

September 23, 2011

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

Dear Ms. Walli:

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

Please find enclosed two copies of Union Gas Limited's responses to the undertakings from the September 18-21, 2011 oral hearing for the above noted proceeding.

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

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

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

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. R. Aiken (LPMA)

Please confirm whether Union included interest on the incremental balance, based on when the balances were created, had the error not taken plant.

Interest of \$7,250 has been recorded on the amount of the correction from the date of the adjusting entry (August 2010). If interest had been calculated based on when the balances were created the amount would have been \$44,805 an increase in the amount to be refunded of \$37,555.

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. J. Shepherd (SEC)

Please advise whether at any time any party challenged whether the audit was carried out correctly for any of the relevant years.

Since the EB-2006-0021 Decision Union has filed the annual Demand Side Management (“DSM”) Annual Report, the annual Audit Report and the Summary Report with the Board per Section 2.1.12 of Board’s Reporting and Record Keeping Rule.

In each of the past years, the DSM audit has been discussed as part of the review process with Union’s Evaluation and Audit Committee (“EAC”). The annual review process has included numerous discussions and debates about the audit. However, in each year since EB-2006-0021, with the exception of 2010, the DSM audit has been filed with EAC support.

In 2010, the EAC and Union did not reach consensus. Union understands that the EAC has concerns about the auditor selection and how the audit was carried out (September 19, 2011 transcript, p.31, lines 22-23). Union is unaware of any specific EAC concerns with respect to the audit results (SSM, LRAM).

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. R. Aiken (LPMA)

Please provide the debt and whatever other sources of financing are being used and what those rates are.

The components of the 8.5% internal rate of return are:

Long-term debt	3.08
Short-term debt	(0.01)
Preferred Shares	0.24
Common Equity	<u>5.19</u>
	<u>8.50</u>

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. R. Aiken (LPMA)

Please provide a matrix inclusive of the tax consequences and calculate what the return on equity for 2010 would be.

Costs Included in Net Revenue Calculation for Account 179-72 (\$000's)
Inclusive of Cost Consequences

		<u>Hurdle Rate Approved</u>	
		Yes	No
Purchased	Yes	24,477	16,509
<u>Assets Approved</u>	No	14,498	10,594

Please see the attachment for the calculation of the return on equity for 2010 adjusted to reflect the removal of both the return on purchased assets and incremental return from the deferral account calculation.

UNION GAS LIMITED
Return on Equity - Unregulated Storage Investment

<u>Particulars (\$000's)</u>	<u>2010 Adjusted</u>
1 Earnings Before Interest and Taxes	94,576
2 Financial Expenses	<u>11,348</u>
3 Income before income taxes	83,228
4 Income taxes	25,801
5 Preferred dividend requirements	<u>178</u>
6 Unregulated earnings	<u>57,250</u>
7 Long-term storage premium subsidy to ratepayers (after tax)	(3,692)
8 Short-term storage premium subsidy to ratepayers (after tax)	<u>(7,765)</u>
9	<u>(11,457)</u>
10 Net earnings from unregulated business	<u><u>45,793</u></u>
11 Unregulated storage investment	264,173
12 Equity component @ 36%	95,102
13 Return on equity	48.15%

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. D. Quinn (FRPO)

Please quantify amount of space sold at market-based rates compared to successive years, starting in 2007.

YEAR	Base	In-franchise Requirements (PJ)	Short-term Space Sold (PJ) ¹	Short-term Total Gross Revenue (\$000's) ¹	Long-term Space Sold (PJ) ¹	Long-term Total Gross Revenue (\$000's) ¹
2004	159.6	88.2	3.4		67.9	
2005	161.7	90.4	8.1		64.3	
2006	161.0	90.5	2.1		69.4	
2007	159.9	87.0	13.0	24,261	76.2	65,001
2008	162.4	91.4	8.7	23,327	84.6	87,093
2009	164.7	90.5	9.5	28,915	91.1	106,373
2010	163.7	89.9	10.1	20,887	102.3	111,941

Notes:

(1) Data for years 2004, 2005 & 2006 as per B3.4.

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. D. Quinn (FRPO)

Please provide the allocated non-utility storage space for 2008, 2009, and 2010, and also the balance of non-utility storage for each day of October and November of those years.

The attachment outlines the total non-utility storage balances as a percentage of the total non-utility storage space available.

Union targets to be at the total non-utility storage space by October 31 of each year (Union's peak storage day). Contrary to the plan, for the period of October and November 2009, the non-utility balances did exceed the non-utility storage space available.

For the periods of October and November 2008 and 2010, the non-utility balance was within the total non-utility storage space available. Union does not plan to exceed the total non-utility storage space available.

Non-Utility Balances as a Percent of the Non-Utility Storage Space Available
Union Gas Limited

October				November			
Day	2008	2009	2010	Day	2008	2009	2010
1	97%	104%	86%	1	97%	105%	99%
2	97%	104%	87%	2	97%	105%	98%
3	97%	104%	88%	3	98%	105%	98%
4	97%	104%	88%	4	98%	105%	98%
5	98%	104%	88%	5	98%	105%	98%
6	98%	103%	89%	6	98%	105%	98%
7	98%	103%	89%	7	98%	105%	98%
8	98%	103%	90%	8	99%	105%	98%
9	98%	103%	91%	9	99%	106%	98%
10	98%	103%	92%	10	99%	106%	97%
11	99%	103%	93%	11	100%	106%	97%
12	99%	103%	93%	12	99%	106%	98%
13	99%	103%	93%	13	100%	105%	99%
14	99%	102%	93%	14	100%	105%	99%
15	99%	102%	94%	15	100%	105%	100%
16	99%	102%	94%	16	100%	105%	100%
17	99%	102%	95%	17	100%	105%	100%
18	99%	102%	95%	18	100%	105%	99%
19	99%	101%	95%	19	98%	105%	99%
20	99%	102%	96%	20	97%	104%	99%
21	99%	102%	96%	21	96%	104%	99%
22	99%	102%	96%	22	94%	104%	99%
23	98%	102%	97%	23	93%	104%	99%
24	98%	102%	97%	24	93%	104%	99%
25	98%	103%	97%	25	91%	104%	98%
26	98%	103%	98%	26	90%	104%	98%
27	98%	103%	98%	27	89%	104%	98%
28	98%	104%	98%	28	88%	104%	97%
29	97%	104%	99%	29	87%	104%	97%
30	96%	104%	99%	30	86%	104%	97%
31	97%	104%	99%				

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. D. Quinn (FRPO)

Please show how the contingency space was used through October and November.

The attachment provides the total utility and non-utility storage balances as a percentage of the total storage space available, less the system integrity space reserved to meet injection requirements.

Union did not utilize system integrity space to provide storage services.

For example, On October 1, 2008, the total storage balance (including utility and non-utility) was 89% of the total space available (excluding system integrity space to meet injection requirements).

Total Utility and Non-Utility Storage Balances as Percent of Storage Space Available Less
System Integrity Requirements
Union Gas Limited

October				November			
Date	2008	2009	2010	Date	2008	2009	2010
1	89%	98%	88%	1	92%	98%	97%
2	89%	98%	88%	2	93%	98%	96%
3	89%	98%	88%	3	93%	98%	96%
4	90%	98%	89%	4	93%	98%	97%
5	90%	98%	89%	5	94%	98%	96%
6	90%	98%	89%	6	94%	98%	96%
7	90%	98%	90%	7	94%	98%	96%
8	91%	98%	90%	8	94%	99%	96%
9	91%	98%	91%	9	94%	99%	96%
10	91%	98%	92%	10	94%	99%	96%
11	92%	98%	92%	11	94%	99%	96%
12	92%	98%	92%	12	94%	99%	97%
13	93%	97%	93%	13	94%	99%	97%
14	93%	97%	93%	14	94%	99%	98%
15	93%	96%	93%	15	94%	99%	98%
16	94%	96%	94%	16	94%	99%	98%
17	94%	96%	94%	17	94%	99%	98%
18	94%	96%	94%	18	93%	99%	98%
19	94%	96%	94%	19	92%	99%	98%
20	94%	96%	95%	20	91%	99%	98%
21	94%	96%	95%	21	90%	99%	98%
22	94%	96%	95%	22	89%	99%	98%
23	94%	96%	95%	23	88%	99%	98%
24	94%	96%	96%	24	87%	99%	98%
25	94%	96%	96%	25	86%	99%	98%
26	94%	96%	97%	26	85%	99%	97%
27	94%	97%	97%	27	84%	99%	97%
28	93%	97%	97%	28	84%	99%	96%
29	93%	97%	97%	29	83%	99%	96%
30	92%	97%	97%	30	83%	99%	96%
31	92%	97%	97%				

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. D. Quinn (FRPO)

Please update figures between 2007 and 2010 Board-approved amounts.

Total 2011 O&M for the unregulated storage operations was \$4.648 million higher than 2007 Board-approved O&M (\$4.154 million long-term Exhibit B1.3 and \$0.494 million short-term Exhibit B1.2). The variance is primarily attributable to changes in accounting for capitalization, increased salary and benefits and other expenses.

The impact of the change in accounting for capitalization identifiable at the time of the accounting change was approximately \$1.0 million. The impact of the change in capitalization subsequent to the date of transition is not available. Salary and benefits increased \$3.4 million and other expenses increased \$0.2 million.

Filed: 2011-09-23

EB-2011-0038

Exhibit J2.4

UNION GAS LIMITED

Undertaking of Union Gas
To Mr. P. Thompson (CME)

Please reconcile Exhibits B3.53 and B1.2 for 98,047 in K1.4, Attachment 1.

Please see attachment.

Reconciliation of Short-Term and Long-Term Deferrals Accounts
Union Gas Limited

Line No.	Particulars (\$000's)	Exhibit B1.2 Short-Term (a)	Exhibit B.53 Long-Term (b)	Other ⁽¹⁾ (c)	Exhibit A, Tab 2, Appendix B, Schedule 1 (d)
	Operating Revenues				
1	Revenue	20,887	111,941	385	133,213
2	Deferral sharing	<u>(657)</u>	<u>(8,652)</u>	<u></u>	<u>(9,309)</u>
3	Total Revenue	20,230	103,289	385	123,904
	Operating Expenses				
4	Cost of gas	1,873	(1,282)	135	726
5	O&M	2,261 (2)	11,078		13,339
6	Depreciation		8,645		8,645
7	Property and capital taxes		1,661		1,661
8	Total Cost	<u>4,134</u>	<u>20,102</u>	<u>135</u>	<u>24,371</u>
	Other Income/(Expense)				
9	Gain/(Loss) on sale of assets			(400)	(400)
10	Other/HTPL			(1,067)	(1,067)
11	Gain/(Loss) on foreign exchange			(19)	(19)
12	Total Other			<u>(1,486)</u>	<u>(1,486)</u>
13	Earnings before Interest and Taxes	<u>16,096</u>	<u>83,187</u>	<u>(1,236)</u>	<u>98,047</u>
14	Return		16,262		
15	Interest		11,349		
16	Taxes		8,215		
17			<u>35,826</u>		
18		<u>16,096</u>	<u>47,361</u>		
19	Add back Deferral Sharing	657	8,652		
20	Net Revenue	<u>16,753</u>	<u>56,013</u>		

Notes:

- 1 Exhibit B2.3.
- 2 Exhibit B1.2 line 13 column (d).