

BOARD STAFF INTERROGATORIES
UNION GAS EB-2011-0038
2010 EARNINGS SHARING, DISPOSITION OF DEFERRAL ACCOUNTS
AND OTHER MATTERS

Interrogatory #1

Account 179-08 Unabsorbed Demand Costs (UDC)

Ref: Exhibit A / Tab 1 / Pages 2 -3

- a. Please explain on what basis the 2010 UDC was originally forecast. Why was there such a large over-recovery for the Northern and Eastern Operations Areas? Has the 2011 UDC forecast been adjusted to reflect the 2010 over-recovery?
- b. Please explain the reasons for the differences between the volumes included in Union's 2010 approved rates and Union's actual UDC volume in Northern and Eastern Operations area (4.4 PJs vs. 13.207 PJs) and Southern Operations area (0.2 PJs vs. 1.391 PJs).

Interrogatory #2

Account 170-70 Short-Term Storage and Other Balancing Services

Ref: Exhibit A / Tab 1 / Page 5

Please provide a summary table with a break down of revenue, allocated costs, total margin, and the earnings sharing amount to customers for:

- C1 off peak storage
- Gas Loans
- Enbridge LBA
- Supplemental Balancing
- C1 ST firm peak
- C1 firm ST deliverability

Interrogatory #3

Account 179-72 Long Term Storage Services

Ref: Exhibit A / Tab 1 / Pages 5 -6

Please provide a summary table with a break down of revenue, allocated costs, total margin, and the earnings sharing amount to customers for:

- High deliverability storage
- T1 Delivery and upstream balancing
- Downstream balancing
- Dehydration Service
- Storage Compression

- C1 LT Storage
- LT Peak Storage

Interrogatory #4

Account 179-72 Long Term Storage Services

Ref: Exhibit A / Tab 1 / Page 6

In its application EB-2011-0038, Union stated that “the credit balance in the Long-term Peak Storage deferral account of \$8.652 million is 25% of the variance between the forecast of \$21.405 million and the actual net revenues of \$56.013 million.”

Please provide a detailed explanation as to why the actual Long-term storage services net revenues are significantly above the Board approved levels.

Interrogatory #5

Account No. 179-26 Deferred Customer Rebates/Charges

Ref: Exhibit A / Tab 1 / Page 6

In its application EB-2011-0038, Union stated that “The Deferred Customer Rebates/Charges account has no balance. The account captures unclaimed cheques related to the amounts refunded to customers that arose from the disposition of deferral balances as approved by the Board.”¹

Please confirm that Union has not held unclaimed cheques related to the amounts refunded to customers that arose from the disposition of deferral balances as approved by the Board as of December 31, 2010. Otherwise, please provide the account balance.

Interrogatory #6

Account 179-75 Lost Revenue Adjustment Mechanism (“LRAM”) Deferral Account

Ref: Exhibit A / Tab 1 / Page 7

- a. The evidence indicates that in accordance with previous Board-approved practice, Union is proposing to clear the recorded LRAM balance related to unaudited 2010 DSM activities. Please indicate when the audited balances will be available and filed with the Board.
- b. Please explain the reasons for the volume variance of 30,284 (122,888 – 92,604) for 2010.

Interrogatory #7

Account 179-115 Shared Savings Mechanism Variance Account

Ref: Exhibit A / Tab 1 / Pages 10 – 11

¹ EB-2011-0038, Exhibit 1, Tab , Page 6

The evidence indicates that in accordance with previous Board-approved practice, Union is proposing to clear the recorded SSM balance related to unaudited 2010 DSM activities. Please indicate when the audited balances will be available and filed with the Board.

Interrogatory #8

Account 179-120 International Financial Reporting Standards Conversion

Ref: Exhibit A / Tab 1 / Pages 12 - 13

Please provide the following information with respect to the International Financial Reporting Standards Conversion Deferral Account.

- a. A detailed breakdown of Consulting costs for 2009 and 2010.
- b. A detailed breakdown of employee costs for 2010.

Interrogatory #9

Accounts 179-121 and 179-122 Cumulative Under- recovery St. Clair Transmission Line and Impact of Removing St. Clair Transmission Line from Rates

Ref: Exhibit A / Tab 1 / Page 13

Please provide an update on the status of the Dawn Gateway Pipeline project and the sale of the St. Clair Line.

Interrogatory #10

Taxable Capital Base Changes

Ref: Exhibit A / Tab 1 / Pages 19-21

Does Union expect there to be any cumulative tax savings going forward? Please explain.

Interrogatory #11

Ref: Exhibit A / Tab 1 / Pages 19-21

EB-2010-0148 – Rate Order – Working Papers – Schedule 15

Preamble: Note 10 in Schedule 15 of the Working Papers appended to the Rate Order in EB-2010-0148 states that a \$172,000 credit is the 2010-related adjustment to be disposed of in the 2010 ESM and Deferral Account Disposition proceeding. However, Union has noted, on Page 21 of its current Application, that a \$409,000 debit is the 2010-related adjustment to be disposed of in the 2010 ESM and Deferral Account Disposition proceeding.

Please reconcile these two adjustment amounts and confirm which adjustment amount is correct.

Interrogatory #12

2010 Earnings Sharing and Utility Financial Reporting

Ref: Exhibit A / Tab 2

- a. Please provide the December 31, 2010 audited consolidated financial statements of Union Gas Limited.
- b. Please provide the financial statements of each of the corporate entities that are consolidated into the Union Gas Limited December 31, 2010 Consolidated Financial Statements requested above. Please provide the 2010 unconsolidated financial statements either audited or unaudited of the company that owns the distribution business that underpins the Ontario regulated utility disclosures for which the earnings sharing calculation applies.
- c. Given Union's 2010 Audited Financial Statements were issued on March 16, 2011 and published on SEDAR, please reconcile the 2010 actual revenues, expenses and income figures in the EB-2011-0038 schedules to the 2010 Audited Financial Statements.
- d. Please provide a reconciliation of the Statement of Utility Income for the year ended December 31 2010 that is used in the Earnings Sharing calculations to the 2010 audited consolidated income statement. Please explain any significant differences.
- e. Please provide all the background information and calculations used to determine the benchmark ROE as well as the current ROE. Please include all work sheets.

Interrogatory #13

Ref: Exhibit A / Tab 2 / Appendix B/ Schedule 1

- a. Please recalculate the earning sharing using the numbers from 2010 audited consolidated income statement and explain the difference between the recalculated earning sharing and \$3.433 million currently calculated.
- b. Please provide Union's course of actions if the difference noted in a) is material.

Interrogatory #14

Ref: Exhibit A / Tab 2 / App. A /Sch. 4

Please provide an explanation for the significant increase in the Unfunded Short Term Debt from \$37.811 million in 2009 to \$97.441 million in 2010.

Interrogatory #15

Ref. Exhibit A/ Tab 2/ App A/ Sch 13

Please provide an explanation for the increases in salaries & wages from \$175.066 million in 2009 to \$183.249 million in 2010. What is the driver for this increase? What positions were added?

Interrogatory #16

Ref. Exhibit A/ Tab 2/ App A/ Sch 13

Please provide an explanation of the fluctuation of the in outbound and inbound affiliate services. Please include a breakdown of both the outbound and the inbound affiliate services expenses.

Interrogatory #17

Allocation of Costs between Union's Regulated and Unregulated Storage Operations

Ref: Exhibit A / Tab 4

For how long does Union propose to continue with its current cost allocation methodology? When does Union propose to conduct a new cost allocation study?

Interrogatory #18

Ref: Exhibit A / Tab 4

Please answer the following questions with respect to new storage development:

- a. How many new storage projects have been developed or utilized by Union subsequent to the NGEIR Decision? Please provide a detailed response including the names of the storage projects, storage capacity and costs of development and utilization. Are all of these costs related to the development of new storage?
- b. How much capacity has been added as a result of these new storage projects?
- c. Have all the costs for the development of unregulated projects been assigned on a fully allocated basis?
- d. Please provide the most recent total storage capacity for all of Union's storage operations. Does Union have plans to increase the deliverability of any existing storage pools. Please explain.
- e. As new storage capacity is added, the proportion of unregulated storage will increase. How often does Union intend to update the allocation of costs between Union's regulated and unregulated storage operations?
- f. With respect to various arrangements that Union has with parties such as Tipperary Gas Corp. (EB-2007-0837) and Tribute Resources etc., please explain how these arrangements have been factored into Union's unregulated storage operations.

Interrogatory #19

Cost of Gas Deferral Adjustment

Ref: Exhibit A / Tab 2 / Page 4

In the EB-2011-0038 application, Union indicated that as a result of the 2009 correction (related to the prior adjustment of \$3.468 million in North TCPL Tolls and Fuel deferral account 179-100 resulting from the cancellation of 3rd party transportation contract), Union's 2010 earning subject to sharing included the \$3.5 million from 2009, increasing the earning sharing payable to rate payers by \$1.75 million.

Please explain why the \$1.75 million was not included in the Adjustment column (Column C of Appendix B of Exhibit A) of earning sharing calculation since it was related to the prior period adjustment.

Interrogatory #20

Accounting Adjustment

Ref: Exhibit A / Tab 2 / Page 6

Union indicated that “an adjustment of \$0.912 million is a result of the difference between the 2009 deferral disposition application amount requested by Union and the Board-approved amounts for items to be excluded from utility earnings”.

- a) Please explain in detail the nature of the accounting adjustment and provide relevant evidence including applicable journal entries and adjustment steps to support the \$0.912 million accounting adjustment.
- b) How will Union ensure to minimize making accounting adjustments in the deferral and variance accounts going forward? Please explain in detail.
- c) Has Union established any policy/procedure related to the recording of accounting adjustments in the deferral and variance accounts? If so, please provide a copy of the policy/procedure document. If not, please explain why not.
- d) How far back Union is allowed to record the accounting adjustments in the deferral and variance accounts as per its own policy/procedure?
- e) If Union has established a policy/procedure regarding the accounting adjustment, does the policy require the disclosure of the adjustments to the Board? If not, please explain why not.
- f) What is Union’s internal approval process for recording and reporting of the accounting adjustments?

Interrogatory #21

Preamble:

In its EB-2010-0359 QRAM application for rates effective January 1, 2011, Union proposed three prior period adjustments for the commodity related deferral and variance accounts as set out below:

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

In its Decision EB-2010-0359, the Board stated that, “These adjustments were identified by Union through its reconciliation exercise of its QRAM filing and its general ledger that was performed in 2010. These adjustments were related to an accounting error resulting from a change in the way service is delivered as well as an input error

regarding delivered service volumes in the southern region.”² These adjustments were disposed on an interim basis but the intervenors expressed the interests of further scrutinizing the issue in Union’s 2010 deferral account disposition proceeding. The Board further stated in the EB-2010-0359 Decision that “Parties are free to raise the issue of the deferral account adjustments as part of the 2010 deferral account disposition proceeding.”³ Board staff is interested in further scrutinizing this matter.

SPGVA 179-106, NPGVA 179-105, North TCPL Tolls and Fuel deferral account 179-100

Ref: EB-2010-0359 QRAM application and evidence section 3.2 Deferral Account Adjustments

As indicated in Union’s pre-filed evidence for its EB-2010-0359 QRAM application, the three prior period adjustments were related to the errors made back to 2008.

In the EB-2008-0106 Decision, the Board stated that “the Quarterly Rate Adjustment Mechanism (“QRAM”) should be a transparent benchmark that reflects market prices and should reflect an appropriate trade-off between market prices and price stability”⁴.

Given that the prior period adjustment does not contribute to the transparency of the market price, or to the price stability, please explain in detail:

- a. How will Union ensure that it minimizes making prior period adjustments going forward? Please explain in detail.
- b. Has Union established any policy or procedures related to the recording of prior period adjustments in the PGVA related accounts? If so, please provide a copy of the policy and procedures document. If not, please explain why not.
- c. How far back is Union allowed to record prior period adjustments in the PGVA related accounts as per its own policies and procedures?
- d. What is Union’s internal approval process for recording and reporting of these prior period adjustments in the PGVA related accounts?
- e. If Union has established a policy/procedure regarding prior period adjustments, does the policy require the disclosure of the adjustments to the Board? If not, please explain why not.

Interrogatory #22

SPGVA 179-106, NPGVA 179-105, North TCPL Tolls and Fuel deferral account 179-100

Ref: EB-2010-0359 Union’s Reply Submission on December 15, 2010

² Union QRAM Decision EB-2010-0359, Page 2

³ Union QRAM Decision EB-2010-0359, Page 3

⁴ Decision EB-2008-0106, Page 1

Union indicated in its reply submission for EB-2010-0359 that “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).”⁵

- a. Please explain what was the trigger of this awareness?
- b. Please explain when Union became aware of the “not-alignment”.
- c. Please explain when Union undertook the reconciliation.

Interrogatory #23

SPGVA 179-106, NPGVA 179-105, North TCPL Tolls and Fuel deferral account 179-100

Ref: EB-2010-0359 Union’s Reply Submission on December 15, 2010

Union indicated in its reply submission for EB-2010-0359 that “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

- a. Please explain in detail “Union’s internal financial controls and the independent financial audit process” as mentioned above and clarify how they would minimize the accounting errors going forward.
- b. Is the practice of the monthly reconciliation mentioned above documented as a part of Union’s policy and procedures? If so, please provide a copy of the documented policy/procedure for the monthly reconciliation. If not, please explain why not?
- c. Has Union started monthly reconciliation as stated above? If so, please provide the start date of the reconciliation. If not, please explain why not. Please also provide the expected start date of this practice.
- d. Please provide a copy of the monthly reconciliation for March 2011 of 179-100, 179-105, 179-106 & 179-107.
- e. Please reconcile the QRAM schedules in EB-2010-0359 to Union’s financial records for the following accounts as of December 31, 2010:
 - i) SPGVA 179-106
 - ii) NPGVA 179-105
 - iii) North TCPL Tolls and Fuel deferral account 179-100
 - iv) Spot Gas Variance Account 179-107
- f. Please state if the reconciliation would provide sufficient confidence to the Board in approving the disposition of the commodity related deferral and variance accounts.
- g. Does Union intend to file the monthly reconciliations as part of QRAM applications moving forward? If not, why not?

⁵ Union Reply submission for EB-2010-0359, December 15, 2011, Page 2

⁶ Union Reply Submission for EB-2010-0359, December 15, 2011, Page 3

Interrogatory #24

South PGVA (179-106) – Debit adjustment of \$8.377 Million

Ref: EB-2010-0359 Union application and evidence section 3.2 Deferral Account Adjustments and Union's reply submission dated December 15, 2010

Union indicated in EB-2010-0359 that the \$8.377 million debit adjustment recorded in SPGVA was due to an inputting error of the delivered service volume of 2,497,224 Gj instead of the correct service volume of 1,357,830 Gj entered into the Gas Supply deferral account model for the month of April 2010. As a result, the volume was overstated and the average unit cost of gas was understated. While the reference price was being constant, the deferral credits were overstated by \$8.377 million.

- a. Please explain in detail how the input error in the Gas Supply deferral account model came about. Please provide relevant evidence/documents to support the explanation.
- b. Please explain what controls Union has established in the Gas Supply deferral account model to ensure the accuracy of the inputs and outputs of the model?
- c. Please provide a detailed explanation and calculation of how the \$8.377 million debit adjustment was arrived at.
- d. Please explain, in detail, the movement in the account which reconciles the \$8.377 million adjustment. Please also provide the relevant journal entries from Union's financial records including the original entry recorded and the adjusting entry made by Union to correct the September 2010 error. Please explain the rationale for each of the journal entries showing all the steps for the purpose of the reconciliation to the \$8.377 million adjustment.

Interrogatory #25

North PGVA (179-105) – Credit adjustment of \$4.919 million Spot Purchase Deferral Account (179-107)

Ref: EB-2010-0359 Union application and evidence section 3.2 Deferral Account Adjustments and Union's reply submission dated December 15, 2010

Union indicated in EB-2010-0359 that "the adjustment to the NPGVA corrects for errors made when transferring spot gas volumes and costs from the NPGVA to the Spot Gas purchase deferral account (Account No. 179-107) during 2008 and 2009."⁷ "Because Union used the Alberta Boarder 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."⁸ Union stated in its application for EB-2010-0359 that "this resulted in correct entry in the Spot Gas Purchase deferral account but

⁷ Union application and evidence for EB-2010-0359, Tab 1, Page 6 of 9

⁸ Union Reply submission for EB-2010-0359, Page 3

overstated the costs in the NPGVA because the Alberta Border Reference price lower than the Ontario Landed Reference Price.”⁹

- a. Please provide detailed information related to the spot purchases made by Union in 2008 and 2009 that were impacted by this error. Please also specify the location of these spot purchases (e.g. Empress or Dawn).
- b. As indicated by Union in EB-2010-0359, Spot purchases made at Empress use the Alberta Reference Price and Spot purchases made at Dawn use the Ontario Landed Reference price.

Please explain how the transfer of spot purchases using the Ontario Landed reference price would result in correct entry in the Spot Gas Purchase deferral account since Union indicated in its reply submission that “**some of the purchases** had been made at Dawn”¹⁰ [Emphasis added]

- c. Please provide the calculation of the overstatement which resulted in the NPGVA balance of \$4.919 million.
- d. Please explain in detail the movement in NPGVA which reconciles to \$4.919 million adjustment and provide relevant journal entries from Union’s financial records including the original entry recorded in NPGVA, subsequent transfer entry recorded in NPGVA and the adjusting entry made by Union to correct the error in September 2010. Please explain the rationale for each journal entries showing all steps for the purpose of reconciliation to the \$4.919 million adjustment.

Interrogatory #26

North TCPL Tolls and Fuel deferral account 179-100 – Debit adjustment of \$3.468 million

Ref: EB-2010-0359 Union application and evidence section 3.2 Deferral Account Adjustments

Union stated in its application EB-2010-0359 that, “Union replaced that 3rd party Dawn to Parkway transportation contract with existing Union Dawn to Parkway Capacity in November, 2008. When the 3rd party contract was replaced, the cost reduction associated with this contract was incorrectly reflected in the deferral account. However, the cost has not changed, only the source of the costs had changed. As a result, Union inadvertently refunded North sales service and bundled-t customers the costs associated with Dawn to Parkway transportation service. This adjustment reverses the error.”¹¹

As indicated in Union’s response to the Federation of Rental-Housing providers of Ontario in EB-2010-0359, Union stated that the unit price of 3rd party transportation contract was \$2.334 Gj/day/month, which was the same as the unit cost embedded in

⁹ Union application and evidence for EB-2010-0359, Tab 1, Page 6 of 9

¹⁰ Union Reply submission for EB-2010-0359, Page 3

¹¹ Union application and evidence for EB-2010-0359, Tab 1, Page 7 of 9

rates for the Union owned Dawn to Parkway capacity. In addition, the 3rd party was not an affiliate of Union.

- a. Please explain further why the unit price charged by the 3rd party for the transportation contract was the same as the unit cost for Union own capacity.
- b. Please provide the necessary supporting documentation (e.g. 3rd party contract and the unit cost calculation for Union owned capacity) to show that the cost has not changed as claimed by Union above.
- c. Please provide the detailed calculation of this adjustment of \$3.468 million.
- d. Please explain in detail the movement in the account which reconciles to \$3.468 million adjustment and provide relevant journal entries from Union's financial records including the original entry recorded, subsequent entry recorded to refund to the customers and the adjusting entry made by Union to correct the error in September 2010. Please explain the rationale for each journal entries showing all detail steps for the purpose of the reconciliation to the \$3.468 million adjustment.