UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31

Please update this interrogatory response and related attachments for most recently available data.

Response:

a) The credit balance, with interest to December 31, 2010, in deferral accounts 179-121 and 179-122 is \$6.447 million and \$1.028 million respectively. The balances for the other deferral accounts appearing in Exhibit B3.31, Attachment #1 will be provided as part of the 2010 deferral account disposition proceeding.

b) Please see Attachment.

c) Union recorded \$102,408 per month in account 179-122 for the period March 1, 2010 to December 31, 2010. At December 31, 2010, the year-end balance was \$1.024 million plus \$3,624 of accrued interest.

d) Union estimates it will record \$99,750 per month in account 179-122 for 2011. At December 31, 2011, the estimated year-end balance is \$1.197 million plus \$9,569 of accrued interest.

   Union estimates it will record \$97,417 per month in account 179-122 for 2012. At December 31, 2012, the estimated year-end balance is \$1.169 million plus \$9,345 of accrued interest.

e) The net present value of the monthly amounts shown in c) and d) at July 1, 2010 is \$3.335 million.

Account #179-121 Cumulative Under-recovery - St Clair Transmission Line
as of December 31, 2010

Line No.	Rate Class	Ojibway / St. Clair Design Day Demand (1) (10^3m^3/day)	Cumulative Under-recovery St. Clair Transmission Line (2) ($000's)
1	01	-	-
2	10	-	-
3	20	-	-
4	20T	-	-
5	77	-	-
6	100T	-	-
7	25	-	-
8	Total Northern & Eastern Operations	-	-
9	M1	3,763	1,598
10	M2	1,231	523
11	M4	532	226
12	M5	103	44
13	M7	389	165
14	M9	-	-
15	M10	-	-
16	T1	7,866	3,339
17	T3	-	-
18	Total Southern Operations	13,885	5,894
19	M12	-	-
20	M13	-	-
21	C1	1,023	434
22	M16	279	118
23	Total Storage and Transportation	1,302	553
24	Total	15,187	6,447

Notes:
(1) EB-2005-0520, Exhibit G3, Tab 5, Schedule 24, Page 5.
(2) Amounts include interest.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31

Please provide an update with respect to the status of any negotiations regarding the sale of the St. Clair Line. Is the sale of the St. Clair Line still possible? If so, does Union have any information regarding when the sale might occur?

Response:

There are no ongoing negotiations related to the sale of the St. Clair Line. The sale will take place when the conditions precedents within the Purchase and Sale Agreement in favour of DGLP have been waived. Those in favour of DGLP, which are for the exclusive benefit of DGLP and may only be waived by that party, include the following:

a) a vote of Dawn Gateway's partners in favour of proceeding with the Pipeline System (as defined);
b) a contemporaneous closing of a lease or purchase between Dawn Gateway Pipeline, LLC and Michigan Consolidated Gas Company; and
c) regulatory approvals for the operation of the Pipeline System, including from the Michigan authority.

Union has no information as to when the sale might take place. As indicated at Exhibit C, pages 9-10, if Shippers do not elect to notify DGLP for November 2012 in-service, the Amended Precedent Agreements will terminate with no further obligations or liabilities for Shippers or DGLP.

DGLP and Union remain committed to advancing the Dawn Gateway Pipeline project.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31

Please provide an itemized breakdown of the balances in deferral accounts 179-121 and 179-122 as established for:

a) March 1, 2010; and
b) based on the most recently available data.

Response:

Please see attached.

UNION GAS LTD
Calculation of the Cumulative Under-recovery of the St. Clair Line
for Deferral Account 179-121 (January 1, 2003 to March 1, 2010) and Deferral Account 179-122 (March 2, 2010 to December 31, 2010)
(Amounts Excluding Interest)

Line No.	Particulars ($000's)		Deferral Account 179-121 2003 (a)	2004 (b)	2005 (c)	2006 (d)	2007 (e)	2008 (f)	2009 (g)	2010 (1) (h)	Deferral Account 179-122 (8) 2010 (i)	Total (j)
1	Net Revenue	(2)	400	836	642	297	120	510	707	30	-	3,542
2	Net Depreciated Value (St. Clair Line)	(3)	6,961	6,710	6,433	6,155	5,877	5,738	5,461	5,414	5,183	
3	Working Capital - Linepack	(4)	64	64	64	64	64	64	64	64	64	
4	Total Rate Base (line 2 + line 3)		7,025	6,774	6,497	6,219	5,941	5,802	5,524	5,478	5,247	
5	Return and Taxes	(5)	886	824	794	759	657	622	595	94	472	5,704
6	Depreciation Expense		275	277	278	278	278	276	278	46	232	2,217
	Operating Expenses											
7	St. Clair River Crossing - Toll	(6)	342	342	342	342	342	342	342	57	285	2,736
8	Operating and Maintenance	(7)	35	36	37	39	40	40	41	7	35	311
9	Total Operating Expenses (line 7 + line 8)		377	378	379	381	382	382	383	64	320	3,047
10	Estimated Actual Cost of Service (line 5 + line 6 + line 9)		1,538	1,480	1,451	1,417	1,316	1,281	1,256	205	1,024	10,968
11	Estimated Annual Under-recovery of the St. Clair Line (line 1 - line 10)		(1,138)	(644)	(809)	(1,120)	(1,196)	(771)	(550)	(175)	(1,024)	(7,426)
12	Estimated Cumulative Under-recovery of the St. Clair Line		(1,138)	(1,782)	(2,591)	(3,711)	(4,907)	(5,678)	(6,228)	(6,402)	(7,426)	

Notes:
(1) The estimates for 2010 are pro rated for 2 months to March 1, 2010 as per Board decision.
(2) Revenue associated with firm and interruptible transport, net of unaccounted for gas and excluding compressor fuel.
(3) EB-2008-0411, FRPO, Interrogatory #6.
(4) St. Clair Valve Site to Bickford Compressor Station Linepack of 6,758 GJ, valued at $9.439/GJ (as per EB-2005-0520).
(5) Return on Rate Base calculated as per Board Approved Capital Structure and Rate of Return.
2003 Return on Rate Base as per RP-1999-0017, Exhibit B, Tab 2, Appendix H, Schedule 7.
2004 to 2006 Return on Rate Base as per EB-2005-0520, Exhibit 6, Tab 1, Schedule 1.
2007 to 2010 Return on Rate Base as per EB-2009-0101, Exhibit A, Appendix A, Schedule 4.
(6) Cost Based on the September 16, 1996 agreement between St. Clair Pipelines (1996) Ltd. And Union.
(7) Estimated Operating and Maintenance Expenses based on EB-2005-0520, Exhibit G3, Tab 3, Schedule 1, Updated for EB-2005-0520 Board Decision.
(8) The balance in deferral account 179-122 will continue to accumulate until rates are reset to remove the St. Clair Line, provided the sale of the line takes place.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31 Attachment 2

a) With respect to amounts in the deferral accounts which could be allocated to rate payers, is there any change to Union's proposal for account 179-121 outlined in attachment 2?

b) Please provide a similar breakdown for account 179-122.

Response:

a) No, there is no change to Union's proposed methodology for allocating the balance in deferral account 179-121 to rate classes as provided in Exhibit B3.31 Attachment #2.

b) Deferral account 179-122 would be allocated in the same manner as deferral account 179-121, using Ojibway/St. Clair Design Day Demand. This allocation is consistent with how the costs associated with the St. Clair Line have been included in approved rates. Please see attached.

Account #179-122 Cumulative Under-recovery - St Clair Transmission Line
as of December 31, 2010

Line No.	Rate Class	Ojibway / St. Clair Design Day Demand (1) (10^3m^3/day)	Cumulative Under-recovery St. Clair Transmission Line (2) ($000's)
1	01	-	-
2	10	-	-
3	20	-	-
4	20T	-	-
5	77	-	-
6	100T	-	-
7	25	-	-
8	Total Northern & Eastern Operations	-	-
9	M1	3,763	255
10	M2	1,231	83
11	M4	532	36
12	M5	103	7
13	M7	389	26
14	M9	-	-
15	M10	-	-
16	T1	7,866	532
17	T3	-	-
18	Total Southern Operations	13,885	940
19	M12	-	-
20	M13	-	-
21	C1	1,023	69
22	M16	279	19
23	Total Storage and Transportation	1,302	88
24	Total	15,187	1,028

Notes:
(1) EB-2005-0520, Exhibit G3, Tab 5, Schedule 24, Page 5.
(2) Amounts include interest.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31 Attachment 2

What is the current utilization of the St. Clair Line in terms of average use and peak day use? What is the capacity of the Line? Please explain how the utilization estimates were determined.

Response:

The St Clair Line has the capacity to transport 214,000 GJ/day. The table below provides the utilization of the St. Clair Line in 2009 and 2010.

MichCon-Union Gas Interconnect
Receipt at St Clair Valve Site

Year	Total Quantity GJ's	Avg per day GJ's	Avg Quantity as a % of Daily Capacity	Peak Day use GJ's
(a)	(b)	(c)	(d)	(e)
2009	9,111,684	24,964	11.7%	101,025
2010	10,947,636	29,994	14.0%	99,581

Maximum capacity = 214,000 GJ/day
Total Quantity (b) = total annual supply of gas transported on the St Clair Line from MichCon
Avg per day use (c) = (b) / 365
Avg Quantity % (d) = (c) / 214,000
Peak Day Use = Peak day measured volumes flowing from MichCon

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit B 3.31 Attachment 2

How many shippers are currently utilizing the St. Clair Line? What alternate pipeline transportation routes could be used to serve the needs of those shippers?

Response:

During the period from November 2010 through February 2011 seven shippers have utilized the St Clair Line.

Dawn is connected to several major pipelines crossing the border from Michigan. Any one of these pipelines would provide an alternative to transporting gas on the St Clair Line. These alternative pipelines include:

1) Great Lakes Gas Transmission / TransCanada Pipelines to Dawn
2) Vector Pipeline to Dawn
3) ANR Pipeline / Enbridge to Dawn
4) Bluewater Pipeline to Dawn
5) Panhandle Pipeline to Dawn
6) MichCon to Dawn via St. Clair or Dawn Gateway if constructed

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit C, Page 4

In its evidence Union indicates:

> *In the event the Dawn Gateway project does not proceed and the St. Clair Line is not sold, Union will file a motion with the Board requesting orders to close the deferral accounts and to return the St. Clair Line to rate base. If the Dawn Gateway project does not proceed, no deferral account credits would be disposed of to ratepayers.*

a) Please provide an explanation regarding the return of the St. Clair Line to rate base. Has the St. Clair Line been taken out of rate base?

b) If so, please explain the mechanics behind removing it from rate base, including the relevant impacts on rate base and revenue requirement.

c) Please also indicate when this was done.

Response:

a) In December 2009, following the receipt of the Board's decision approving the sale of the St. Clair line, the book value of $5.2 million was moved to assets held for sale. This removed the asset from utility rate base and stopped further depreciation of the asset.

b) Reclassifying the asset as held for sale reduced utility rate base by $0.2 million in 2009 and by $5.2 million in 2010. The annual revenue requirement related to the St. Clair line is approximately $1.2 million including the cost for the river crossing.

c) December 2009.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit C, Page 4

Please explain the implications and consequences to Union and its ratepayers of disposing of accounts 179-121 and 179-122.

Response:

The implications to Union and its ratepayers are set out in Exhibits B3.31, Attachment #2 and Exhibit E1.4, Attachment 1. Other than the financial impact of the potential disposition of these accounts, there are no implications to Union's ratepayers.

Union also notes that any regulatory decision that would dispose of amounts independent of the underlying economic and commercial transactions would establish a regulatory precedent inconsistent with an attractive investment climate in Ontario.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit C, Page 13

a) In the event that Union is ordered to dispose of accounts 179-121 and 179-122 to the benefit of Union's ratepayers prior to the sale of the St. Clair Line or the cancellation of the project what would be Union's plans for its use of the St. Clair Line and the future utilization of that line.

b) Would the St. Clair Line remain in Union's rate base if underutilized? What options would Union consider in such a case?

Response:

a) Union's position is that the deferral accounts should not be disposed of until the St. Clair line is sold. If, however, Union is ordered to dispose of the deferral accounts and the sale of the St. Clair line does not take place, Union would consider all of its available options including applying to the Board to return the St. Clair Line to rate base at book value and to recover from ratepayers any deferral account balances credited to ratepayers.

   In the event that the Board denies Union's application to return the St. Clair Line to rate base at book value and the recovery of the associated deferral account balances, it is Union's view that the St. Clair Line should be treated as non-utility asset and all costs and revenues would be removed from rates. Union would then have to consider the best way to optimize the investment in the St. Clair line.

b) If Union is ordered to dispose of the accounts the asset will not be reflected in Utility rate base. If there is not an order to dispose of the deferral account balances (if the deferral accounts are closed), Union would include the St. Clair line in rate base at book value. This treatment is consistent with Canadian GAAP and the Board's Uniform System of Accounts. Under these rules, assets in rate base are valued based on their historical cost.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Reference: Exhibit C, Page 13

In Union's opinion, are there any barriers, regulatory or otherwise that mitigate against the disposition of accounts 179-121 and 179-122 prior to the sale of the St. Clair Line or the cancellation of the project?

Response:

For the reasons set out in Union's prefiled evidence, the balance in the deferral accounts should not be cleared because the basis for the disposition, the sale of the St. Clair line, has not occurred.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters ("CME")

Ref.: Board's Issues List

Assume that the answer to the question in Issue #1 in the Board's Notice of Hearing and Procedural Order #4 is "No". Under this assumption, please provide Union's answers to the questions the Board has posed in Issue #3, subparagraphs (a), (b), (c) and (d).

Response

a) If ordered by the Board to dispose of deferral accounts 179-121 and 179-122, Union would propose to align that disposition with the disposition of its 2010 delivery related deferral account balances.

b) Amounts in the deferral accounts as of December 31, 2010, with interest:
179-121 - $6.447 million
179-122 - $1.028 million

c) The disposition of deferral accounts 179-121 and 179-122 to rate classes should be consistent with how St. Clair Line costs are allocated to rate classes for ratemaking purposes. In Union's Board-Approved 2007 cost study, St. Clair Line costs are allocated based on each rate class' design day demands on the Ojibway/St. Clair system. Accordingly, if Union is ordered to dispose of the balances in these deferral accounts, the allocation to rate classes will be determined on the same basis.

d) Please see Exhibit E1.9 and E1.10.

Filed: 2011-03-16
EB-2010-0039
Exhibit E2.9

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters ("CME")

Ref.: Board's Issues List

If the Board finds that, for regulatory purposes in Ontario, the St. Clair Line became a non-utility asset effective March 1, 2010, then does Union concede that the credit balances in the Dawn Gateway Deferral Accounts should be cleared to ratepayers forthwith?

Response

No. The classification of an asset as non-utility means that the asset is no longer necessary to the provision of storage, transmission or distribution services to Union's ratepayers. The clearance of the deferral accounts is, and should be, tied directly to the disposition of the St. Clair Line, not to a reclassification within Union Gas.

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers & Exporters ("CME")

Ref.: Board's Issues List

What are the regulatory and financial statement accounting consequences for Union's OEB-regulated utility and Union of a finding that, for regulatory purposes in Ontario, the St. Clair Line became a non-utility asset effective March 1, 2010? Are we correct that if such a finding is made, then the owning and operating costs associated with the St. Clair Line will, effective March 1, 2010, be allocated to Union's unregulated storage business?

Response

Please see responses to Exhibit E1.7 and E1.9. The classification of an asset or cost as non-utility does not mean that it is allocated to Union's unregulated storage operations; it only means that it is not allocated to Union's regulated business.