UNION GAS LIMITED

Answer to Interrogatory from
Green Energy Coalition "GEC"

Issue Number 1.1 – Implications of Price Cap and Revenue Cap

Question:

At B.1.1 p.5, para 15 of its evidence EGDI sates:

> *Consequently, an IR regime which provides inadequate revenue growth to meet the cost and growth pressures of the utility will likely have the result of significantly reduced new customer attachments, perhaps on the order of tens of thousands of fewer customers. This would be a significant unintended consequence of the IR plan and one which, presumably, all stakeholders would wish to avoid.*

a) Does Union agree that a shortfall in earnings can put pressure on the company to reduce customer attachments in the context of a price cap I.R. framework?

b) What is Union's customer attachment expectation?

Response:

a) Union agrees that a shortfall in earnings can put pressure on the Company to reduce capital expenditures. Union will continue to pursue cost-effective growth and attach customers during the IR plan term as it has in the past both in a COS regulatory environment and during Union's previous trial PBR plan term, provided the parameters of the IR plan are properly set. During Union's trial PBR term Union attached 21,367 customers in 2001, 29,785 customers in 2002 and 30,066 customers in 2003.

b) Customer attachments are driven primarily by new housing starts and interest/mortgage rates. Based on the slowdown in housing starts and increase in mortgage rates originally described in Union's evidence in the EB-2005-0520 proceeding at Exhibit B1, Tab 3 Union's expectation of customer attachments prior to customer losses in 2008 to 2010 is between 22,000 and 24,000 in each year.

Question: August 16, 2007
Answer: September 4, 2007
Docket: EB-2007-0606

UNION GAS LIMITED

Answer to Interrogatory from
Green Energy Coalition "GEC"

Issue Number 1.1 – Implications of Price Cap and Revenue Cap

Question:

EGDI states "it takes a decade or more to recover the capital costs associated with adding a new residential customer" (At EGDI, B.1.1 p.5,para 17) What does Union estimate as its payback period for a new residential customer under the current rate structure?

Response:

The estimated payback period for Union Gas to recover capital costs associated with adding a new residential customer would be very similar to that of EGDI which would be ten years or more.

Question: August 16, 2007
Answer: September 4, 2007
Docket: EB-2007-0606

UNION GAS LIMITED

Answer to Interrogatory from
Green Energy Coalition "GEC"

Issue Number 1.1 – Implications of Price Cap and Revenue Cap

Question:

Please elaborate on how the choice of a revenue cap versus a price cap changes the incentives faced by the company for:

a) system expansion
b) fuel switching to gas
c) DSM
d) marketing expenditures

In answering this interrogatory please indicate whether the inclusion or non-inclusion of a declining use adjustment changes the impact.

Response:

Union is not proposing a revenue cap. Union has not analyzed the implications of a revenue cap.

UNION GAS LIMITED

Answer to Interrogatory from
Green Energy Coalition "GEC"

Issue Number 5.2 – What are the criteria for disposition of Y factors?

Question:

How does the company propose to include the known costs of DSM in the 2008 and 2009 years and the unknown costs post 2009 in annual rates? For example, will the costs be forecast and included in rates as a Y factor in the year or captured in a deferral account for inclusion in rates in a subsequent period?

Response:

Please see interrogatory response provided at Exhibit C3/C16/C33.20.

UNION GAS LIMITED

Answer to Interrogatory from
Green Energy Coalition "GEC"

Issue 12.3.1- What should be the criteria for changes in rate design??

Question:

a) *Does Union propose to increase the fixed component of rates during the I..R. term?*

b) *What limits is the company proposing on its flexibility to adjust the split between the fixed and variable components of rates?*

c) *Does the company agree that decreasing the variable component of rates reduces the customers' incentive to conserve gas?*

d) *Does the company agree with the Board Staff proposal that "Demand Side Management activities should be encouraged" by an I.R. Plan?*

Response:

a) Please see response to interrogatory provided at Exhibit C1.21 a).

b) Union's ability to adjust the split between fixed and variable components of rates is limited by rate design principles such as the objective of having a smooth rate continuum between rate classes. Union's request for flexibility will allow Union to maintain the rate continuum between rate classes.

c) No, Union does not believe that the incentive to conserve will be materially impacted by decreasing the variable component of the delivery rate. This is the case because the incentive to conserve is driven by the total bill. At current rates, if 100% of distribution charges were recovered through a fixed charge, approximately 70% of the total bill would continue be recovered through variable commodity rates. In Union's view there would still be significant incentive for a customer to conserve.

d) Union continues to support Demand Side Management ("DSM") activities.

Question: August 16, 2007
Answer: September 4, 2007
Docket: EB-2007-0606