



**uniongas**

A Spectra Energy Company

January 15, 2008

Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

**Re: Multi-Year Incentive Rate Regulation for Natural Gas Utilities  
EB-2007-0606**

Dear Ms. Walli:

Enclosed, please find responses to Pollution Probe's December 21, 2007 Interrogatories pertaining to Union's application for an order approving a multi-year incentive rate mechanism to determine rates for Union's regulated gas distribution, transmission and storage services effective January 1, 2008.

Yours truly,

[original signed by]

Connie Burns, CMA, PMP  
Manager, Regulatory Initiatives

Enclosure

cc: EB-2007-0606 Intervenors of Record  
Michael Penny, Torys

UNION GAS LIMITED

Answer to Supplemental Interrogatory from  
Pollution Probe

*Reference: Union Exhibit B, Tab 1, p. 37-39*

***Issue Number: 5***

***Issue: Y Factors (re: System Expansion)***

*Please state Union's forecast of new customer additions for:*

*a) 2007; and*

*b) 2008.*

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**Response:**

Union's Board approved 2007 forecast of customer additions is 24,409. Based on preliminary year-end results, the actual customer additions in 2007 were 24,335. The forecast customer additions in 2008 are approximately 22,000.

Question: December 21, 2007

Answer: January 15, 2008

Docket: EB-2007-0606

UNION GAS LIMITEDAnswer to Supplemental Interrogatory from  
Pollution Probe

*Reference: Union Exhibit B, Tab 1, p. 37-39*

**Issue Number: 5****Issue: Y Factors (re: System Expansion)**

*Please provide a break-out of the revenue deficiencies associated with 2006's new customer additions for both:*

- a) 2006; and*
- b) 2007.*

*In particular, please provide a break-out of the revenue deficiencies according to the following categories:*

- a) incremental revenues;*
- b) incremental operating costs;*
- c) incremental required return on capital; and*
- d) marginal corporate income tax rate.*

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**Response:**

	<u>Union South</u>		<u>Union North</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Net Revenue	3,331,350	6,662,701	1,227,635	2,455,269
Total Operating Expenses	2,387,878	3,038,930	697,893	846,252
Utility Income	265,729	(130,385)	71,589	(56,243)
Utility Return Required	2,988,101	2,940,711	969,239	954,939
Tax on Equity Return	673,223	662,546	218,371	215,149
	<u>6,314,931</u>	<u>6,511,803</u>	<u>1,957,092</u>	<u>1,960,096</u>
Revenue Sufficiency/(Deficiency)	<u>(2,983,580)</u>	<u>150,898</u>	<u>(729,457)</u>	<u>495,173</u>

Key Assumptions:

2006 Customers assumed to be added mid year

Utility Return = 8.05%

Required Return on Common Equity = 9.62%

Income Tax Rate = 35%

Parameters based on RP-2003-0063

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***Issue Number: 5***

***Issue: Y Factors (re: System Expansion)***

*Assuming Board approval of the EB-2007-0606 Settlement Agreement, please provide a break-out of the forecasted revenue deficiencies associated with your forecasted 2008 new customer additions for:*

- a) 2008;*
- b) 2009;*
- c) 2010;*
- d) 2011; and*
- e) 2012.*

*In particular, please provide a break-out of the revenue deficiencies according to the following categories:*

- a) incremental revenues;*
- b) incremental operating costs;*
- c) incremental required return on capital; and*
- d) marginal corporate income tax rate.*

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**Response:**

Union is not able to provide the requested analysis in the time available.

As it did during its trial PBR term, Union will continue to ensure that the system expansion guidelines in E.B.O. 188 are met during the term of the incentive regulation plan.

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***Issue Number: 5***

***Issue: Y Factors (re: System Expansion)***

*Please state the forecasted aggregate Profitability Indices for each of Union's portfolios of yearly new customer additions (i.e. by year of new customer addition) for the years of 2002 to 2008 inclusive.*

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**Response:**

The Rolling Portfolio PI for the New Business Portfolio for each of 2002 through 2007 is shown in the table below:

<b>Year</b>	<b>Northern &amp; Eastern Operations Area</b>	<b>Southern Operations Area</b>	<b>Total</b>
2002	1.38	1.24	1.29
2003	1.87	1.41	1.46
2004	1.91	1.45	1.49
2005	1.82	1.50	1.54
2006	1.87	1.49	1.54
2007	1.73	1.60	1.61

The information for 2008 is not available. It will not be available before the end of the first quarter.

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