

June 29, 2011

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

**Re: EB-2011-0038 - Union Gas Limited - 2010 Earnings Sharing & Disposition of
Deferral Account and Other Balances – Responses to Supplemental
Interrogatories**

Dear Ms. Walli:

Please find attached Union's responses to the EB-2011-0038 supplemental
interrogatories.

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

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc Crawford Smith (Torys)
EB-2011-0038 Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.5

Please provide additional information about Union's reporting of short-term storage revenue.

- a) Please explain why the revenue numbers for Supplemental Balancing Services and Gas Loans are negative for some months.
- b) If this table includes costs for services purchased from third parties, please identify the counter-party, the type of service, the start date and the end date for each third-party transaction.
- c) Please expand this table to show, by month and by service (a) the total revenue received by Union Gas and (b) payments made by Union Gas, and (c) the net revenue amount.

Response:

- a) Revenue from Supplemental Balancing Services was negative in December 2010 due to a true-up from a November estimate. Revenues from Gas Loans were negative for the months of May and December 2010 due to a Foreign Exchange true-up.
- b) The table provided at Exhibit B3.5 does not include costs related to services purchased from third parties.
- c) Please see response at b) above.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.15

Please provide additional information about the "return on purchased assets" cost for 3rd party storage services.

- a) Please explain why Union imputes a return on equity "cost" for 3rd party storage services, in addition to the payments made to the storage operator for the service.
- b) Please provide tables in the same format to show how the "return on purchased assets" was calculated for 3rd party storage services for the years 2008 and 2009.

Response:

- a) A return on third party storage services is included to recognize the long-term contracting risk assumed by the shareholder.
- b) The interrogatory does not seek to clarify previous interrogatory responses and therefore no response is being provided.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.16

Union states that the long-term storage margin for 2010 includes \$10.7 million of 3rd party storage costs as a reduction to revenue.

- a) Are the 3rd party storage costs used for calculating the long-term storage margin different from the amounts Union actually pays the 3rd party storage providers? If not, why not?
- b) Are 3rd party storage costs incremental to the "return on purchased assets" addressed in Exhibit B3.15? If they are, please explain why Union is charging both a return on purchased assets for 3rd storage services and additional costs for 3rd party storage services?
- c) Please restate the long-term storage revenue for 2010 (Attachment to Exhibit B1.3, col. (d), lines 1 through 7) to exclude any and all reductions, including reductions for 3rd party storage payments. Please provide the same information requested in (c) for the years 2008 and 2009.

Response:

- a) Yes.
- b) The return on purchased assets is incremental to the cost of purchasing storage from third parties. The return on purchased assets is included to recognize the risk assumed by the shareholder when entering into long-term storage purchase contracts.
- c) Please see the Attachment. Union has revised Exhibit B1.3 to exclude the reductions from the long-term storage revenues. The costs have been included at line 8. It is not appropriate to restate the revenues without including these costs because Union would not have earned the associated revenues without incurring the costs.

The costs for 2008 and 2009 are not relevant and therefore have not been provided.

2010 Actual Long-Term Storage Services Account 179-72

		2010	
Line			Restated to
No.	Particulars (\$000's)	Actual	Exclude Reductions
Revenue			
1	Long-Term Peak Storage	87,166	105,893
2	T1 Deliverability and upstream balancing	1,825	1,825
3	Downstream Balancing	742	742
4	Dehydration Service	1,257	1,257
5	Storage Compression	772	772
6	High Deliverability Storage	20,179	20,179
7	Total Revenue	111,941	130,668
Costs			
Demand			
8	Incremental Storage		(18,727)
9	O&M	(11,078)	(11,078)
10	Depreciation	(8,645)	(8,645)
11	Property & Capital Tax	(1,661)	(1,661)
12	Return	(16,262)	(16,262)
13	Interest	(11,349)	(11,349)
14	Income Taxes	(8,215)	(8,215)
15	Total Demand	(57,210)	(75,937)
Commodity			
16	O&M	-	-
17	UFG	(1,397)	(1,397)
18	Compressor Fuel ⁽¹⁾	(2,643)	(2,643)
19	Customer Supplied Fuel	5,322	5,322
20	Total Commodity	1,282	1,282
21	Total Costs (line 15 + line 20)	(55,928)	(74,655)
22	Net Revenue (line 7 + 21)	56,013	56,013

Notes:

(1) Includes compressor fuel and third party storage costs.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.17

Please provide additional information concerning the "Incremental Return" cost included in the long-term storage margin calculation.

- a) What is the source of the 14.40% Post Tax Hurdle Rate?
- b) Prior to the NGEIR Decision, did Union evaluate opportunities to expand or acquire gas storage assets based on the Board-approved return on equity, or did Union use a higher Post Tax Hurdle Rate for these capital investment decisions?
- c) Has the Board specifically approved the post-tax hurdle rate approach that Union is using to calculate the margin-sharing credits that would be used to adjust Board-approved rates? If so, please provide that evidence and decision.
- d) Union states that "the additional investment in unregulated storage projects would not have been approved". For each of 2007, 2008, 2009 and 2010, please provide the Profitability Index given the expected revenues and costs at the time using the Board-approved return and Union's deemed hurdle rate.

Response:

- a) The 14.4% rate represents the return on common equity required that, when combined with other sources of financing, will achieve an 8.5% internal rate of return (IRR). The 8.5% IRR is the minimum hurdle rate target established by the Company for approval of unregulated investment opportunities.
- b) Prior to the NGEIR Decision (EB-2005-0551) regulated investment, including storage opportunities were evaluated on the basis of approved returns and in accordance with Board-approved economic feasibility guidelines. As indicated on pages 48-51 of the NGEIR Decision the utilities, which included Union, indicated that new storage development would only take place in Ontario under a forbearance scenario and not under the previously existing regulatory regime. Page 51 of the NGEIR Decision indicates that "the Board is convinced by the evidence that storage investments are generally riskier than other regulated activities, such as distribution or transmission expansions".
- c) The methodology Union is using to calculate the storage margin to be shared is consistent with the approach used to set Board-approved rates. No specific approval of the approach was obtained.
- d) The interrogatory does not seek to clarify previous interrogatory responses and therefore no response is being provided.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.19

Please provide additional information about the relationship between Union's non-utility gas storage operation and its gas transmission operation.

- a) Please clarify the statement that "gas is transported between the Heritage storage pool and Dawn using storage assets". Does this mean that Union transmission assets are not used to inject gas into, or withdraw gas from, the Heritage storage pool?
- b) Please confirm that the Heritage storage pool is connected to the Sarnia Industrial Line at the St. Clair Station. If this is not the case, please describe where gas withdrawn from the Heritage storage pool enters the Union Gas transmission system.
- c) Please confirm that the Jacob storage pool will connect to the Panhandle Pipeline at the Dover Station. If this is not the case, please describe where gas withdrawn from the Jacob storage pool will enter the Union Gas transmission system.

Response:

- a) b) The Heritage storage pool connects to the 12" Sarnia Industrial Line within the St. Clair Line Station. Operationally, gas is withdrawn from the Heritage storage pool and transported to Dawn via the St. Clair Line (a non-utility asset) and the Bickford Line (a storage asset).
- c) The interrogatory does not seek to clarify previous interrogatory responses and therefore no response is being provided.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.22, Attachment 2

The relationship between the 10^3m^3 and PJ numbers does not appear to be consistent.

- a) What factor was used to convert the units between 10^3m^3 and PJ for this table?
 - b) Which numbers were used in the 2007 Cost Study (i.e. the 10^3m^3 numbers or the PJ numbers)?
 - c) If necessary, provide a corrected table.
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Response:

- a) Consistent with 2007 Board-approved rates, the heat value conversion factor used was $37.68 \text{ GJ}/10^3\text{m}^3$.
- b) The 2007 Cost Study used 10^3m^3 numbers for the STORAGEXCESS, NETFROMSTOR, and DEHYDEMAND allocators. Please see EB-2011-0038, Exhibit B3.22, Attachment 1.
- c) The table is correct as previously filed. Any minor conversion discrepancies are the result of rounding.

UNION GAS LIMITED

Answer to Interrogatory from
Federation of Rental-housing Providers of Ontario ("FRPO")

REF: Exhibit B3.32

Please replicate the Attachment showing the actual deliverability requirement for each period, instead of the space requirement. Please present the information in PJ/day, with three decimal places.

Response:

Union does not allocate the actual deliverability requirement by service type. Union manages storage deliverability on an integrated system basis.