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By electronic filing

May 25, 2011

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

Dear Ms Walli,

Union Gas Limited ("Union")
2010 Earnings Sharing, Disposition of Deferral Accounts and Other Matters
Board File No.: EB-2011-0038
Our File No.: 339583-000104

Please find attached the Interrogatories of Canadian Manufacturers & Exporters ("CME") for Union.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Peter Thompson', followed by a horizontal line extending to the right.

Peter C.P. Thompson, Q.C.

PCT\slc
enclosure

c. Chris Ripley (Union)
Crawford Smith (Torys)
Paul Clipsham

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IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders amending or varying the rate or rates charged to customers as of October 1, 2011.

**INTERROGATORIES OF
CANADIAN MANUFACTURERS & EXPORTERS ("CME")
TO UNION GAS LIMITED ("UNION")**

Unabsorbed Demand Cost Account No. 179-108

Reference: Exhibit A, Tab 1, pages 2 to 4

1. Please provide the following information with respect to the calculation of the Unabsorbed Demand Cost ("UDC") Variance Account credit balance of \$4.615M:
 - (a) Is the UDC amount recovered in rates the product of a particular volume of demand per day and a cost per unit of demand per day? If so, then please provide the cost per unit of demand per day associated with the UDC volume of 4.4 PJs in the Northern and Eastern Operations area and 0.2 PJs in the South Operations area that produces costs collected in rates of \$6.853M and \$0.128M respectively for a total of \$6.981M shown in Table 1 of Exhibit A, Tab 1 at page 3.
 - (b) Please explain how 13.207 PJs of actual UDC in the Northern and Eastern Operations area and 1.391 PJs in the Southern Operations area produces UDC costs incurred of \$2.160M and \$0.227M respectively for each operations area, for a total of \$2.387M when the lower volumes of demand being collected in rates produce substantially higher cost recovery amounts in each operations area.

Short-Term Storage and Other Balancing Services – Account No. 179-70

Reference: Exhibit A, Tab 1, page 5
Exhibit A, Tab 1, Schedule 1, line 2
Exhibit A, Tab 1, Schedule 6, page 1, column A, page 2, line 14
Exhibit A, Tab 4, Attachment A, page 2-4 and Table 1, and page 3-21

2. With respect to the foregoing evidence, please provide the following additional information:
 - (a) Please broaden Table 1 at page 2-4 of Exhibit A, Tab 4, Attachment A, to include actual storage levels for 2010 and show how the Unaccounted for Gas ("UFG") allocation factor for short-term storage of 31.9% shown in Exhibit A, Tab 1,

Schedule 6, page 2, line 3 is derived from the ratio of actual unregulated short-term volumes to total actual unregulated volumes.

- (b) Please provide the 2010 data that was used to calculate the short-term, long-term and total storage activity used to derive the short-term allocation factor of 33.1% shown in Exhibit A, Tab 1, Schedule 6, page 2, line 4.
- (c) Please have Black and Veatch ("B&V") explain the statement at page 3-21 of their report pertaining to the process they followed to confirm that 7.9 PJs of storage services was used to support only short-term sales as indicated in Exhibit A, Tab 1, Schedule 6, page 2, line 14.
- (d) Please explain why depreciation, taxes and regulated return on equity related to the 7.9 PJs of excess in-franchise storage capacity is classified as O&M expenses in the presentation at Exhibit A, Tab 1, Schedule 6, page 1, line 3.

Utility Results and Earnings Sharing

Reference: Exhibit A, Tab 2, pages 1 to 9
Exhibit A, Tab 2, Appendix A, Schedule 3
Exhibit A, Tab 2, Appendix B, Schedule 1

3. With respect to this evidence, please provide the following information:
- (a) For the "Corporate" presentation at Exhibit A, Tab 2, Appendix A, Schedule 3, column (i) and in column (a) of Exhibit A, Tab 2, Appendix B, Schedule 1, please provide details of each of the loss transactions referenced in lines 11, 12 and 13 of those Schedules.
 - (b) For the "Non-utility Storage" information presented in column (j) of Exhibit A, Tab 2, Appendix A, Schedule 3 and column (b) of Exhibit A, Tab 2, Appendix B, Schedule 1, please provide a detailed explanation of the manner in which the total corporate O&M expenses of \$363.410M were determined to be allocable \$13.339M to "Non-utility Storage" and \$349.373M to 2010 "Utility" expenses.
 - (c) Please reconcile the "Non-utility Storage" "Earnings before Interest and Taxes" of \$98.747M, shown in each of these Exhibits, to the "Net Margin" amount of \$72.766M, for total Short and Long-term storage transactions in 2010 shown in Exhibit A, Tab 1, Schedule 6, page 1, column (c) at line 8.
 - (d) In the column entitled "Adjustments" in Exhibit A, Tab 2, Appendix A, Schedule 3, column (k) and in Exhibit A, Tab 2, Appendix B, Schedule 1, column (c), please provide the following information:
 - (i) Please confirm that the St. Clair Line activity amounts shown at lines 2 and 5 of \$326,000 and \$342,000 respectively are based on a premise that the sale of the St. Clair Line was completed on or about January 1, 2010;
 - (ii) Please explain how the revenue amount of \$326,000 and expense amount of \$342,000 were derived;

- (iii) Please provide details of the accounting adjustment of \$912,000 included at line 5, and in particular, the 2009 deferral account disposition application amount requested by Union and the Board approved amount for items to be excluded from utility earnings referenced at Exhibit A, Tab 2, page 6. Please explain why this difference should lead to a "charge" against 2010 earnings for the purposes of calculating earnings sharing for 2010.

Allocation and Disposition of Deferral Account Balances and Earnings Sharing Amounts

Reference: Exhibit A, Tab 3, pages 1 to 8

4. Have any changes been made to the methods previously applied by Union to allocate deferral account balances and earnings sharing amounts to rate classes? If so, then please provide details of such changes and the rationale for proposing that the method previously applied be changed.

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

**Reference: Application paragraph 12(e)
Exhibit A, Tab 4, pages 1 to 4, and Attachment A (Black and Veatch
March 2011 Final Report)**

5. In paragraph 12(e) of its Application, Union asks the Board to approve its regulated and unregulated cost allocation methodology. The B&V Report contains a "Review" of that methodology. In the context of the relief requested in the Application and the "Review" evidence of B&V, please provide the following information:
 - (a) Please confirm that this is the proceeding in which any concerns that parties may have with respect to the appropriateness of Union's allocation of storage assets and the owning and operating costs associated therewith between its utility and non-utility operations are to be raised and determined by the Board;
 - (b) Please confirm that this is the proceeding in which any concerns that parties may have with respect to the allocations of expenses between short-term and long-term storage services and the determination of any other factors pertaining to the portion of short-term storage premiums allocable to ratepayers are to be raised and determined by the Board.
6. In its "Review" Report, B&V identified deficiencies in Union's approach and recommended that a number of enhancements to Union's computational process and evidentiary presentation be made to remedy the lack of sufficient detail and transparency in Union's material. The stated purpose of these enhancements is to enable an outside party to understand, trace and verify the cost allocation methodologies underlying assumptions and computational processes and to readily understand and trace the deferral account development to verify assumptions, computational processes and to independently confirm the results. Schedule 2 of B&V's Report depicts Union's treatment of storage-related costs in its most recently completed cost allocation study. Using Union's current cost allocation study equivalent of Schedule 2 to the B&V Report, please have B&V note thereon the following:

- (a) All of the additional information that should be included in the Union equivalent of Schedule 2 to produce a presentation that includes a sufficient level of detail and explanation to enable an outside party to understand, trace and verify the cost allocation methodologies underlying assumptions, computational processes and to independently confirm the results.
 - (b) Please have B&V take the material Union has presented at Exhibit A, Tab 1 pertaining to its calculation of storage-related deferral account balances and include therein all of the additional information needed to make Union's deferral account filings sufficiently transparent to enable third parties to readily understand and trace the deferral account development and to verify underlying assumptions, computational processes and to independently confirm the results.
- 7. With respect to Union's allocation to non-utility storage of only \$13.339M of total corporate O&M expenses of \$363.417M, shown in Exhibit A, Tab 2, Appendix B, Schedule 1 at line 6, please have B&V provide an exhibit that transparently demonstrates how the 2010 allocation of O&M expenses to non-utility storage is derived, including the allocation factor(s) that are used to determine the amount of the non-utility storage allocation.
- 8. Please confirm that Union accepts and will implement each and every one of B&V's recommendations. If there are any B&V recommendations that Union declines to implement, then please identify them and provide Union's rationale for refusing to implement such recommendations.