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**Commission de l'énergie
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BY EMAIL

October 18, 2007

Mike Packer
Director, Regulatory Affairs
Union Gas Limited
P.O. Box 2001
50 Keil Drive North
Chatham ON N7M 5M1

Dear Mr. Packer:

**Re: Union Gas Limited
2006 Deferral Accounts and Earnings Sharing Disposition
Board File No. EB-2007-0598**

On August 17 the Board issued its Decision and Order in Union's 2006 Deferral Accounts and Earnings Sharing Disposition (the "Decision"). Union Gas Limited ("Union") filed its Draft Rate Order for EB-2007-0598 on August 27, 2007.

The Board issued Procedural Order No. 4, which provided an opportunity for those wishing to do so to comment on the extent to which Union's Draft Rate Order conformed to the Board's Decision and Order. Board Staff, LPMA, and IGUA provided comments. IGUA's comments were adopted by VECC, CCC, LPMA, and Schools. On September 10, 2007 Union filed its response.

The key issue for those commenting on the Draft Rate Order concerned the fact that in the Draft Rate Order Union had adjusted the amount subject to earnings sharing by the amount of its disallowed deferred taxes claim.

Union suggested that the Board had authorized such an adjustment to earnings sharing when the Board directed Union to *"include the non-utility adjustment as well as any effects attributed to the revised balance of the Long-Term Peak Storage Services Account."*

It is clear from the Decision that the deferred taxes were not to be applied in any degree in Union's Draft Rate Order.

The Board's findings described the deferred taxes as ex-franchise, and page 9 of the Decision stated, *"The taxes associated with this line of business, including the deferred taxes residing in the account should form a part of this new undertaking [of a non-regulated business]"*

The Draft Rate Order filed by Union is not consistent with the Decision and should be corrected to reflect the removal of any adjustment to earnings sharing attributable to deferred taxes disallowed in the Decision. Union is directed to prepare and file with the Board a corrected Draft Rate Order which reflects the removal of the deduction for the deferred tax charges in the adjustment column of Appendix C for the earnings sharing calculation.

The balance in the Long Term Peak Storage Services Account shall remain reduced by the deferred tax amount disallowed for recovery from ratepayers by the Decision.

Union is directed to file the materials requested by October 25, 2007. Parties to the proceeding will have until November 4, 2007 to file comments on the corrected Draft Rate Order and Union will have until November 19, 2007 to file reply.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

cc. EB-2007-0598 Intervenors