adjustment	
iv)	Donations	(394)
	EB-2008-0304 costs	<u>(122)</u>
		<u>(516)</u>
v)	Customer deposit interest	

UNION GAS LIMITED
 Unaccounted for Gas Volume
 For the Year Ending December 31, 2008

Line No.	<u>Particulars</u>	(a)	(b)	(c)
	<u>Determination of normalized UFG volume for 2008</u>			
	3 year average of actual UFG (10*3m*3):			
		<u>Volume</u>	<u>Weighting</u>	<u>Volume Weighted</u>
1	2007	203,713	50%	101,857
2	2006	154,015	33%	51,338
3	2005	174,342	17%	29,057
4		Average actual UFG volume		<u>182,252</u>
	3 year average of actual throughput (10*6m*3):			
5	2007	33,446	50%	16,723
6	2006	29,843	33%	9,948
7	2005	33,455	17%	5,576
8		Average actual UFG throughput		<u>32,247</u>
9	UFG ratio for 2008 (1)			0.565%
10	2008 actual throughput (10*6m*3)			<u>34,978</u>
11	Normalized UFG volume for 2008 (10*3m*3) (2)			197,687
12	Unregulated allocation			<u>27,874</u>
13	Normal Utility UFG volume			169,813

	<u>Monthly</u>	Throughput	Ratio	UFG	Non Utility	Utility UFG	WACOG	UFG \$
14	Jan	5,133	0.565%	29,010	4,090	24,920	307.435	7,661
15	Feb	3,658	0.565%	20,674	2,915	17,759	307.435	5,460
16	Mar	4,068	0.565%	22,991	3,242	19,750	307.435	6,072
17	Apr	2,265	0.565%	12,801	1,805	10,996	343.057	3,772
18	May	2,010	0.565%	11,360	1,602	9,758	343.057	3,348
19	Jun	1,868	0.565%	10,557	1,489	9,069	343.057	3,111
20	Jul	1,942	0.565%	10,976	1,548	9,428	427.814	4,033
21	Aug	1,917	0.565%	10,834	1,528	9,307	427.814	3,982
22	Sep	1,945	0.565%	10,993	1,550	9,443	427.814	4,040
23	Oct	2,365	0.565%	13,366	1,885	11,482	384.627	4,416
24	Nov	3,357	0.565%	18,973	2,675	16,298	384.627	6,269
25	Dec	4,450	0.565%	25,150	3,546	21,604	384.627	8,310
26		<u>34,978</u>		<u>197,687</u>	<u>27,874</u>	<u>169,813</u>		\$ 60,473

27						Actual Utility UFG	<u>44,857</u>
28						Normalization Adjustment	<u>\$ 15,616</u>

Union Gas Limited
2009 - 2010 Utility Forecast
Key Assumptions

Line
 No.

Distribution Revenue

General Service

1 Weather normal - based on 55:45 method

Distribution Margin

- 2 1. Approved 2009 delivery rates (EB-2008-0220)
 3 2. LRAM is not rebased
 4 3. Revenues reflect rate recovery of NGEIR implementation impacts

Customer Attachment Forecast

	<u>2009</u>	<u>2010</u>
5 Res. New Build	12,724	13,106
6 Res. Conversions	2,989	2,889
7 Res. Multi-Family	4,498	4,923
8 Commercial	2,297	2,322
9 Industrial	<u>130</u>	<u>115</u>
10 Total Attachments Gross	22,638	23,355
11 Shrinkage	<u>(3,725)</u>	<u>(3,702)</u>
12 Net Attachments Before Recession Impacts	18,913	19,653
13 Recession Impacts	<u>(14,850)</u>	<u>(8,500)</u>
14 Net Attachments After Recession Impacts	4,063	11,153

Heating Degree Days

<u>2009</u>	<u>2010</u>
4,034	4,023

Cost of Gas

15 - UFG/throughput ratio of 0.51% in 2009 & 2010

O&M

16 Salary and wage increase of 2.5% in 2009 (revised from 3.75%), 3.75% in 2010
 17 Inflationary increase of 2% per year

Exchange rate

18 CAD per USD \$ 1.00
 19 USD per CAD \$ 1.0000

Financing

Short term borrowings

20 Borrowing limit \$500 million
 21 Interest rate 3.50%

Long term debt

22 New issue rate 2009-11 6.0%
 23 LTD issue to replace redemptions - 2010 \$185 million
 24 LTD new issue of \$250M mid year 2010

25 Equity 36%

Taxes

26 Income tax rate of 33% in 2009, 32% in 2010
 27 Other taxes reflect phase-out of capital tax (2009-10)

Union Gas Limited
2009 - 2010 Utility Forecast
Income Statement
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>09 vs 08</u>	<u>10 vs 09</u>
		(a)	(b)	(c)	(d)	(e)
	Operating Revenue					
1	Gas Sales Margin	\$ 687	\$ 683	\$ 677	\$ (3)	\$ (7)
2	Transportation & Exchange Revenue	165	169	164	4	(4)
3	Storage premium subsidy - short-term	11	11	11	-	-
4	Storage premium subsidy - long-term *	16	11	5	(5)	(5)
5	Other Revenue	<u>26</u>	<u>26</u>	<u>27</u>	<u>(0)</u>	<u>(0)</u>
6	Net Operating Revenue	<u>906</u>	<u>900</u>	<u>884</u>	<u>(6)</u>	<u>(17)</u>
	Operating Expenses					
7	Operating and Maintenance	323	329	335	6	6
8	Depreciation	180	189	195	9	5
9	Property Tax	59	62	63	3	2
10	Capital Tax	<u>6</u>	<u>6</u>	<u>2</u>	<u>0</u>	<u>(4)</u>
11	Total Operating Expenses	<u>568</u>	<u>587</u>	<u>595</u>	<u>18</u>	<u>9</u>
12	Earnings Before Interest & Taxes	337	313	289	(24)	(25)
13	Interest expense	<u>146</u>	<u>152</u>	<u>152</u>	<u>5</u>	<u>(0)</u>
14	Income before Income Taxes	<u>191</u>	<u>161</u>	<u>137</u>	<u>(29)</u>	<u>(25)</u>
	Provision for Income Tax					
15	Current Income Tax	51	46	38	(5)	(8)
16	Deferred Income Tax	<u>(16)</u>	<u>(17)</u>	<u>(17)</u>	<u>(1)</u>	<u>(1)</u>
17	Total Provision	<u>35</u>	<u>29</u>	<u>21</u>	<u>(6)</u>	<u>(8)</u>
18	Net Income	156	132	116	(23)	(16)
19	Preferred Dividend Requirements	<u>5</u>	<u>3</u>	<u>2</u>	<u>(3)</u>	<u>(3)</u>
20	Earnings Applicable to Common Shares	<u>\$ 151</u>	<u>\$ 130</u>	<u>\$ 114</u>	<u>\$ (21)</u>	<u>\$ (13)</u>
21	Rate Base	\$ 3,348	\$ 3,477	\$ 3,538	\$ 129	\$ 61
22	Equity (36% of rate base)	\$ 1,205	\$ 1,252	\$ 1,274	\$ 47	\$ 22
23	ROE	12.49%	10.37%	8.94%	-2.12%	-1.43%

24 * Reflects the phase out of the subsidy over the 2008 to 2011 period as per the EB-2005-0551 decision.

Union Gas Limited
2009 - 2010 Utility Forecast
Income Statement
(\$ millions)

Line No.		Actual		Forecast		Variance	
		2008 (a)	2009 (b)	2010 (c)	09 vs 08 (d)	10 vs 09 (e)	
	Operating Revenue						
1	Gas Sales Margin	\$ 687	\$ 683	\$ 677	\$ (3)	\$ (7)	
2	Transportation & Exchange Revenue	165	165	164	(0)	(0)	
3	Storage premium subsidy - short-term	11	11	11	-	-	
4	Storage premium subsidy - long-term *	16	11	5	(5)	(5)	
5	Other Revenue	26	26	27	(0)	(0)	
6	Net Operating Revenue	<u>906</u>	<u>896</u>	<u>884</u>	<u>(10)</u>	<u>(13)</u>	
	Operating Expenses						
7	Operating and Maintenance	323	329	335	6	6	
8	Depreciation	180	189	195	9	5	
9	Property Tax	59	62	63	3	2	
10	Capital Tax	6	6	2	0	(4)	
11	Total Operating Expenses	<u>568</u>	<u>587</u>	<u>595</u>	<u>18</u>	<u>9</u>	
12	Earnings Before Interest & Taxes	<u>337</u>	<u>309</u>	<u>289</u>	<u>(28)</u>	<u>(21)</u>	
13	Interest expense	146	152	152	5	(0)	
14	Income before Income Taxes	<u>191</u>	<u>157</u>	<u>137</u>	<u>(33)</u>	<u>(21)</u>	
	Provision for Income Tax						
15	Current Income Tax	51	44	38	(7)	(7)	
16	Deferred Income Tax	(16)	(17)	(17)	(1)	(1)	
17	Total Provision	<u>35</u>	<u>28</u>	<u>21</u>	<u>(8)</u>	<u>(7)</u>	
18	Net Income	<u>156</u>	<u>130</u>	<u>116</u>	<u>(26)</u>	<u>(13)</u>	
19	Preferred Dividend Requirements	<u>5</u>	<u>6</u>	<u>6</u>	<u>0</u>	<u>0</u>	
20	Earnings Applicable to Common Shares	<u>\$ 151</u>	<u>\$ 124.2</u>	<u>\$ 110.3</u>	<u>\$ (26)</u>	<u>\$ (14)</u>	
21	Rate Base	\$ 3,348	\$ 3,477	\$ 3,538	\$ 129	\$ 61	
22	Equity (36% of rate base)	\$ 1,205	\$ 1,252	\$ 1,274	\$ 47	\$ 22	
23	ROE	12.49%	9.92%	8.66%	-2.57%	-1.26%	

24 * Reflects the phase out of the subsidy over the 2008 to 2011 period as per the EB-2005-0551 decision.

Union Gas Limited
2009 - 2010 Utility Forecast
Gas Distribution Revenue
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>09 vs 08</u>	<u>10 vs 09</u>
		(a)	(b)	(c)	(d)	(e)
	Delivery Revenue					
1	General Service	\$ 571	\$ 569	\$ 571	\$ (2)	\$ 2
2	Contract	127	121	118	(6)	(3)
3	Delivery Rate Adjustment*	-	0	4	0	4
4	LRAM Recovery	-	3	4	3	0
		<u>699</u>	<u>694</u>	<u>697</u>	<u>(5)</u>	<u>3</u>
5	Gas supply fixed cost recovery	<u>25</u>	<u>28</u>	<u>28</u>	<u>2</u>	<u>0</u>
6	Distribution margin before cost of gas	<u>724</u>	<u>722</u>	<u>725</u>	<u>(2)</u>	<u>3</u>
	Cost of Gas					
7	Compressor fuel	41	46	52	5	6
8	Customer Supplied Fuel	(59)	(65)	(71)	(6)	(6)
9	UFG	59	55	56	(4)	1
10	Winter peaking costs	1	2	9	1	8
11	Other	(5)	1	1	5	1
12		<u>37</u>	<u>38</u>	<u>48</u>	<u>1</u>	<u>10</u>
13	Gas Distribution Margin	<u>\$ 687</u>	<u>\$ 683</u>	<u>\$ 677</u>	<u>\$ (3)</u>	<u>\$ (7)</u>
14	<u>*2010 Delivery Rate Adjustment:</u>					
15	Storage premium	6				
16	DSM	2				
17	Taxes	(3)				
18	Use	(1)				
19	Total	<u>\$ 4</u>				

Union Gas Limited
2009 - 2010 Utility Forecast
Transportation & Exchange Revenue
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u> (a)	<u>2009</u> (b)	<u>2010</u> (c)	<u>09 vs 08</u> (d)	<u>10 vs 09</u> (e)
Core Services						
1	M12 - Long Term Transportation	\$ 133	\$ 137	\$ 140	\$ 4	\$ 3
2	C1 Long Term Transportation	6	6	6	0	-
3	M13 - Local Production	1	0	0	(0)	-
4	M16	<u>1</u>	<u>0</u>	<u>1</u>	<u>(0)</u>	<u>0</u>
5	Total Core Services Revenue	<u>140</u>	<u>144</u>	<u>147</u>	<u>4</u>	<u>3</u>
Transactional Services						
6	C1 Short Term Transportation and Exchanges	23	18	14	(5)	(4)
7	M12 Transportation Overrun/Limited Firm	1	1	1	0	-
8	Other	<u>1</u>	<u>1</u>	<u>2</u>	<u>(0)</u>	<u>1</u>
9	Total Transactional Services Revenue	<u>26</u>	<u>21</u>	<u>17</u>	<u>(5)</u>	<u>(4)</u>
10	Total Transportation Revenue	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 164</u>	<u>\$ (0)</u>	<u>\$ (0)</u>

Union Gas Limited
2009 - 2010 Utility Forecast
Other Revenue
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u> (a)	<u>2009</u> (b)	<u>2010</u> (c)	<u>09 vs 08</u> (d)	<u>10 vs 09</u> (e)
1	Billing revenue	\$ 9	\$ 9	\$ 9	\$ -	\$ -
2	Account opening & connection charges	7	7	7	(0)	0
3	Late payment fee	8	8	8	(1)	0
4	Mid-market transactions	2	2	2	(0)	-
5	Miscellaneous revenue	-	1	1	1	-
6	Total Other Revenue	\$ 26	\$ 26	\$ 27	\$ (0)	\$ 1

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EB-2009-0101

Exhibit A

Appendix C

Schedule 6

Page 1 of 1

Union Gas Limited
2009 - 2010 Utility Forecast
Operating & Maintenance
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u> (a)	<u>2009</u> (b)	<u>2010</u> (c)	<u>09 vs 08</u> (d)	<u>10 vs 09</u> (e)
1	Salaries and Wages	\$ 128	\$ 127	\$ 130	\$ (1)	\$ 3
2	Benefits	21	21	22	(0)	1
3	Contract Services	52	50	51	(1)	1
4	Insurance	7	7	7	-	-
5	All others	<u>69</u>	<u>75</u>	<u>73</u>	<u>5</u>	<u>(1)</u>
		277	280	283	3	3
6	DSM	19	21	24	2	3
7	Bad Debt	9	10	10	1	(0)
8	Pensions	18	19	19	1	1
9	Total O&M	<u>\$ 323</u>	<u>\$ 329</u>	<u>\$ 335</u>	<u>\$ 6</u>	<u>\$ 6</u>

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EB-2009-0101

Exhibit A

Appendix C

Schedule 7

Page 1 of 1

Union Gas Limited
2009 - 2010 Utility Forecast
Total Capital Spending
(\$ millions)

Line No.		Actual	Forecast		Variance	
		<u>2008</u> (a)	<u>2009</u> (b)	<u>2010</u> (c)	<u>09 vs 08</u> (d)	<u>10 vs 09</u> (e)
1	Expansion	<u>\$ 69</u>	<u>\$ 10</u>	<u>\$ 65</u>	<u>\$ (59)</u>	<u>\$ 55</u>
	Maintenance					
2	New Business	42	36	34	(6.00)	(2.00)
3	Other Maintenance	107	101	120	(6)	19
4	IT	17	19	21	2	2
5	Overheads	61	61	62	-	1
6	Maintenance & IT	<u>227</u>	<u>217</u>	<u>237</u>	<u>(10)</u>	<u>20</u>
7	Total	<u>\$ 296</u>	<u>\$ 227</u>	<u>\$ 302</u>	<u>\$ (69)</u>	<u>\$ 75</u>

Union Gas Limited
2009 - 2010 Utility Forecast
Rate Base
(\$ millions)

<u>Line</u> <u>No.</u>		<u>Actual</u>	<u>Forecast</u>		<u>Variance</u>	
		<u>2008</u> (a)	<u>2009</u> (b)	<u>2010</u> (c)	<u>09 vs 08</u> (d)	<u>10 vs 09</u> (e)
	Rate Base					
1	Gross plant	\$ 5,449	\$ 5,685	\$ 5,878	\$ 236	\$ 192
2	Accumulated depreciation	<u>2,132</u>	<u>2,268</u>	<u>2,414</u>	<u>135</u>	<u>146</u>
3	Net book value	3,316	3,417	3,464	101	46
	Working capital					
4	O&M Working Capital	23	23	24	0	1
5	Gas Purchase Working Capital	8	8	8	(0)	(0)
6	Gas in Storage	132	126	125	(6)	(1)
7	Balancing Gas	128	130	130	2	-
8	Inventory of Stores and Spare Equipment	27	31	32	4	1
9	Merchandise Accounts Receivable	(68)	(54)	(54)	14	-
10	Prepaid and Deferred Expense	2	4	4	2	0
11	Customer Deposits	(64)	(67)	(70)	(3)	(3)
12	Accumulated deferred taxes	<u>(157)</u>	<u>(141)</u>	<u>(124)</u>	<u>16</u>	<u>17</u>
13	Total	<u>\$ 3,348</u>	<u>\$ 3,477</u>	<u>\$ 3,538</u>	<u>\$ 129</u>	<u>\$ 61</u>

UNION GAS LIMITED
 2009 - 2010 Utility Forecast
Cost of Capital
 (\$ millions)

Line No.	Particulars	Utility Capital Structure		Cost Rate %	Requested Return
		(a)	(b)		
<u>2008 Actual</u>					
1	Long-term debt	\$ 1,945	58.10	7.38%	\$ 144
2	Unfunded short-term debt	<u>93</u>	<u>2.77</u>	3.03%	<u>3</u>
3	Total debt	2,038	60.87		146
4	Preference shares	105	3.13	4.85%	5
5	Common equity	<u>1,205</u>	<u>36.00</u>	8.81%	<u>106</u>
6	Total rate base	\$ <u>3,348</u>	<u>100.00</u>		\$ <u>258</u>
<u>2009 Forecast</u>					
7	Long-term debt	\$ 2,086	59.99	7.22%	\$ 151
8	Unfunded short-term debt	<u>37</u>	<u>1.06</u>	3.50%	<u>1</u>
9	Total debt	2,123	61.06		152
10	Preference shares	102	2.95	2.58%	3
11	Common equity (1)	<u>1,252</u>	<u>36.00</u>	8.47%	<u>106</u>
12	Total rate base	\$ <u>3,477</u>	<u>100.00</u>		\$ <u>261</u>
<u>2010 Forecast</u>					
13	Long-term debt	\$ 2,124	56.36	7.08%	\$ 150
14	Unfunded short-term debt	<u>38</u>	<u>4.78</u>	3.50%	<u>1</u>
15	Total debt	2,162	61.14		152
16	Preference shares	102	2.86	2.36%	2
17	Common equity (1)	<u>1,274</u>	<u>36.00</u>	8.47%	<u>108</u>
18	Total rate base	\$ <u>3,538</u>	<u>100.00</u>		\$ <u>262</u>

UNION GAS LIMITED
2009 - 2010 Utility Forecast
Cost of Capital

Line No.	Particulars	Utility Capital Structure		Cost Rate % (e)	Requested Return (\$000's) (f)
		(\$000's) (c) (a) - (b)	(%) (d)		
<u>2008 Actual</u>					
1	Long-term debt	\$ 1,945	58.10	7.38%	\$ 144
2	Unfunded short-term debt	93	2.77	3.03%	3
3	Total debt	2,038	60.87		146
4	Preference shares	105	3.13	4.85%	5
5	Common equity	1,205	36.00	8.81%	106
6	Total rate base	\$ 3,348	100.00		\$ 258
<u>2009 Forecast</u>					
7	Long-term debt	\$ 2,086	59.99	7.22%	\$ 151
8	Unfunded short-term debt	37	1.06	3.50%	1
9	Total debt	2,123	61.06		152
10	Preference shares	102	2.95	5.40%	6
11	Common equity (1)	1,252	36.00	8.47%	106
12	Total rate base	\$ 3,477	100.00		\$ 263
<u>2010 Forecast</u>					
13	Long-term debt	\$ 2,124	56.36	7.08%	\$ 150
14	Unfunded short-term debt	38	4.78	3.50%	1
15	Total debt	2,162	61.14		152
16	Preference shares	102	2.86	5.44%	6
17	Common equity (1)	1,274	36.00	8.47%	108
18	Total rate base	\$ 3,538	100.00		\$ 265

UNION GAS LIMITED
Allocation of 2008 Earning Sharing to Rate Classes

Line No.	Particulars	Rate Class	C2007 Return on Equity Allocation (1) (\$000's) (a)	2008 Earning Sharing (\$000's) (b)
<u>Northern & Eastern Operations Area</u>				
1	Small Volume General Firm Service	01	44,549	(2,611)
2	Large Volume General Firm Service	10	8,234	(482)
3	Medium Volume Firm Service	20	4,263	(250)
4	Large Volume High Load Factor Firm Service	100	5,641	(331)
5	Large Volume Interruptible Service	25	1,913	(112)
6	Wholesale Transportation Service	77	8	(0)
7	Total Northern & Eastern Operations Area		<u>64,608</u>	<u>(3,786)</u>
<u>Southern Operations Area</u>				
8	Small Volume General Service Rate	M1	104,130	(6,102)
9	Large Volume General Service Rate	M2	15,828	(928)
10	Firm Industrial and Commercial Contract Rate	M4	4,220	(247)
11	Interruptible Industrial & Commercial Contract Rate	M5A	2,587	(152)
12	Special Large Volume Industrial & Commercial Contract Rate	M7	2,617	(153)
13	Large Wholesale Service Rate	M9	219	(13)
14	Small Wholesale Service Rate	M10	10	(1)
15	S & T Rates for Contract Carriage Customers	T1	12,835	(752)
16	S & T Rates for Contract Carriage Customers	T3	1,546	(91)
<u>Storage and Transportation</u>				
17	Cross Franchise Transportation Rates	C1	186	(11)
18	Storage & Transportation Rates	M12	50,557	(2,963)
19	Transportation of Locally Produced Gas	M13	39	(2)
20	Storage & Transportation Services - Transportation Charges	M16	55	(3)
21	Total Southern Operations Area		<u>194,830</u>	<u>(11,417)</u>
22	Total		<u>259,438</u>	<u>(15,203) (2)</u>

Notes:

(1) Allocated costs per 2007 Decision in EB-2005-0520

(2) Earning Sharing balance for Disposition as per EB-2009-0101, Exhibit A, Appendix B, Schedule 1

UNION GAS LIMITED
General Service Bill Impacts

Line No.	Particulars	2008	Jul-Dec 2009	Unit Rate for	Volume (2)	Delivery
		Earning Sharing (1)	Forecast Delivery Volumes	Prospective Recovery		Bill Impact
		(\$000's)	(10 ³ m ³)	(cents/m ³)	(m ³)	(\$)
		(a)	(b)	(c) = (a / b) x 100	(d)	(e) = (c x d) / 100
1	Rate 01	(2,611)	325,165	(0.8028)	1,013	(8.13)
2	Rate 10	(482)	162,395	(0.2971)	38,833	(115.38)
3	Rate M1	(6,102)	1,072,157	(0.5691)	829	(4.72)
4	Rate M2	(928)	418,954	(0.2214)	23,871	(52.85)

Notes:

(1) EB-2009-0101, Exhibit A, Appendix D, Schedule 1

(2) Average consumption, per customer, for the period July 1 to December 31, 2009