

**EB-2007-0606/EB-2007-0615**  
**Technical Conference**  
**October 3-5, 2007**

**Questions from Union Gas for Board Staff / PEG:**

1. Re: Response to IGUA's interrogatory #36 (a) to Board Staff:

Preamble: The Return on Equity (ROE) Z factor example that Union provided in its evidence described a situation where a new formula for determining ROE or capital structure is approved by the NEB or OEB during the incentive regulation plan term. Union is not proposing annual updates to rates to reflect the application of the current ROE formula.

Question: Please explain why a change in the ROE formula, which might be an acknowledgement that the returns generated from the use of the existing formula are lower than they should be, would not be viewed differently by PEG than annual adjustments to rates to reflect the application of the current ROE formula.

2. Re: Response to Union's interrogatory # 8 to Board Staff:

Preamble: Please refer to Union's response to SEC's interrogatory (Union's Exhibit C23.31 attached) which identifies the 2008 price cap adjustment that results from using Union's recommendation for the Price Cap Index (PCI) by service group; PEG's summary PCI recommendation (the stretch factor has been removed for comparison purposes); and PEG's recommendation for the PCI by service group (the stretch factor has been removed for comparison purposes).

Question: Does PEG agree that the total impact that results from the use of the PCI by service group should be no different than the total impact that would result from the use of the summary PCI? If PEG agrees, explain how PEG's recommendation achieves this. If PEG does not agree, please explain why not.

UNION GAS LIMITED

Answer to Interrogatory from  
School Energy Coalition "SEC"

*Reference: B/1/37*

*Issues 4.1 - Is it appropriate to include the impact of changes in average use in the annual adjustment?*

***Question:***

*Using forecast impacts for each of the years 2008 through 2012, please provide a proof that Union's proposed change to the application of the AU factor would be revenue neutral for the utility.*

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**Response:**

Union proposed a different service group PCI than PEG had proposed for primarily two reasons:

- 1) Union believes that Rate 10 should be included in the group of rate classes that are adjusted by the AU factor.
- 2) There should not be a difference in the total price change that results from applying a single PCI to all rate classes and applying different PCIs to service groups. Union felt its proposed approach was simpler and more intuitive. Union did not intend for its service group PCIs to achieve the same result as PEG's service group PCIs.

A forecast of the price cap inflator for 2009 – 2012 is not available; however, 2008 should be illustrative of all years.

Please see the attached schedule for Union's calculation of the price cap adjustment for 2008 using 1) Union's proposed PCI by service group, 2) Union's total proposal PCI of 1.84% and, 3) the PCI by service group proposed in the PEG Study (excluding the stretch factor). The stretch factor was excluded from PEG's PCIs by service group so that the price cap adjustments in each of the three cases would be comparable.

The attached schedule shows there is not a material difference between the price cap adjustment using Union's PCI by service group and the total PCI.

Question: August 16, 2007

Answer: September 4, 2007

Docket: EB-2007-0606

UNION GAS LIMITED  
Calculation of Price Cap Adjustment  
For the Year Ended December 31, 2008

Line No.	Particulars (\$000's)	General Service (a)	In-franchise Contract (2) (b)	Total In-franchise (c) = (a+b)	Cost Based Exfranchise (d)	Total Company (e) = (c+d)
<u>Calculation of Price Cap Base - Union Service Groups</u>						
1	2007 Approved Revenue (1)	639,434	125,037	764,471	195,150	959,621
	Current year's pre-cap adjustments:					
2	DSM	(10,688)	(6,312)	(17,000)		(17,000) (3)
3	Upstream Transportation	(53,969)	(7,239)	(61,208)		(61,208) (4)
4	Storage Premium Adjustment	3,229	527	3,756		3,756 (5)
5	Price Cap Base Revenue	<u>578,006</u>	<u>112,013</u>	<u>690,019</u>	<u>195,150</u>	<u>885,169</u>
6	2008 Price Cap Adjustment (Line 5 * PCI %)	<u>12,947</u>	<u>1,255</u>	<u>14,202</u>	<u>2,186</u>	<u>16,388</u>
7	PCI % - General Service	2.24% (6)				
8	PCI % - Infranchise Contract and Regulated Exfranchise	1.12% (7)				
<u>Calculation of Price Cap Base - Union Average</u>						
9	2007 Approved Revenue (1)	639,434	125,037	764,471	195,150	959,621
	Current year's pre-cap adjustments:					
10	DSM	(10,688)	(6,312)	(17,000)		(17,000) (3)
11	Upstream Transportation	(53,969)	(7,239)	(61,208)		(61,208) (4)
12	Storage Premium Adjustment	3,229	527	3,756		3,756 (5)
13	Price Cap Base Revenue	<u>578,006</u>	<u>112,013</u>	<u>690,019</u>	<u>195,150</u>	<u>885,169</u>
14	2008 Price Cap Adjustment (Line 5 * PCI %)	<u>10,635</u>	<u>2,061</u>	<u>12,696</u>	<u>3,591</u>	<u>16,287</u>
15	PCI % - General Service	1.84% (8)				
16	PCI % - Infranchise Contract and Regulated Exfranchise	1.84% (9)				
<u>Calculation of Price Cap Base - PEG Service Groups - Adjusted</u>						
17	2007 Approved Revenue (1)	597,980	166,491	764,471	195,150	959,621
	Current year's pre-cap adjustments:					
18	DSM	(9,286)	(7,714)	(17,000)		(17,000) (3)
19	Upstream Transportation	(38,804)	(22,404)	(61,208)		(61,208) (4)
20	Storage Premium Adjustment	3,099	657	3,756		3,756 (5)
21	Price Cap Base Revenue	<u>552,989</u>	<u>137,030</u>	<u>690,019</u>	<u>195,150</u>	<u>885,169</u>
22	2008 Price Cap Adjustment (Line 5 * PCI %)	<u>13,769</u>	<u>795</u>	<u>14,564</u>	<u>1,132</u>	<u>15,696</u>
23	PCI % - General Service	2.49% (10)				
24	PCI % - Infranchise Contract and Regulated Exfranchise	0.58% (11)				

Notes: (1) EB-2005-0520, Rate Order, Working Papers, Schedule 5, Col (f), adjusted for TCPL toll update (EB-2007-0053, Schedule 5, Page 2, Working Papers, and EB-2007-0634, Schedule 5, Page 2, Working Papers)  
(2) In-franchise contract includes Rate 10 for PEG analysis only  
(3) EB-2006-0221, Decision with Reasons, Phase I, Page 23  
(4) EB-2005-0520, Rate Order, Working Papers, Schedule 26, Page 2, Col (b), Line 7, adjusted for TCPL toll update (EB-2007-0053, Schedule 5, Page 2, Working Papers, and EB-2007-0634, Schedule 5, Page 2, Working Papers)  
(5) Includes long term and short term storage premium and deferral account elimination impacts  
(6) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Page 37, Table 3  
(7) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Page 37, Table 3  
(8) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Page 24, Table 2  
(9) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Page 24, Table 2  
(10) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Appendix f, Page iv, adjusted for stretch factor  
(11) EB-2007-0606, Pre-filed Evidence, Exhibit B, Tab 1, Appendix f, Page iv, adjusted for stretch factor

Question: August 16, 2007

Answer: September 4, 2007

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