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Ontario

ONTARIO ENERGY BOARD

FILE NO.: **EB-2011-0038**

VOLUME: **Technical Conference**

DATE: **July 26, 2011**

EB-2011-0038

THE ONTARIO ENERGY BOARD

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.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Tuesday, July 26th, 2011,
commencing at 9:30 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

KRISTI SEBALJ	Board Counsel
HEMA DESAI TINA LI	Board Staff
CRAWFORD SMITH MARK KITCHEN CHRIS RIPLEY	Union Gas Distribution Ltd.
JULIE GIRVAN	Consumers Council of Canada (CCC)
PETER THOMPSON	Canadian Manufacturers & Exporters (CME)
DAVID MacINTOSH	Energy Probe Research Foundation
DWAYNE QUINN	Federation of Rental-housing Providers of Ontario (FRPO)
JASON F. STACEY	Intervenor
RANDY AIKEN	London Property Management Association (LPMO)
VALERIE YOUNG	Industrial Gas Users Association (IGUA)
JAMES GRUENBAUER	The Corporation of the City of Kitchener
MICHAEL BUONAGURO	Vulnerable Energy Consumers Coalition (VECC)

ALSO PRESENT:

JOHN ROSENKRANZ	CME, FRPO, Kitchener

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NO EXHIBITS WERE FILED IN THIS PROCEEDING.

U N D E R T A K I N G S

Tuesday, July 26, 2011

--- On commencing at 9:30 a.m.

MS. SEBALJ: Good morning, everyone. My name is Kristi Sebalj. I am legal counsel for the Board on this matter. We are here for the Union Gas Limited 2010 deferral accounts matter. It is EB-2011-0038. And I am accompanied by Hema Desai, who is the case manager, and Tina Li.

Just by way of introduction, Union Gas Distribution Inc. filed an application on April 18th, 2011 under section 36 of the OEB Act for an order of the Board amending or varying the rate or rates charged to customers as of October 1, 2011 in connection with the sharing of 2010 earnings under the incentive rate mechanism approved by the Board, as well as final disposition of 2010 year end deferral account and other balances.

The application also requests approval for a cost allocation methodology which is to be used to allocated costs between Union's regulated and unregulated businesses.

A notice of application and Procedural Order No. 1 was issued on May 13th, 2011. Interrogatories were filed on May 25th. Responses to interrogatories were filed on June 8th. By letter dated June 14th, 2011, the Federation of Rental -- FRPO, CME and Kitchener, who were known in the Board's procedural orders as the intervenor group, indicated they intended to file intervenor evidence and that they required a further opportunity to ask questions in respect of Union's evidence.

The Board made provision for those requests, and supplementary IRs were filed on June 20th. Supplementary responses to those IRs were filed on June 29th.

The intervenor group's evidence was filed on July 6th, and interrogatories and interrogatory responses were filed on July 13th and 22nd, respectively.

Today we are here, of course, for a technical conference. I remind all parties that this technical conference is being transcribed, so if you could please speak clearly into your microphones so that the court recorder can hear you. I think everyone in the room is a veteran of the Board's processes, so I won't explain the mics to you, but please beware that you may turn your neighbour off if you turn your mic off.

There is some confidential material filed on the record of this proceeding. As such, if you are going to ask any questions that relates to that confidential information or if you anticipate that there will be reference to that confidential information in your answer, if you could please give us a heads up and we can decide how to handle that, either leave all those questions to the end or go in camera as we see fit, which of course reminds me that we are not actually on air.

MR. SMITH: Millions worldwide have been denied the opportunity of this technical conference.

MS. SEBALJ: My apologies for anyone who was joining us remotely from the Board. We are in the middle of introducing the technical conference for EB-2011-0038.

I also remind all parties that we do not have an adjudicative panel here today. If any disputes arise, we will make every attempt to resolve them here, and, if we cannot, we will seek guidance from the adjudicative panel for this matter.

If there are no preliminary matters, I will ask for appearances, please, and then turn it over to Union to get things started.

APPEARANCES

MR. SMITH: Crawford Smith, counsel for Union Gas, and with me are Mark Kitchen and Chris Ripley from Union Gas.

MR. GRUENBAUER: Jim Gruenbauer, City of Kitchener.

MR. QUINN: Dwayne Quinn, FRPO.

MR. THOMPSON: Peter Thompson for CME, but to my left is John Rosenkranz. He is the expert for CME, FRPO, and Kitchener.

MS. GIRVAN: Julie Girvan, Consumers Council of Canada.

MR. STACEY: Jason Stacey. I have a gas consulting business in my name.

MR. BUONAGURO: Michael Buonaguro, counsel for VECC.

MR. AIKEN: Randy Aiken, consultant for LPMA.

MS. YOUNG: Val Young for IGUA.

MR. MACINTOSH: David MacIntosh on behalf of Energy Probe.

MS. SEBALJ: Anyone else in the back of the room? No.

Okay, I will turn it over to you, Mr. Smith. Sorry, I was going to just give it to Crawford to introduce his panel -- I apologize, Crawford, I didn't deal with the issue of panels.

As I understand it, Mr. Feingold is delayed in his arrival and, as such, the panel number 1, which would have also involved Mr. Feingold, is now reduced, and so panel 1 will be addressing cost allocation and non-S&T deferral accounts, and the cost allocation will of course be from Union's perspective.

We are hoping that if Mr. Feingold is able to arrive by 11:30 or so, he can be a part of panel 2 and speak to the cost allocation study.

MR. SMITH: Yes, thank you. All signs are that he is -- will be here. So the first panel we have consists of Pat Elliott -- sorry, from my left Linda Vienneau, Pat Elliott and Greg Tetreault. And as indicated, they will be handling cost allocation and non-S&T related deferral accounts, and then our second panel will include Mr. Feingold and will also deal with S&T related deferral accounts.

I am not sure -- we didn't have a discussion beforehand, but I am happy to proceed as you think fit in terms of ordering of the questions. I understand that Board Staff intends to go last, which, from my perspective, is fine.

In terms of the confidential questions, I should probably advise that I understand there is only a handful of people who have signed an undertaking, so we should probably deal with those at the end. And there are only three or four confidential answers, in any event, and I think they were to Board Staff questions, so maybe we can just deal with that at the end.

MS. SEBALJ: I think that's right. So to the extent there are any questions, if we could deal with them at the end, and then determine whether any parties who are in the room -- any intervenors who are in the room that wish to sign a declaration and undertaking, then we can deal with it then.

I understand Mr. Thompson has volunteered to go first.

UNION GAS - PANEL 1

Greg Tetreault

Pat Elliott

Linda Vienneau

QUESTIONS BY MR. THOMPSON:

MR. THOMPSON: Yes. Thanks a lot, Kristi. Mr. Quinn circulated some written questions in preparation for this technical conference. Maybe we could start with some of those. Do you have written responses for these or are you just going to read them into the record?

MR. SMITH: We don't have written responses to these questions, so we will have to take the questions orally. We don't, as I understand it, have an answer at this stage to the final question, and we will have to provide that by way of undertaking.

We also are not prepared to answer the third and fourth questions, but do have answers, with the exception of number 8, to the other questions. So if you want to just go down the list, Mr. Thompson, and it's satisfactory to you, I will just put the first question to the panel and we will get the answer.

MR. THOMPSON: Sure. That's fine. You go ahead.

MR. SMITH: Panel, in the first question, it asks: In Exhibit B3.16, Union states -- reports that the third-party storage costs paid in 2010 were 10.7 million and the return on purchased assets as 6.6 million. These costs sum to 17.3 million. Please reconcile this 17.3 million with the incremental storage amount of 18.27 million shown on line 8 of Exhibit B3.53. Do we have an answer for that question?

MS. ELLIOTT: Yes, the 18.727 million includes the 10.7 million of third-party purchase costs. It also includes $8 million of resource optimization costs.

MR. SMITH: Question 2 asked to --

MR. THOMPSON: Sorry, just -- so where is the 6.6 million?

MS. ELLIOTT: It's included in the return number, so if you looked at schedule -- in the prefiled evidence, if you look at Exhibit A, tab 1, schedule 6, page 2 of 2, the return at line 12.

MR. THOMPSON: Sorry, Exhibit A, tab 1?

MS. ELLIOTT: Schedule 6.

MR. THOMPSON: Schedule 6? Right.

MS. ELLIOTT: The return at line 12 of 16,263,000 includes the 6.6 million of return on purchased assets.

MR. THOMPSON: Sorry, Exhibit A, tab 1, schedule 6?

MS. ELLIOTT: Page 2 of 2.

MR. THOMPSON: Page 2. All right. And that is a component of line 7 on the previous page?

MS. ELLIOTT: That is correct, yes.

MR. THOMPSON: All right. Thank you.

MR. QUINN: Is this the best way to handle it, if I may ask, Mr. Smith, in terms of us understanding the answers at each of the respective questions?

MR. SMITH: Yes, that's fine, Mr. Quinn.

MR. QUINN: What I heard, Ms. Elliott, you to say that there was $8.9 million cost of resource optimization. Can you clarify what is included in that?

MS. ELLIOTT: Those are generally costs for resource gas loans, gas loans that we enter into to create storage capacity.

MR. QUINN: So these loans, you are having to invest money to loan gas to create a cost; is that...

MS. ELLIOTT: That's correct. It's a cost we incur to create storage space.

MR. QUINN: But what does that look like? If you loan people gas, you are paying them to take your gas for a while so you create space?

MS. ELLIOTT: That's correct.

MR. QUINN: Are any of these loans to affiliates?

MS. ELLIOTT: I can't answer that; I don't know.

MR. QUINN: How is the cost determined?

MS. ELLIOTT: That's also a question that I can't answer.

MR. THOMPSON: Can you undertake to answer it?

MS. ELLIOTT: I think the next panel can answer that question.

MR. THOMPSON: Oh, I see. Well, tell us that, please.

MS. ELLIOTT: Sorry.

MR. THOMPSON: Thank you.

MR. QUINN: Okay. So we will come back to the next panel on that. But I want to be clear about it. Is that the totality of these resource optimization costs, or are there other costs besides gas loans?

MS. ELLIOTT: That would also be a question for the next panel.

MR. QUINN: Okay. Thank you.

MR. SMITH: Question No. 2 asked to confirm that the 10.7 million is the actual amount paid to third-party storage operators for storage services in 2010. Do we have a --

MS. ELLIOTT: That's correct, yes.

MR. SMITH: Question 3 asked to provide the return on purchase assets that were included in the storage deferral account margin calculations for 2008 and 2009, and given the nature of the proceeding, we won't be answering that question.

Question 4 asked to prepare the costs for 2008 and 2009 as requested, indicating that the issue of relevance can be addressed later, and in our view, for the same reason, given the nature of the proceeding, we won't be answering that question, as well.

Question 5 asks for – 5(a):

"Please provide the requested response of B3.54(d) relating to the post-tax hurdle rate."

And do we have an answer to that? Sorry, we are not answering that, as well.

5(b):

"Was the post-tax hurdle rate applied only to new investments? Very specifically, was this hurdle rate applied to existing assets deemed non-utility at the time of separation?"

MS. ELLIOTT: The post-tax hurdle rate was applied only to new incremental investments and not the existing assets at the time of the separation.

MR. SMITH: Question 6, I had earlier indicated that we need more time with question 6, so we will provide an answer to that in writing. So we are happy to undertake to do that, but we don't have that today.

Question 7:

"What was the total revenue Union received from market hub partners Canada LP and Huron Tipperary Storage Limited Partnership for M16 transportation service in 2010?"

MS. ELLIOTT: The revenue from the market hub partners contract was 185,000, and their revenue from the Huron Tipperary contract was 118,000.

MR. SMITH: And question 8:

"If Union had not developed any new non-utility storage assets after the end of the NGEIR decision or required any additional third-party

storage contracts, would the demand O&M cost used
for the long-term deferral calculation for 2010
be equal to the 2007 forecast amount? If not,
please explain."

And on the basis that the question is purely hypothetical, given that non-utility storage assets were, in fact, developed, and additional third-party storage contracts were, in fact, acquired, we are not prepared to answer that question either.

MS. SEBALJ: Sorry, Mr. Smith, just so that I am clear, I thought you said that you were going to give an undertaking to answer Question 6, but then I thought the panel answered it.

MR. SMITH: No, I -- sorry, the panel answered Question 7, what was the total revenue Union received.

We will give an undertaking for 6; 7, the panel answered, and 8, we are not prepared to answer.

MS. SEBALJ: All right. So if I could just mark that as JTC1.1, which is an undertaking to answer Question 6 from the additional questions for Union Gas in preparation for the technical conference, which was provided by Mr. Quinn, I believe. Thank you.

UNDERTAKING NO. JTC1.1: TO ANSWER QUESTION 6 FROM ADDITIONAL QUESTIONS FOR UNION GAS.

MR. QUINN: If I may, I am going to provide it this way: Question 8, to the extent that I can clarify, then hopefully there will not be a hypothetical aspect to this.

What I am hearing is of course that there was third-party storage contracts and there were new storage assets, so what demand O&M costs -- what other factors contributed to an increase in demand O&M costs, beyond those two aspects?

MS. ELLIOTT: One of the primary drivers of the increased cost was the change in accounting that was required after the NGEIR decision. Costs that under the utility operation were previously capitalized as indirect overhead costs are now expensed under the non-utility O&M costs. There would also be salary and benefit costs increases over that time that weren't related to new development.

MR. QUINN: So if it had stayed as utility assets, would these accounting changes be required?

MS. ELLIOTT: Under utility accounting, we have the approval to capitalize indirect overhead costs to rate base. That's not allowed under non-utility accounting.

MR. QUINN: Okay. That's very helpful. Thank you.

MR. THOMPSON: I guess it's back to me.

Was the date of the NGEIR decision November 2006? Have I got that straight?

MS. ELLIOTT: Yes.

MR. THOMPSON: And am I right that the settlement agreement with respect to the 2007 rates preceded the NGEIR decision?

Let me back up. Were the 2007 rates base rates?

MR. TETREAULT: Yes.

MR. THOMPSON: And can you recall whether the -- when, in relation to the settlement of those rates, the NGEIR decision was rendered? Was it before or after?

MR. TETREAULT: I can't recall myself, Peter. It's before my time in my current capacity.

MR. THOMPSON: That's fine. We will find that out. So what I would like to do is just touch on a few of these interrogatory responses and get some clarification of what's taken place here.

If you could start with CME 1, so this is Exhibit B2.1. In subparagraph (a), you are talking about an adjustment to correct miscalculations in the UDC deferral account; have I got that straight?

MR. TETREAULT: That's correct.

MR. THOMPSON: And it talks about the period April 1, 2007 to December 31, 2009. So can I take it that the error dated back to April 1, 2007?

MR. TETREAULT: Yes.

MR. THOMPSON: All right. And the approach that you took was to correct the error from the date it was first made?

MR. TETREAULT: That's correct.

MR. THOMPSON: So it was made in -- at this point in time, for -- am I right -- for fiscal 2007, fiscal 2008 and fiscal 2009? The 1.931 million is a cumulative correction for that time frame?

MR. TETREAULT: That's correct.

MR. THOMPSON: So that, then, takes me to your B3.53 and some of your responses to Mr. Quinn's written questions where you are refusing to provide numbers for 2008 and 2009 for what we say are incorrect calculations of margins.

I appreciate you saying you are not going to do it and we will have to get an order to compel you to do it. But my question is: Can the calculations be done? I assume they can.

MS. ELLIOTT: Yes, the calculations can be done.

MR. THOMPSON: And so if the Board orders it, we will have from you your calculations for 2008 and 2009 of correcting for the miscalculated -- what we say are miscalculations of the third-party storage costs, miscalculations of the return on incremental investment and the misallocation of the O&M cost, the fixed O&M cost to -- characterized as O&M costs to short-term storage.

All those corrections can be provided if you are ordered to provide them?

MR. SMITH: Well, Mr. Thompson, certainly if the Board orders us to answer the questions, the questions will be answered to the best of Union's ability. Obviously we don't accept your characterization of the questions and, similarly, don't agree with the relevance of the questions.

Not only is this proceeding intended to deal with 2010 deferral accounts, but you will of course recall that the settlement agreement agreed to by your client was specifically on the basis that it would deal with 2010 going forward and would not have any impact on prior years.

MR. THOMPSON: Right. Well, I understand your position, but it is a position that did not apply to the corrections that you made in response to -- well, which are described in B2.1.

MR. SMITH: If you are looking for intellectual purity on that point, we can make the number smaller.

MR. THOMPSON: Well, we will see what the Board says about purities and impurities later. As you know, we are always on the side of the angels.

MR. SMITH: No doubt.

MR. THOMPSON: So the sabres are drawn. Just to follow up on that a little bit, if you would go to Exhibit B3.15, this, as I understand it, displays how you calculate the return on purchased assets for third-party storage costs. Have I got that straight?

MS. ELLIOTT: That's correct, yes.

MR. THOMPSON: And that number is $6,630,000 in calendar 2010. Am I reading that right in B3.15?

MS. ELLIOTT: Yes.

MR. THOMPSON: And then it's derived from some asset names that are shown on the left-hand part of this interrogatory?

MS. ELLIOTT: Yes.

MR. THOMPSON: And are there contracts for each of these assets?

MS. ELLIOTT: Yes.

MR. THOMPSON: And so what is the MichCon gateway asset?

MS. ELLIOTT: These are questions you should probably also pose to the next panel.

MR. THOMPSON: Can anybody on this panel give me a high-level description of the MichCon gateway asset with the contract starting May 2010?

MS. ELLIOTT: My understanding is it's a storage contract with MichCon.

MR. THOMPSON: All right. Can that contract be produced or is that confidential?

MR. SMITH: Well, certainly the contract is confidential. Let me reflect on your question and I will let you know when panel 2 comes up.

MR. THOMPSON: All right. Well, I would accept production under the auspices of the confidentiality undertaking certainly at this stage.

MR. QUINN: Can I just ask a question, Peter, if I may, so I can understand which questions I may ask of this panel?

MR. THOMPSON: Sure.

MR. QUINN: Who else besides Mr. Feingold will be on the next panel?

MR. SMITH: It will be Carol Cameron, Mark Isherwood and Pat Elliott.

MR. QUINN: Thank you.

MR. THOMPSON: Just before I leave that, I think Staff asked you in one of their interrogatories about a status report on the Dawn Gateway Pipeline. Are there any updates to provide to the information you provided in response to that interrogatory?

MR. SMITH: I think the answer is no. If Mr.

Isherwood has any further information, we will let you know in the next panel.

MR. THOMPSON: All right, thank you. So back to the C-10 in-service amount. The total annual amount for in-service for each of these assets I believe is shown in the second-last column?

MS. ELLIOTT: That's correct, yes.

MR. THOMPSON: And so, for example, on the last asset, MichCon Gateway, the total annual amount is 1 -- is that $1,088,000?

MS. ELLIOTT: Yes.

MR. THOMPSON: And for the C-10 in-service amount, it's 725,000, and I presume that's because the contract start date is May 2010? It's only for part of the year?

MS. ELLIOTT: That's correct.

MR. THOMPSON: And so am I correct, we could derive the number equivalent to 6630 for calendar 2010 for prior years by just using the contract start dates in the second column and the total annual amount in the second-last column?

MS. ELLIOTT: Yes, you can.

MR. THOMPSON: So if one did that, that would give us the equivalent of 6.6 million for years 2008 and 2009?

MS. ELLIOTT: Yes.

MR. THOMPSON: Thanks.

Now, on Exhibit -- if you just, then, jump to Exhibit B3.18, this is dealing with the incremental rate of return for storage investments made subsequent to the Board's

NGEIR decision, and if you go to the second page of this exhibit, I think we see at line 2 the difference between the return –- sorry, at lines 1 and 2, the return used in each of the filings in '08 and '09 and 2010, compared to the return that would result by applying the Board-approved rate of return; am I right?

MS. ELLIOTT: Yes, that's what lines 1 and 2 represent.

MR. THOMPSON: Thank you.

MS. ELLIOTT: The difference here is this is total storage, so this is existing storage, incremental storage and purchased assets in the calculation of this number.

So it's not incremental to the 6.6 million.

MR. THOMPSON: Well, if we were correcting for the -- as we say, one should correct for the margin calculation in 2008, would -- is the comparable number –- well, the 2010 number is 10.968 million; is the comparable number for 2008 5.638 million?

MS. ELLIOTT: That's the Board-approved rate of return on existing storage, incremental storage additions and purchased storage.

MR. THOMPSON: All right. So can it be broken out between the three? Can this exhibit be broken out between the three components that you have just described? And if so, would you undertake to do that?

MR. SMITH: We won't undertake to do it. The question is: Can it be done?

MS. ELLIOTT: It can be done.

MR. THOMPSON: All right. Thank you.

MR. QUINN: If I may, to follow-up on that, can it be done for 2010?

MR. SMITH: I think the answer was it can be done for every year.

MS. ELLIOTT: It can be done for all of the years, including 2010.

MR. SMITH: But we are not prepared to do it.

MR. QUINN: You are not prepared to provide a break-out for us to understand the 2010 allocation of costs before margin-sharing?

MR. SMITH: We will do it for –- well, we will do it for 2010.

MR. QUINN: Thank you.

MR. THOMPSON: So that's an undertaking?

MR. SMITH: In respect of 2010, yes.

MR. THOMPSON: Correct.

MS. SEBALJ: So it's JTC1.2, which is to break out the attachment at B3.18 for the year 2010 into existing incremental storage additions and purchased storage?

Correct?

UNDERTAKING NO. JTC1.2: TO BREAK OUT ATTACHMENT AT B3.18 FOR 2010 INTO EXISTING INCREMENTAL STORAGE ADDITIONS AND PURCHASED STORAGE.

MR. SMITH: Mr. Thompson, obviously this is a point that will have to be debated at later time. But you have used the word "correct" a number of times.

Of course we obviously -- unlike in B2.1, where everyone agrees on the methodology, but there was, in fact, an error in the calculation of the number -- we don't accept that the methodology Union has used in any year, let alone 2010, 2009, 2008, is in any respect incorrect.

Obviously you don't agree with that, but it's important, I think, that for the purposes of the record, we disagree with your characterization of the dispute between us.

MR. THOMPSON: Yes, thank you. I understand your position.

Now, the other item that we identify in the prefiled evidence is the short-term storage margin calculation, where there is an allocation of -- in 2010, of $1.662 million to short-term that we say properly belongs with long-term, and I know you disagree with that.

But do we have in the record the equivalent numbers to that number for '08 and '09?

MR. SMITH: Well, you may want to -- let's just ask the panel that question. I don't -- I am not sure of the answer.

MS. ELLIOTT: If I can refer to the $2.261 million as the total charge or the total O&M cost for short-term storage, that number is consistent across all years. So '08, '09 and -- those costs are included in the short-term deferral for all three years.

Union is selling that space, that excess utility space, short-term. That's the difference between the 92 PJs and the 100 PJs that the Board required set aside in the NGEIR decision.

MR. THOMPSON: Okay. So if we are right on the 1.662, it's the same number for each of the three years?

MR. SMITH: The answer to your question is yes, except I don't think, based on the witness' answer, that the 1.6 is the correct number.

Maybe I can just have the panel explain that.

MS. ELLIOTT: You have calculated the 1.6 as the difference between the Board-approved short-term O&M pre-NGEIR and what I would say is the cross-charge for the short-term storage space that we calculated post-NGEIR.

The $2.261 million is consistent across all years. You can subtract the -- 569,000, I think, was the number, and get the same answer for all three years.

MR. THOMPSON: So was that different than what I said?

MS. ELLIOTT: It's our view that the 2,261,000 is the right number for short-term O&M costs.

MR. THOMPSON: All right. Well, we will let Mr. Rosenkranz help us with that.

Okay. Now, back to CME interrogatories. If you could look at B2.6, subparagraph (b), and this may not be your panel, but am I correct that I should read the answer in (b) to mean that Black & Veatch was not asked to review whether your calculations of margins was appropriate?

MR. SMITH: I'm sorry, which question are you on Mr. Thompson?

MR. THOMPSON: B2.6, page 2, subparagraph (b). They say they weren't required to review the storage deferral account data for 2010. I just want to nail down the scope of their mandate with respect to these margin calculations. Is that something that was in the ambit of their mandate or not within the ambit of their mandate?

MR. SMITH: We will ask Mr. Feingold. I think the answer is that given the timing of their retainer, they were not in a position to provide that, but we will let Mr. Feingold answer that.

MR. THOMPSON: Thank you. The last area I want to question, it's really related to the -- I am trying to understand how you folks calculate O&M costs for the purposes of the allocation to non-utility storage in each year. And it's -- I am trying to understand how you build up your non-utility demand O&M costs.

Can someone give me an explanation, 25 words or less, as to how you do it?

MS. ELLIOTT: I don't know about the 25 words or less, but let me try. So we have O&M costs for the storage operations that we look at, and those costs are essentially captured on an asset-by-asset basis. So the O&M costs for each of the corresponding assets is allocated consistent with the asset allocation.

So any new incremental assets post NGEIR are 100 percent non-utility, and any O&M costs for the assets existing at the time of the separation are allocated in proportion to the asset.

So if it's a storage pool, it's allocated consistent with the pool assets.

MR. THOMPSON: For the purposes of building up your allocation, do you start with the O&M costs, total O&M costs, as of the base year?

MS. ELLIOTT: If by base year you are referring to 2006 or 2007, no.

MR. THOMPSON: 2007, right.

MS. ELLIOTT: No. We look at O&M costs for the year in question. So 2010 costs will be allocated -- again, if the pool was existing at the time of the separation, the costs are allocated consistent with the assets. If the pool was new post NGEIR, then it's 100 percent unregulated.

MR. THOMPSON: And this approach gets carried forward to the long-term storage margin calculation; right?

MS. ELLIOTT: That's correct, yes.

MR. THOMPSON: So what you are doing is you are not confining the O&M calculation to the base year amount plus an O&M amount attributable to incremental assets only. You are doing it afresh each year?

MS. ELLIOTT: That's correct.

MR. THOMPSON: Is that compatible with IRM rates?

MS. ELLIOTT: We are dealing with actual operating expenses every year we file, so our utility earnings are based on actual utility operating costs and our storage earnings are based on actual storage operating costs.

MR. SMITH: And deferrals are cleared based on actuals.

MR. THOMPSON: I am just trying to understand what you are doing. I am not criticizing it yet.

MR. SMITH: All in good time, Mr. Thompson.

MR. THOMPSON: Yes, all in good time. You are taking -- I don't know if this is the way to put it, but it's an earnings-sharing type of approach to the margin calculation in each year?

MS. ELLIOTT: For the storage deferral, yes, it's calculated actual revenues, actual costs for the year, just the same as the utility earnings sharing calculation is done, yes.

MR. THOMPSON: Okay, that helps me understand that. I think that's all the questions I have. Thank you very much, panel.

MR. SMITH: Thank you.

MR. QUINN: If I may start with the last question Mr. Thompson was talking about, what I understood your answer to be is that what was attracted as costs into the long-term storage margin count are actual utility costs.

To the extent that your allocator has -- let me start with that. When you said the existing assets are allocated, is that on the basis of plant allocator you were speaking? Is that the allocator you were speaking of?

MS. ELLIOTT: Yes.

MR. QUINN: So that allocator stayed constant over the period since base rates were established?

MS. ELLIOTT: Yes. Once the base assets were separated in 2007, those pools are split 37 percent non-utility with the remainder going to the utility. That's the allocator for the O&M for those pools, as well, and there won't be a change to that allocator.

MR. QUINN: So, again, dealing with how you described it here, what costs would change between base rates and actual just for the demand portion? I understand the activity portion of O&M costs are tied to the amount of actual activity, but your non-utility demand O&M, what would increase that costs? If the allocator stays the same, what other costs -- besides incremental demand costs associated with new assets, what other costs may go into that calculation?

MS. ELLIOTT: The allocator may stay the same, but the base costs would increase. So salary and wages over the years will have increased. We are taking the same percentage of a higher cost that will result in an increase in the non-utility storage costs.

MR. QUINN: So would there be any transfers from utility to non-utility between base rates and the calculation of the non-utility demand O&M cost?

MR. SMITH: I am not sure I understand the question, Mr. Quinn.

MR. QUINN: I am framing it specifically as non-utility demand O&M. Would there be any shifts of costs from utility to non-utility that would occur between the establishment of base rates and this calculation for the purposes of defining how much margin is available?

MS. ELLIOTT: I don't think that's likely, given the base allocation -- the base costs are allocated in the same percentage as the total cost increase that the result --

the answer will increase, but there won't be a shift in -- all incremental activity related to the unregulated storage operation is assigned directly to the non-utility operation.

So I am not sure that I can see a situation where you would have a shift in costs between the utility and the non-utility for those base storage operations.

MR. QUINN: My colleague was assisting with terminology.

So fixed is fixed in terms of absolute dollars; is that what you are saying?

MS. ELLIOTT: Fixed is fixed in terms of percentage allocation. It's either allocated in percentage of the existing asset or it's directly assigned if it's new, but the dollar value will depend on what the base dollars the allocator is applied to.

MR. QUINN: Now, I am going to try to defer some of my questions to the next panel as I have tried to understand them, but I will ask the questions and if the next panel is the appropriate panel to ask, then I will come back to it.

I just want to turn up again the Board Staff Interrogatory B1.26.

MS. ELLIOTT: Okay.

MR. QUINN: In your response in the third paragraph, it states that the average unit cost in the deferral account calculation to calculate the credit was $3.49 per gJ per month.

Then there is the cost that -- what I understand is

2.33 is the demand cost that the Dawn-Trafalgar lines would represent; is that accurate?

MS. ELLIOTT: That's the unit rate calculated relative to the cost, as well as the demand charge on the Trafalgar system in the 2007 rate case.

MR. QUINN: So is there anything else besides demand in that unit rate?

MS. ELLIOTT: Not that I am aware of.

MR. QUINN: So I guess the question that I have is: Why was the contract purchased at a cost of $3.50 when your own costs were $2.33?

MS. ELLIOTT: That's not a question I can answer.

My understanding is the capacity on our system didn't exist at the time we were looking for this capacity, so it had to be purchased.

MR. QUINN: Who was it purchased from?

MS. ELLIOTT: I believe it was TransCanada.

MR. QUINN: And it was purchased through an open season, was it?

MS. ELLIOTT: I can't answer it.

MR. QUINN: Okay. Is that the next panel?

MS. ELLIOTT: Possibly.

MR. QUINN: And it was purchased –- well, okay. Short-term, I will ask the next panel.

Okay. I guess I will move on, then.

And this may be my fundamental misunderstanding with Union north, but why, again, is the -- sorry in the fourth paragraph, it says these costs are recovered from customers in the north storage rates. They are being recovered on a storage rate but not a transmission rate, even though this is a pipe.

Can you just help us with a fundamental understanding of why that is?

MR. TETREAULT: Well, for the north, Mr. Quinn, the Dawn-Trafalgar system is used to move gas to storage and out of storage to meet north requirements, so we treat that for the north as a storage cost, and therefore that storage cost is in storage rates for those customers.

MR. QUINN: Well, maybe I will get my education in the rebasing and you can help me with that, Mr. Tetreault.

I think I will move on, then, to FRPO's interrogatories, if you can turn up Interrogatory 3.14. Thank you.

The increment of net plan between 2008 and 2009 is quite significant, and yet your gas inventory actually decreased. Can you help us with the reasons why that decreased?

MS. ELLIOTT: Price fell.

MR. QUINN: So are the number -- did the number of units increase?

MS. ELLIOTT: No.

MR. QUINN: I guess that wasn't the answer I was expecting.

So you had an increment in storage capacity as part of that net plant addition, or the overall gross plant addition, for that matter, where you have gone up by 50 percent, but your inventory units did not increase?

MS. ELLIOTT: This is the unregulated rate base. We don't hold inventory for our ex-franchise, our market-based services. This will be an allocation of inventory from the 2007 cost study that likely reflects a small piece of deliverability inventory, but there has been no incremental inventory requirement on the unregulated side.

MR. QUINN: Said another way, then, cushion gas or minimum storage balances that third parties require, the non-utility business does not pay for any kind of minimum storage balance?

MS. ELLIOTT: Well, let's be clear. Cushion gas is part of gross plant, so to the extent that there were new pools that required cushion gas, that will be in line 1.

Any additional inventory requirements that the customers are required to hold as a result of their contracts are not part of the rate base for the non-utility operation.

MR. QUINN: So if you are dealing ex-franchise, you don't have any minimum volume requirements for space that is sold in the market?

MS. ELLIOTT: We don't hold inventory for those customers. They would hold it themselves if there is contractual requirements for inventory levels. It would be the customer's cost.

MR. QUINN: Okay. So then maybe just -- is there a minimum requirement for the ex-franchise storage contracts?

MS. ELLIOTT: I don't know. That would be a question for the next panel.

MR. QUINN: Just a follow-up, so -- I think this will be efficient if I can ask an additional question there.

Are those weighted average cost of gas numbers for inventory or year-end numbers?

MS. ELLIOTT: Rate base is an average of the monthly averages calculation, just like the utility calculation of rate base.

MR. QUINN: Thank you.

Mr. Thompson has canvassed 3.15 sufficiently; if we can turn the next one, to B3.16, I guess I somewhat need to understand or have you turn up 3.53 also. So I think our supplemental questions answered some of what we are trying to ask here, but I just want you to help me with that number again.

If I am understanding the number, which you call in 3.53 restated to exclude reductions, that is the actual total gross revenue that was received for the non-utility storage?

MS. ELLIOTT: That's correct, yes.

MR. QUINN: So the numbers that are shown here, 87, that was a net revenue number?

MS. ELLIOTT: That's correct.

MR. QUINN: And has that practice been consistent through the period since Board-approved rates?

MS. ELLIOTT: Yes.

MR. QUINN: Was that consistent with the 2007 cost study?

MS. ELLIOTT: I am not sure in the 2007 forecast whether we had costs for third-party purchased assets or resource gas loans. I suspect not. So the forecast in '07 would have been the gross revenue from Union-owned assets.

MR. QUINN: So you had no third-party storage contracts in 2007? I am thinking of Black Creek.

MS. ELLIOTT: Yes. We only had -- Black Creek was one example of third-party storage contract that existed prior to the NGEIR decision. I think the cost of that contract is in our utility cost of gas.

MR. QUINN: I think I understand the answer sufficiently. Thank you. I think, again, some of our supplemental questions have answered outstanding issues. If you can turn up 3.22?

Maybe the best way of asking this is, in 3.22, we are trying to understand deliverability, because it's not clear to us in some areas. Can we expect that the undertaking that Union has agreed to answer question 6 of our additional questions last week, will that be all four parts of -- (a), (b), (c) and (d)? Can we expect a response to those questions?

MR. SMITH: Just a moment, Mr. Quinn. I am just looking at your B3.32. We are just pausing over (c). I am going to have to talk to the next panel and find out. They would be the people providing the answer, in any event.

MR. QUINN: I think what I would do, in terms of making sure I go through my questions, I am going to go through the rest of the questions, which are only a few, and see if the next panel can answer them or if Mr. Thompson has canvassed them sufficiently for everyone's interest. Those are my questions for now. Thank you.

MR. SMITH: Thank you.

MR. THOMPSON: Can I just ask one more, folks? It relates to -- the easiest way to introduce this is if you look at Mr. Rosenkranz's responses to Staff interrogatories? And I am looking at Board Staff Interrogatory No. 1.

On the second page, he expresses the view as to the return the company is entitled to under the NGEIR decision. This is the return on the unregulated side of the business.

And the question I wanted to ask, and I forgot to ask, was this. In the 2010-0039 proceeding, which was the case dealing with 2009 deferral account balances, Union filed an attachment to an interrogatory response. It was Exhibit B3.41, and it was in response to a question about the rate of return on unregulated storage. And the calculation was 38.91 percent, if you would take that subject to check, and it assumed, as I recall it, 50 per sharing of long-term premiums.

What I wanted to ask was: Could Union provide the comparable calculation for 2010, as well as 2008; and then the second is: Will Union provide it?

MR. SMITH: Well, Mr. Thompson, you will recall, I think, that the answer that you have referred to was provided through inadvertence, and, indeed, it was Union's view then and now that the information is of no relevance, but given that it had been filed inadvertently, Union didn't seek to remove it from the record.

But I recall specifically advising that it was our view then that the information was not relevant, and so on the basis of that, we are not prepared to answer the questions you have just put to us.

MR. THOMPSON: Thank you very much.

MS. SEBALJ: Are there any other parties, other than Board Staff, that have questions? I think all of our questions -- and I will be corrected by my colleagues, but I think all of our questions relate to PGVA accounts. Is that properly for this panel or for the next panel? This panel?

MR. SMITH: This panel.

MS. SEBALJ: I don't think -- there is no one behind the beam that I can't see that is desperate to ask any questions? No.

MR. SMITH: Apparently not.

MS. SEBALJ: Thanks. I think we have a couple of attachments to distribute with reference to our questions.

QUESTIONS BY MS. LI:

MS. LI: First, I would like to provide some background information related to the question that I am going to ask. So in Union's QRAM rate application EB-2010-0359 for the rates effective January 1st, 2011, and Union proposed three prior-period adjustment for the PVGA.

So on adjustment was related to south purchase gas variance account of the amount 8.377 million, and the one adjustment was related to north purchase gas variance account of 4.919 million credit, and last one was related to the north TCPL toll and the fuel deferral account of 3.468 million debit.

So these adjustment were identified by Union through its reconciliation exercise of its QRAM filing schedules and its general ledger in 2010, and these adjustment were disposed on an interim basis in the decision EB-2010-0359. However, the decision said the parties are free to raise the issue of the deferral account adjustment as part of 2010 deferral account disposition proceeding, which refers to this proceeding, EB-2011-0038.

So as a result, we asked a number of interrogatory questions related to these adjustments, and then Union responded to our questions.

So I am going to ask a number of questions to clarify Union's response. So can we first go to Exhibit B1.23?

So in B1.23, we asked about the monthly reconciliation between GI and QRAM schedule for the attachment in attachment 2, if we look at Exhibit B1.23, attachment 2. And Union provided a reconciliation for the full PGVA-related defer variance account reconciliation as of December 31st, 2010. Yes, 2010.

So I am wondering if Union can walk us through for the first reconciliation NPGVA, account number 179105. So for the purpose of that I have just distributed the NPGVA schedule from EB-2010-0359, so that schedule will show as the cumulative balance as of December 31st, 2010.

Would you be able to answer that question or --

MS. ELLIOTT: You might have to repeat the question. I am not sure I heard a question in there.

MS. LI: Well, I would like you to walk through the first reconciliation for NPGVA in Exhibit 1.23, attachment 2.

MS. ELLIOTT: Okay.

MS. LI: The first reconciliation; would you be able to walk us through?

MS. ELLIOTT: So on attachment 2, the first section is reconciliation of account 179105. The first two lines are general ledger balances, so they won't appear on the handout that you just provided, but if you -- so the general ledger activity as at December 31, 2010, showing on the reconciliation was 109,137,713 and the cumulative balance on the QRAM schedule of 108,227,212, it appears on line 14 in column H. The 108,227 is the balance -- the cumulative balance as per the QRAM schedule at December 31, 2010.

The difference between those two is the unreconciled difference of the 910,000.

MS. LI: Can you please provide an explanation of the unreconciled difference of 910,501 for this reconciliation?

MS. ELLIOTT: I don't have that information available to me, but at the end of March, the first quarter 2011, which is attachment 1, the unreconciled difference has been, in fact, cleared up.

MS. LI: But this balance does reconcile to -- I mean, the cumulative balance EB-2010-0359, December 31st, 2010, that amount did show on QRAM schedule; is that correct?

MS. ELLIOTT: That's correct.

MS. LI: And also confirm that -- this amount, excluding the interest part.

MS. ELLIOTT: That's -- column H excludes interest.

MS. LI: Yes.

MS. ELLIOTT: Column I is the interest for the total in column J.

MS. LI: Yes.

MS. ELLIOTT: So it does exclude interest.

MS. LI: So you reconcile to the principal amount?

MS. ELLIOTT: That's correct.

MS. LI: So you cannot answer -- you cannot explain the unreconciled difference?

MS. ELLIOTT: At the end of December, it was not explained, hence it was an unreconciled difference, but at the end of March, the GL reconciles to the QRAM schedule at the end of first quarter.

MS. LI: How often do you do this reconciliation exercise?

MS. ELLIOTT: These are done monthly.

MS. LI: So what's the purpose of this reconciliation? Do you try to do it, reconcile it per month, or are you trying to defer it to the next quarter?

MS. ELLIOTT: I am sorry, we are trying to reconcile the general ledger --

MS. LI: Through the QRAM.

MS. ELLIOTT: -- every month.

MS. LI: Every month.

MS. ELLIOTT: It didn't reconcile at the end of December; it did reconcile at the end of March.

We filed the lower number in the QRAM schedule.

MS. LI: So what's the procedure, internal procedure, that Union has for this unreconciled difference showing -- resulting from the reconciliation?

MS. ELLIOTT: We will work to follow up unreconciled differences. They may, in fact, not be reconciled at the time of filing, but we will work to clear the balance as quickly as we can.

MS. LI: Do you think the next panel will provide me an explanation of how this unreconciled difference resolves?

MS. ELLIOTT: No, that would be me.

MS. LI: Okay. So can we look at the next reconciliation for the north tolls and fuel for the account number 179-100?

Can you also explain that cumulative balance per EB-2010-0359, December 31st 2010, the amount of 133,863, where this number is coming from?

MS. ELLIOTT: I think -- I would have to check the calculation, but I think it's the difference between the column A balance at line 14 of 2 million and 63, less the column D balance at line 14, which is a credit of 1 million 929.

MS. LI: So, again, this reconcile the principal to the principal amount in the deferral -- in the QRAM deferral account presented in the QRAM schedule?

MS. ELLIOTT: That's correct.

MS. LI: Can you tell me where the interest amount?

MS. ELLIOTT: The interest in the general ledger is in a separate account.

MS. LI: So it's not recorded in the deferral account?

MS. ELLIOTT: It is not.

MS. LI: So Union is not requesting for the interest amount? Just help me understand the deferral -- accounting of deferral account.

MS. ELLIOTT: The QRAM disposition includes interest. The accounting has a separate account for the interest.

MS. LI: Okay. However the reconciliation does not address the interest amount part?

MS. ELLIOTT: That's correct.

MS. LI: Okay. So can we go to the same exhibit, B1.23, the attachment 1? And we are distributing another QRAM schedule. So, basically, this attachment, Union provided us reconciliation for this PGVA account as of March 31st, 2011. So the relevant QRAM is EB-2011-0135, and the schedule you have just received is related to the spot gas variance account 179-107, which is the bottom part of attachment 1.

So my question is: This reconciliation related to spot gas variance account between the GL balance, and then QRAM schedule as of March 31st, 2011, can you please explain the cumulative balance per EB-2011-0135, March

31st, 2011, $6,093,979 credit balance, so where this amount coming from as per the schedule I just distributed?

MS. ELLIOTT: It looks to me that that's the balance in the account before first quarter's activity. So if you go back up to line 1, which would be the balance before the February/March purchases, line 1, column A and column D will total the 6,094,000; does not include the February/March activity.

MS. LI: So let me confirm. So that balance is actually the cumulative to end of June 2010 balance for the spot gas purchase plus the load balancing for the same time period?

MS. ELLIOTT: Yes, although I would say it's probably the cumulative balance to the end of January. It just -- there was no activity between June 2010 and January 11th. What's missing from the March -- from the GL is the February and March activity.

MS. LI: So basically the correct cumulative balance should be this balance, 6,093,000, plus the activity incurred in February and March of 2011, which appears to me as about $1 million?

MS. ELLIOTT: Which may simply be a timing difference, just...

MS. LI: Can you clarify what's timing difference?

MS. ELLIOTT: I am just not sure, the February and March activity on the QRAM filing, whether that's estimate or actual activity, whether we have actually captured in the general ledger. It may be that those months' activities on this schedule are estimates not included in the general ledger.

MS. LI: Yes, but if you look at the schedule, that's accurate, and down below it has a note that says "reflects actual information". So I assume if this is correct, then the February/March activity is actual information.

MS. ELLIOTT: Which may not actually be in the general ledger.

MS. LI: Why is the case that actual information is not in the general ledger?

MS. ELLIOTT: I don't know the answer to that question. I would have to check.

MS. LI: So can you -- would Union be able to provide me an updated reconciliation for this account, given that the account cumulative balance now change to the 7 million?

MS. ELLIOTT: We can do that.

MR. SMITH: Yes.

MS. SEBALJ: That's undertaking JTC1.3, which is an update to Exhibit B1.23, attachment 2, the deferral account reconciliation of spot gas variance 179-107.

UNDERTAKING NO. JTC1.3: TO PROVIDE UPDATE TO EXHIBIT B1.23, ATTACHMENT 2, THE DEFERRAL ACCOUNT RECONCILIATION OF SPOT GAS VARIANCE 179-107.

MS. LI: So my next question is related to the B1.23.

MR. SMITH: Sorry, which question?

MS. LI: B1.23. Sorry, it's B1.21. In Exhibit B1.21, page 2, so Union's response in (a) and (b), Union said:

"In conjunction with the reorganization of responsibilities and the discovery of the misalignment between the General Ledger ('GL') and the QRAM deferral account model, Union has established new procedures related to the preparation and review of the QRAM application."

Can you please clarify what this new procedure referred to?

MS. ELLIOTT: The main change is the reconciliation of the general ledger information to the filing.

MS. LI: Can you please describe this new procedure in detail, including the monthly reconciliation process, review approval process, if any, and what procedure would be conducted if unreconciled items are noted?

I think I kind of asked this question before. So internal process in terms of reconciliation, review and approval, and then how you -- what procedure would you be conducting if unreconciled item are noted?

MS. ELLIOTT: I think as we go through the monthly reconciliation of the general ledger to the QRAM filing, if we note unreconciled differences, we are going to follow up to determine where those differences arise, whether they are in the QRAM evidence or in the general ledger.

Again, on a quarterly basis for QRAM filings, we may run out of time before the reconciliation is complete, but the reconciliation will be cleared as quickly as possible. Our goal is to have the general ledger reconciliations done in the month following the reporting.

MS. LI: So you just mentioned that the reconciliation may not be completed before the QRAM is filed. So how would you ensure the numbers on the QRAM schedules are accurate?

MS. ELLIOTT: We will get as close as we can for the filing, and it will be caught up in the subsequent quarter.

MS. LI: Are all of these procedures documented?

MS. ELLIOTT: Not in a fashion that we can produce a procedures manual, no.

MS. LI: So are you planning to document it and develop an internal procedure, documented procedure?

MS. ELLIOTT: I am not sure in terms of the work plan whether these will be documented. The goal would be to have all of our procedures documented, but we don't necessarily have all of that completed at this point.

MS. LI: Let me clarify. Do you have these actually in your plan or not?

MS. ELLIOTT: I don't know.

MS. LI: So can you check with relevant people that -- if you have this plan to develop one?

MS. ELLIOTT: I can.

MS. SEBALJ: That's JTC1.4.

UNDERTAKING NO. JTC1.4: TO ADVISE ON STATUS OF RECONCILIATION POLICY OR PROCEDURE

MS. LI: So the next question is related to B1.23, page 3.

So in response (f), Union states that

"The reconciliation provides the Board with sufficient confidence to approve the disposition of commodity-related deferral and variance accounts."

So my question is: Is Union planning to file the reconciliation as part of the QRAM filings to the Board going forward, to increase the confidence of the Board to timely dispose the accurate balance for these PGVA accounts?

MR. TETREAULT: We don't have any plans currently to provide any further documentation or scheduling as part of the QRAM filing.

MS. LI: Can you provide reasons for not doing so, since you state that this will increase Board -- increase the confidence to the Board?

MR. SMITH: Well, there was -- my recollection is that there was a proceeding dealing with the QRAM, and included in that was a consultation process as to what should and should not be included as part of the QRAM filing. And my recollection is that Union is filing the product of that proceeding and consultation.

MS. LI: My reflection is that that consultation does not prescribe specifically what each utility is going to file as per the QRAM process. I think Union can always file with the Board with additional information that can increase stakeholders' confidence in terms of timely disposition of the balance.

MR. SMITH: You and I may disagree on that point.

MS. LI: Okay. The next question is related to B1.26, so that question actually is related to one of the adjustments Union has made in its north tolls and fuel deferral account. The amount of the adjustment is 3.468 million.

So in the response, which is on page 2 of 3 of this exhibit, Union said, in Union's response in (b), so the first paragraph, Union said in Union's January 1st, 2011 QRAM evidence, Union stated that the cost of upstream transportation had not changed; only the source of the cost had changed. This was incorrect.

And the second paragraph, the letter to the Federation of Rental-housing Providers, dated December 13th, 2010, was also incorrect.

So my question was: Can you please provide a complete and accurate explanation of what has been happened in this to -- in this deferral account for this adjustment?

MR. SMITH: Do you mean beyond what's referred to in the prefiled evidence?

MS. LI: Yes. I am just trying to understand the whole story.

MS. ELLIOTT: The contract that we are talking about is a contract for transportation from Dawn to Parkway; that contract was inadvertently included in the deferral account such that the price we were paying for the contract was benchmarked against TransCanada's tolls, and it shouldn't have been.

So once it was identified that the deferral account included an amount for this contract, we raised it in conjunction with the QRAM filing to get those costs out of the deferral account, to get the recovery out of the deferral account, and reversed the previous entry.

The contract's been replaced with Union-owned capacity, and because it's Dawn-Parkway, because it's a storage-related cost, it isn't subject to deferral accounts, so the cost built into rates continues to be recovered from ratepayers and goes to offset the cost of the Trafalgar system capacity, rather than refunding the amount to the ratepayers, as was previously included in the deferral account and shouldn't have been.

MS. LI: So in response, let me clarify that when you say -- response (d) -- when you say the deferral account adjustment in 2009 resulted from the inclusion of revenues with no associated costs in the deferral model resulting in 3.468 million credit to customers, so when you say inclusion of revenues with no associated cost, can you clarify this?

MS. ELLIOTT: Because we turned back the contract, we had no third-party cost. We did have internal cost for the facilities that we used to replace the contract.

The deferral calculation was done in error. It was -- it looked at the revenue or the rates that were being recovered from customers, and compared it against the third-party purchase cost, which was zero, creating a credit to customers.

This contract should not have been included in the deferral account calculation. Storage contracts aren't subject to deferral, and the transport between Dawn and

Parkway is not subject to deferral, so it was inadvertently included as if it was an upstream transport contract, and it shouldn't have been.

MS. LI: Okay.

MS. SEBALJ: I think that's everything from Board Staff.

I am assuming, Mr. Smith, that we still haven't seen the arrival --

MR. SMITH: No, no, we have.

MS. SEBALJ: Oh, we have?

MR. SMITH: Mr. Feingold is here, so I suggest we take a break and we come back in 15 minutes and we will be ready to proceed.

MR. THOMPSON: Can I just ask one question about the answer you gave this morning, Pat, about the 6.6 million being in the return line? We had thought it was in the $1.87 million, and you referred us to Exhibit A, tab 1, schedule 6, page 2, and you told us at line 12 that we see the words there "return on purchased assets". That's the 6.6 million that's in that 16 million?

MS. ELLIOTT: That's correct.

MR. THOMPSON: As well as what's in there is the incremental return on 2010 unregulated rate base; right?

MS. ELLIOTT: It's -- the incremental return is on the incremental rate base, yes.

MR. THOMPSON: We had that in our stuff at $5.294 million, but I think you were telling us this morning that's for the whole package, not just the incremental?

MS. ELLIOTT: That's the incremental return on all the investments including the purchased assets.

MR. THOMPSON: Right. And you are going to -- just so I understand that, that was in reference to an interrogatory that had those numbers in it, the 5.294 for 2010 and some other numbers for 2009 and 2008? I think it was B3.18.

MS. ELLIOTT: Yes. 3.17 actually shows the incremental return on the rate base of 2-1/2 million dollars.

MR. THOMPSON: Okay. So if -- okay. So that's the number -- if we were using correct numbers in Mr. Rosenkranz's, that number we should have there is the 2.94, right, rather than the 5.294?

MS. ELLIOTT: That's correct, yes.

MR. THOMPSON: Thank you. Both those numbers attract tax. I think we had assumed that the one that was in the 18.7 million didn't, and am I right that in Exhibit A, tab 1, schedule 6, at line 13 we have the tax calculation, and you folks say the rate of 33.56 percent applies?

MS. ELLIOTT: Yes.

MR. THOMPSON: Okay, thanks very much. That's all I had.

MR. SMITH: Thank you.

QUESTIONS BY MR. QUINN:

MR. QUINN: I have one more. It's clearly I think accounting, and Ms. Elliott might be able to handle this, or the second panel.

If you can just briefly turn up Exhibit B2.7, in this response, you broke out the unregulated O&M by responsibility area, and the line "storage operations" is 127.5 million. Is it correct to say that distribution operations is in there, also?

MS. ELLIOTT: No. Well, it will -- sorry, let me take that back. Certainly distribution operations will be in the total. It's just a question of whether it's in the "administrative and general" line or in the "storage operations" line.

MR. QUINN: If you want to take it by undertaking, just if you could break out storage operations into whatever components are in there, because we have a hard time reconciling that figure to other O&M figures in your evidence?

MS. ELLIOTT: I do that.

MS. SEBALJ: JTC1.5.

UNDERTAKING NO. JTC1.5: TO BREAK OUT STORAGE OPERATIONS INTO WHATEVER COMPONENTS ARE CONTAINED IN EXHIBIT B2.7.

MR. QUINN: The one reference we were looking at, Ms. Elliott, was Exhibit A, tab 4, page 17 -- sorry, out of the 2010-0039. If you look that up, you might be able to get quickly to the answer, but we just want to confirm and have it broken out for 2010.

MS. ELLIOTT: Okay.

MR. QUINN: Thank you.

MS. SEBALJ: Is that everything? So returning, Mr. Smith, do you need a certain amount of time?

MR. SMITH: 25 to 12:00.

MS. SEBALJ: 25 to 12:00, thank you.

--- Recess taken at 11:17 a.m.

--- On resuming at 11:39 a.m.

MS. SEBALJ: Let's get started.

MR. SMITH: So we have our second panel consisting of Mr. Feingold of Black & Veatch, Ms. Elliott, Mr. Isherwood and Ms. Cameron.

UNION GAS – PANEL 2

Russ Feingold

Pat Elliott

Mark Isherwood

Carol Cameron

MS. SEBALJ: Mr. Thompson, were you going to go ahead first, or...

MR. THOMPSON: Thank you.

QUESTIONS BY MR. THOMPSON:

MR. THOMPSON: While there were some written questions circulated by Mr. Quinn, and I thought one or more of these was deferred to this panel, so perhaps you could deal with those, Crawford.

Was there not something on here that was deferred to this panel?

MR. SMITH: There was; it was question 6, whether or not we could provide answers to all of (a), (b), (c) and (d).

I must say I didn't -- although I have a note of it, I didn't get a chance to ask Ms. Cameron that question.

MR. THOMPSON: Is your mic on?

MR. SMITH: Yes. Sorry, I didn't ask the question of Ms. Cameron. My apologies. I forgot, so we will have to advise you at the end of the proceeding. Perhaps if people have questions about the confidential answers, we can take two minutes before that, and I will get the answer and then advise you.

MR. THOMPSON: Okay. Then let's come back to this issue of -- I think it would relate to Mr. Quinn's Question 1 in writing.

This was the question about the incremental storage amount of $18.727 million, and my understanding now is that that -- currently reduction in revenue amount reflects the $10.7 million of actual cost paid to third-party storage operators, and then I understand the difference of $8,027,000 to be costs related to storage loans, or something to that effect.

Have I got that straight, Ms. Elliott?

MS. ELLIOTT: That's my understanding. The difference is the resource optimization costs; primarily the gas loans.

MR. THOMPSON: And I thought in the first go-round you said the second panel will have to tell us what is in this number.

And if I understood that correctly, would the second panel please tell us what goes in to the make-up of this number?

MS. CAMERON: The $8 million consists of the cost of purchasing a loan, which will ultimately create storage.

MR. THOMPSON: So this is Union Gas limited purchasing loans from a third party?

MS. CAMERON: Yes.

MR. THOMPSON: The question was asked: Are these purchases from affiliates, some or all of them, and secondly, how is the cost derived? Do you know?

MS. CAMERON: The gas loans are not purchased from affiliates, and the costs are derived through negotiation with the counterparty.

MR. THOMPSON: So these are arm's-length transactions with entities other than entities related with Spectra and Union and tout le gang?

MR. SMITH: I am not sure who that third party is, but...

MS. CAMERON: With respect to the first two parties, yes, there are no affiliate activities.

MR. THOMPSON: Okay. Thanks.

Then I had a question -- this is probably for you, Mr. Isherwood. It stemmed from the response to B3.15, where there were a list of storage assets, and one was described as the MichCon Gateway storage asset.

We were told there is a written contract that the –– the interrogatory response indicates that the start date was May 2010, and I asked if that document could be produced, in confidence if necessary.

MR. SMITH: And the answer is no.

MR. THOMPSON: It cannot be produced?

MR. SMITH: It will not be produced.

MR. THOMPSON: Will not be produced? Could you explain why?

MR. SMITH: Union has not provided third-party storage contracts in the past, and we don't see the particular relevance of producing this contract.

MR. THOMPSON: Well, it's leading to a component of a charge that's being recorded for the purposes of calculating margin, that is depriving, we say, ratepayers of their appropriate share.

And I am sure that will change your mind; will it?

MR. SMITH: No, but if you have specific questions about the line items there, perhaps you should put them on the record and we will reflect on your question.

I know that it's -- the use of the word "Gateway" has perhaps attracted your attention, it being a subject near and dear to your heart, but if you had specific questions about the line items, we will certainly reflect on them.

MR. THOMPSON: All right.

Well, let's start with that one, Mr. Isherwood. What does the "Gateway" refer to in the MichCon Gateway contract?

MR. ISHERWOOD: As part of the --

MR. SMITH: Sorry, sorry. Just -- I am reminded that we will be providing you with the incremental return in total, in any event.

So whether you have the number per contract or on an incremental basis, I think what's more interesting is the incremental number, and we have agreed to provide you with that.

MR. THOMPSON: I don't think I follow that. This, we are talking here about third-party purchase in this interrogatory response, I think, are we not? Maybe not.

No, it's not. You are right. Okay.

So can you answer my question, Mr. Isherwood?

MR. ISHERWOOD: Sorry, can you restate your question, please?

MR. THOMPSON: Yes. The asset name is MichCon Gateway; what does the reference to "Gateway" refer to?

MR. ISHERWOOD: We have concluded a contract with MichCon for that 2.1 PJs of space, and the path that we will be using will be the traditional MichCon/Union Gas path between MichCon and Dawn, and if and when Gateway goes ahead, the Gateway path would be used for that 2.1 PJs.

If it never goes ahead, then we will continue to use the MichCon/Union Gas traditional path.

MR. THOMPSON: So is the asset being used as we speak?

MR. ISHERWOOD: Yes, it is.

MR. THOMPSON: And I take it that the transportation link to that storage is as you have described? It's the existing MichCon, St. Clair -- St. Clair pipeline to Dawn route?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: And if the Dawn Gateway goes ahead, it will be labelled the Dawn Gateway pipeline, I guess?

MR. ISHERWOOD: That's correct.

MR. THOMPSON: You did provide a response to a Board Staff question about the status of the Dawn Gateway line. I think it might be number 8, I think.

MR. ISHERWOOD: 1.9, I believe.

MR. THOMPSON: 1.9? Is there anything further to add to that report?

MR. ISHERWOOD: When this interrogatory was filed in the first week of June, the expectation was that -- MichCon, as you know, is responsible for the regulatory approvals on the US side, as Union Gas was responsible on the Canadian side. MichCon has been working diligently on doing a presidential permit filing, as well as a filing with the Michigan Public Service Commission.

And our expectation in first week of June was both of those would be filed in June. And as in most things with Gateway, it always seems to be two weeks away and it remains to be about two weeks away. So it is not filed yet is I guess my answer, but it's imminent.

MR. THOMPSON: So the expectation now is will be filed by the end of July or is that getting too aggressive?

MR. ISHERWOOD: Based on my last experience, I would say it's too aggressive, but they are working on it. We are helping them with it. We fully expect it to be done within the next couple of weeks, but it's been delayed with vacations and other things happening.

MR. THOMPSON: So by the end of August would be realistic?

MR. ISHERWOOD: I am hoping for the end of July, but I can't commit to that. It's really their work effort, not mine.

MR. THOMPSON: And what does that mean, the filing of that application? Does that mean it's going ahead or something less than it's going ahead?

MR. ISHERWOOD: No, it just -- all it means is the same on the Canadian side. It's important for the market to know you have regulatory approvals on both sides. We have the regulatory approvals on the Canadian side, and you need both of those things to happen, to have regulatory approvals on the US side.

Assuming we got approval on both of those items, we still have the issue with the market. The market still needs to commit and contract for the path.

MR. THOMPSON: All right. Well, I am asking this question from recollection, but my recollection is, from the Board's last decision in this Dawn Gateway business, that I thought you had until the end of this year to get this done.

MR. ISHERWOOD: That's true. Based on the current OEB decision, that's true.

MR. THOMPSON: So are you trying to do that?

MR. ISHERWOOD: We are.

MR. THOMPSON: Thank you. The only other question I think that I had that was deferred to this panel related to the Black & Veatch -- the scope of the Black & Veatch retainer, and it was a reference to Exhibit B2.6, subparagraph (b).

And the question I asked was something to the effect: Are we correct that Black & Veatch did not -- that Black & Veatch's retainer did not extend to reviewing the appropriateness of Union's margin sharing calculations?

Mr. Smith said he thought the answer was it did not extend that far. Could I have that clarified, if that answer is inaccurate?

MR. FEINGOLD: The Black & Veatch project, and the time frame over which it extended, precluded us from looking at the 2010 S&T balances by virtue of the fact that the report was done before those numbers were prepared for the 2010 filing.

MR. THOMPSON: Okay. So that was not and still remains not part of your retainer?

MR. FEINGOLD: To the best of my knowledge, our work is completed, other than for responding to questions on the evidence that was filed contained in the report and any other post filing activities associated with this proceeding.

MR. THOMPSON: Okay, thanks very much. Those are my questions.

QUESTIONS BY MR. QUINN:

MR. QUINN: I think I will try to ask the question Mr. Thompson was asking in a slightly different way.

Did the scope of the retainer for Black & Veatch include reviewing the appropriateness of the methodologies that Union had for allocating the costs between utility and non-utility?

MR. FEINGOLD: Yes, it did.

MR. QUINN: And so did you review or render opinions on the post-tax hurdle rate?

MR. FEINGOLD: No, I did not. I believe that -- in response to an interrogatory, indicated that that was not part of the scope of the work.

MR. QUINN: How do you define what the scope of the work is if that is inherent in the allocation methodology? Was there a list of limitations of areas that you were not to comment on?

MR. FEINGOLD: Not so much a list of limitations, but, in my view, that wasn't an allocation methodology issue as much as an absolute dollar component. And if you look in the report, the scope of the review really entailed three major functions and it didn't look at the origins of any particular cost component to the degree that I think you are suggesting.

MR. QUINN: Well, I will defer to my colleague, who is a better accountant than I, and we can differentiate between cost allocation and, in this case, rate-making.

Are you familiar with any other jurisdictions that have a post-tax hurdle rate become part of rate-making for the purposes of margin sharing?

MR. FEINGOLD: I am not sure I understand your definition of the term "the hurdle rate" or - what was it - post-filing?

MR. QUINN: Post-tax hurdle rate.

MR. FEINGOLD: Post-tax hurdle rate. Are you talking about from the standpoint of an internal rate of a particular utility, or a rate of return that was used by the regulator?

MR. QUINN: I am looking for: Are you familiar with a jurisdiction that uses a concept like post-tax hurdle rate to do rate-making for the allocation of margins between ratepayers and the utility?

MR. SMITH: Mr. Quinn, perhaps you could assist by advising of a jurisdiction in which there has been a decision such as NGEIR, or a structure, which has resulted in a portion of an integrated utility's storage system being disaggregated between utility and non-utility, and then asking Mr. Feingold to comment on whether or not he is familiar with that jurisdiction. Perhaps that would assist.

MR. QUINN: I had more than the normal voices in my head going on here. Can you repeat that Mr. Smith, please?

MR. SMITH: Well, in a nutshell, I think it would be of assistance if you were to ask the witness if he were familiar with a particular jurisdiction, and that jurisdiction would be a jurisdiction in which there had been a decision rendered, such as NGEIR, disaggregating a utility's integrated storage system between utility and non-utility, and, if you had a particular jurisdiction in mind, ask the witness about that.

MR. QUINN: Well, that probably narrows the scope of my question more than I intended, so I guess I will try to ask the question this way, and then I will potentially defer. Are you familiar with the post-tax hurdle rate?

MR. FEINGOLD: I am familiar with the concept within the context of this process in general terms.

MR. QUINN: Are you familiar with Union Gas's post-tax hurdle rate?

MR. FEINGOLD: I saw the return level that was used by Union within the context of their S&T calculations.

MR. QUINN: Are you familiar with any jurisdiction that, for the purposes of rate-making, uses the internal rate of return as opposed to that Board's -- that jurisdiction's approved rate of return?

MR. SMITH: Well, sorry, Mr. Quinn, that, again, goes to the point I was making before. I mean, there is a particular paradigm in Ontario, and I think my earlier request for clarification stands.

Is there a jurisdiction which you say is comparable? I am not familiar with anything that's been put on the evidence, but if you have something, I think a fair way to do it to the witness would be to put that particular jurisdiction on the record and ask Mr. Feingold to comment on it.

MR. QUINN: I will defer then, because I think our question has been answered. I wanted to then get back to the -- what I understood - and the phrase was used, I believe, by Ms. Cameron - was purchasing a loan.

Can you help us with the mechanics around that? What does that look like and can you give us a simple example?

MS. CAMERON: Purchasing a loan -- and I will start with that first -- is where we make arrangements for someone to withdraw gas during a certain month and bring that gas back to Union at a later, different month. We will certainly work with marketers; we will go out into the marketplace and solicit interest in that service, and negotiate a rate for that service which is acceptable to Union Gas.

MR. QUINN: So Mr. Thompson asked if any of these loans were to affiliates. The answer was no, as I understand it?

MS. CAMERON: That is correct.

MR. QUINN: Were any of these loans to MichCon or DTE?

MS. CAMERON: Subject to check, not to my knowledge.

MR. QUINN: Would you undertake to check that?

MS. CAMERON: Certainly.

MS. SEBALJ: That just mark that as JTC1.6.

UNDERTAKING NO. JTC1.6: TO VERIFY IF ANY LOANS WERE TO MICHCON OR DTE

MR. QUINN: In these negotiations, then, is the only parameter that is negotiated the price for the respective months of withdraw and return?

MS. CAMERON: The negotiation includes the months of activities. For example, the gas is withdrawn in July and returned in some later month, December. So the months of activity are negotiated, and the quantity and the value.

MR. QUINN: There are no other services that become embedded in that same contract?

MS. CAMERON: Can you help me with "no other services"?

MR. QUINN: In establishing negotiations, you are telling me that it's months, quantity and value, those are three parameters, but is it tied to any other transportation arrangements or other storage contracts?

MS. CAMERON: The gas loans that we enter into to create storage have no other tie.

MR. QUINN: So if we are understanding it, there was approximately $8 million of gas loan costs that were used to create storage; how much storage did it create?

MS. CAMERON: I don't have that information with me.

MR. QUINN: Well, I guess what we are trying to get at is: Was it worth the cost of the service? And so I think it's helpful to understand what benefits were associated with the $8 million of cost.

Is there a way you can derive that?

MR. SMITH: Sorry, just one second, Mr. Quinn. I am just reflecting on your question.

Mr. Quinn, perhaps you can explain to me a bit further what you are looking for and the relevance of the information requested.

MR. QUINN: This has been a new revelation for us this morning. We thought -- we came to understand it a lot through the questions you answered for us, and we appreciate that and we expect, hopefully, more will be forthcoming.

MR. SMITH: Well, I don't agree with that, but what's the answer to my question?

MR. QUINN: The answer to your question is we are now understanding that there are additional costs, costs that were not broken out in a way that we could understand. We understand now that Union does incur costs, what it's describing as gas loan costs. Some of our industry experience is usually in a gas loan situation, people pay Union to loan them gas.

This is going the other direction, and we are trying to understand the investments that Union made that are coming off of the return, how -- what are those mechanisms and how do we have discovery or appropriate understanding of that $8 million cost, because it is reducing the storage margin that's available to ratepayers.

MR. SMITH: I am not sure that I understand -- I am not sure that that helps me. I mean, this is a cost that goes into the calculation of the margin that's available for sharing.

If the proposition that you are putting forward is you want to assess those costs but you are not looking to move the revenue number, then I don't think that that's the purpose of the account.

So I am not -- I am still not sure I understand the significance or the relevance of the information you are asking for, some sort of assessment of the value of the loans. I mean, they are what they are, and whether they turned out to be good deals or bad deals, it all goes into the mix available for sharing.

MR. QUINN: Possibly we can turn up interrogatory -- Exhibit B3.51.

MR. SMITH: Sorry, 3.51?

MR. QUINN: Yes. This is in respect of short-term balancing service, and the questions we are asking is trying to understand what a negative -- why supplementary balance of services were negative in 2010 in some respective months.

And my understanding here is revenues from gas loans were negative for the months of May and December due to foreign exchange, but December 2010 was due to true-up of a November estimate.

Can you explain? Do these resource -- or these gas loans work together been short-term and long-term, or is will a commingling of operations? How do you differentiate when you turn out a gas loan to a third party, if it's short-term or long-term, as the allocation of cost?

MS. ELLIOTT: If we are incurring costs to create storage and sell it long-term, those costs are always matched up against the revenue that is created through the storage. So the cost of creating storage for sale long-term is always assigned to the long-term storage deferral account.

MR. QUINN: If we use the example that Ms. Cameron provided, we talked about intra-year gas loans, or at least intra-gas year loans.

Are you saying that the gas loans that are -- that created the $8 million cost are multiyear gas loans?

MS. ELLIOTT: In this case, all of those costs were associated with long-term storage sales, yes.

MR. QUINN: So they are associated with long-term storage contracts, so there is a back-to-back or an underpinning of the long-term storage contract with resource gas loans?

MR. ISHERWOOD: So the example that Ms. Cameron provided was where we did a loan within a year, what we normally do in that case -- and what we are trying to do, obviously, is take gas off the system for that October 31 peak day, so to the extent you can take gas off the system in July and bring it back in November or December, it frees up peak capacity.

And we would combine that with some renewal contracts that are coming up in the following April, to be able to sell a multiyear, sometimes two-, sometimes three-year deal, based on the combined resource gas loan and renewal capacity.

MR. QUINN: Does that then obligate you the next year to do a comparable deal to remove gas off the system, since you have entered into a multi-year deal?

MR. ISHERWOOD: No, because we will use the gas loan in the first instance for the first peak season to provide the service, and then we will use -- the contract is up for renewal on April 1st to carry on that service into the second and third years or whatever term we go with.

MR. QUINN: So in totality, then, you have $8 million worth of costs for this year. Would you -- those are costs only for 2010 incurred costs? Is that what you've reflected, the cost in a year? Does the cost get incurred at the time of the transaction of gas to the third party or when it's returned?

MS. ELLIOTT: The costs will be reflected as they are incurred to match the revenue that's generated by the long-term storage contract.

MR. QUINN: So if you have a long-term storage contract in the illustration Mr. Isherwood just gave that is, say, three years, does the cost get spread over the three years?

MS. ELLIOTT: The cost of the gas loans will get spread over the first year, which is the period in which they are incurred.

MR. QUINN: But even though it creates revenue for two subsequent years, it's not matched?

MS. ELLIOTT: My understanding is the revenue in the subsequent years is created by having storage capacity become available for sale.

MR. QUINN: But the gas loan underpinned your opportunity to do the deal in the first place?

MR. ISHERWOOD: The gas loan underpinned the first year only.

MR. QUINN: Okay. Well, I think we will leave the questions in that area, subject to my friend's questions here.

I wanted to go to the issue that Board Staff was inquiring about in B1.23. I asked a couple of questions -- I said 1.23. 1.26, my mistake.

I asked questions earlier and I understood this panel was better to ask them of. So the issue is laid out in the third paragraph. It starts with the cost of services that Union acquired as opposed to Dawn Trafalgar capacity.

So my understanding -- maybe I will ask the question: Was Dawn Trafalgar capacity completed sold out, then, in 2009?

MR. ISHERWOOD: The short answer is yes.

MR. QUINN: Were there third parties that owned some of that capacity beyond M12 contracts?

MR. ISHERWOOD: I am not sure I understand the question.

MR. QUINN: There is Dawn Trafalgar capacity. You have M12 contracts. Were there any other types of contracts that contributed to Union having zero Dawn Trafalgar capacity?

MR. ISHERWOOD: We used Dawn Trafalgar capacity for in-franchise use obviously as well, so when we say it's sold out, it's basically a combination of in-franchise requirements and/or ex-franchise requirements.

MR. QUINN: Ex-franchise beyond M12? Was there M12 – ex-franchise requirements beyond M12?

MR. ISHERWOOD: There may have been C1. It's possible there could have been some C1 is capacity that had been sold prior to that.

MR. QUINN: Was any of that sold to an affiliate?

MR. ISHERWOOD: I am not sure what affiliates would be selling and buying from, so I am not -- like, in the current environment, there are no affiliates we buy and sell with. So in '09, subject to check, I would say the answer is no.

MR. QUINN: I guess my understanding is Union tends to sell its excess assets over and above what is needed for in-franchise. Does Union consider Union north ex-franchise?

MR. ISHERWOOD: No, it's considered in-franchise.

MR. QUINN: So how are in-franchise customers -- I thought the priority was to deal with -- provide in-franchise customers firm service first from the assets. How do you find yourself in a position of buying premium capacity to satisfy in-franchise needs?

MR. SMITH: What do you mean, Mr. Quinn, in your question by saying that it was at a premium?

MR. QUINN: The numbers I am seeing here say they bought the capacity at 3.50 and the cost base capacity is worth 2.33.

MR. ISHERWOOD: I think the need for this capacity arose when we actually looked at a bit of a redesign or rebalancing of the north portfolio. So when we did the rebalancing of the north portfolio, it actually drove an incremental need on the Dawn to Parkway system that was satisfied for a short period of time with a third-party service, until Dawn to Parkway capacity became available.

MR. QUINN: Where there savings that came from that rebalancing of the portfolio?

MR. ISHERWOOD: I would assume there were, but I would have to check on that. That's going back a few years.

MR. QUINN: Okay. Well, if you would check on if that's what drove the purchase of premium services, what corresponding reductions in costs came from rebalancing the portfolio?

MR. SMITH: Sorry, explain to me why it's relevant, Mr. Quinn. All of the costs were passed through in the QRAM proceeding already, so why is this relevant in the deferral account disposition proceeding?

MR. QUINN: In this proceeding, Union is coming back for recovery of a correction of this error, an error that nobody was aware of. So now I am saying, okay, if this was approved and required, if people understand how Union was supporting its rates -- and in this case here, we have understanding now that premium services were purchased and we are trying to understand, okay, the premium services were purchased. Why were in-franchise customers taken care of first?

If you are seeking this re-recovery of this error, then we would like to know what was done at that time, now that we have more information.

MR. SMITH: We will reflect on your question and let you know our position.

MR. QUINN: So you will undertake to consider the answer and provide it if --

MR. SMITH: If I don't refuse it, I will provide you the answer.

MR. QUINN: Okay, thank you. One further question. You can either take this under advisement or Mr. Isherwood can answer, but at that time during that period, did Union have services that had -- storage services that had receipt at Dawn and delivery at Parkway?

MS. CAMERON: To the best of my recollection, we don't sell any services with the receipt at Dawn and the delivery at Parkway on a long-term basis.

MR. QUINN: For that winter, I guess --

MS. CAMERON: For the 2008, which I believe --

MR. QUINN: At the time that these premium services were purchased, did Union have obligations for storage services that took receipt at Dawn and delivery at Parkway?

MS. CAMERON: Not to my knowledge.

MR. QUINN: Can you check?

MS. CAMERON: We didn't have contracts that provided that functionality.

MR. QUINN: What may help us, and I'm just trying to delve through the pages of interrogatory responses. If Mr. Gruenbauer is prepared to ask some of his questions, I would like to ask a follow-up in a moment, please.

MR. SMITH: Are you looking for the Star reporting, Mr. Quinn, that refers to Parkway? Is that the question?

MR. QUINN: I will let Mr. Gruenbauer continue here.

QUESTIONS BY MR. GRUENBAUER:

MR. GRUENBAUER: Good afternoon, folks. I have only got a handful of questions.

I will start with the easiest one first, and I am going to guess it's either Mark or Carol that can help with this.

If you could please turn up Exhibit B3.32, and that's one of Mr. Quinn's interrogatories, and if you can just turn up the attachment. And this provided Union's in-franchise storage requirement from the 2006, 2007 years out to 2010 and 2011 inclusive, and I just wanted to ask you about the line "T3 entitlement." You got it?

And the basis of the calculation of that storage is it's contracted, and the T3 entitlement is solely for the City of Kitchener. You can agree with that, right? There are no other T3 customers other than us?

MR. ISHERWOOD: That's correct.

MR. GRUENBAUER: I was just curious, because I am intimately familiar with that number, and I was wondering in the first column and the middle column -- that's the 2006, 2007 and the 2008 and 2009 years -- I was just wondering why the number wasn't 3.4 petaJoules right across the term, because to the best of my knowledge, we didn't have any changes in our contracted storage space amount. And I was just wondering if that was just perhaps rounding or something in those two years.

MR. ISHERWOOD: I suspect it's rounding.

MR. GRUENBAUER: Because our storage entitlement to the gJ over that period was 3,370,182 gJs, and that would round up, I think, to 3.4.

So it's likely just rounding? Okay.

All right. If I could ask you to turn up Exhibit A, tab 1, schedule 6, page 1, keep your finger on that one, and then also turn up the response that we've talked about.

MR. ISHERWOOD: Sorry, Mr. Gruenbauer, can you just repeat that?

MR. GRUENBAUER: Sure. Exhibit A, tab 1, schedule 6, page 1 of 2, which is the details of balances in storage deferral accounts.

Just keep your finger on that one, and also pull up Exhibit B3.15, which, again, is a response to interrogatory from Mr. Quinn, and we have talked about this one numerous times this morning already. I just want to get my math correct here.

And if you have got one extra finger, B3.53, which is a supplemental IR that Mr. Quinn asked.

And I have got some questions just to understand what's included in line 7 of the Exhibit A, tab 1, schedule 6 line, which states interest return and income taxes for 2010, 2009, broken out between the short-term and long-term deferral accounts.

Everybody good to go? Okay. Here is my first question.

In the B3.53 response at lines 12, 13 and 14, it gives the return interest and income taxes with respect to the long-term storage services account. And I used my calculator and I totalled up those three lines, and I get 35.826 million, which seems to correspond exactly to column B, line 7 in the Exhibit A, tab 1, schedule 6 exhibit that

was part of the prefiled material.
Would you agree with that?
MS. ELLIOTT: Yes.
MR. GRUENBAUER: Okay. So on that Exhibit A, tab 1 schedule, that 35.826 includes those three components that are shown on B3.53, and presumably those three components could also be unbundled for the comparable 2009 number of 33.236 million, again at line 7, column D this time? Presumably that's something that could be done, so then one could compare line-by-line between 2010, 2009 in the same format as in B3.53; is that something that could be done?
MR. SMITH: No.
MR. GRUENBAUER: For the same reasons you gave previously?
MR. SMITH: Yes.
MR. GRUENBAUER: Okay. I understand your position.
MS. ELLIOTT: Sorry, it's already in the evidence.
MR. GRUENBAUER: No, but for 2009, is what I was --
MS. ELLIOTT: Yes, for 2009, in Mr. Feingold's report, he broke out the 2009 deferral account balance.
MR. GRUENBAUER: By those same three components?
MS. ELLIOTT: That's correct.
MR. GRUENBAUER: Can you point me to that, Pat?
MS. ELLIOTT: Schedule 17 of the Black & Veatch report; it's the very last page.
MR. GRUENBAUER: Okay. I will take a look at that later. That's helpful.
Now, to get to the question arising from the B3.15

response, the $6.63 million of -- I guess we will call this post-tax hurdle rate return. That's the cost associated with the third-party storage. Is that $6.63 million included in the return that we see on B3.53, the 16.26 million? And again, it would be included in that Exhibit A, tab 1 schedule as well.

MS. ELLIOTT: Yes, it is.

MR. GRUENBAUER: Okay. And so by virtue of that being included as a cost, it reduces the net margin available for sharing with ratepayers; correct?

MS. ELLIOTT: That's correct.

MR. GRUENBAUER: Okay. And to the extent there is a comparable number, which I understand Mr. Smith doesn't want to provide, in 2009, 2008, that would have had the same impact with respect to increasing the cost, reducing the margin available for sharing?

MS. ELLIOTT: That's correct.

MR. GRUENBAUER: Okay.

MR. SMITH: Mr. Gruenbauer, perhaps you can advise me why the numbers for 2008 and 2009 are relevant from your perspective?

MR. GRUENBAUER: I am just about to get to that. Nice segue.

So if we go to B3.52 now, a supplemental interrogatory by Mr. Quinn, we may or may not have talked about this one. Have you got that in front of you?

MR. ISHERWOOD: Yes.

MR. GRUENBAUER: So the response at part (a) says:

"A return on third-party storage services is
included to recognize a long-term contracting
risk assumed by the shareholder."

I guess I have a couple of questions about that, the first beginning with my –– frankly, my surprise at seeing that, because my experience in the business largely has been that a long-term contract entered into with a respectable and reliable counterparty reduces risk, not increases risk.

Can you agree with me on that, or explain what it is about this that would deviate from that business principle?

MR. ISHERWOOD: The risk we are identifying here is not so much the risk with a counterparty; it's really the market risk.

So to the extent we do a long-term contract with a third party to buy storage and use their storage assets, then we will have -- the shareholder will have a long-term market risk.

MR. GRUENBAUER: Would you consider applying this kind of a risk premium to a purchased third-party transportation contract, for example, with someone like TransCanada where we have all seen large fluctuations in the level of their tolls that have created risk to shippers over time, or, you know, a Panhandle contract or an Alliance contract or some other form of transportation contract, especially one that might be viewed as a substitute for storage because transportation can be used as a substitute for storage?

Would you see that in any of your other long-term contracts with other parties?

MR. ISHERWOOD: These were all contracts entered into with the unregulated business, and it's really -- when we look at entering into a long-term contract, we are quite often at the same time looking at, Should we build or should we buy? And as you can see, we have done a bit of both.

But when we go to buy a long-term contract, whether we build or buy, we still have a long-term market risk. And as we described in the NGEIR hearing, Union is quite prepared to invest money to build storage, and we are quite willing to invest money and contract for long-term storage, but in both cases we are expecting to have a higher return, because there is a higher risk than we would have under normal regulated type of business.

And in the long term, there is really no one to share the downside with. In the short term, there is some sharing. So it's really trying to get an adjustment in place that properly reflects the risk, and it's really primarily a market risk in this case.

MR. GRUENBAUER: Well, thank you for that. And to the point Mr. Smith was raising before, I would just kind of like to explore the accounting issues and accounting principles that would be in back of this.

I think you have offered up commercial reasons and reasons from the perspective of the shareholder as to why this premium would be applied here by Union, Mark, and I appreciate that, but let's step away from that for a moment and try and get some purity, if we can - I like that word - around accounting principles that would be in back of this. And I am glad I have Pat to these to ask these questions.

And, Russ, you will forgive me. I was looking for your CV earlier and I couldn't find it, and I couldn't recall. Are you an accountant by training, as well, a CPA or...

MR. FEINGOLD: I am not a CPA.

MR. GRUENBAUER: Okay. Well, you may be able to help with other jurisdictions that flow from the line of questions that Dwayne had.

Pat, in your view - I put a little hit list here together - when it comes to accounting, there is a variety of accounting bodies or regulatory bodies that will issue and amend principles and procedures that have a bearing on your accounting, as well as other people from time to time. You can agree with that, I think; correct?

MS. ELLIOTT: Yes.

MR. GRUENBAUER: And just to name a few, I mean, you have got generally accepted accounting principles, or GAAP, and I understand there is a difference between Canadian and US GAAP. You have got the Financial Accounting Standards Board, or FASB. I have seen their pronouncements. You have IFRS, of course, the International Financial Reporting System. We have got our friends at the Canadian Institute of Chartered Accountants with the handbook, and we have also got accounting procedures handbooks and a uniform system of accounts that the OEB issues, amends and requires compliance with.

So there is a bunch of things there, and I guess my question to you, Pat - and, Russ, you can chip in, as well, because I know you were reviewing the accounting principles as part of your study - of all those things, what would take precedent, in your view, in terms of resulting in accurate and transparent accounting in the deferral account so that we can see and understand and hopefully agree with what goes in there with respect to the costs that have been separated out from the integrated operations for purposes of the margin sharing?

What's the reliance?

MR. SMITH: Sorry, Mr. Gruenbauer, are you asking the question: On what basis has Union prepared its financial statements and the evidence presented in this proceeding? In other words, has the evidence been prepared based on US GAAP? Has it been prepared on the basis of Canadian GAAP or IFRS?

Is that your question?

MR. GRUENBAUER: I am going to narrow it down on what basis, in terms of accounting principles or the CICA Handbook or the OEB accounting procedures, can Union point to to say that this premium on third-party storage is justified as a principle-based accounting entry? It's that simple.

MR. SMITH: So your question is, put another way: Can you point to a provision of the handbook that supports this particular line item in the deferral accounts? Is that the question you are asking?

MR. GRUENBAUER: Yes, that's the accounting question, and the regulatory question would be if Russ is aware of other jurisdictions where this type of principle would apply.

MR. SMITH: Well, we have already dealt with the other jurisdictions point, so we will just take your first question, if there is a particular provision of the handbook that deals with the use of a hurdle rate.

MS. ELLIOTT: The calculation of the deferral account, or the earning sharing calculation for that matter, when you get to the interest return and tax calculation, those are all deemed calculations. They are not the actual costs incurred by the utility.

So for utility earnings sharing, interest return and income taxes are calculated as according to -- I don't know if -- the methodologies that have been longstanding in the utility calculation. I can't point to any documentation that would support that calculation.

We have used exactly the same calculation in the deferral account. So interest return and income taxes are all deemed numbers. They are not accounting entries. They are not the entries that are recorded in our financial statements.

MR. GRUENBAUER: I think I understand what you are saying. If we were to zero in solely on the return component, essentially you are saying that that's a calculation based on a methodology. There is no debits and credits in back of that. Is that -- did I understand that correctly?

MS. ELLIOTT: That's correct. That's also true of the interest calculation. It's a calculation based on rate base, capital structure, interest rates and rate of return.

MR. GRUENBAUER: And ditto for income taxes, obviously?

MS. ELLIOTT: The income tax is a function of that calculation, yes.

MR. GRUENBAUER: I guess you would accept there would be some controversy around a calculation that results in a deemed number?

MR. SMITH: Well, we understand that your client thinks the number should be different, yes.

MR. GRUENBAUER: Thanks very much. Thank you.

QUESTIONS BY MR. QUINN:

MR. QUINN: Thank you. I just wanted to get back to the question I was asking of Ms. Cameron, and I did go through the index of customers that was provided as an interrogatory response that we had asked. I am trying to get the reference. I apologize. I have the specific month, but it was in B3.34.

If you flip to near the back, there are reports for the month of December, and at the start of those reports for the month of December starts -- the page I am looking at starts off with Thorold Cogen, but the eighth line down, ninth line down is Direct Energy hub contract, and it's got -- Dawn is the receipt point and Parkway as the delivery point.

That's the type of contract I was asking about. Do you have contracts -- were contracts in place such as that in that period where you purchased the premium services from TransCanada?

MS. CAMERON: No.

MR. QUINN: And you can say that definitively without check?

MS. CAMERON: Yes.

MR. QUINN: Why is that? Can you produce the index of customers, without the names associated with them, for that period, with just capacities and receipt and delivery point associated with them?

MS. CAMERON: We did not prepare an index of customers in 2007.

MR. QUINN: But you did have a list of who you had contracts with?

MS. CAMERON: Perhaps I can take a minute and explain these contracts, and that will help provide some assistance.

The three contracts listed here actually are providing a benefit to --

MR. SMITH: Sorry, just for the record, the contracts you are referring to, Ms. Cameron, as "the three contracts," are those the three with the delivery point of Parkway?

MS. CAMERON: A receipt or a delivery point, yes.

The three contracts with receipt or delivery points of

Parkway on this list actually provide a benefit to the Dawn-to-Parkway system during last winter, so during the winters of '10, '11.

These contracts were structured such that the customer was obligated to deliver gas to us at Parkway in the winter months, so over the period of December or January, and in return, they could withdraw that gas and take re-delivery of that gas at a later time, sometime in the summer, at either Dawn or Parkway.

The result of that is that because that gas was now landing at Parkway in the winter months, that actually reduced the need for Union Gas to purchase winter peaking services to manage the Dawn to Parkway shortfall that we had in our system.

So these contracts were not entered into as a way to sell storage; these were contracts that Union Gas solicited to manage our winter peaking service cost.

MR. QUINN: So when you say "these contracts" I am looking at Direct Energy and Suncor as Dawn-to-Parkway contracts; that's what you are referring to?

MS. CAMERON: Yes.

MR. QUINN: So Union had a continued shortfall --

MS. CAMERON: I think it's Tidal as well.

MR. ISHERWOOD: There are three in total.

MR. QUINN: So Union put these contracts in place for winter peaking service. Where was the cost of those contracts -- where would we see the costs of those contracts? Would it be in the deferral account or some other account?

MS. CAMERON: They went to winter peaking service.

MS. ELLIOTT: Those costs aren't in the deferral account.

MR. QUINN: Sorry.

MS. ELLIOTT: They are not in the deferral account; they are in cost of gas.

MR. QUINN: I am not as familiar -- what number is the deferral account for cost of gas?

MS. ELLIOTT: They are not in the deferral account; they are an expense, cost of gas expense on the financial statements. There is no deferral on those purchase contracts.

MR. QUINN: So would the costs of those go to reducing earnings-sharing mechanism?

MS. ELLIOTT: They are part of the utility costs that are included in the earnings-sharing calculation, yes.

MR. QUINN: Now, Ms. Cameron, you carried on by saying it gave extended rights to these entities. What rights would they receive, again, for -- in part of this contract?

MS. CAMERON: They actually had an obligation. They did not get a right because we were purchasing the requirement, but they had an obligation to deliver to us over the months of December and January a very specific quantity in firm, even dailies, to -- as a way for us to reduce our requirements for gas at Parkway.

It provided a Dawn-to-Parkway benefit.

MR. QUINN: I was taking a note at the time, but I thought you said it also extended to them another benefit?

MS. CAMERON: No. I am not sure -- no.

MR. SMITH: Well, the record will reflect what she said. I don't recall her saying that. She has just told you that what it did was provide an obligation on the counterparty.

MR. QUINN: So you said specifically January and February, you got firm service. Were the rest of the months firm service also?

MS. CAMERON: Their obligation to us was firm in January and December.

MR. QUINN: What about the other months? The lease extent from October through to August –- the one does, anyway; the other one is November through to August.

What about those other months?

MS. CAMERON: The extension of the contracts, of the expiration date, reflects the time that they have to withdraw that gas from our system in the future.

So they are delivering it to us over the winter, and they have some months in the future to withdraw that gas at a later date.

MR. QUINN: So they are taking the gas from Dawn to Parkway, but without a withdrawal, right?

MS. CAMERON: They are not taking the gas from Dawn to Parkway. I can't say how the gas arrived at Parkway.

They have a commitment to Union Gas to deliver us the gas at Parkway, and we are not a party to how that gas arrived there.

MR. QUINN: Okay. So then the withdrawal of gas you are referring to in subsequent months, where is that gas withdrawn from?

MS. CAMERON: It was Dawn or Parkway, depending -- it varied by contract.

MR. QUINN: So these were the other rights that I didn't understand. They have a subsequent right after they delivered to you firm for the month of January and February?

MS. CAMERON: December and January.

MR. QUINN: December and January. Thank you.

Then they get a right later on to withdraw at Dawn or Parkway at no cost?

MS. CAMERON: That was part of the agreement that we entered into. At the time, if a party was interested in delivering gas to Union at Parkway in the wintertime and taking gas away from us at Dawn on that same day, we certainly would have entered into those contracts.

MR. QUINN: So does Union keep that gas separate, as in gas stored for others, or how is that reflected in Union Gas's books?

MS. ELLIOTT: We would record the gas that's received by us, and an obligation to return it to the customer.

So it would be gas in balance on -- in the financial records, payable and receivable.

MR. QUINN: And so they have a firm obligation; can they apply for authorization to not deliver?

MS. CAMERON: No.

MR. QUINN: So you answered earlier on, definitively you had none of these contracts in 2008?

MS. CAMERON: Yes.

MR. QUINN: And that is the period for which you had identified the shortfall in storage for the north that was –- that used the TransCanada deliveries instead?

MR. ISHERWOOD: Sorry...

MR. QUINN: I want to make sure I have the years right, Mr. Smith. I might have said -- I said 2008, but I have kind of lost the frame of reference.

When it was identified that Union needed premium services from TransCanada to replace Dawn-to-Parkway that was not available, were there any other contracts that were in place that would have a Dawn receipt and Parkway delivery?

MR. SMITH: I think what Mr. Quinn is asking, panel, is he is referring to the answer in B1.26 and trying to reconcile that with the schedule that we have been looking at.

Have I got that right, Mr. Quinn?

MR. QUINN: In part, in reconciling with the schedule, but the concept of third-party deliveries from Dawn-to-Parkway and obligations you have may have to others, and that takes up excess Dawn-Trafalgar capacity?

MR. ISHERWOOD: Just to be clear on the index of customers, where it shows Dawn and Parkway, those providers of the winter peaking service have no obligation to get the equivalent of the Dawn-to-Parkway service.

They are providing a service to us. It is actually what you are thinking in reverse. They are providing a benefit to the system by delivering at Parkway for the peak winter months, and their right to get gas back at Dawn or at Parkway is in the summertime.

So it's not a peak winter day, and it's doesn't have any Parkway right at all. It's going to be summer right, not a winter right.

And if I look at those three contracts, I believe two have receipts at Dawn, so they get the gas back at Dawn. And one appears to have receipt at Parkway.

So I don't think this would have any relevance, really, to what was happening with the north portfolio.

MR. QUINN: Okay. I accept that these contracts that are in here are for -- to mitigate your winter peaking service requirement; that's correct?

MR. ISHERWOOD: That's correct.

MR. QUINN: Back in the period where you did not have enough Dawn Trafalgar capacity for the north, were there other obligations that Union would have had to third parties for Dawn Parkway?

MR. ISHERWOOD: Obligations, or actually contracts to get -- to buy service?

MR. QUINN: Contracts to buy a service or obligation that's inherent in that contract.

MR. ISHERWOOD: Two different questions, actually.

MR. QUINN: Okay. Well, help me with both of them, then. Thank you.

MR. ISHERWOOD: The first question you were asking Ms. Cameron was: Do we have any obligations to provide a Dawn to Parkway service, and I think we said the answer to that was no.

Your second question was: Would we have bought a service in that period of time to create a Dawn to Parkway capacity? That's quite possible, because as evidenced by that one transaction, we were short Dawn to Parkway capacity.

MR. QUINN: So there were no -- well, my question is: Were there any contracts that would have obligated Union to a Dawn-to-Parkway delivery to a third party during that period?

MR. ISHERWOOD: To do a Dawn-to-Parkway delivery to through period?

MR. QUINN: Yes.

MR. ISHERWOOD: Yes, to Enbridge, to GMI, to a whole bunch of people. We sell capacity all the time.

MR. QUINN: So I guess if any of those third parties - did any of those third parties create a premium for Union relative to its demand rate?

MR. ISHERWOOD: Did they create or pay a premium?

MR. QUINN: Did they pay a premium? Thank you.

MR. ISHERWOOD: No, not on the M12 service.

MR. QUINN: On any C1 services?

MR. ISHERWOOD: It's possible that during the winter on C1 that people would buy capacity for a day or month in a peak winner condition, which would pay rates potentially above the M12 rate.

MR. QUINN: So no C1 contracts that might have been short term that would have covered an obligation during the month of January, per se?

MR. ISHERWOOD: We only sell C1 on sort of non-peak basis if it's on -- short-term C1 would be sold on non-peak basis.

MR. QUINN: So in the planning when you did your gas control plan, were there any contracts that would have had to have been taken into account which resulted in a shortfall of capacity to Parkway?

MR. SMITH: Mr. Quinn, I am not sure if this is helpful or unhelpful, and you can maybe let me know your view, but would it be of assistance if, in respect of B1.26, we advised of the difference between the 3.4918 gJs per month and the 2.334 gJs per month and how that need arose?

Would that cut through the back and forth we are having right now?

MR. QUINN: It may, as long as you can say definitively any C1 impacts to that need arising. If you include the C1 analysis in there, then, yes. Thank you.

MR. SMITH: No, I am not sure -- why is there a reference to C1 service?

MR. QUINN: To the extent that Union was going to make a premium from a C1 delivery service, shouldn't those premiums be paid back to ratepayers before ratepayers pay for buying a premium service that was oversold? If Union, as the integrated utility, oversold its Dawn Parkway position, it should pay the cost of premium service to ratepayers before ratepayers have to bear that cost.

MR. SMITH: I think the outstanding offer still stands. We will try and clarify the confusion that seems to have developed with respect to the questions that you have asked.

MR. QUINN: I hear you take an undertaking to accept that.

MS. SEBALJ: JTC1.7, and I did not hear it, so if it bears repeating for the record, could you do that, and if it doesn't, then that's fine?

MR. SMITH: I'm sorry, I missed that.

MS. SEBALJ: I just wanted to know if it's clear on the record what this JTC1.7 undertaking is, because I didn't hear it.

MR. SMITH: To explain the difference between the 3.4918 gJs per month and the 2.334 gJs per month referred to in B1.26, and the reason for the acquisition of the gas at the 3.4918 gJs per month.

UNDERTAKING NO. JTC1.7: TO EXPLAIN THE DIFFERENCE BETWEEN THE 3.4918 GJS PER MONTH AND THE 2.334 GJS PER MONTH REFERRED TO IN B1.26, AND THE REASON FOR THE ACQUISITION OF THE GAS AT THE 3.4918 GJS PER MONTH.

MR. QUINN: So why did the need arise, and my question was: And were there any premium third-party services that were sold that impacted that need to buy the premium service?

MR. SMITH: Well I haven't undertaken to do that, but our position is on the record if you want to say it ought to be included in the answer.

MS. SEBALJ: Sorry, I didn't hear that, Mr. Smith.

MR. SMITH: I am not going to undertake to do that. If Mr. Quinn wants to put that as a further request, we won't agree, but at least it's on the record then.

MR. QUINN: So you are going to do an assessment, but will not identify if there are any third-party services that impacted that?

MR. SMITH: We are going to do what I have indicated we would do, and if you feel the answer is inadequate in some way, you will take whatever position you want to take.

MR. QUINN: All right.

MS. SEBALJ: Thanks. Sorry, I can only record an undertaking that's actually been given, so the undertaking that's been given is the one described by Mr. Smith. And as I understand it, they are not providing an undertaking with respect to the premium services.

MR. QUINN: Those are my questions for now, with the exception of Mr. Smith was taking another undertaking under consideration.

MR. SMITH: If we just go off the record for one minute, I will just find out the answer to that.

MS. SEBALJ: Absolutely.

--- Discussion off the record

MR. SMITH: Just thank you for that indulgence. We will provide an answer to 6(a) through (d).

MR. QUINN: Thank you.

MS. SEBALJ: 6(a) through (d) -- so that was -- originally, we had marked JTC1.1 as question 6 for Mr. Quinn's prefiled questions. So if I can -- do I need a new undertaking or can we just keep that one?

MR. SMITH: No, no, that's fine. There is no part excluded.

MS. SEBALJ: Thank you. Are there any other questions from any other parties in the room?

The only other discussion we wanted to have, I think we will do it off the record. It's with respect to dates. So if there is nothing else, we will go off the record. Thank you, everyone.

--- Whereupon the conference concluded at 12:57 p.m.