

December 15, 2010

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

**RE: EB-2010-0359 – Union Gas Limited – January 1, 2011 QRAM Application –
Reply Submission**

Dear Ms. Walli,

On December 7, 2010, Union filed its January 1, 2011 QRAM application. On December 13, 2010, Union received comments from the Canadian Manufacturers and Exporters (“CME”), the Industrial Gas Users Association (“IGUA”) and the Federation of Rental-housing Providers of Ontario (“FRPO”). The comments from the above noted intervenors related to two topics, the gas cost changes and the deferral account adjustments proposed in the application. This letter is Union’s reply.

Gas Cost Changes

CME and IGUA stated they reviewed the QRAM changes resulting from the changes in gas costs and agree that Union followed the Board-approved QRAM methodology.

Deferral Account Adjustments

In its application, Union proposed three deferral account adjustments:

- South Purchased Gas Variance Account (179-106) – \$8.377 million debit
- North Purchased Gas Variance Account (179-105) – \$4.919 million credit
- North TCPL Tolls and Fuel deferral account (179-100) - \$3.468 million debit

In response to the proposed adjustments, CME, IGUA and FRPO each stated that they accept the relief sought by Union relating to the deferral account adjustments, but are

requesting further explanation and evidence regarding the adjustments. Their acceptance of Union's application is without prejudice to their position following their review of any additional information provided by Union. CME and FRPO requested Union to provide more information as part of its 2010 deferral and earnings sharing disposition proceeding in 2011. IGUA requested further explanation from Union in its QRAM reply submission related to the concerns outlined by IGUA at pp. 3-4 of its submission. Below are the responses of Union.

Union's Responses

1. Union undertook the reconciliation when it became aware that the gas supply deferrals as reported on the QRAM schedules were not aligned with Union's financial records (the general ledger). The reconciliation found that as of the end of 2007 the two sources of record were aligned and that the variances began during 2008. There are no further adjustments required.
2. In March 2010, delivered service volumes of 2,497,224 GJs were incorrectly entered into the SPGVA for the month of April 2010. April 2010 delivered service volumes should have been 1,357,830 GJs. This resulted in an overstatement of volumes purchased in April, 2010 by 1,139,394 GJs. This overstatement of volumes impacted the deferral balance in two ways.

First, because the incorrect volumes were entered for the month of April, the weighted average cost within the account was artificially lowered from the correct value of \$4.853/GJ to \$4.209/GJ. The difference of \$0.644/GJ, applied to the total volumes in April, 2010 of 7,440,781 GJs, resulted in an overstatement of the deferral credits of \$4.795 million.

Second, the overstatement of volumes, when applied to the variance between the weighted average cost relative to the reference price, resulted in an overstatement of deferral credits of \$3.288 million ($(\$4.209/\text{GJ} - \$7.094/\text{GJ}) * 1,139,394 \text{ GJs}$).

A debit adjustment of \$8.083 million was processed in September, 2010 to correct for this error. Other reconciliation adjustments of \$0.297 million were made to align the QRAM schedules with the financial records.

3. The spot gas purchases made in January and February of 2009 were incorrectly allocated to the NPGVA (179-105). However, Union noticed the error and transferred the spot gas purchases from the NPGVA to the Spot Gas Deferral Account (179-107) prior to the next QRAM application.

The error requiring adjustment was the result of the price at which Union transferred the spot gas purchases from the NPGVA to the Spot Gas Deferral Account. Union entered the purchases to the NPGVA at the Alberta Border Reference Price, as per Tab 1, Schedule 3, Page 2. Union then transferred the correct net deferral costs to the Spot Gas Deferral Account as some of the purchases had been made at Dawn, and used the Ontario Landed reference price. Because Union used the Alberta Border Reference Price for the original entry into the NPGVA and then transferred the spot gas purchases using the Ontario Landed reference price, a variance was created within the NPGVA.

The adjustment proposed in Union's application is required to correct the NPGVA.

4. No other "non-gas cost related" adjustments were revealed as part of the reconciliation.
5. Union will perform a monthly reconciliation ensuring that the gas supply deferrals reported in QRAM filings are consistent with the gas supply deferral data included in Union's financial records, which are subject to Union's internal financial controls and the independent financial audit process.
6. Union did not propose to dispose of the earnings sharing in its QRAM application for the following reasons.

A QRAM application is a proceeding to address the impacts of changing gas costs on Union's commodity price and the gas costs included in delivery rates, not the impacts of earnings. In Union's view, an earnings sharing delivery rider should be reviewed and implemented within the annual deferral disposition proceeding.

QRAM applications are reviewed and approved by Board Staff through a Delegation of Authority. It is Union's understanding that Board Staff can approve changes to gas commodity and associated deferral accounts only. An earnings sharing disposition requires Board review and Decision.

Union also notes that interest will accrue on the earnings sharing amount to be disposed to ratepayers.

Approvals Sought

Based on the submissions received by Union, all of which support the approval of Union's application, and the additional clarity provided above, Union requests the Board's approval of Union's January 1, 2011 QRAM application as filed. If the Board deems it necessary to explore the deferral account adjustments further, Union would not be opposed to further discovery in its 2010 deferral account disposition proceeding.

If you have any questions on this matter, please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2010-0148/EB-2008-0106 Intervenors
Crawford Smith (Torys)