UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 18 of 48

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks?

Question:

In its evidence under the topic of Revenue Cap vs. Price Cap, Union states that a price cap will provide greater incentives for the utility to implement productivity improvements compared to cost of service regulation.

Does Union believe that a price cap provides greater incentives for the utility to implement productivity improvements compared to a revenue cap? Please elaborate.

Response:

Yes. Union does believe that price cap plans provide greater incentives than revenue cap plans. In Union's view it is just as important for a utility to have incentives to aggressively pursue revenue growth opportunities as it is for a utility to have incentives to aggressively pursue cost reduction opportunities under an incentive regulation framework. Under revenue cap plans there can be less incentive for a utility to pursue revenue growth opportunities (or manage revenue losses) such as the throughput growth that can arise through the provision of i) more services to existing customers, ii) existing services to more customers, or iii) new services to new and existing customers because once a certain revenue threshold is exceeded the utility does not get to keep all of the additional revenue. In Union's view all parties (customers, utility and regulator) should be better off under a properly constructed price cap plan (one that addresses declining average use per customer) than a revenue cap plan.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 1 of 48

Issue 1.1 - What are the implications associated with a revenue cap, a price cap and other alternative multi-year incentive ratemaking frameworks

Question:

Union states in evidence that it is proposing to implement a five year price cap regulatory framework that will take effect January 1, 2008.

If the Board decided on a revenue cap for Union, would Union's IR parameter proposals change (e.g., plan term, marketing flexibility, inflation factor, off-ramps, etc.)?

Response:

Union has not analyzed how a properly designed revenue cap plan would be structured. It is difficult to answer this question without knowing the exact structure of the revenue cap plan that might hypothetically be approved by the Board for Union (e.g. X factor). At a high level, Union does not anticipate that plan parameters such as term, marketing flexibility, inflation or off-ramps would need to change materially if a revenue cap plan was approved by the Board that adequately met the objectives Union identified on pp. 5 – 7 of Exhibit B, Tab 1 of its evidence. In Union's view a price cap plan is superior to a revenue cap plan with respect to a number of the objectives such as alignment, comprehensiveness, rate predictability & stability, and simplicity.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 12 of 48

Issue 1.3 - Should weather risk continue to be borne by the shareholders, and if so what other adjustments should be made?

Question:

Union states in evidence that the 20-year trend forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates.

a) Does Union believe that its shareholders should continue to bear weather risk? Please explain.

b) If the weather risk was removed from the shareholder, would Union need to change its proposed IR plan? Please explain.

Response:

a) As long as weather risk is symmetrical (i.e. colder weather is just as likely to occur as warmer weather) and the weather normalization method used produces accurate results over time, which adopting the 20-year trend methodology would help address, Union sees no reason at this time why its shareholders should not continue to bear weather risk. Union notes that the adoption of a price cap regulatory framework does not prompt the need to re-examine which party bears weather risk. There appears to be two commonly used methods to eliminate weather risk. These are to make significant rate design changes (i.e. move to a much higher fixed monthly charge, one that would recover all fixed costs) or to use a deferral account. Union has not devoted any time or resources at this time to determining how rates would need to be redesigned to "decouple" revenues from throughput, where one of the considerations would be to manage the rate impacts on customers. Union notes that the introduction of a deferral account appears to be contrary to the Board's NGF Report (p.31) where the Board expressed a desire to have less reliance on deferral accounts under an incentive regulation framework. A weather related deferral account would also not be consistent with the objectives of simplicity or rate predictability & stability for customers and the utility.

Union also notes that any analysis of the impact of eliminating weather risk would also have to evaluate the impacts weather variations have on costs.

b) Other than to work through the details of how weather risk was going to be removed as described in the response to a), Union does not see that removing weather risk from the shareholder would have a material impact on its proposed incentive regulation plan.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 32 of 48

Issue 3.1 - How should the X factor be determined?

Question:

Union states that "the proposed stretch factor is purely an ad hoc add-on. Its value cannot be determined from the logic of price indexing as are other components of the price cap formula."

a) Does the stretch factor have to be determined from the logic of price indexing to have validity?

b) Does Union believe that the benefits of improved performance under the plan should be shared between the company and its customers?

i. If yes, what features of its proposed plan ensure that customers receive a just and reasonable share of plan benefits?

c) Suppose that a company has an opportunity in year 1 of a five year plan to reduce costs or bolster revenue for three years. Will rebasing ensure that consumers benefit from this initiative?

d) Do companies have an incentive under some PBR plans to defer certain kinds of expenditures until the end of the plan and then to try to recover them in the next rate case?

i. Is it possible, because of this problem, that customers sometimes do not experience any net benefits from PBR at the time of rebasing?

Response:

a) Union's evidence was intended to identify that in contrast to the rest of the price cap index design, stretch factors are not determined from the logic of price indexing and therefore there is far less quantitative and no theoretical support which underpins them. As a result, consideration needs to be given to how efficient the utility already is (for Union 1.87% per p.36 of the PEG Study), how often it has applied for rate changes under a cost of service regulatory framework (for Union only three times in the last ten years) and the adequacy of the incentive to pursue productivity gains without an ad hoc adjustment.

b) Yes. Under Union's incentive regulation proposal customers benefit through the annual adjustment mechanism and through rebasing. Customers benefit through the annual adjustment mechanism as a result of rates increasing by approximately inflation and less than they would otherwise under cost of service, for example, Union's 2007 rate increase was 2.7% whereas, Union's incentive rate increase request is 1.89%. Union's customers have historically benefited and will continue to benefit from Union's historical productivity improvements as a result of 2007 rates being used as the base for the price cap plan. As Union's evidence indicates, Union has only had three cost of service rate proceedings in the last ten years. This has provided Union with a significant motivation to pursue productivity improvements. As the PEG Study indicates on p.36, the TFP growth of Union averaged 1.87% per year over the 2000 – 2005 time period. This TFP growth has been embedded in base rates. In addition, given revenue and cost pressures in the future Union will be stretched to manage under the proposed annual price cap adjustment.

c) It is clearly the onus of the applicant to demonstrate that the prudence of the cost and timing of that expenditure and that deferrals have not been made to the benefit of the company and the corresponding detriment of ratepayers.

d) Hypothetically it is possible if the regulatory process that accompanies rebasing is not effective. In the NGF Report (p. 26), the Board has indicated that its determination of new rates at the time of rebasing will reflect an assessment of these types of considerations. Further, "the Board also cautions that it will take an unfavourable view of sudden and significant increases in costs at the time of rebasing, unless thoroughly justified". See part c) above.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 32 of 48

Issue 3.1 - How should the X factor be determined?

Question:

Union states that it "has had significant motivation to implement productivity improvements over the last ten years".

a) Does an incentive to improve productivity necessarily translate into superior productivity growth?

Response:

a) Please see interrogatory response provided at Exhibit C1.15.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, pages 32-34 of 48

Issue 3.3 - What are the expected cost and revenue changes during the IR plan that should be taken into account in determining the appropriate X factor?

Question:

Union states in evidence that there is no justification for a stretch factor during its next IR plan term. During the IR period, Union will manage the risks under the price cap formula relating to: declining use per customer beyond the amount provided in the price cap formula; changing workforce demographics; compensation and pension and benefit cost pressures; natural gas price volatility; and changes in the exchange rate.

a) Please substantiate Union's claim that the noted events are risks to Union's ability to manage its business within an annual inflationary increase during the IR term.

b) Please elaborate whether the noted events could benefit Union. For example could a pension plan re-evaluation, decline in the Canadian dollar, reduction or stability in gas prices and a younger work-force result in increases to Union's revenues and/or reductions in its costs?

c) Please provide Union's estimate, with supporting documentation where applicable, of the adjustment that would be required to the price cap formula to mitigate the risk of declining average use beyond the amount provided in PEG's recommendation.

d) Please provide examples of other jurisdictions / cases where an IR plan was approved without a stretch factor.

Response:

a) The probability of these risks occurring is discussed in Union's EB-2007-0606 incentive regulation evidence and its EB-2005-0520 rates proceeding evidence. The references are identified below:

- Declining use per customer: As noted on p. 27 of Union's EB-2007-0606 evidence "As part of the PEG Report, the proposed average use factor has been established using historical data to 2005. As a result, the utility will be at risk for the acceleration in declining average use which has been Union's most recent experience." The actual Heating Degree Days ("HDD") included in Chart 12 in

Union's EB-2007-0606 evidence clearly shows that Union's most recent experience is an increase in the declining average use.

- Changing workforce demographics: EB-2005-0520, Exhibit A2, Tab 1, Schedule 1, pp. 23-26.
- Compensation and pensions and benefit pressures: EB-2005-0520, Exhibit A2, Tab 1, Schedule 1, pp. 26-27; Exhibit D1, Tab 3 and Exhibit D1, Tab 3, Appendix A, page 7.
- Natural gas price volatility: EB-2005-0520, Exhibit A2, Tab 1, Schedule 1, p. 11-15.
- Changes in the exchange rate: EB-2005-0520, Exhibit A2, Tab 1, Schedule 1, p. 17-20.

These are risks that Union is willing to manage under properly set IR parameters.

b) It is possible that these events could have a benefit, but based on the information referenced above, there is a low probability that this would occur.

c) Union does not have sufficient data to calculate PEG's current price cap formula and therefore cannot provide a calculation where one of the inputs change.

d) Union has not performed research on stretch factors in other jurisdictions but PEG identified several companies in Table 1 of its November 3rd presentation that had IR plans without stretch factors.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 11 of 48

Issue 4.2 - How should the impact of changes in average use be calculated?

Question:

Union states in evidence that as approved by the Board in the EB-2005-0520 Decision with Reasons dated June 29, 2006 Union will be splitting the existing M2 rate class into two new rate classes – M1 and M2.

a) Please complete the tables below for Union's new M1 and M2 rate classes.

M1 rate class					
Years	*Annual Normalized Volume (m^3)*	*If no DSM - Annual Normalized Volume (m^3)*	*Number of Customers*	*Average Use per Customer (m^3)*	*If no DSM - Average Use per Customer (m^3)*
2000					
2001					
2002					
2003					
2004					
2005					
2006					

M2 rate class					
Years	*Annual Normalized Volume (m^3)*	*If no DSM - Annual Normalized Volume (m^3)*	*Number of Customers*	*Average Use per Customer (m^3)*	*If no DSM - Average Use per Customer (m^3)*
2000					
2001					
2002					
2003					
2004					
2005					
2006					

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

b) *During the data and information gathering phase supporting PEG's study, were there any considerations given to or analyses conducted to determine whether different PCIs should apply to the new M1 and M2 due to their respective average use trends?*

c) *Does Union believe that a common PCI for the new M1 and M2 rate classes is appropriate? Please explain.*

Response:

a)

New M1 Rate Class					
Year	Annual Normalized Volume (10^3m^3)	If no DSM - Annual Normalized Volume (10^3m^3)	Number of Customers	Average Use per Customer (10^3m^3)	If no DSM Average use per Customer (10^3m^3)
2003	2,744,817	not available	868,587	3,160	not available
2004	2,758,912	not available	890,502	3,098	not available

New M2 Rate Class					
Year	Annual Normalized Volume (10^3m^3)	If no DSM - Annual Normalized Volume (10^3m^3)	Number of Customers	Average Use per Customer (10^3m^3)	If no DSM Average use per Customer (10^3m^3)
2003	1,146,626	not available	7,018	163,384	not available
2004	1,124,842	not available	6,523	172,442	not available

The information provided above is from the M1/M2 study data. It excludes data (# of customers & annual volume) for customers who only had partial year volumes.

b) As part of the data provided to PEG for the TFP analysis, Union provided the M2 rate class split information filed in Union's 2007 (EB-2005-0520) rates proceeding. Union has asked PEG (Union's interrogatory #6) to identify the impacts of the M2 rate class split on the service group X factors proposed by PEG.

c) Union does believe that a common PCI for the new M1 and M2 rate classes is appropriate. The M1 and M2 rate classes will be part of the General Service group of rate classes. There is no historical data available that would permit the calculation of average use impacts separately for the M1 and M2 rate classes.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, pages 26-31 of 48

Issue 4.3 - If so, how should the impact of changes in average use be applied (e.g., to all customer rate classes equally, should it be differentiated by customer rate classes or some other manner)?

Question:

Union states in evidence that it has been experiencing flat to declining total distribution throughput growth at the same time that the number of customers and costs continue to grow…….Declining use of Union's general service group is identified in Charts 3, 4, 5, 6, 7, 8 and 9.

a) Please complete the following table.

General Service Group (summation of all the individual rate classes within the general service group [i.e., M2, Rate 01 and 10])					
Years	*Annual Normalized Volume (m^3)*	*If no DSM - Annual Normalized Volume (m^3)*	*Number of Customers*	*Average Use per Customer (m^3)*	*If no DSM - Average Use per Customer (m^3)*
2000					
2001					
2002					
2003					
2004					
2005					
2006					

b) Please complete the following table.

All Other Service Group (total minus summation of all the individual rate classes within the general service group)					
Years	*Annual Normalized Volume (m^3)*	*If no DSM - Annual Normalized Volume (m^3)*	*Number of Customers*	*Average Use per Customer (m^3)*	*If no DSM - Average Use per Customer (m^3)*
2000					
2001					
2002					
2003					
2004					
2005					
2006					

c) *Please confirm that the annual normalized volume does not include the volumetric losses captured in the LRAM?*

Response:

a)

General Service Group (summation of all of the individual rate classes within the general service group (M2, Rate 01, and 10)					
Year	Annual Normalized Volume (10^6m^3)	If no DSM - Annual Normalized Volume (10^6m^3)	Number of Customers	Average Use per Customer (10^6m^3)	If no DSM Average use per Customer (10^6m^3)
2000	5,252	5,269	1,122,887	4.677	4.692
2001	5,201	5,224	1,145,740	4.539	4.559
2002	5,380	5,406	1,170,662	4.596	4.618
2003	5,249	5,271	1,194,499	4.394	4.413
2004	5,286	5,307	1,223,672	4.320	4.337
2005	5,333	5,355	1,247,919	4.274	4.291
2006	5,371	5,417	1,267,387	4.238	4.274

As the information provided to PEG was in 10^6m^3 (See Table 11b in Peg's study), the information has been reproduced here in the same manner.

b) Union does not calculate normalized average consumption for any rate classes other than general service rate classes (i.e. M2, Rate 01, Rate 10).

c) The LRAM related volumes are not included in the actual annual throughput volumes and the normalized volumes. The latter represent consumption that actually occurred or would have occurred under normal weather.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, pages 36-37 of 48

Issue 4.3 - If so, how should the impact of changes in average use be applied (e.g., to all customer rate classes equally, should be differentiated by customer rate classes or some other manner)?

Question:

Union states in evidence that a simpler and more intuitive approach to calculate the X factor applicable to the general service rate classes (M2, Rate 01 and Rate 10) should be used. This would be calculated by adjusting the company wide average use factor by the combined revenue share of the general service rate classes. Further, Union recommends that there not be an average use factor adjustment for rate classes other than the general service rate classes.

a) *Union states that "it does not understand how the ADJ can be determined using PEG's approach without doing a productivity study by rate class." Is Union concerned with how the growth in the output of the service groups impacts the utility's costs at the rate class level? Please explain.*

Response:

a) PEG's derivation of its ADJ factors appears to depend on deriving the difference between TFP growth at the service level and TFP growth for the utility. For a utility with joint and common costs of production, TFP growth and total cost at the service class level are not well-defined and cannot be calculated.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 37 of 48

Issue 5.1 - Union Ex. B, Tab 1, page 37 of 48

Question:

a) Please list Union's 2007 deferral and variance accounts that have been approved by the Board.

b) Please indicate those accounts that Union is seeking approval to continue during the IR plan.

Response:

a) and b)

Account Name	Account Number	Proposed Changes (if any)
Gas Cost Deferral Accounts		
Heating Value	179-89	Continue
TCPL Tolls and Fuel	179-100	Continue
North Purchase Gas Variance Account	179-105	Continue
South Purchase Gas Variance Account	179-106	Continue
Spot Gas Variance Account	179-107	Continue
Unabsorbed Demand Cost Variance Account	179-108	Continue
Inventory Revaluation Account	179-109	Continue
Storage and Transportation Deferral Accounts		
Transportation and Exchange Services	179-69	Close effective January 1, 2008
Short Term Storage & Exchange Balancing	179-70	Continue
Long Term Peak Storage	179-72	Continue
Other Storage & Transportation Services	179-73	Close effective January 1, 2008
Other Direct Purchase Services	179-74	Close effective January 1, 2008
Other Deferral Accounts		
Deferred Customer Rebates/Charges	179-26	Continue
Lost Revenue Adjustment Mechanism	179-75	Continue

Question: August 20, 2007
Answer: September 4, 2007
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Intra Period WACOG Changes	179-102	Continue
Unbundled Services Unauthorized Storage Overrun	179-103	Continue
Demand Side Management Variance Account	179-111	Continue
Gas Distribution Access Rule ("GDAR") Costs	179-112	Continue
Late Payment Penalty Litigation	179-113	Continue
Shared Savings Mechanism Variance Account	179-115	Continue
Carbon Dioxide Offset Credits Deferral Account	179-117	Continue

Please refer to Exhibit D1, Tab 5 from the EB-2005-0520 rate case for a description of the deferral accounts included in the above table.

The accounting orders for each of the deferral accounts were included as Appendix F to the EB-2005-0520 Final Rate Order.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 40-41 of 48

Issue 6.1 - What are the criteria for establishing Z factors that should be included in the IR plan?

Question:

Union states in evidence that these permits fees should be included as a Z factor.

a) *Did Union consider whether permit fees should be included as a Y factor?*
   i. *If yes, why was this option rejected?*

b) *Based on historical number of permits per year, please provide a forecast (or a range) of the annual amount that Union expects to be considered for recovery as a Z factor.*

   i. *Does Union propose that all permit fees be expensed or would some fees be capitalized?*

   ii. *If yes, please provide an itemization of permit categories and a description including rationale of their respective accounting treatment.*

c) *Please provide a list of municipalities in its franchise area that have passed a by-law to charge utilities for permits.*

Response:

a) Y factor treatment for permit fees was considered. However, as highlighted in Union's response provided at Exhibit C3/C16/C33.25, Union proposes to apply an annual per event threshold of $1.5 million for permit fees. Union will only seek an adjustment to rates if this threshold is exceeded on an annual basis.

   In Union's view Z factor treatment is more appropriate than Y factor because permit fees are a cost not unlike other delivery related costs that will be included in the base the price cap index applies to. Y factors relate to items that are outside of the incentive regulation framework (e.g. upstream costs or DSM) where there is a different Board established regulatory framework. Z factor treatment is also more appropriate for items where there is no cost included in Union's base rates.

b) i) and ii) Union anticipates a portion of permit fees will be expensed and a portion capitalized. Union is assuming permit fees will be issued both on a project basis (i.e. a subdivision development or a valve maintenance program where Union's pipeline facilities are accessed numerous times) as well as on each separate occasion Union is required to perform maintenance, repair or improve its pipelines. How permit fees are issued by a municipality will determine if they are expensed or capitalized. Although Union is not able at this time to determine with certainty the permit fee costs that will be incurred, it is expected that the cost impact resulting from the permit fee regulation could be substantial. The majority of costs will consist primarily of permit fees and some administrative-type spending (i.e. processing payments, etc.).

c) To the best of Union's knowledge no municipality in its service area has passed a municipal by-law to give themselves the authority to impose fees on gas utilities for work that requires a municipal permit since Ontario Regulation 584/06 was passed December 27, 2006. The City of London however has issued a schedule for permit fee occasions and appears to be relying upon a pre-existing by-law for such authority. Please see the attached correspondence (dated August 28, 2007).

London
CANADA

MEMO

To: U.C.C.

From: Environmental Programs
and Customer Relations

Department: Environmental and Engineering services

Date: August 28, 2007

Re: Permits and associated fees

Dear Members

As allowed in the Municipal Act, Ontario Regulation 584/06, Section 10, and as previously discussed, please be advised as of today, the City of London is implementing the Permits for Approved Works (PAW) and Pavement Degradation Fee procedure as follows:

1) An umbrella PAW to be issued annually to the Utility Contractors for daily works involving existing infrastructure, such as routine / emergency maintenance and upgrades to appurtenances and lateral work. Cost is $250.00 + GST, total of $265.00 for each contractor.
2) All main line work that requires MCA will require individual PAW's at a cost of $250.00 + GST, total of $265.00.
3) Any excavation of assumed City roadways are subject to a pavement degradation fee. Cost is $10.00/M^2 of excavated surface area.

A copy of the Municipal Act, Ontario Regulation 584/06 is included for your information.

Should you have any questions, please do not hesitate to contact Marc Brunette at 519 661-2500, ext. 4741 or Don Chambers ext. 4998.

Don Chambers
Manager of Customer Relations and Compliance

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 40 of 48

Issue 6.1 - What are the criteria for establishing Z factors that should be included in the IR plan?

Question:

Union states in evidence that the criteria for causation is amounts that should represent an increase or decrease in costs resulting from, attributed to or in respect of, directly or indirectly, a Z factor event.

a) Please provide examples of the types of costs that could be indirectly attributed to or in respect of a Z factor event.

Response:

a) Indirect costs are costs that do not flow directly and immediately from the event, but from some of the consequences or results of the event. The costs to address the event itself are direct costs, while other costs that may result from the event are indirect costs. In practice, delineating between what is an indirect and what is a direct cost may prove difficult as there is no bright line distinction between the two. It is often a question of fact in the particular circumstances. However, the intent is simply to ensure that all costs whether direct or indirect related to the event are captured.

Some examples of what might be characterized as an indirect cost:

1. As a result of a new environmental regulation, Union must pay a fee for all air emissions from its facilities. The fee itself is a direct cost. The cost of installing measurement equipment and the cost of hiring an employee (or allocating a portion of an existing employees time) to measure and fill the required compliance reports are arguably indirect costs.

2. As a result of a tornado, Union's Parkway compressor station is destroyed. The cost to repair the damage is a direct cost. The cost to replace the gas lost when the compressor was destroyed, the lost revenue associated with the down time, and the damages suffered by neighbouring properties that Union is required to pay, are arguably indirect costs.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 40 of 48

Issue 6.1 - What are the criteria for establishing Z factors that should be included in the IR plan?

Question:

Union states in evidence that the criteria for materiality is the threshold amount should be $1.5 million per Z factor event. The Z factors will be symmetrical (i.e. cost increases or decreases).

a) *Please confirm whether the threshold amount should be: 1) $1.5 million per Z factor event or 2) $1.5 million per item within a Z factor event (as approved by the Board for Union's trial PBR plan in RP-1999-0017).*

Response:

a) The threshold amount should be $1.5 million per Z factor event. Union did not intend to convey two different approaches. The threshold would be applied in the same manner as it was in Union's trial PBR plan.

   Also please see interrogatory response provided at Exhibit C1.12.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 40 of 48

Issue 6.1 - What are the criteria for establishing Z factors that should be included in the IR plan?

Question:

Union states in evidence that the criteria for "the inability of management to control" is the amount that must be attributable to a Z factor event which means an event, change, effect or occurrence outside of management's control.

a) Please give examples of an "occurrence outside management's control".

b) Please give examples of an "effect outside management's control".

Response:

a) and b) The purpose of the language in Union's evidence was to convey that there would be no unintended limitations put on what could be considered "outside of management control".

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. A, Tab 2, Application, para 3(d)

Issue 10.1 - Should an ESM be included in the IR plan?

Question:

Union states in evidence that it is not proposing an ESM in the IR plan.

a) Please outline the rationale for Union's position. For example, does Union believe that an ESM dilutes the incentive to achieve efficiencies?

Response:

a) In general the greater the incentives the greater the probability of achieving productivity improvements. Union does believe that an ESM dilutes the utility's incentives to achieve productivity improvements. There is less incentive for a utility to aggressively pursue productivity improvements if a portion of the productivity improvement benefit is immediately taken away. Union supports the Board's conclusion in its NGF Report (pp. 24-28) that a better approach is to maximize a utility's incentives to aggressively pursue productivity improvements and pass on the benefits obtained from sustainable productivity improvements (which will be greater if no ESM existed) to customers at the time of rebasing. Under a framework where no ESM existed all parties are better off (customers, utility and regulator) than the outcome that would have resulted if an ESM had existed.

In addition to the productivity incentive issue described above, it has been Union's experience that there are a number pragmatic complications that arise with respect to how to calculate the earnings to be shared when an ESM is in place. There can be disputes around whether to weather normalize or not (and if so, how), what costs and revenues to include/exclude, what is the appropriate deadband and around what ROE the ESM should be calibrated.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, pages 42-43 of 48

Issue 11.1 - What information should the Board and stakeholders be provided with during the IR plan?

Question:

In its evidence on Reporting Requirements, Union states that there should be no additional constraints on the utility's ability to manage its business other than what exists today (e.g., legislation, Undertakings, ARC, GDAR and RRR).

a) *Would filing the following additional information on an annual basis constrain Union's ability to manage its business – Standard ROE calculation schedules and Capital expenditures (annual actual capital expenditures by USoA accounts)?*

    i. *If yes, please explain.*

Response:

a) No. This information is available.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. A, Tab 2, Application, para 7

Issue 12.1.1 - What should be the information requirements?

Question:

In its application Union states that it may apply to the OEB for approving interim rates and accounting orders as may from time to time appear appropriate or necessary.

a) *Please clarify if: 1) Union is requesting that its 2007 base rates be declared interim as of January 1, 2008 or 2) Union is intending to come forward with a proposal for an Interim Rate Order that would supersede, on an interim basis, the 2007 Board approved rates until such time that a final Rate Order is issued and effected in rates. If the latter is applicable, please indicate when Union will be filing its proposal.*

Response:

a) Union plans to file an application for interim rates effective January 1, 2008 that will supersede, on an interim basis, 2007 Board approved rates. Union plans to file the interim rate proposal in September 2007.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 45 of 48

Issue 13.1 - What information should the Board consider and stakeholders be provided with at the time of re-basing.

Question:

Union proposes that at the time of re-basing, it would provide historical year actuals (2011), bridge year (2012) and test year (2013).

a) Does Union believe that including "continuity of rate base by plant type" schedules (tracking the actuals for 2007, 2008, 2009, 2010 and 2011) in the re-basing material will avoid time-consuming and onerous after the fact information collecting at the time the 2013 test year is examined?

i. If no, please explain.

Response:

a) These schedules are available annually. Union has no objection to filing the continuity of rate base by plant types from 2007 to 2012 in the rebasing material if the Board determined that this would be useful information to have available.

As identified at Exhibit B, Tab 1, p. 45 of Union's evidence, Union would be assisted by knowing what information will be required at the time of rebasing in advance.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 12 of 48

Issue 14.1 - Are there adjustments that should be made to base year revenue requirements?

Question:

Union states in evidence that it is requesting the elimination of the following three deferral accounts (179-69 -Transportation Exchange Services Account, 179-73 -Other S&T Services Account and 179-74 -Other Direct Purchase Services Account) beginning January 1, 2008.

a) *Please provide historical year end balances for each year from 2003 to 2006 and estimate for 2007 for each of the three accounts that Union has requested to eliminate. Please use the following headings for the table:*

Year	*Account No.*	*Balance for disposition credit/(debit)*
2003		
2004		
2005		
2006		
2007 (est)		

b) *In Union's view, should the Transportation and Storage Revenue in 2007 base rates be also adjusted if the three deferral accounts are eliminated?*

Response:

a) The attached schedule includes the balances in the three transportation related deferral accounts from 1999 to 2007. The balance for disposition (ratepayer portion) appears in column c.

b) As part of eliminating the Transportation Exchange Services Account (179-69), Other S&T Services Deferral Account (179-73) and Other Direct Purchase Services Deferral Account (174-74) beginning January 1, 2008, Union will adjust the base rates applicable to infranchise customers to include 100% of the 2007 forecast approved by the Board in the EB-2005-0520 proceeding.

This treatment is consistent with how the forecast of any other source of revenues is treated. Please see Union's evidence on this issue in the EB-2005-0520 rates proceeding (attached).

Union Gas Limited
Summary of Deferral Accounts
For the Years Ending December 31
($000's)

Line No.	Year	Deferral Account Number	75% Ratepayers [1.]	25% Shareholder	Total Margin Subject to Sharing [2.]
	(a)	(b)	(c)	(d)	(e) = (c) + (d)
1	1999	179-69	1,509	503	2,012
2	2000	179-69	1,709	570	2,278
3	2001	179-69	823	274	1,097
4	2002	179-69	3,713	1,238	4,951
5	2003	179-69	309	103	412
6	2004	179-69	7,449	2,483	9,933
7	2005	179-69	3,404	1,135	4,539
8	2006	179-69	4,004	1,335	5,339
9	2007 (Est)	179-69	3,323	1,108	4,430
10	1999	179-73	(495)	(165)	(660)
11	2000	179-73	(109)	(36)	(146)
12	2001	179-73	(423)	(141)	(564)
13	2002	179-73	197	66	262
14	2003	179-73	(3,707)	(1,236)	(4,942)
15	2004	179-73	405	135	539
16	2005	179-73	427	142	569
17	2006	179-73	390	130	520
18	2007 (Est)	179-73	65	22	87
19	1999	179-74	1,187	396	1,583
20	2000	179-74	744	248	992
21	2001	179-74	817	272	1,089
22	2002	179-74	375	125	500
23	2003	179-74	434	145	579
24	2004	179-74	869	290	1,159
25	2005	179-74	749	250	999
26	2006	179-74	373	124	497
27	2007 (Est)	179-74	(750)	(250)	(1,000)

Notes:
1. Positive number represents a payable to customers.
2. Actual margin less the current Board approved level.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

C1 Short Term Transportation and Exchange Services

Short term transportation and exchange revenues exceeded the Board approved amount by $5.1 million, as shown at line 14. The primary driver of the $5.1 million revenue increase was higher demands and service value due to a colder than normal winter.

M12 Transportation Overrun

M12 Transportation overrun revenues exceeded the Board approved amount by $4.8 million, as shown at line 15. Union does not forecast M12 transportation overrun revenues, since ex-franchise customers can use Union's system differently each year. Union does not expect customers to elect to use overrun services over the long run. To the extent customers have a long term need, Union would expect customers to contract appropriately for long term services.

4.0 S&T Deferral Account Proposal

Union began selling short term storage services to ex-franchise customers at market based rates under the C1 rate schedule in 1989. The first transactional S&T deferral account, which captured positive variances from the Board Approved forecast was approved by the Board in 1993, as part of the E.B.R.O. 476-03 ADR Settlement Agreement and related Board Decision. In that Decision, the Board also approved a 75/25 sharing of the fiscal 1995 deferral account balance between ratepayers and the utility respectively, which had also been agreed to in the ADR Settlement Agreement. This division of deferred margin was to recognize "Union's role in developing opportunities and facilitating arrangements under the proposed account" (page 4 of the E.B.R.O. 476-03 ADR Settlement Agreement). Any future disposition of margins in the deferral account was left to a future determination of the Board. In the E.B.R.O. 486 Decision, the Board reaffirmed a 75/25 sharing of deferred margin. The sharing of deferred margin on a 75/25 basis continued through subsequent rates applications and Decisions. In the E.B.R.O. 499 proceeding, the Board accepted an ADR Settlement Agreement that shared forecast margin on a 90/10 basis between ratepayers and Union respectively. Prior to that proceeding, the entire forecast of S&T transactional service margin went to the ratepayers' benefit.

In Union's last rates application (RP-2003-0063) the Board approved a 90/10 sharing of forecast S&T transactional service margin and a 75/25 sharing of any deferred S&T transactional service margin in favour of ratepayers. The Board also extended the 75/25 sharing to variances where the actual S&T transactional service margin is below forecast, thereby providing symmetrical treatment of positive and negative variances from forecast.

Union is proposing that S&T transactional service margin variances in 2005 and 2006 continue to be subject to deferral, consistent with the Board's RP-2003-0063 Decision.

Union is proposing to eliminate the S&T transactional service deferral accounts effective January 1, 2007 and to include the total forecast of S&T transactional service revenues (margins) in the determination of rates, consistent with the treatment of all other forecast revenues, including S&T core services revenues (i.e. no 90/10 sharing). Union's proposal would eliminate all margin sharing associated with both the forecast and any variances experienced on an actual basis relative to the forecast.

Union's proposal to eliminate the S&T transactional services deferral accounts is consistent with and supports the Board's policy direction as outlined in its NGF policy paper dated March 30, 2005, to move to an Incentive Regulation ("IR") framework. The Board made several references to its views on earnings sharing mechanisms in its NGF report including the following:

1. *"Bo ard does not intend for earning sharing mechanisms to form part of IR plans"* (Pg. 28)
2. *"an ap propriate balance of risk and reward in an IR framework will result in reduced reliance on deferral or variance accounts"* (Pg. 31).

The current S&T transactional service regulatory framework includes deferred accounts and a revenue sharing mechanism. Union agrees with the Board that, in a true IR framework, there should be no earnings sharing, and transactional services revenues should not receive special treatment. Union believes that the elimination of S&T transactional service deferral accounts in 2007 is consistent with and supports the Board's direction to reduce deferral accounts and eliminate earnings sharing mechanisms as part of transitioning to an IR framework. This position is also consistent with Union's stated NGF position (in its November 10, 2004 submission) that S&T deferral accounts should be eliminated.

Union requires an appropriate balance of risks and rewards in order to manage weather variances, in-franchise customer annual usage, and increasing competition for S&T services within an IR framework. The forecast of S&T revenue is no different than the forecast of any other source of revenue. All other revenues are considered as part of the rate setting process and the utility bears the risk of variances relative to forecast levels.

Union has advanced this proposal in this proceeding because there may not be another opportunity or forum to deal with this issue prior to the beginning of the proposed IR framework (January 1, 2008). This proposal provides consistency with the Board's IR policy statements. Union's proposal has been reflected in its 2007 forecast, with the forecast 2007 S&T transactional margin of $36.5 million included in the revenues used to determine 2007 rates. The evidence of Mark Kitchen, filed at Exhibit H, updates the margin estimate identified above to reflect the allocation of costs from the 2007 cost allocation study when it is completed. This is consistent with the existing rate making treatment with the exception that there would be no 90/10 sharing of the 2007 forecast, which is also consistent with Union's proposal to eliminate the deferral accounts.

5.0 Storage Market Premiums

The position that Union outlined in its November 10, 2004 NGF submission was that the market premium derived from offering storage services at market rates should flow to Union as the owner of the underlying storage assets. This position was based on Union's view that the storage

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Reference: C1/T3

Issue 2.4 - Is the proposed total 2007 Storage and Transportation (S&T) Revenue Forecast appropriate?

Question:
The evidence states that Union is proposing to eliminate the S&T transactional services deferral account in 2007, and the related revenue sharing, because this is inconsistent with a true IR framework. However, since the 2007 rate application is a cost of service application, not an IR framework, please:

a) Justify why the S&T deferral account and related revenue sharing should be eliminated in 2007.

b) Identify what would be the S&T revenue if Union did not eliminate the S&T transactional deferral account in 2007 and continued with the revenue sharing arrangement.

Response:

a) Union's rationale for proposing to eliminate the S&T deferral accounts is outlined at Exhibit C1, Tab 3 page 22-25.

b) If Union did not eliminate the S&T transactional deferral account in 2007, the S&T revenue would remain at $182.013 million (provided in Exhibit C1, Summary Schedule 7, Addendum). As discussed in Exhibit C1, Tab 3, page 25, Union proposes to include forecast 2007 transactional margin of $36.5 million (updated to $34.9 million at Exhibit H1, Tab 1, page 3-4 to reflect the results of the 2007 cost allocation study) in the total revenues used to determine 2007 rates. If the S&T transactional deferral accounts were not eliminated in 2007 and the present margin sharing mechanism were to continue, only 90% or $31.41 million would be included in 2007 rates, while 10% or $3.49 million would be allocated to the shareholder.

Witness: Steve Poredos
Question: March 15, 2006
Answer: April 4, 2006
Docket: EB-2005-0520

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Reference: C1/T3/p21

Issue 2.4 - Is the proposed total 2007 Storage and Transportation(S&T)Revenue Forecast appropriate?

Question:
In 2004 Union's actual S&T transactional services revenue exceeded the Board approved forecast by $31.3 million. Union is now proposing to eliminate the deferral account and embed the forecast in rates. Given the significant variances that have occurred in the past why should the Board now be confident in Union's forecast for 2007?

Response:

As outlined in Exhibit C1, Tab 3, market values and activity were higher due to capacity constraints on other pipelines as well as colder than normal weather conditions in the winter months (January, February, and March). In addition, there were much higher gas demands in the U.S. Northeast markets which were related to colder than normal weather, including strong gas demand for gas fired electricity generation.

In 2005 a warmer than normal summer, and two hurricanes in the fall, Katrina and Rita, created a volatile market. Winter gas prices soared to record highs as a result of an anticipated tight supply/demand balance for the coming winter season. This created higher gas price differentials that Union was able to take advantage of through late season storage releases.

The 2005/2006 winter was warmer than normal which caused short term NYMEX gas prices to retreat from a high of $16/GJ to $8/GJ currently available. This short term reversal of pricing has resulted in high values for pricing for storage services that is not indicative of longer term normalized values. Storage values are driven by weather. The present high prices are an anomaly not a long term trend.

S&T revenues are predictable under normal weather and market conditions. Union cannot predict situations created by abnormal actual weather impacts that result in significant market volatility. Union does not believe that the inclusion of extraordinary historical occurrences is a prudent forecasting method.

Witness: Steve Poredos
Question: March 10, 2006
Answer: April 4, 2006
Docket: EB-2005-0520

In addition, expiring long term ex-franchise storage space may be required for in-franchise customer use going forward (e.g. power generation needs), which reduces Union's long term storage revenues, under the current regulatory construct.

The average actual transactional revenue from 2001 up to and including 2005 is $62.8 million, while the forecast transactional revenues for 2006 and 2007 are $61.6 million and $60.9 million respectively, as per Exhibit C1, Summary Schedule 7, Addendum. The forecast risks over a five year Incentive Regulation (IR) period are:

i. Increased competition in the ex-franchise service markets from other third parties including shippers on Union's Dawn to Parkway system. Please refer to Exhibit J1.26.
ii. Increased competition in the storage services market from third party storage providers.
iii. Based on the current way Union manages storage, claw back of peak storage capacity for in-franchise use including power generation services.
iv. Less or no use of M12 transportation overrun as experienced during the 2005/2006 winter.

Union bears the risk of weather as evident by the 2005/2006 winter. Union has had an estimated $15 million unfavourable impact related to weather in the first 3 months of 2006. Union does not have access to the full S&T premiums to offset the losses attributed to weather. Elimination of the S&T deferral accounts will allow Union to manage the risks of all revenue streams.

Union's 2007 S&T revenue forecast is appropriate given the forecast is based on normal weather and market conditions. Union's proposal is to reflect the forecast in rates and accept the risk of actual revenues fluctuating higher or lower. The 2007 levels of S&T revenues embedded in rates would be guaranteed to ratepayers regardless of the actual result.

Witness: Steve Poredos
Question: March 10, 2006
Answer: April 4, 2006
Docket: EB-2005-0520

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 12 of 48

Issue 14.1 - Are there adjustments that should be made to base year revenue requirements and/or rates?

Question:

Union states in evidence that the 20-year trend forecasting method be fully implemented effective January 1, 2008 as an adjustment to base rates.

a) Please confirm that the 2007 Settlement Agreement in proceeding EB-2005-0520 included base rates that would be adjusted for only one more year to reflect a 50:50 weighting in fiscal 2008.

Response:

a) The settlement agreement did not determine what weather normalization method or blend of methods would be used in 2008 or in subsequent years.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 17 of 48

Issue 12.3.2 - How should the changes in the rate design be implemented?

Question:

Union states in evidence that it should have the ability, as it currently does under cost of service regulation, to adjust the fixed monthly charge and the variable charge on a revenue neutral basis annually. Also, Union states that it has been slowly (in increments of $1 or $2 per year) moving the fixed monthly charge towards full customer-related cost recovery.

a) *Please provide Union's target(s) and associated timelines for moving the fixed monthly charge towards full customer-related cost recovery. For example, is Union planning to implement 100% of full customer-related cost recovery in the next 5 years?*

b) *Based on the response to part (a), and using Union's 2007 Board approved rates, please provide the impact on distribution rates (in absolute and relative terms) of adjusting the fixed monthly charge and variable charge on a revenue neutral basis for the M2, Rate 01, Rate 10 rate classes for the following sub-classification of customers:*

   i. *Typical residential customer with heating and water heating*

   ii. *Typical residential customer with water heating*

   iii. *Medium commercial customer*

   iv. *Large commercial customer*

c) *When adjusting the fixed monthly charge and the variable charge on a revenue neutral basis, could the fixed monthly charge and the variable charge increase/decrease more than the allowed price cap?*

d) *Does Union agree that an increase in the fixed monthly charge mitigates the impact of declining average use?*

   i. If no, please explain.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

e) *If Union applies to further increase the fixed monthly charge during the IR plan term, is it Union's view that a corresponding adjustment to PEG's X factor should be performed?*

   i. *If no, please explain.*

   ii. *If yes, please describe the process in which PEG's X factor would be adjusted.*

Response:

a) It is Union's view that the monthly customer charges should fully recover customer related costs. Union does not have a timeline for moving to full recovery of customer related costs through the monthly customer charge.

   Given the timing and complexity of implementation (e.g. M1/M2 rate class split) Union is not proposing any changes to the current approved M1, M2, Rate 01 or Rate 10 monthly customer charges for 2008.

b) Please see part (a).

c) Under Union's price cap proposal, the percentage increase on any particular rate component could be more or less than the price cap inflator. The average rate increase for the class, however, will not exceed that allowed under the price cap formula.

d) The small increases that Union is anticipating will not mitigate the impacts of declining use. This is the case because any increase in the monthly customer charge is offset by a reduction in delivery commodity charges. The only way to completely mitigate the impact of declining use would be to recover all customer-related and capacity-related costs through some form of fixed rate. Customer related costs are costs that vary with number of customers and do not vary with volume or capacity. Capacity related costs are costs that vary with peak day demand.

e) i) If Union applies to further increase the fixed monthly charge during the IR plan term, a corresponding adjustment to PEG's X factor is not required.

   As Union identified in its evidence of Union's evidence filed as Exhibit B, Tab 1, page 27, "As part of the PEG Report, the proposed average use factor has been established using historical data to 2005. As a result, the utility will be at risk for the acceleration in declining average use which has been Union's most recent experience." Union is not requesting that the AU factor be adjusted to reflect this declining average use acceleration.

Question: August 20, 2007
Answer: September 4, 2007
Docket: EB-2007-0606 / EB-2007-0615

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Union Ex. B, Tab 1, page 17 of 48

Issue 12.3.2 - How should the changes in the rate design be implemented?

Question:

Union states in evidence that it would not be appropriate to apply the price cap equally to fixed and variable charges as it would result in fixed monthly charges that are not whole numbers.

a) Please explain why having the fixed monthly charges that are not whole numbers is a concern.

b) Are there other reasons (in addition to the fixed monthly charges not being whole numbers) why Union would not apply the price cap equally to fixed and variable charges? Please explain.

c) Has customer acceptance been an issue in the past when Union received approval to increase the fixed monthly customer charge?

Response:

a) As described at Exhibit B, Tab 1 of Union's evidence (p.17), it has been Union's practice to have fixed monthly charges that are whole numbers. Customers inquire about what costs are recovered in the fixed monthly charge relative to commodity charges. In Union's view, having a fixed monthly charge that was $16.32 for example would convey a certain amount of precision in the charge that is simply not present in the determination of the fixed monthly charges and would be misleading. Union anticipates having a fixed monthly charge that was not a whole number would likely result in more customer inquiry calls.

b) Yes. As described at Exhibit B, Tab 1 of Union's evidence (p. 17), Union would like the ability to slowly increase the fixed monthly charge towards full recovery of customer-related costs. Further, Union may need to adjust the fixed monthly or demand charges and commodity charges by something other than what would result from applying the price cap equally to both fixed and variable charges to preserve Union's established rate design principles (e.g. maintaining an appropriate relationship between the rates in different rate classes and firm/interruptible services).

c) No. Union has received very few customer inquiries when the fixed monthly charge was increased in the past.