

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.

**LONDON PROPERTY MANAGEMENT ASSOCIATION
("LPMA")
CROSS-EXAMINATION COMPENDIUM**

UNION GAS LIMITED

Answer to Interrogatory from
Canadian Manufacturers and Exporters ("CME")

Unabsorbed Demand Cost Account No. 179-108

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

Please provide the following information with respect to the calculation of the Unabsorbed Demand Cost ("UDC") Variance Account credit balance of \$4.615M:

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

Response:

- a) Please see the response at Exhibit B1.1.

The amount also includes an adjustment to correct the UDC deferral account. For the period April 1, 2007 to Dec 31, 2009, the UDC deferral calculation did not account for the changes in TCPL tolls that were included in Union's approved rates during the same period. In the deferral model, Union understated the amount of UDC recovered in approved rates by \$1.931 million. As noted above, an adjustment has been made to the 2010 UDC deferral calculation to credit ratepayers an additional \$1.931 million.

Please see the Attachment that shows the calculation of the UDC amount recovered in rates in 2010.

- b) Unfilled capacity was sold on the secondary market to minimize UDC. Revenues generated from the transportation releases were credited to the UDC deferral account mitigating the UDC that was forecasted in rates.

UNION GAS LIMITED
Calculation of 2010 UDC Collected in Rates

Original Deferral Calculation of North UDC Collected in rates									
Line No.	Particulars	Actual UDC Unit Rate (\$/10 ³ m ³) (a)	Actual Throughput Volumes (10 ³ m ³) (b)	UDC Collected in Rates (\$000's) (c) = (a x b)	2007 Board Approved UDC Unit Rate (\$/10 ³ m ³) (d)	Actual Throughput Volumes (10 ³ m ³) (e) = (b)	UDC using 2007 Board Approved Rates (\$000's) (f) = (d x e)	Variance in UDC from Prior Periods (\$000's) (g) = (c - f)	Total 2010 UDC (\$000's) (h)
<u>Jan 1, 2010 - Dec 31, 2010</u>									
1	R01	4.4574	837,602	3,734					
2	R10	3.4066	316,303	1,078					
3	R20	0.9081	122,491	111					
4	Total North			<u>4,922</u>					
5	M1/M2	0.0515	2,457,963	127					
6	M4	0.0515	14,885	1					
7	M10	0.0515	35	0					
8	Total South			<u>128</u>					
<u>Apr 1, 2009 - Dec 31, 2009</u>									
9	R01	3.1453	471,664	1,484	2.5325	471,664	1,194	289	
10	R10	2.4038	199,792	480	1.9355	199,792	387	94	
11	R20	0.6408	90,583	58	0.5159	90,583	47	11	
12	Total North			<u>2,022</u>			<u>1,628</u>	<u>394</u>	
<u>Jul 1, 2008 - Mar 31, 2009</u>									
13	R01	3.6775	806,995	2,968	2.5325	806,995	2,044	924	
14	R10	2.8105	301,566	848	1.9355	301,566	584	264	
15	R20	0.7492	109,221	82	0.5159	109,221	56	25	
16	Total North			<u>3,897</u>			<u>2,684</u>	<u>1,213</u>	
<u>Apr 1, 2008 - Jun 30, 2008</u>									
17	R01	2.9086	136,819	398	2.5325	136,819	346	51	
18	R10	2.2229	62,605	139	1.9355	62,605	121	18	
19	R20	0.5925	39,833	24	0.5159	39,833	21	3	
20	Total North			<u>561</u>			<u>488</u>	<u>73</u>	
<u>Jul 1, 2007 - Mar 30, 2008</u>									
21	R01	2.7564	771,668	2,127	2.5325	771,668	1,954	173	
22	R10	2.1066	288,736	608	1.9355	288,736	559	49	
23	R20	0.5616	124,805	70	0.5159	124,805	64	6	
24	Total North			<u>2,805</u>			<u>2,577</u>	<u>228</u>	
<u>Apr 1, 2007 - Jun 30, 2007</u>									
25	R01	2.6564	132,988	353	2.5325	132,988	337	16	
26	R10	2.0302	64,009	130	1.9355	64,009	124	6	
27	R20	0.5412	37,556	20	0.5159	37,556	19	1	
28	Total North			<u>504</u>			<u>480</u>	<u>23</u>	
29	Subtotal - UDC Recovery Adjustment							<u>1,931</u>	
30	Total North 2010 UDC Collected in Rates (Column c, line 4 plus Column g lines 12+16+20+24+28)								6,853
31	Total South 2010 UDC Collected in Rates (Column c, line 8)								<u>128</u>
32	Total 2010 UDC Collected in Rates (line 29 + line 30)								<u>6,981</u>

UNION GAS LIMITED

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

REF: Exhibit B3.16

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

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

Response:

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

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

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EB-2011-0038
Exhibit B3.53
Attachment

2010 Actual Long-Term Storage Services Account 179-72

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

Notes:

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

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Exhibit B1.3

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Account 179-72 Long Term Storage Services

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

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

- High deliverability storage
- T1 Delivery and upstream balancing
- Downstream balancing
- Dehydration Service
- Storage Compression
- C1 LT Storage
- LT Peak Storage

Response:

Please see the Attachment.

2007 Board Approved vs. 2010 Actual
Long-Term Storage Services Account 179-72

Line No.	Particulars (\$000's)	2007		2010			Actual vs. Board Approved (%)	Cost % of Total Revenue
		Board Approved (\$)	Cost % of Total Revenue	Actual (10 ³ M ³)	Actual (\$)	Actual vs. Board Approved (\$)		
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
Revenue								
1	Long-Term Peak Storage	42,058		5,546,837	87,166	45,108	107%	
2	T1 Deliverability and upstream balancing	-		61	1,825	1,825	100%	
3	Downstream Balancing	-		107	742	742	100%	
4	Dehydration Service	-		-	1,257	1,257	100%	
5	Storage Compression	-		-	772	772	100%	
6	High Deliverability Storage	-		920,717	20,179	20,179	100%	
7	Total Revenue	42,058		6,467,723	111,941	69,883	166%	
Costs								
Demand								
8	O&M	(5,969)	(14%)		(11,078)	(5,109)	86%	(10%)
9	Depreciation	(4,538)	(11%)		(8,645)	(4,107)	91%	(8%)
10	Property & Capital Tax	(932)	(2%)		(1,661)	(729)	78%	(1%)
11	Return	(3,317)	(8%)		(16,262)	(12,945)	390%	(15%)
12	Interest	(4,838)	(12%)		(11,349)	(6,511)	135%	(10%)
13	Income Taxes	(108)	(0%)		(8,215)	(8,107)	7,506%	(7%)
14	Total Demand	(19,700)	(47%)		(57,210)	(37,510)	190%	(51%)
Commodity								
15	O&M	(955)	(2%)		-	955	(100%)	0%
16	UFG	(4,177)	(10%)		(1,397)	2,780	(67%)	(1%)
17	Compressor Fuel ⁽¹⁾	(3,437)	(8%)		(2,643)	794	(23%)	(2%)
18	Customer Supplied Fuel	7,614	18%		5,322	(2,292)	(30%)	5%
19	Total Commodity	(955)	(2%)		1,282	2,237	(234%)	1%
20	Total Costs (line 14 + line 19)	(20,653)	(204%)		(55,928)	(35,273)	171%	(50%)
21	Net Revenue (line 7 + 20)	21,405			56,013	34,608	162%	50%
22	Deferral Sharing (2010 - 25%)					8,652		

Notes:

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

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EB-2011-0038
Exhibit A
Tab 1
Schedule 6
Page 1 of 2

UNION GAS LIMITED
Details of Balances in Storage Deferral Accounts
(\$ Millions)

Line No.	2010			2009	Variance
	<u>Short-term</u> (179-70) (a)	<u>Long -term</u> (179-72) (b)	<u>Total</u> (c)	<u>Total</u> (d)	
1 Storage revenue	20.887	111.941	132.828	135.286	(2.458)
Operating costs					
2 Cost of gas	1.873	(1.282)	0.591	6.318	(5.727)
3 O&M	2.261	11.078	13.339	12.897	0.442
4 Depreciation	-	8.645	8.645	7.312	1.333
5 Property & capital taxes	-	1.661	1.661	1.754	(0.093)
6	<u>4.134</u>	<u>20.102</u>	<u>24.236</u>	<u>28.281</u>	<u>(4.045)</u>
7 Interest, return and income taxes	<u>-</u>	<u>35.826</u>	<u>35.826</u>	<u>33.236</u>	<u>2.590</u>
8 Net margin	16.753	56.013	72.766	73.769	(1.003)
9 Board approved	<u>15.829</u>	<u>21.405</u>	<u>37.234</u>	<u>37.234</u>	<u>-</u>
10 Excess	<u>\$ 0.924</u>	<u>\$ 34.608</u>	<u>\$ 35.532</u>	<u>\$ 36.535</u>	<u>\$ (1.003)</u>

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EB-2011-0038
Exhibit A
Tab 1
Schedule 6
Page 2 of 2

UNION GAS LIMITED
Assignment of Union's 2010 Unregulated Storage Costs to its Short-Term and Long-Term Accounts

Line No.	Item	2010 Actual Amount (\$000)	Assignment Basis to 179-70 (Short-Term) and 179-72 (Long-Term)
	Revenue		
1		132,828	Based on services provided.
2	Total Revenue (A)	132,828	
	Commodity Costs		
3	UFG	2,049	Ratio of actual unregulated short and long-term volume to total actual unregulated volumes Short-Term = $3.8\% / (3.8\% + 8.1\%) = 31.9\%$ Long-Term = $8.1\% / (3.8\% + 8.1\%) = 68.1\%$
4	Compressor Fuel	3,684	Ratio of actual unregulated short and long-term storage activity to actual total storage activity Short-Term varies monthly, annual average = 33.1% Long-Term varies monthly, annual average = 66.9%
5	Customer Supplied Fuel	-5,321	Direct to Long-Term Storage
6	Third Party Storage	179	Direct to Long-Term Storage as per Union's 2007 approved cost allocation study
7	Total Commodity (B)	591	
	Demand Costs		
8	O&M	11,078	Direct to Long-Term Storage Total unregulated O&M assigned using Union's Board-approved 2007 cost allocation methodology
9	Depreciation	8,645	Direct to Long-Term Storage Total unregulated depreciation assigned using Union's Board-approved 2007 cost allocation methodology
10	Property & Capital Tax	1,661	Direct to Long-Term Storage Total unregulated property & capital tax allocated using Union's Board-approved 2007 cost allocation methodology
11	Interest Expense	11,348	Direct to Long-Term Storage Weighted average interest rate of 4.95% times the total 2010 unregulated rate base assigned using Union's Board-approved 2007 cost allocation methodology
12	Return	16,263	Direct to Long-Term Storage Board-approved 2007 weighted average return rate of 3.07% times the total 2010 unregulated rate base assigned using Union's Board-approved 2007 cost allocation methodology, plus Incremental Return on 2010 unregulated rate base, plus Return on purchased assets
13	Income Tax on Return	8,215	Direct to Long-Term Storage Income tax required on return assuming a tax rate of 33.56%
14	Revenue Requirement on 7.9 PJs of excess in-franchise storage capacity	2,261	Direct to Short-Term Storage O&M, depreciation, taxes and regulated return on equity of 7.9 PJs of storage services. Amount has been charged to unregulated business each year 2007 through 2010.
15	Total Demand Costs (C)	59,471	
	Net Margin (D) = (A)-(B)-(C)		
16	Net Margin	\$72,766	

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Exhibit B3.15

UNION GAS LIMITED

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

Long-Term Storage Service Costs

Reference: Exhibit A, Tab 1, Schedule 6, Page 2, Lines 11 and 12

Please explain what is meant by "return on purchased assets" and provide a table showing how this return and the underlying "rate base" are calculated.

Response:

Subsequent to the Board's NGEIR decision Union invested in additional storage capacity as part of the company's unregulated storage operations. This included the development of new storage capacity as well as contracts to purchase storage from others.

The return on purchased assets is an amount calculated to recognize the expected return on equity equivalent to the return necessary to attract capital for an owned asset. The deemed capital cost used to calculate the return on purchased assets was an estimated simple average of the capital cost of development at the time of the purchase decision.

The calculation is as follows:

Space PJ's x Capital Cost \$10.00/GJ x Required Rate of Return x number of months

Asset Name	Contract Start	Space PJ's	Capital Cost \$/GJ	Required Rate of Return	Total Annual Amount	C10 In Service Amount
Washington 10	Apr-08	2.1	\$10.00	5.18%	\$1,088	\$1,088
Huron Tipperary	Jun-08	2.3	\$10.00	5.18%	\$1,191	\$1,191
MHP/St Clair Pool	Apr-08	1.2	\$10.00	5.18%	\$622	\$622
Sarnia Airport	Jun-09	5.8	\$10.00	5.18%	\$3,004	\$3,004
Michcon/Gateway	May-10	2.1	\$10.00	5.18%	\$1,088	\$725
Total						\$6,630

Required Rate of return is calculated as follows:

Equity	36.00%
Post Tax Hurdle Rate	14.40%
Required Rate of Return	<u>5.18%</u>



ONTARIO ENERGY BOARD

FILE NO.: EB-2011-0038

VOLUME: Technical Conference

DATE: July 26, 2011

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

3 MR. THOMPSON: Is your mic on?

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

10 MR. THOMPSON: Okay. Then let's come back to this
11 issue of -- I think it would relate to Mr. Quinn's Question
12 1 in writing.

13 This was the question about the incremental storage
14 amount of \$18.727 million, and my understanding now is that
15 that -- currently reduction in revenue amount reflects the
16 \$10.7 million of actual cost paid to third-party storage
17 operators, and then I understand the difference of
18 \$8,027,000 to be costs related to storage loans, or
19 something to that effect.

20 Have I got that straight, Ms. Elliott?

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

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

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

1 number?

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

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

6 MS. CAMERON: Yes.

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

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

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

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

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

20 MR. THOMPSON: Okay. Thanks.

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

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

1 created the \$8 million cost are multiyear gas loans?

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

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

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

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

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

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

28 MR. QUINN: So in totality, then, you have \$8 million

1 worth of costs for this year. Would you -- those are costs
2 only for 2010 incurred costs? Is that what you've
3 reflected, the cost in a year? Does the cost get incurred
4 at the time of the transaction of gas to the third party or
5 when it's returned?

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

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

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

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

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

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

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

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

28 I wanted to go to the issue that Board Staff was

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Exhibit B3.16

UNION GAS LIMITED

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

Long-Term Storage Service Costs

Reference: Exhibit A, Tab 1, Schedule 6, Page 2, Lines 11 and 12

Are the 3rd party storage costs used for calculating the long-term storage margin different from the amounts Union actually pays the 3rd party storage providers? If so, please provide a comparison of the return on purchased assets and the actual cost of the services.

Response:

To calculate the long-term storage margin Union reflects the amount of 3rd party storage cost paid of \$10.7 million (as a reduction to revenue) and the return on purchased assets of \$6.6 million as shown at Exhibit B3.15.

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Exhibit B3.54

UNION GAS LIMITED

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

REF: Exhibit B3.17

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

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

Response:

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

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Exhibit B3.18

UNION GAS LIMITED

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

Long-Term Storage Service Costs

Reference: Exhibit A, Tab 1, Schedule 6, Page 2, Lines 11 and 12

Since the 179-72 Deferral Account is a component of Union's regulated utility rates, please explain why Union should not use the Board-approved return for purposes of calculating the margin on long-term storage service. Please provide the derivation and bottom line result for Long-term Margin sharing that would have been calculated using the Board-approved return for each of the years 2008, 2009 and 2010.

Response:

Union uses an incremental rate of return for storage investments made subsequent to the Board's NGEIR decision to reflect the threshold return on investment required by the shareholder for capital projects in unregulated operations. The additional investment in unregulated storage projects would not have been approved by the shareholder at Board approved rate of return.

The allocation of costs, including a required return on rate base investment that is calculated for deferral account disposition purposes, is consistent with the traditional revenue requirement calculation. This approach has always been used for deferral disposition purposes before and is consistent with the methodology used to cost storage services in the 2007 rate case, which was accepted by the Board in the NGEIR decision.

Please see the Attachment.

Filed: 2011-06-08
EB-2011-0038
Exhibit B3.18
Attachment

Long-Term Margin Sharing 2008-2010

Line No.	Particulars (\$000s)	2008	2009	2010
1	Return Used in Filing	7,279	14,220	16,262
2	Board-Approved Return	(5,638)	(9,749)	(10,968)
3	Difference	<u>1,641</u>	<u>4,471</u>	<u>5,294</u>
4	Rate Payer Portion	75%	50%	25%
5	Difference	<u>1,231</u>	<u>2,236</u>	<u>1,324</u>

Filed: 2011-06-08
EB-2011-0038
Exhibit B5.2

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 5-6

With respect to the long-term peak storage services (account 179-72) please indicate if there has been any change in the methodology used to allocate operating costs to Union's unregulated storage activity from that used in EB-2010-0039. If yes, what is the impact on the ratepayer portion of the deferred margin if the methodology used and approved in EB-2010-0039 were to be maintained?

Response:

There has been no change in the methodology used to allocate costs to Union's unregulated storage activity from that used in EB-2010-0039.

Filed: 2010-06-28
EB-2010-0039
Exhibit B7.02

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 6-8

With respect to the long-term peak storage services (account 179-72) please indicate if there has been any change in the methodology used to allocate operating costs to Union's unregulated storage activity from that approved by the Board in EB-2009-0052. If yes, what is the impact on the ratepayer portion of the deferred margin if the methodology used and approved in EB-2009-0052 were to be maintained?

Response:

There has been no change in the methodology used to allocate costs to Union's unregulated storage activity from EB-2009-0052.

Filed: 2009-05-08
EB-2009-0052
Exhibit B5.2

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Ref: Exhibit A, Tab 1, page 6-7

- a) Please show the calculation of the \$5.906 million for 2007 based on the Board's Decision in EB-2008-0034.
 - b) Please confirm that the \$5.906 million is the 75% ratepayer portion.
 - c) Does the \$5.906 million related to 2007 include interest on this balance for 2007 and 2008?
 - d) Please confirm that the actual net revenue of \$51.478 million for 2008 has been calculated in compliance with the Board's EB-2008-0034 Decision.
-

Response:

- a) Please see Exhibit B2.1, Attachment 2, column (d).
- b) Confirmed.
- c) No. Union will apply interest to the balance upon disposition.
- d) Confirmed.

Filed: 2011-08-02

EB-2011-0038

JTC1.2

Attachment

Long-Term Margin Sharing 2010

Line No.	Particulars (\$000's)	Return used in filing	Board-Approved Return	Difference
1	Existing Assets	3,263	3,263	-
2	Incremental Assets	6,369	3,775	2,594
3	Purchased Assets	6,630	3,930	2,700
4	Total	16,262	10,968	5,294

COSTS INCLUDED IN NET REVENUE CALCULATION
FOR ACCOUNT 179-72 (\$000's)

		<u>HURDLE RATE APPROVED</u>	
		<u>YES</u>	<u>NO</u>
<u>PURCHASED</u>	<u>YES</u>	16,262	10,968
<u>ASSETS</u>			
<u>APPROVED</u>	<u>NO</u>	9,632	7,038