unionGas
A Spectra Energy Company

May 8, 2009

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

Re: Union Gas Disposition of 2008 Deferral Account and Other Balances (EB-2009-0052) – Union's Reponses to Interrogatories

Dear Ms. Walli:

Please find enclosed two copies of Union's responses to interrogatories for the above noted proceeding.

If you have any questions please contact me at (519) 436-5476.

Yours truly,

Chris Ripley
Manager, Regulatory Applications

cc M. Penny (Torys)
EB-2009-0052 Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Deferral Account Balances and Market Transformation Incentive (Tab 1)

Ref: Tab 1 / Pg 4

Union indicates that the Board approved $3.232M in planned Unabsorbed Demand Charges (UDC) in 2008 rates. Union's evidence indicates that Union incurred only incidental UDC ($12,000) and recovered $3.268M.

a) Please provide an explanation of the difference between UDC costs incurred and the amount provided for in rates.

Response:

Actual system demand exceeded forecast for the November 1, 2007 to October 30, 2008 gas year. Rather than leaving the pipe empty, as was originally planned, Union filled the pipe through the summer of 2008 to bring gas in order to meet the needs of system customers. Therefore minimal UDC costs were incurred resulting in a credit.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Allocation & Disposition (Tab 2)

In the event that the Green Energy Act receives Royal Assent before July 1, 2009, does Union plan to apply to the Board to align the timing, as currently proposed, of the disposition of the deferral/variance account balances in rates with the recovery of costs associated with special purpose amounts anticipated in the Green Energy Act.

Response:

Whether or not Union should amend its application to align the timing of the deferral account disposition with the recovery of any costs associated with special purpose amounts assessed under the Green Energy Act is dependent upon numerous factors including:

- The timing of the passage of the legislation
- The timing of the approval of the supporting regulations
- The timing of any assessment of charges to Union
- The magnitude of any special purpose charges

If and when the determination of any assessment is made, Union would expect to apply for a deferral account to deal with the full recovery of any cost assessment and any administrative costs or direct costs that might result from the implementation of any such assessment.

It is also Union's view that the recovery of any special purpose amounts must be transparent to its customers and separately identified on the bill. This also may impact the timing of recovery of any special purpose charge and whether or not they can or should be aligned with the disposition of Union's 2008 deferral account balances.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Allocation & Disposition (Tab 2)

Ref: Tab 2 / Pg 3

With respect to Account No. 179-72 Long Term Peak Storage Services:

a) Please provide a summary of the S&T Transactional Margin included in 2008 Rates.

b) Will the same methodology that was used to calculate the balance in Account No. 179-72 in 2008 be followed to record transaction in 2009. If not, please provide the proposed changes.

Response:

a) Please see Attachment 1, column (e).

b) The same methodology used to calculate the 2008 balance in Account No. 179-72 will be used for 2009. Note that in accordance with EB-2005-0051and EB-2008-0034, the ratepayer portion will be 50% in 2009, compared to 75% in 2008.

UNION GAS LIMITED
Summary of S&T Transactional Margin Included In 2008 Rates

Line No.	Particulars ($ 000's)	Total Revenue (1)	Allocated Cost (2)	Total Margin	Included in 2007 In-franchise Rates	Included in 2008 In-franchise Rates		Change in Sharing of Forecast S&T Margin
		(a)	(b)	(c) = (a - b)	(d)	(e)		(f)=(d-e)
	Transportation & Exchange Services Acct. 179-69							
1	Transportation and Exchanges	4,000	1,417	2,583				
2	M12 Transportation Overrun	-	-	-				
3	Total Transportation & Exchanges	4,000	1,417	2,583	222	2,583	(3)	(2,361)
	Short Term Storage & Balancing Services Acct. 179-70							
4	Short Term Peak Storage	13,794	847	12,947				
5	Off Peak Storage, Balancing & Loans	4,092	1,285	2,807				
6	Enbridge LBA	75	-	75				
7	Total Short Term Storage & Balancing Services	17,961	2,132	15,829	14,246	11,254	(4)	2,992
8	Total Long Term Peak Storage Services Acct. 179-72	42,058	20,653	21,405	19,265	16,054	(5)	3,211
9	Other S&T Services Acct. 179-73	895	42	853	768	853	(6)	(85)
10	Total	64,914	24,244	40,670	34,501	30,744		3,756

Notes: (1) EB-2005-0520, Rate Order, Working Papers, Schedule 24, Column (a)
(2) EB-2005-0520, Rate Order, Working Papers, Schedule 24, Column (b)
(3) Includes in-franchise impact of the proposed changes to the sharing of forecast S&T transactional margin
(4) EB-2005-0551, Decision with Reasons, Section 9.1.2
(5) EB-2005-0551, Decision with Reasons, Section 7.3
(6) Includes in-franchise impact of the proposed changes to the sharing of forecast S&T transactional margin

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Vector Pipeline (Tab 3)

In its EB-2005-0520 decision, the Board accepted the Settlement Agreement which required Union to report to the Board new upstream transportation contracts with a term of one year or longer that may form part of Union's "system" service in the future.

Ref: EB-2005-0520, Settlement Agreement, Appendix B, Page 1

Preamble: Union indicates in its Settlement Agreement that, "Analysis will be provided as part of Union's evidence in the applicable Board proceeding ***in which it seeks recovery of the cost consequences*** *associated with the new upstream transportation contract." (emphasis added)*

a) Please explain why the analysis of the Vector Pipeline upstream transportation contract was included as part of this proceeding and not in the 2009 Rate Case (EB-2008-0220).

b) What are the cost consequences of this upstream transportation contract?

c) Please confirm whether or not Union is seeking any approvals in this proceeding with respect to the Vector Pipeline contracting arrangements.

Response:

a) Union did not seek recovery of the cost consequences of the renewal of its Vector Pipeline transportation contract as part of its 2009 rates filing because that filing dealt only with changes to delivery rates pursuant to the approved IR mechanism.

   The filing of the Vector Pipeline analysis in this proceeding is consistent with Union's pipeline contract analysis filed in EB-2007-0034 (2007 deferral disposition).

b) The Vector contract was renewed effective November 1, 2008. The unitized demand charge for this firm transportation service is fixed for the term of this 81,000 mmBtu/day contract at $0.25 US/mmBtu. Therefore the annual cost of holding this contract for the firm upstream transportation service that Union seeks to recover from its Southern operations sales service customer base is $7,391,250 US per year commencing November 1, 2008.

c) Union is not seeking approval of the Vector Pipeline contract renewal.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Vector Pipeline (Tab 3)

In its EB-2005-0520 decision, the Board accepted the Settlement Agreement which required Union to report to the Board new upstream transportation contracts with a term of one year or longer that may form part of Union's "system" service in the future.

Ref: Tab 3 / Pg 1

With respect to the Vector Pipeline evidence:

a) Please confirm whether or not Union or any of its affiliates hold an ownership interest in the Vector Pipeline.

b) Provide a brief description of Union's "vertical slice methodology."

Response:

a) Neither Union nor any of its affiliates hold an ownership interest in Vector Pipeline.

b) Union's vertical slice methodology was first approved by the Board in RP 1999-0017. The first vertical slice allocations were effective November 1, 2001. The vertical slice methodology allocates a fixed percentage of all upstream transport within Union's sales service portfolio to customers when they migrate from sales service to direct purchase. The allocation percentages reflect the relative share that each pipeline represents within Union's portfolio as of November 1^{st}. Union's vertical slice policy, included as Attachment 1, can be found at http://www.uniongas.com/largebusiness/energymarketers/policies.asp

POLICIES & GUIDELINES

Policy #: 03-DP-VS-002

Subject:	**Effective**:
Vertical Slice Policy	**July 24, 2008**

Applies to:

South sales service customers transferring from sales service to direct purchase.

Purpose:

To allocate upstream transportation capacity, in proportion to Union Gas's sales service portfolio, to customers transferring from sales service to direct purchase.

Background: *(Not to limit the applicability of the policy)*

Note: Direct purchase customers and/or the direct purchase customers appointed agent (jointly referred to as 'customers').

Union Gas is responsible for managing the upstream transportation requirements for sales service customers. As sales service customers transferred to direct purchase, they were originally allocated 100% TCPL transportation capacity, as Union Gas's upstream transportation portfolio was, at the time, largely comprised of TCPL capacity. Union Gas's sales service upstream transportation portfolio now includes other transportation assets. In order to accurately and fairly reflect the upstream transportation capacity that Union Gas uses to serve sales service customers, the Vertical Slice policy allocates upstream transportation capacity to customers transferring from sales service to direct purchase. in the same proportion that the capacity exists in Union Gas's sales service upstream transportation portfolio. The OEB approved the vertical slice allocation methodology effective November 1, 2001 (in EB-2001-0441).

Policy:

- A new vertical slice allocation will be established annually to be effective each November 1st based on Union Gas's projected sales service upstream transportation portfolio. Once set, the vertical slice allocation will remain in effect for a 1 year period (ending the following October 31st). This allocation will apply to all sales service customers that transfer to direct purchase during that period.
- The new vertical slice, to be effective November 1st, will be communicated to the market no later than August 31st of each year via Factsline.
- Direct purchase customers that receive the vertical slice are not subject to an annual re-allocation each November 1st. However, any new direct purchase transfers will be managed as defined in the "Setting New, and Increasing or Decreasing Existing, Obligated Daily Contract Quantity (DCQ) - Union Gas South" (Policy #05-DP-DCQS-009).
- The direct purchase customer is required to complete the necessary posting/assignment administrative arrangements to accept any capacity that is allocated/released from Union Gas.
- The direct purchase customer will effectively pay the same toll that has been contracted by Union Gas for each applicable transportation capacity arrangement for the term of the contract.
- At the expiry of the underlying transport contract which is allocated, the direct purchase customer's obligation to deliver will remain at their Union Gas obligated DCQ delivery point. Any upstream transportation arrangements required beyond the original term of the allocated capacity are the responsibility of the direct purchase customer, unless otherwise mutually agreed upon.
- Any direct purchase customer with a DCQ less than 300 GJ/day will be treated in accordance with the "Daily

Contract Quantity (DCQ) increases of less than 300 GJ per day" policy (Policy # 03-DP-VS-003).

Procedures

1. The vertical slice allocation percentages will be established by August 31st based on the projected portfolio effective November 1st of each year.

2. Union Gas will calculate or recalculate DCQ based on the "Setting New, and Increasing or Decreasing Existing, Obligated Daily Contract Quantity (DCQ) - Union Gas South" (Policy #05-DP-DCQS-009).

3. Unless the customer's total DCQ is less than 300 GJ (see related Policy # 03-DP-VS-003), all end-use locations transferring from sales service to direct purchase will be allocated/assigned the capacity underlying the vertical slice in effect on the effective date of the contract or contract amendment.

4. The allocation will be reflected on the Contract Parameter Report and in the DCQ section of Schedule 1 to the direct purchase contract.

5. For Canadian pipelines underlying the vertical slice allocation:
    a. Union initials and signs the documentation
    b. Union faxes the Alliance documentation directly to Alliance Pipelines
    c. Union issues (via fax) Vector Pipelines documentation to the customer for signature
    d. Customer returns the signed Vector documentation via fax
    e. Union faxes the Vector documentation to Vector Pipelines (before the last business day of the month before flow)
    f. For the TCPL component of the vertical slice, customers are allocated Western capacity. No additional documentation is required.

6. For U.S. pipelines underlying the vertical slice allocation:
    a. Union Gas will post the vertical slice quantities and will create a pre-arranged bid for the direct purchase customer at maximum toll
    b. Customer will acknowledge, or give Union Gas authority to acknowledge on their behalf, the pre-arranged bid and the capacity will be automatically awarded at the maximum toll

7. The customer will nominate supply per the nomination deadlines outlined in the contract. Customer must identify the contract SA# when nominating the supply. Further, customer must identify the supplier if customer had not previously done so.

8. Union Gas will confirm/schedule the nomination as outlined in the contract.

9. Gas will arrive as nominated and will be reflected in the Banked Gas Account through the "receipts" column of the DP status report for a bundled-t customer or the storage account for a T1, T3 or unbundled customer.

10. An invoice will be issued by the pipeline companies to the customer for the capacity released to them at the maximum tolls, where applicable. A refund will be provided to the customer by Union Gas on their invoice, for the difference between the maximum toll and Union Gas's negotiated price, where applicable, in the month following the month gas flows.

11. Customers wanting to change their vertical slice allocation may attempt to do so through the clearinghouse (Policy # 06-DP-VS-005).

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Vector Pipeline (Tab 3)

In its EB-2005-0520 decision, the Board accepted the Settlement Agreement which required Union to report to the Board new upstream transportation contracts with a term of one year or longer that may form part of Union's "system" service in the future.

Ref: Tab 3 / Sch 1

a) Is Union aware of any reasons that the alternative contracts to the Vector Pipeline have higher toll rates?

b) Over the term of the Vector Pipeline contract, what circumstances could arise that would make the Vector Pipeline cost disadvantaged versus any of the four (4) contract alternatives presented. Provide a commentary on the likelihood of these scenarios.

c) Union provides a "Long-term Transportation Contracting Analysis" at Schedule 1, as of May 2008. Please update and run a similar analysis using the most recent data. Please explain the difference between the results of the two analyses.

d) In the section "Assumptions used in Developing Long-term Transportation Contracting Analysis" does Union use a constant or a formulaic assumption for the basis differential? If yes, please describe Union's approach, and provide an example calculation. If no, please explain.

Response:

a) Pipeline tolls are different because they are a function of their physical size, age, distance they travel, capital and operating costs, throughput and allowed rates of return.

b) All of the pipeline alternatives to Vector recover their cost of service under FERC (US pipelines) or NEB (Canadian pipelines) approved rates. Union's toll on Vector has been fixed for the term. The relative relationship between the fixed Vector rate and the rates on alternative routes could change if those pipelines were to file for lower rates with their regulator. Possible scenarios causing this action could include lower capital or operating costs, higher throughputs without adding facilities, improved efficiencies or lower rates of return. Union has no insights on the likelihood of those filings, nor are there any publicly available sources of information that would provide such insight into the future.

Gas commodity must also be purchased to supply each of these pipelines; these commodity costs will also impact the relative landed costs of each route. Union's gas supply arrangements are not hedged; therefore market forces leading to movement in the NYMEX, the basis differentials between the supply basins, plus foreign exchange will impact commodity costs and therefore landed costs. The forecast of these gas commodity costs for each supply basin over the term of this contract can be found at Exhibit A, Tab 3.

c) Please see Attachment 1 for an updated analysis. Vector still has the lowest landed cost.

d) Union did not assume that basis differentials between the alternative supply basins will remain constant. The relative price of gas in each basin (basis) will fluctuate over time due to conditions including: physical supply available from each basin, the markets that those supplies can competitively serve, the physical characteristics of the pipeline and storage infrastructure linking those supplies to market, and the rates that can be charged for both pipeline transport and secondary market transportation transactions along those routes. In addition, basis differentials will vary with the NYMEX and foreign exchange.

Long-term Transportation Contracting Analysis

Route (a)	Point of Supply (b)	Basis Differential $US/mmBtu (c)	Supply Cost $US/mmBtu (d) = Nymex + (c)	Unitized Demand Charge $US/mmBtu (e)	Commodity Charge $US/mmBtu (f)	Fuel Charge $US/mmBtu (g)	Transportation Inclusive of Fuel $US/mmBtu (i) = e + f + g	Landed Cost $US/mmBtu (j) = d + i	Landed Cost $Cdn/Gj (k)	Point of Delivery (l)
Vector - 2008	Chicago	2 00	7.31	0.2500	0 0017	0.0775	0.3292	$7 64	$8 50	Dawn
Trunkline/Panhandle	Trunkline Field Zone	0.04	7 19	0.1927	0 0273	0 3560	0 5760	$7 77	$8 64	Dawn
Panhandle Longhaul	Panhandle Field Zone	-0 27	6 88	0.3760	0 0440	0 4229	0.8429	$7.72	$8 59	Dawn
Alliance/Vector	Alliance Field Zone	-0.94	6.21	1.5116	-0 2586	0 3454	1.5984	$7.81	$8 69	Dawn
TCPL SWDA	Empress	-0.60	6 55	0.8302	0 0715	0.2176	1.1193	$7.67	$8 53	Dawn

Assumptions used in Developing Long-term Transportation Contracting Analysis.

Annual Gas Supply & Fuel Ratio Forecasts	Point of Supply Col (b) above		2009 $US/mmBtu	2010 $US/mmBtu	2011 $US/mmBtu	2012 $US/mmBtu	2013 $US/mmBtu	2014 $US/mmBtu	2015 $US/mmBtu	Average of Annual Gas Supply Cost ($US/mmBtu) Col (d) above	Fuel Ratio Forecasts Col (g) above
Henry Hub (NYMEX) $US/mmBtu			$3.55	$6.44	$6 95	$8.13	$8.06	$8.71	$8 22	$7 15	
Vector - 2008	Chicago		$3 52	$6.60	$7.12	$8 33	$8.26	$8 93	$8.41	$7 31	1 06%
Trunkline/Panhandle	Trunkline Field Zone		$3.57	$6 47	$6 98	$8.17	$8.11	$8 76	$8.29	$7.19	4.95%
Panhandle Longhaul	Panhandle Field Zone		$2 95	$6.25	$6 76	$7.93	$7.83	$8.47	$7 95	$6 88	6 15%
Alliance/Vector	Alliance Field Zone		$2 73	$5.79	$6.11	$7.28	$6.97	$7 60	$7.01	$6 21	5.56%
TCPL's SWDA	Empress		$3.02	$6.04	$6 41	$7 61	$7 36	$8.00	$7 43	$6 55	3 32%

Sources for Assumptions:

Gas Supply Prices (Col d). ICF International (formerly Energy & Environmental Analysis), April 2009

Fuel Ratios (Col g) Average ratio over the previous 12 months or Pipeline Forecast

Transportation Tolls (Cols e & f) Tolls in effect on Alternative Routes at the time of Union's Analysis

Foreign Exchange (Col k) $1 US = $1.1735 Cdn

Energy Conversions (Col k) 1 dth = 1 mmBtu = 1 055056 GJs

Union's Analysis Completed: May-09

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters

Ref: Exhibit A, Tab 1, pages 5 and 6

CME seeks to verify that the storage revenues recorded in Deferral Accounts 179-70 and 179-72 reconcile with the storage revenues recorded in the Financial Statements of Union Gas Limited ("Union") for the 12 months ending December 31, 2008.

In this connection, please provide the following information:

a) A copy of Union's Financial Statement for the year ending December 31, 2008;

b) The total amount recorded in the Financial Statement for storage revenues;

c) The total amount of Financial Statement storage revenues attributable to non-utility and utility activities shown separately;

d) A breakdown of the Financial Statement storage revenues attributable to utility activities between:
   (i) Short-Term Storage and Other Balancing Services;
   (ii) Long-Term Peak Storage Services; and
   (iii) Any other categories of utility storage revenues.

(e) Reconcile the above amounts with the following:
   (i) The Short-Term balances recorded in Deferral Account 179-70 described at lines 4 to 12 of Exhibit A, Tab 1, page 6; and
   (ii) The actual net Long-Term Peak Storage Services revenues described in Exhibit A, Tab 1 at page 6, line 21 to page 7, line 2.

Response:

a) Please see EB-2009-0101, Exhibit A, Appendix A, Schedule 3 or www.sedar.com.

b) The total amount of net storage revenues recorded in the financial statement is $78.230 million. Please see Attachment 1.

c) All storage revenue included in deferral accounts 179-70 and 179-172 is attributable to non-utility activities.

d) Please see Attachment 1.

e) Please see Attachment 2.

Storage Services Details

Line No.	Particulars ($000's)			
	Short-Term Storage and Other Balancing Services			
1	Peak Short Term Storage	15,777		
2	Off Peak Short Term Storage	2,040		
3	Balancing	3,333		
4	Loans	2,177		
5	Total ST Revenue		23,327	
6	Accrual for Ratepayer Deferral		(606)	
7	Total			22,720
	Long-Term Peak Storage Services			
8	Long Term Storage	81,540		
9	High Deliverability Storage	5,554		
10	Total LT Revenue		87,094	
11	T1 Revenue (Market Portion)		453	
12	Accrual for Ratepayer Deferral		(32,037)	
13	Total			55,510
14	Total Storage Revenue			78,230
15	Total Transport Revenue			165,087
16	Total Storage & Transport Revenue			243,317

Notes:

(1) The above accounting accruals for ratepayer deferral were estimated at the time of the year end accounting cut off.

Storage Services Reconciliation

Line No.	Particulars ($000's)	Short Term 2007 Actual (a)	Short Term 2008 Actual (b)	Short Term Total (c) = (a) + (b)	Long Term 2007 Actual (d)	Long Term 2008 Actual (e)	Long Term Total (f) = (d) + (e)
	Deferral Calculation						
1	Revenue	$24,261	$23,327		$65,001	$87,094	
2	Costs	6,200	8,468		32,783	35,615	
3	Net Revenue	18,061	14,858		32,218	51,478	
4	Board Approved	15,829	15,829		21,405	21,405	
5	Revenue Excess	2,232	(971)		10,813	30,073	
6	Ratepayer Portion	$1,674	($690)	$984	$8,110	$22,555	$30,664
	Booking Details						
7	Recorded in C07 Financial Statements	$1,400			$2,196		
8	Recorded in C08 Financial Statements	330	276	606	5,906	26,131	32,037
9	Recorded in C09- Adjustment to Estimate		(966)			(3,576)	
10	Other	(56)					
11	Total Booked Amount (Line 7 to 10)	$1,674	($690)	$984	$8,102	$22,555	$30,657
	As Reported in the Financial Statements						
12	Total Revenue recorded in C08 Financial Statements (Line 1, Col B and Line 1, Col F)		$23,327			$87,094	
13	T1 Deliverability Revenue					453	
14	Total Deferral Recorded in C08 Financial Statements (Line 8, Col C and Line 8 Col F))		606			32,037	
15	Net C08 Storage Revenue (Line 12 + Line 13 - Line 14)		$22,720			$55,510	

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

Ref: Exhibit A, Tab 1, page 5-7

In providing a summary of the balances in the Storage and Transportation Deferral Accounts, Union refers to net revenues. For greater clarity, please provide:

a) A schedule or summary table detailing the gross revenues while detailing and quantifying the components of expenses that result in net revenues. Please include all asset expense costs and define the nature of those costs as demand or commodity.

b) For storage or transportation capacity that was designated in the Gas Supply Plan at the start of the gas of 2007-08 or 2008-09 to serve in-franchise utility needs and was subsequently shifted to transactional services in the period, please provide a description and a representative calculation that demonstrates how gross revenues and converted to the bottom line taking into account of all costs associated with asset usage.

c) Please provide the rate case and evidentiary reference that articulates the methodology that Union Gas relies on for this derivation. Please attach that content.

Response:

The following responses relate to account No. 179-70 Short-Term Storage and Other Balancing Services and account No. 179-72 Long-Term Peak Storage Services. As part of the IR settlement agreement (EB-2007-0606) Account No. 179-69 Transportation and Exchanges was eliminated.

a) Please see Attachment 1 for Long-Term Peak Storage Services and Attachment 2 for Short-Term Storage and Other Balancing Services.

b) All transactional storage revenues are found in the Short-Term Storage and Other Balancing Services Account No.179-70. Please see Attachment 2 for the calculation of net revenues.

c) The Board's EB-2005-0551 Decision (NGEIR), pp. 98 – 105 defines how Union attributes net revenues to deferral accounts 179-70 and 179-72 and to the Company. Please see Attachment 3.

2007 Board Approved vs. 2008 Actual
Long-Term Peak Storage Services

Line No.	Particulars ($000's)	2007 Board Approved	2008 Actual	Variance
1	Revenue			
2	Long-Term Peak Storage	42,058	81,540	39,482
3	High Deliverability Storage	-	5,554	5,554
4	Total Revenue	42,058	87,093	45,035
5	Costs			
6	Demand	(19,382)	(15,686)	3,696
7	Commodity	(955)	(1,696)	(741)
8	Asset Related	(316)	(18,233)	(17,917)
9	Total Costs	(20,653)	(35,615)	(14,962)
10	Net Revenue	21,405	51,478	30,073

2007 Board Approved vs. 2008 Actual
Short-Term Storage and Other Balancing Services

Line No.	Particulars ($000's)	2007 Board Approved	2008 Actual	Variance
1	Revenue			
2	C1 Off-Peak Storage	1,000	2,040	1,040
3	Supplemental Balancing Services	2,000	3,122	1,122
4	Gas Loans	1,000	2,177	1,177
5	Enbridge LBA	75	211	136
6	C1 ST Firm Peak Storage	13,794	15,777	1,983
7	C1 Firm ST Deliverability	92	-	(92)
8	M12 Interruptible Deliverability	-	-	-
9	Total Revenue	17,961	23,327	5,366
10	Costs			
11	Demand	(600)	(2,261)	(1,661)
12	Commodity	(1,532)	(6,208)	(4,676)
13	Total Costs	(2,132)	(8,468)	(6,336)
14	Net Revenue	15,829	14,858	(971)

Ontario Energy Board | Commission de l'Énergie de l'Ontario

Ontario

EB-2005-0551

NATURAL GAS ELECTRICITY INTERFACE REVIEW

DECISION WITH REASONS

November 7, 2006

7. TREATMENT OF THE PREMIUM ON MARKET-BASED STORAGE TRANSACTIONS

Union and Enbridge ratepayers have received a significant portion of the premium over cost-based rates that results from the sale of storage services to ex-franchise customers at market-based rates. Chapter 2 provided information on the magnitude of the margins in recent years and the basis on which these margins are shared between the utilities and ratepayers. Union's ratepayers have received 90% of the forecast margins related to both long-term ex-franchise sales (contract terms of two years or more) and short-term transactions (contract terms of less than two years). Ratepayers also receive 75% of any margins that are greater than forecast amounts. Enbridge ratepayers have received approximately 75% of Enbridge's Transactional Services margins.

Union proposed to end the sharing of long-term and short-term margins with ratepayers. Specifically, Union proposed that the Board adjust distribution rates effective January 1, 2007, to exclude all storage costs and revenues associated with ex-franchise sales from 2007 rates and to eliminate five existing storage and transportation deferral accounts that currently capture market-based margins in excess of amounts incorporated into rates. Union has forecast 2007 margins at $29.9 million (long-term) and $14.6 million (short-term).

Enbridge also proposed to end margin sharing with ratepayers. It is seeking approval to exclude revenues and expenses associated with Transactional Storage Services from its distribution rates commencing in 2007. All Transactional Storage Service revenues, forecast to be $5 to $6 million in 2007, would accrue to Enbridge. The costs to be excluded from distribution rates in 2007 would be some portion of the approximately

$800,000 of O&M costs of Enbridge's Transactional Services business. Enbridge proposed to continue to include the entire net book value of its storage facilities in rate base.

The Board Hearing Team and Energy Probe supported the Union and Enbridge proposals. LPMA/WPSPG, Consumers Council, LIEN, VECC, IGUA/AMPCO, and Schools generally objected to any change in how margins are shared.

7.1 MARGINS ON SHORT-TERM STORAGE TRANSACTIONS

During the hearing, most parties presented views on the rationale for requiring the utilities to credit most of their storage margins to ratepayers. Several parties opposing the Union and Enbridge proposal to cease margin sharing referred to earlier Board decisions that they believed supported margin sharing.

The Board first dealt with margin sharing in the context of Union's short-term storage services, which Union started to sell at market-based rates in 1989. In 1996, the Board considered essentially the same issue when Enbridge proposed to start marketing its Transactional Services more aggressively and retain some of the margin. The Board has expressed a consistent view that Union's short-term storage transactions and Enbridge's Transactional Services involve sales at market-based rates of services derived from utility assets that are temporarily surplus.

In its decision in EBRO 492, dated September 10, 1996, the Board stated:

> The Company [Enbridge] stated that the objective of offering transactional services is to make additional use in off-peak periods of the Company's physical and contractual storage and transportation assets acquired in the first place to serve the in-franchise customers. [Paragraph 3.3.2, emphasis added]
>
> The Board does not agree that an incentive to provide these services should be necessary, and notes that the Company has offered both peak and off-peak services, along with assignments and exchanges in prior years without

> the need for an incentive. However, the Board acknowledges that the Company does incur some risk associated with its participation in these activities, and finds that a 10 percent incentive will be adequate to address these modest risks. [Paragraph 3.3.30]

In 1997, the Board for the first time approved Union entering long-term storage contracts at market-based rates with ex-franchise customers. In its decision in EBRO 494-03 dated September 26, 1997, the Board described the basis for allowing Union's short-term transactions as follows:

> Short-term storage for ex-franchise customers has been marketed on the basis that it is <u>space required to provide in-franchise service</u>. Due to weather and other variables part of the space is temporarily surplus to in-franchise needs. Customers already pay the costs of this storage in rates. Any revenue from short-term sales of storage services that is beyond the direct marginal cost to provide the service is a benefit to in-franchise consumers. [Paragraph 2.3.19, emphasis added]

Board Findings

The Board concludes that its decision to refrain in part from regulating rates for storage services does not invalidate the basis for sharing margins with ratepayers on short-term deals. Union's short-term storage transactions and Enbridge's Transactional Services storage sales are sales of services derived from utility assets that are temporarily surplus to in-franchise needs. The Board concurs with VECC's final argument on this point:

> In Union's case, the assets underpinning the short-term storage and balancing services sold in the ex-franchise market are presently included in rate base. In the case of Enbridge, all of the assets underpinning their transactional services sold in the ex-franchise market are included in rate base. As stated earlier, VECC views it as highly inappropriate for the utilities to seek the entire margin associated with these assets given that they have been "substantiated" by captive ratepayers who have paid in rates for the full opportunity cost of the associated capital investment (including a fair return on equity) along with overhead costs and direct operational costs associated with providing the services. In VECC's view, the utilities should be required to provide a rationale for receiving any of the associated margins given their earlier mentioned obligation to optimize the use of utility assets. [Page 16]

Requiring the utilities to share these margins with ratepayers is not in any way inconsistent with a finding that the storage market is competitive. The basis for sharing these margins is the nature of the assets that underpin the transactions, not the prices at which the transactions occur.

The Board finds that the entire margin on storage transactions that are underpinned by "utility asset" storage space, less an appropriate incentive payment to the utilities, should accrue to ratepayers. Ratepayers bear the cost of that space through the regulated storage rates and should benefit from transactions that utilize temporarily surplus space. The Board finds that shareholders will retain all of the margin on short-term transactions arising from the "non-utility" storage space.

Short-term margins derived from "utility assets"

The decision to require Union to notionally divide its existing storage into two pieces – a "utility asset" (maximum of 100 PJ) and a "non-utility asset" (the balance of Union's capacity) is set out in Chapter 6. Union's storage facilities will not be physically split into two pieces and Union is likely to continue operating its storage assets in much the same way as it does today. Union presumably will determine its ability to execute short-term deals based on the amount of temporarily surplus space in the entire storage facility. As long as the utility and non-utility storage is operated as an integrated asset, it will not be possible to determine that any particular short-term transaction physically utilizes space from either the "utility asset" or the "non-utility asset."

Given the impossibility of physically linking a short-term transaction to a specific slice of storage space, the Board considered other methods of determining the amount of storage margins that should accrue to Union's ratepayers. The Board has decided that the calculation should be based on how the costs of the storage facilities are split between the utility and non-utility businesses. Specifically, Union's revenues in any year from short-term storage transactions, less any incremental costs incurred by Union to earn those revenues, should be shared by Union and ratepayers in proportion to Union's allocation of rate base between utility and non-utility assets.

As indicated in Chapter 5, the allocation is currently 79/21 utility/non-utility. Union's existing policy on what constitutes a short-term storage transaction will continue to apply. As and when Union requires more capacity for in-franchise needs (up to the 100 PJ cap) or adds storage capacity or enhances deliverability of its storage facilities, the cost allocation will presumably change. Once a revised cost allocation has been approved in a Union rates case, the basis on which margins on short-term storage transactions are shared will also change.

All of Enbridge's current storage assets (storage facilities and contracts) are required to serve its in-franchise customers. Thus, all of Enbridge's storage-related transactional services revenues today are derived from "utility assets." If and when Enbridge increases the capacity of its Tecumseh storage facilities, it will be necessary for the company to adopt a method of allocating storage-related Transactional Services revenues between utility and non-utility assets.

Incentive payments to utilities for short-term transactions

The Board has considered whether to continue allocating a portion of the margins from short-term transactions to the utilities as an incentive to optimize the use of the "utility assets" of each company.

The Board has decided that Enbridge should continue to share in margins on Transactional Services storage deals. Eliminating any sharing would leave Enbridge with no financial incentive to market temporarily surplus storage space. An incentive mechanism aligns Enbridge's interest with the interest of ratepayers. The size of the incentive is a matter of judgement and that issue has been debated in several past rates cases. The Board finds that the current 25% incentive is excessive given that ratepayers bear all of the costs of the existing storage assets. The Board believes a

10% incentive is sufficient. In the future, 10% of the storage component of Enbridge's Transactional Services revenue, less any incremental costs incurred by Enbridge to earn those revenues, will be for the account of Enbridge. The remainder will be for the benefit of ratepayers. As a result, Enbridge will not be required to separate its revenues and costs for Transactional Storage Services.

With respect to Union, an argument might be made that an incentive is not necessary. Union will receive margins from short-term storage deals that are deemed to arise from the "non-utility" portion of its storage facilities. Thus, Union will already be motivated to maximize the revenues on all short-term transactions. The Board has decided, however, that it would be appropriate for Union and Enbridge to be treated consistently and to each receive 10% of the net revenues deemed to arise from the "utility asset" portion of storage.

The Board is currently undertaking a process to determine a multi-year incentive ratemaking framework for Union and Enbridge. That process will address how best to implement the Board's findings on the sharing of short-term storage transaction margins within an incentive ratemaking framework. Enbridge's 2007 rates case is in progress; the Board's finding with respect to short-term margin sharing will be implemented through that proceeding.

7.2 MARGINS ON UNION'S LONG-TERM TRANSACTIONS

Margins on both Union's short-term storage transactions and its long-term deals historically have been shared with ratepayers in essentially the same way. Although the Board has devoted considerable time to long-term contracting issues in past Union cases, it has not determined that margins on the two types of transactions should be shared on fundamentally different bases. In its decision on Union's 2000 rates (RP-1999-0017), the Board described the rationale for sharing the margins on all of Union's storage sales:

> The Board recognizes that the assets necessary to provide both transactional services and long-term storage services have been paid for by Union's customers. Providing that the Company has a financial incentive to maximize revenues for these services should increase the benefits to both the customer and the shareholder. Consequently the Board authorizes a sharing of net revenues for transactional services and market premium for a long-term storage services in the ratio of 75:25 between ratepayer and shareholder as an incentive to maximize the revenue associated with both these services. [Paragraph 2.505]

Union's rationale for the sharing of storage margins has changed over time. In 1996, when it was unsuccessful in obtaining Board approval for long-term storage sales at market-based rates, Union had submitted that all of the margins would be credited to ratepayers "since in-franchise customers had paid for the development of the storage." In Union's 2000 rates case (RP-1999-0017), the Board noted that "Union's position was that ratepayers have paid for the services from the assets, not for the assets themselves." This is the position that Union advanced in this proceeding.

IGUA/APMCO claimed Union is estopped from changing its position on margin sharing. The argument is that the Board was persuaded to allow market-based rates on the condition that the bulk of the proceeds would go to the ratepayer. Accordingly, IGUA/AMPCO argued that it is now improper for Union to change its mind and to argue that these proceeds now need to go to the shareholder in order to promote the development of new storage.

Board Findings

The Board has determined that storage space in excess of the amount made available at cost-based rates (which is to be capped at 100 PJ – see Chapter 6) can be considered a "non-utility" asset. This is the space that will support Union's long-term storage sales. The Board finds that profits from new long-term transactions should accrue entirely to Union, not to ratepayers.

In comparing this decision with the past Board decisions on the sharing of margins on long-term storage sales, it is important to remember the context in which the Board made its earlier decisions. Until this proceeding, the Board had never reviewed the state of competition in storage and had not considered whether to refrain, in whole or in part, from regulating storage prices. Thus, there was little basis for the Board to treat the margins on short-term and long-term sales differently. Further, the Board's decision in RP-1999-0017 to allow all then existing cost-based contracts with ex-franchise customers to be renewed at market rates has resulted in a substantial growth in long-term margins, margins that have been largely for the benefit of ratepayers. It is certainly not possible today to assert that ratepayers have "paid for" the space that underpins Union's long-term storage contracts.

The Board does not accept IGUA/AMPCO's estoppel argument. Estoppel as a principle of contract law is sometimes called "detrimental reliance". IGUA/AMPCO's theory seems to be that when the Board made its decision on the sharing of long-term margins it relied upon an undertaking by Union to continue the sharing. Perhaps that might have been part of the Board's rationale at the time but the Board itself has now questioned the continuing need for the practice and whether the rationale developed at that time continues to exist.

This after all, is the purpose of section 29. Section 29 requires the Board to re-examine the need for regulation or the degree of regulation where market structures have changed. This Board in the Natural Gas Forum Report recognized that market conditions in energy markets have in fact changed. When such changes occur, regulators, particularly those such as the Board and the CRTC with statutory forbearance mandates in their governing legislation, must re-examine the regulatory construct in light of the current market conditions. That is what this proceeding seeks to accomplish. The concept of estoppel has no meaning in such a framework.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

Ref: Exhibit A, Tab 3, Schedule 1

Schedule 1 details the analysis done to support the renewal of Vector Capacity for 7 years as described in Tab 3.

a) Please provide an explanation for the negative commodity charge in Column (F) for Alliance Vector

b) Please update the table with prices that are currently available in the market including current Foreign Exchange Rate.

c) Given that Union's revenues for this transport are collected in Canadian dollars, did Union hedge the currency risk for its system gas customers? If so, how? If not, why not?

d) How is the currency risk transferred to direct purchase customers?

Response:

a) The credit in the commodity charge column represents the reduction in Alliance pipeline's 100% Load Factor rate due to Alliance's "Authorized Overrun Service" (or AOS). Under Alliance Pipeline's Firm Transportation tariff, Firm Shippers are allocated a prorata share of any uncontracted capacity on the pipeline at no charge or obligation. Shipper's that choose to nominate this allocation of AOS capacity do not pay any additional demand charge for the incremental transportation service they receive. As a result, by choosing to flow sales service supply on our AOS allocation, the effective unitized demand charge customers incur for service on the Alliance path is reduced by the 28.71 US cent/mmBtu rate shown in the table.

b) Please see Attachment 1 at Exhibit B1.6.

c) Union's gas supply arrangements are not hedged against fluctuations in the Cdn/US foreign exchange. Forecast gas supply and upstream transportation costs are updated at each QRAM using the current foreign exchange rate and passed through to sales service customers at cost. Any variances between the forecasted transportation tolls and the actual collected tolls are captured in the deferral account.

d) The Vector capacity was acquired to serve sales service customers in Union's Southern Operations. In the event sales service customers that are being served by this capacity choose to migrate to direct purchase during the term of this contract, the vertical slice methodology approved by the Board will assign a portion of this capacity to them under the same terms of service and toll that they were paying while a sales service customer.

UNION GAS LIMITED

Answer to Interrogatory from
City of Kitchener ("Kitchener")

Ref: Exhibit A, Tab 1, page 6

Please provide a schedule which compares the actual 2008 net revenue sufficiency for Short Term Storage Services of $14.858 million to the net revenue sufficiency approved by the Board of $15.829 million in the EB-2007-0606 Rate Order disaggregated by the following components: C1 Off-Peak Storage, Gas Loans, Enbridge LBA, Supplemental Balancing Services, C1 Short-Term Firm Peak Storage, C1 Firm Short-Term Deliverability and M12 Interruptible Deliverability.

Response:

Please see Exhibit B3.1, Attachment 2.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 6

Please explain the 2007 true up credit of $0.330 million in account No. 179-70. Why was this credit not cleared as part of the 2007 year-end deferral account balances? Does the amount of the credit of $0.330 million include interest in 2008?

Response:

The 2007 true-up credit of $0.330 million in account No. 179-70 was made to true-up for actual 2007 short term storage costs. The true-up is necessary to align the margin calculation for short term storage services with that of long term storage services as a result of the Board's EB-2008-0034 decision. The $0.330 million credit was not cleared in 2007 because the EB-2008-0034 decision was received June 3, 2008, after submission of the 2007 year-end deferral account balances.

The credit amount of $0.330 million does not include interest. Union will apply interest to the balance upon disposition.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 6-7

a) Please show the calculation of the $5.906 million for 2007 based on the Board's Decision in EB-2008-0034.

b) Please confirm that the $5.906 million is the 75% ratepayer portion.

c) Does the $5.906 million related to 2007 include interest on this balance for 2007 and 2008?

d) Please confirm that the actual net revenue of $51.478 million for 2008 has been calculated in compliance with the Board's EB-2008-0034 Decision.

Response:

a) Please see Exhibit B2.1, Attachment 2, column (d).

b) Confirmed.

c) No. Union will apply interest to the balance upon disposition.

d) Confirmed.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 12

Please provide the calculations and figures used to generate the credit balance of $5.390 million including the forecast and actual use-per-customer for each of the impacted rate classes.

Response:

The Average Use ("AU") deferral account compares Union's forecast (based on the three year historical average) and actual average use per customer changes for general service rate classes.

In accordance with the EB-2007-0606 Settlement Agreement, the AU deferral account balance is calculated by first determining the volumetric difference between forecast and actual average use per customer. The volume impact by general service rate class is then determined by applying the 2007 Board Approved number of customers to the volumetric difference per customer. Finally, 2008 Board Approved average delivery rates are used to calculate the Average Use deferral account balance by general service rate class.

Please see Attachment 1.

Calculation of Balances by Rate Class in Deferral Account No. 179-118
for 2008 Deferral Disposition (EB-2009-0052)

Line No.	Particulars (m^3)		Rate 01 (a)	Rate 01 (b)	Rate 10 (c)	Rate 10 (d)	Rate M1/M2 (e)	Rate M1/M2 (f)	Net Account Balance (g)
1	2007 Actual Average Use		3,230		140,491		4,359		
2	2008 Target Average Use		3,153	-2.4%	137,974	-1.8%	4,286	-1.7%	
3	2008 Actual Average Use		3,252	0.7%	161,629	15.0%	4,272	-2.0%	
4	Forecast decline in Average Use per customer (line 2 - line 1)	(1)	-77		-2,517		-73		
5	Actual decline in Average Use per customer (line 3 - line 1)		22		21,138		-88		
6	Change in Average Use - Forecast vs. Actual (line 4 - line 5)	(2)	-99		-23,655		14		
7	2007 Board Approved Number of Customers		295,672		2,966		987,063		
8	Volume Impact (10^3m^3) (line 6 x line 7)		-29,297		-70,152		13,932		
9	2008 Board Approved Average Delivery Rate ($\$/10^3m^3$)		81.091		51.256		42.303		
10	Average Use Deferral ($000's) (line 8 x line 9)	(3)	-2,376		-3,591		577		-5,390

Notes:
(1) Calculated volume variance by rate class after applying the Average Use percentage identified in Board Approved Accounting Order for Deferral Account #179-118
(2) Change in Average Use is calculated as the year-over-year volume variance after actual 2008 volumes are weather normalized and DSM adjusted
(3) EB-2009-0052, Exhibit A, Tab 2, Schedule 1

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, Page 13

a) The evidence states at lines 12 – 14 that "There were no other enacted tax legislated changes during 2007 that resulted in tax rates different than those used to establish 2007 rates". Should the first reference to 2007 be 2008? Is Union aware of any other enacted tax legislated changes, federal or provincial, that have resulted in 2008 tax rates different than those used to establish 2007 rates?

b) The tax changes included anticipated changes to capital cost allowance ("CCA") changes effective for 2008.

   i. Have these CCA changes been passed into law?
   ii. Has Union left the impact of these CCA changes in its calculation in anticipation that the rates will be used for 2008?
   iii. Did Union use the proposed CCA rates in its actual 2008 income tax filing?

Response:

a) The evidence is correct. The 2008 income tax rate changes were, in fact, enacted in 2007. Union is not aware of any other enacted tax changes that have resulted in 2008 tax rates different than those used to establish 2007 rates.

b) i) No. Union expects the CCA rate changes to be passed into law in May 2009.

   ii) Yes, the impact of these CCA changes were included in the calculation in anticipation that the rates would be used for 2008.

   Unlike changes to the *Income Tax Act*, changes to income tax regulations (such as CCA) can be passed into law without Parliament ratification. Therefore, there is a much greater level of certainty that proposed changes will be passed. As a result, Union incorporated these anticipated changes into the deferral calculation.

   iii) Union has not yet filed its 2008 return. However, Union will use the changed CCA rates in its corporate tax filing.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, page 3

Please confirm that the proposed method for allocating the balances in accounts 179-70 and 179-72 is consistent with that used by Union and approved by the Board in the past.

Response:

Confirmed.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, page 5 & Schedule 1

a) What is the basis upon which the market transformation incentive is being allocated between Rate 01 and rate M1? In particular, what is the basis of the allocation of $0.488 million or 97.6% of the $0.5 million to the M1 rate class and only $0.012 million or 2.4% of the $0.5 million to the 01 rate class?

b) Rates 01 and M1 include general service customers in addition to residential customers. Please confirm that the allocated identified in (a) above reflects only the residential component of rates 01 and M1 in it use.

Response:

a) The market transformation incentive was allocated based upon where the units were installed. In total 1543 drain water heat recovery units were installed in Union Gas's residential market. Of that number, 1505 units (97.6%) were installed in the M1 residential rate class (Union South), and 38 units (2.4%) were installed in the 01 residential rate class (Union North).

b) The market transformation incentive is allocated to all M1 and R01 customers.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 2, Schedule 2

a) How has the forecasted volume for the period July 1, 2009 to December 31, 2009 been estimated? Is it based on a Board approved forecast? If so, what forecast?

b) If the actual volume over the July 1, 2009 through December 31, 2009 period is less than forecast and Union refunds less than forecast to customers, where do the remaining balances that were to be refunded to customers go?

c) For the customers that are subject to the one-time adjustments, what happens to the credits/debits that are refunded/collected from customers that are no longer on the system?

Response:

a) The forecasted volume for the period July 1, 2009 to December 31, 2009 is based on Union's most current operational forecast for 2009. It is Union's practice to use its most current operational forecast whenever prospectively disposing of deferral account balances because it is that forecast that is most likely to result in minimal differences between the amounts actually recovered / refunded and amounts approved for recovery / refund.

b) Any over or under recovery / refund of deferral account balances accrue to the company. There is no true up for differences between the actual recovery / refund and the balances approved for recovery. Given Union uses its most recent forecast, Union expects that any variances between the approved balances and the actual recovery will be minimal.

c) In the event that a customer is no longer on the system, Union will make reasonable efforts, using the information available, to process the one-time adjustment amounts. If Union cannot process a one-time adjustment, any unrefunded / unrecovered credits / debits accrue to the company.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref. Exhibit A, Tab 1, p. 7 and Exhibit A, Tab 1, Schedule 2: LRAM Adjustment Mechanism

The evidence [Ex. A, Tab 1, p. 7] states that the balance in the Lost Revenue Adjustment Mechanism is a credit of $0.421 million. This appears to be made up of a credit of $1.282 million for 2007 audited results offset by a debit of $0.861 million for unaudited 2008 results. The 2008 results appear to be calculated by multiplying the unaudited volume reductions multiplied by the 2008 delivery rates without any corresponding offset to account for the volume reduction already included in rates. Union states in the evidence [at Ex. A, Tab 1, p. 8] that "there were no 2008 DSM volumes included in 2008 rates."

Please:

a) Confirm the above synopsis is correct.

b) Ex. A, Tab 1, Sc. 2, p. 2, column (c) appears to show the 2007 lost volumes in 2008 rates. Does this refer to the assumed impact in 2008 from DSM activities undertaken in 2007?

c) Provide the basis for the statement that "there were no 2008 DSM volumes included in 2008 rates" given that the Board in EB-2006-0021 approved $17 million in DSM expenditures for 2008.

Response:

a) Confirmed. There are no 2008 DSM volumes built into 2008 rates. The DSM volumes used for the purpose of setting 2008 rates were the 2006 audited actual DSM volumes including the true-up for 2005 audited actuals. (EB-2007-0606, Working Papers, Schedule 13).

b) In setting 2007 approved rates, Union's 2007 approved volume forecast reflected 50% of the 2007 forecast DSM volumes. In setting 2008 approved rates, 2006 audited, actual volumes and 2005 audited true-up are the only incremental DSM volume adjustments. The 2008 rates do implicitly reflect 50% (or 44,260 103m3) of the 88,519 103m3 2007 DSM annual volume forecast (see EB-2008-0220 Rate Order, Working Papers, Schedule 11).

c) The approved 2008 DSM expenditures of $18.7 million reflect the DSM program spending costs. The audited, actual 2008 DSM volumes will be reflected when setting 2010 rates.

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref. Ex. A, Tab 1, p. 9-10: DSMVA

a) With respect to the Demand Side Management Variance Account, please explain what specific programs the additional $1.559 million was used towards.

Response:

a)

2008 Direct Overspend ($000's)

	2008 Plan	*2008 Actual*	*Difference*
Residential	2,433	3,044	611
Low Income	1,430	1,445	15
Commercial	3,440	4,331	891
Distribution Contract	3,898	3,869	(29)
Market Transformation	1,100	1,097	(3)
Other Direct Program Costs	4,698	4,772	74
			1,559

UNION GAS LIMITED

Answer to Interrogatory from
School Energy Coalition ("SEC")

Ref. Ex. A, Tab 1, p. 10: Late Payment Penalty Litigation

a) Please provide a breakdown of the costs recorded to this account. Please state whether the costs are internal or external costs. For internal costs, please state how they were calculated.

Response:

The breakdown of the costs of $0.593 million in the Late Payment Penalty Litigation deferral account is as follows:

External Legal Fees	$0.365
External Billing Record Costs	$0.165
External Newspaper Notification Costs	$0.059
Internal Interest Costs	$0.004
	$0.593

All costs noted above are actual costs.