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By electronic filing and by e-mail

December 13, 2010

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
27<sup>th</sup> floor  
Toronto, ON M4P 1E4

Dear Ms Walli,

**Union Gas Limited ("Union")**  
**QRAM Application effective January 1, 2011**  
**Board File No.: EB-2010-0359**  
**Our File No.: 339583-00019**

I am writing on behalf of Canadian Manufacturers & Exporters ("CME"). Please consider this correspondence as CME's written comments on Union Gas Limited's ("Union") QRAM Application, which seeks changes to Union's gas supply and transportation rates to reflect changes to the forecasted cost of purchasing and transporting natural gas.

As the Board is aware, it is CME's practice to conduct a due diligence review of Union's QRAM applications. In most cases, CME confirms that Union's application conforms with the framework approved by the Board for QRAM applications. As a matter of principle, QRAM applications should remain mechanistic in nature and should not seek approval of matters not contemplated by the Board-approved QRAM framework. To this end, QRAM applications do not allow for interrogatories and are not subjected to the same level of scrutiny as other rate applications.

This QRAM application includes prior period deferral account adjustments dating back as far as 2008. As set out in Section 3.2 of Tab 1 of Union's pre-filed evidence, these deferral account adjustments are related to a recently conducted reconciliation between the gas supply deferral account balances as calculated for QRAM filings, and the actual balances posted to Union's general ledger and reported as part of Union's Financial Statements. According to Union, the schedules filed as part of the QRAM filings did not align with the general ledger and with the deferral account balances reported in the RRR.

As a result, in this Application, Union seeks to correct balances in the South Purchased Gas Variance Account (“SPGVA”), the North Purchased Gas Variance Account (“NPGVA”) and the North TCPL Tolls and Fuel Deferral Accounts. Specifically, Union requests approval to:

- (a) Recover \$8.377M from customers for SPGVA under-recovery related to 2010 purchases;
- (b) Credit \$4.919M to customers for NPGVA over-recovery related to spot purchases in 2008 and 2009; and
- (c) Recover \$3.468M from customers for under-recovery in the North TCPL Tolls and Fuel Deferral Account related to Dawn to Parkway transportation services for the North since January 2009.

In its pre-filed evidence, Union also notes that as a result of replacing a third party contract for Dawn to Parkway transportation services, Union’s 2009 earnings subject to sharing were understated by approximately \$3.5M. Consequently, the 2009 earnings sharing previously cleared to ratepayers was approximately \$1.75M lower than it should have been. CME understands that the \$1.75M arises out of the same error that produces the North TCPL Tolls and Fuel Deferral Account debit of \$3.468 that Union seeks to clear in this application. Union does not, however, seek to clear the \$1.75M in under-recovered earnings sharing in this QRAM Application. Instead, Union states that it will adjust its 2010 earnings sharing calculation to reflect the amount of the 2009 earnings sharing payable to ratepayers as a result of the error.

In CME’s submission, the prior period adjustments for the SPGVA, the NPGVA, and the North TCPL Tolls and Fuel Deferral Account fall outside of the traditional relief granted by the Board through QRAM applications. As such, the Board should be cautious in granting the relief requested by Union.

Under such circumstances, CME submits that Union should be directed to file further evidence on these prior period adjustments in its next ESM application. CME understands that such an application would likely be filed in March, 2011. That evidence should provide further detail on how the Schedules filed as part of previous QRAM filings since 2008 did not align with Union’s general ledger, the steps Union has taken to resolve that problem, and the measures that have been implemented to ensure that this does not occur again. In the course of that application, interested parties would have the ability to ask interrogatories on this subject and fully scrutinize the appropriateness of the deferral account adjustments proposed by Union.

So long as parties have the ability to scrutinize these issues in the next ESM application, then CME supports the interim clearance of these prior period adjustments. That approval should be granted on a without prejudice basis to any position parties may take in the 2010 ESM Application.

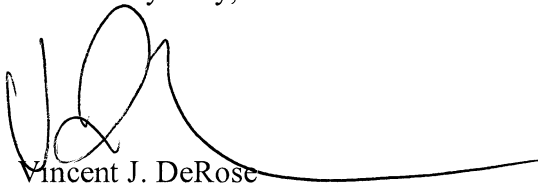
On a final note, CME questions why Union does not seek to clear the under-recovered earnings sharing amount of \$1.75M concurrently with the prior period deferral account adjustments. The prior period deferral account adjustments relating to the North TCPL Tolls and Fuel Deferral

Account, and the ESM under-recovery, arise out of the exact same circumstances. CME urges the Board to consider directing Union to clear the \$1.75M of under-recovered 2009 earnings sharing to ratepayers at this time, rather than waiting until the 2010 ESM Application.

Subject to these comments, CME does not oppose any other aspect of Union's QRAM Application. We find that the remainder of the Application is in accordance with the Board-approved QRAM mechanism.

CME requests an award of its reasonably incurred costs in connection with conducting its examination of Union's QRAM Application. We will submit a claim for costs on behalf of CME if the Board responds favourably to this request.

Yours very truly,



Vincent J. DeRose

c. Chris Ripley (Union)  
Paul Clipsham

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