UNION GAS 2013 COST OF SERVICE
EB-2011-0210
BOARD STAFF INTERROGATORIES

B. RATE BASE

1. Is Union's forecast level of capital spending in 2013 appropriate?

IR # 1

Ref: Exh B1/Tab 4/Pg.5

Union's 2012 capital spending plan includes $7.4 million related to costs to provide distribution services to the town of Red Lake. Please answer the following questions related to this project:

a) Will this project be completed and be used and useful in 2012?
b) What is the total cost of this project and what is the level of contribution in aid of construction? Please provide a breakdown of the contribution in aid of construction.
c) To-date what has been the amount of the contribution in aid of construction that Union has received?

IR # 2

Ref: Exh B1/Tab 2/Pg.4

Union's evidence indicates that the major transmission projects for 2013 include the Parkway West project at a cost of $80.0 million and the Owen Sound Replacement project at a cost of $17.9 million. Please answer the following questions with respect to these projects:

a) Please provide additional information about the projects including need and benefits to ratepayers.
b) When was the need for these projects identified?
c) Please provide reasons for undertaking these projects in the Test Year and the impact of delaying the projected in-service date?

d) Please confirm if these projects will be used and useful in the Test Year.

IR # 3

Ref: Exh B1/ Tab 2/Pg.3

Please provide a list of all individual distribution capital projects in 2012 and 2013 that fail to achieve the minimum threshold profitability index ("PI") of 0.8. Please provide a rationale for going ahead with such projects. Please do not include projects that fail the minimum threshold PI but will receive a contribution in aid of construction.

IR # 4

Ref: Exh B1/ Tab 3/App B

In Union's Updated Application filed on March 27, 2012, Union has revised the 2011 residential conversions from a total of 3,450 conversions to 4,972 conversions, an increase of 44% over the 2011 outlook filed in November 2011. Union has stated in evidence that the residential market is essentially saturated and regional market assessments indicate a declining level of future conversion activity. In light of the upward revision to the 2011 outlook, why has Union not considered updating its 2012 and 2013 forecast numbers? Please provide reasons as to why the 2012 and 2013 numbers would fall from 4,972 to 3,200 and 3,000 respectively.

IR # 5

Ref: Exh B1/ Tab 3/App B

In Union's evidence, the forecast conversions for Northern/Eastern customers for 2012 are estimated to be 1,480. Similarly, new attachments are estimated to be 3,040. Please confirm whether these numbers include attachments/conversions in the community of Red Lake. In case the numbers include the attachments/

conversions related to the Town of Red Lake, please provide reasons for the low forecast number.

IR # 6

Ref: Exh B1/ Tab 2

Considering the outlook for the supply and price of natural gas, does Union intend to revive the natural gas for vehicles program?

IR # 7

Ref: Exh B1/Tab 9

Union’s evidence provides details on Union’s Parkway West construction project scheduled for completion in 2014. Please answer the following questions with respect to this project:

a) Union has budgeted $80 million in 2013 for the Parkway West construction project. Please provide the major components of this project that are scheduled for 2013.
b) Union has budgeted an amount of $120 million in 2014 for Loss of Critical Unit Protection. Union proposes to install approximately 40,000 HP of compression that connects to suction and discharge headers and custody transfer metering. What alternatives did Union consider for this project? Please provide details.
c) What is the current compression HP that Union is using for deliveries into the TCPL system at Parkway?
d) What has triggered the need for Loss of Critical Unit Protection? Please provide a detailed response.
e) How will the Parkway West construction project be brought into in-service? Will the entire project be used and useful at a certain date or will this be used and useful in phases?
f) What portion of the project will be used and useful in 2013 and what is the estimated cost of the part of the project that will be used and useful in 2013?

4. Is the Proposed Test Year Rate Base Appropriate?

IR # 1

Ref: Exh B1/Tab 1/Pg.6

Union's rate base is projected to be $3,741.5 million for the 2013 Test Year. Of this, $157 million is gas in storage and line pack gas (item #2). What is the forecasted average cost of gas for this line item?

IR # 2

Ref: Exh B1/Tab 3/Pg 8 and Exh B1/Summary Schedule 2/Pg 4

Union states it is forecasting modest increases in customer attachments over the 2011 and 2012 period (Exh B1/Tab 3/Pg 8). Further, Union states that the individual project economics are produced for each project before the actual expenditure is undertaken (Exh B1/Summary Schedule 2/Pg 4). Please outline the timing of these projects and whether any of these projects had been considered previously (and the year in which these projects were previously considered). For example, were any of these projects rejected because they failed to satisfy the profitability index but have now been reconsidered and deemed to be sufficiently profitable?

IR # 3

Ref: Exh B1/Tab 4/Pg 9

Union states that "transportation replacement at Union is aligned with Spectra Energy Vehicle Replacement Guidelines which are intended to create a balance between age-related maintenance and replacement costs. Union's guidelines were reviewed and validated by a third party vendor, PHH Strategic Consulting".

a) Please briefly explain the guidelines that Union uses to "create a balance between age-related maintenance and replacement costs" for transportation assets.

b) Please provide a copy of the PHH report which "validated" those guidelines.
c) Has Union developed similar guidelines for balancing age-related maintenance and replacement costs for gas distribution, storage and transmission assets? If so, please explain in detail. If not, please explain why such guidelines apply only to the relatively small category of transportation assets.
d) If Union does not have specific guidelines for balancing maintenance and capital replacement costs, what criteria does Union use for ensuring that all distribution, storage and transmission capital replacements are in fact prudent, and that relevant distribution, storage and transmission services could not continue to be provided more cost-effectively through additional or optimized maintenance activities rather than by replacing the aged facilities? Please explain in detail.
e) Is Union's approach towards maintaining vs. replacing aged facilities different under the IRM that has been in effect since 2008, compared to the years immediately preceding the implementation of the IRM? Please explain why or why not.

IR # 4

Ref: Exh B1/Tab 6/Pg 1

Union states that its approach towards integrity management "continues to evolve from the initial focus of assessing the pipe to a broader perspective with increased expectations and costs".

a) Please explain in detail how Union's "broader perspective" factors expectations and costs into its integrity management programs.
b) Was this change in approach a result of internal management decisions within Union, or motivated by Union's parent company Spectra?
c) Did this change in approach depend on any changes in Union's economic, policy or regulatory environment, such as the need to deal with new government safety mandates or the adoption of IRM in 2008? Please explain.
d) Also, please explain how Union evaluates and quantifies the incremental costs and incremental benefits of actions designed to maintain or improve the integrity of its assets.

IR # 5

Ref: Exh B1/Tab 6/Pg 2

Union forecasts that the Pipeline Integrity Management Program for the 2002-2011 period was estimated to cost $75.5 million in capital and $16.0 million in O&M expenses, and the actual costs over this period (which includes the 2011 outlook) were $82.1 million in capital and $16.4 million in O&M, which was slightly higher than the original costs primarily due to additional repairs designed to address the results of an assessment of the IMP.

a) Please provide the projected and actual capital expenditures associated with the IMP in each year from 2002 to 2011, inclusive. Please explain any significant discrepancies associated with differences between actual and projected capital expenditures in each of these years.
b) Please provide the projected and actual O&M expenditures associated with the IMP in each year from 2002 to 2011, inclusive. Please explain any significant discrepancies associated with differences between actual and projected O&M expenditures in each of these years.
c) Please discuss the "additional repairs" that were identified by an assessment of the IMP and the costs associated with these additional repairs.

IR # 6

Ref: Exh B1/Tab 6/Pgs 6 and 7

Union states that, for relatively old gas lines installed in the 1950s and 1960s, "a significant amount of work, along with associated capital cost, has been required to remove obstructions in the line and make them "piggable"". Please provide a detailed explanation of the analyses and criteria that Union uses to evaluate whether investments should be made to make lines "piggable," relative to the operating expenditures that would be incurred if ECDA was used to inspect lines.

IR # 7

Ref: Exh B1/Tab 6/Pg 8

a) Please provide data on the portion of capital expenditures presented in Table 2 specifically designed to facilitate “pigging,” as well as the portion of operating expenditures presented in Table 2 specifically related to ECDA, in each year from 2002 through 2011.
b) Have increased capital expenditures needed to make lines “piggable” led to a subsequent decline in ECDA opex? Please explain.

IR # 8

Ref: Exh B1/Tab 6/Pg 14

Union states that there “has been an increased effort to reduce the amount of leaks on Union’s distribution piping, primarily due to corrosion. Union has increased the level of O&M and capital spending to repair leaks and replace parts of the system that are of highest risk and can be best addressed through replacement.” Please explain the precise criteria that Union uses to determine when parts of the system experiencing leaks “can be best addressed through replacement” rather than through O&M expenditures necessary to locate and repair leaks.

IR # 9

Ref: Exh B1/Tab 6/Pg 15

Union’s Table 6 presents data on distribution asset capital and O&M expenditures between 2007 and 2013. The data show a pronounced increase in capital expenditures in 2009 to $6.95 million from an average of $0.87 million per year in 2007-08. After 2009, annual capital expenditures average $7.37 million while annual O&M expenditures experience a steady upward rise from $0.51 million in 2010 to $3.28 million in 2013. Since replacing a leaking distribution pipe is typically viewed as a substitute for the O&M costs associated with repairing distribution leaks, shouldn’t we expect to see distribution integrity O&M costs decline after the large capital expenditures made over the 2009-2013 period, not increase? Please explain why this has not, and is not projected to be, the case.

IR # 10

Ref: Exh B1/Tab 6/Pgs 14 and 15

Union's Tables 5 and 6 presents data on distribution asset capital and O&M expenditures.

a) Please provide a summary of the actual number of leaks, and leak-related operating expenses, for the years 2007-2011, and projected number of leaks and leak-related operating expenses for the years 2012-2013.
b) If data are available, please provide this information segmented by the type of pipe: polyethylene, protected steel, unprotected steel, and cast-iron.
c) Please provide the km of distribution main that is constructed of polyethylene, protected steel, unprotected steel, and cast-iron, and calculate the number of leaks per km for each of these types of pipe, in each year from 2007 through 2013.

IR # 11

Ref: Exh B1/Tab 6/Pg 17

Union's table 7 shows that there were no capital expenditures on station asset integrity between 2007 and 2010, but a significant increase in those expenditures over the 2011-2013 period. Is it reasonable to interpret at least part of the station asset integrity expenditures in 2011-2013 as a "catch-up" of expenditures that were deferred from earlier years? Please explain in detail.

IR # 12

Ref: Exh B1/Tab 7/Pg 2

Union states that the costs and benefits of alternative IT investments are prepared by different business sponsors, before investment "requests are placed into a rolling list where they are reviewed by Union's IT Capital Steering Committee. As resources become available, projects are given the approval to succeed".

a) This description seems to suggest that there is a given amount of funds available for IT investments in each year. Is this correct? If so, please describe how the total IT budget is established and updated in each year.
b) Is the total amount of budgeted funds always spent? Please explain.
c) Please describe in as much detail as possible how the "benefits" of IT investments are assessed and quantified.

IR # 13

Ref: Exh B1/Tab 7/Pg 5

Union states that Enterprise Asset Management ("EAM") "is a Company-wide initiative that will result in a comprehensive solution to plan and control Union's assets throughout their life-cycle from acquisition through installation".

a) Are the assets referred to in this statement IT assets only, or do they include other assets? If so, please identify all types of Union assets that are included in Union's EAM.
b) When was the EAM initiated?
c) Was EAM initiated by Union managers or at the direction of Union's parent company Spectra? Please explain.
d) Please provide data on all operating and capital costs associated with developing and administering the EAM, including the costs of any outside consultants who may be advising Union on these issues.
e) Please provide any internal Company documents that describe or present related details on the EAM.

IR # 14

Ref: Exh B1/Tab 7/Pg 5

Union states that "EAM will supply information that will increase Union's ability to manage costs, increase the productivity of each asset and ultimately increase efficiency".

a) Please provide all Union documents that discuss and/or quantify EAM's potential for managing costs and increasing the productivity and efficiency of assets.
b) Have any of these cost and productivity savings been reflected in Union's proposed capital expenditures in Exhibit B? Please explain.

IR # 15

Ref: Exh B1/Tab 2/Appendix A

Union provided the capitalization policy in the Appendix A of Exhibit B1 Tab 2.

a) Has Union conducted a capitalization review and comparison with other gas distributors; either in Canada or US? If so, please provide Union's internal analysis and review. If no review has been conducted, please provide reasons.
b) Does Union have a plan to conduct a capitalization review and comparison with respect to other gas distributors; either in Canada or US? If so, please provide details for the plan. If no, please provide reasons.

6. Are the methods proposed by Union to allocate the cost and use of capital assets between regulated and non-regulated activities appropriate, and are the proposed allocations to the regulated business appropriate for the Test Year?

IR # 1

Ref: Exh A2/ Tab 2/ Pg.3

As part of the settlement agreement in EB-2010-0039, Union hired an independent consultant Black and Veatch (B & V") to review Union's cost allocation methodologies. Union filed the consultant's report in EB-2011-0210. Please answer the following questions with respect to the B&V report:

a) In the report, B&V made certain recommendations. Please confirm that Union has adopted all the recommendations. Also, describe the changes that have been made to cost allocations as a result of the report. Please provide a detailed response.
b) In its report, B&V recommended that Union should derive a revised cost allocation factor for the allocation of Union's vehicles and heavy equipment used in its Dawn storage and transmission operations to its unregulated storage operations. Please describe the changes made to the cost allocation factor as a result of this recommendation.
c) Please provide the impact on ratepayers/utility operations as a result of the B&V report.

C. OPERATING REVENUES

1. Is Union's general service demand forecast appropriate?

IR # 1

Ref: Exh C1/Tab 1/Pg.14

Union's evidence on page 14 of Exhibit C1/Tab 1 indicates that after weather, the weighted furnace efficiency variable is the second most important factor in explaining residential natural gas consumption. Please provide furnace efficiency numbers from 2002 to 2011.

IR # 2

Ref: Exh C1/Tab 1/Pg.23

In the Application, Union indicates that the Normalized Average Consumption (“NAC”) forecast for residential customers continues to decline over the 2010 to 2013 period and essentially resembles the trend observed over the past 20 years. Please answer the following questions related to declining NAC within the residential segment:

a) The trend in the NAC seems to be declining over a fairly long period. Has Union conducted any research or analysis to understand when the trend may eventually flatten out? Please provide a detailed response and any opinions that Union may have on this subject matter.
b) In Union’s update filed on March 27, 2012, the 2011 forecast number for residential rate M2 has been changed from 2,227 to 2,264 cubic meters which represents the actual number. In other words, the decline is not as steep as estimated. Why does Union believe that in 2012 the decline is going to be fairly significant, from 2,264 to 2,199 cubic meters?

IR # 3

Ref: Exh C1/Tab 1/Appendix A/Pg.16

In Appendix A of Exhibit C1/Tab 1, Union has provided an Ex-Post analysis for 2010 with the Annual Estimate Percent Error. The Error for Industrial rate classes is 21.1%. Please provide a breakdown based on rate classes for the Industrial segment.

IR # 4

Ref: Exh C1/Tab 1/Appendix A/Pg.4

The Update to Table 3 showing customer attachments across all rate classes for 2011, 2012 and 2013 indicates a significant difference between actual and forecasted attachments for Rate 10. The forecast filed in November showed 10 attachments versus an actual number of 31 for 2011. Please explain the significant difference and whether this number impacts forecasts for 2012 and 2013.

IR # 5

Ref: Exh C1/Tab 1/Appendix A/Pg.4

a) What is the accuracy of Union's general service customer forecast for the Budget Years 2008, 2009 and 2010? Please provide reported actual and forecasted values.
b) Please indicate the level of customer shrinkage that was assumed in the forecasts above.

3. Is the 2013 Contract Customer Demand forecast appropriate?

IR # 1

Ref: Exh C1/Tab 2/Pg.11

Forecasting Accuracy: Please provide the Actual Throughput Volumes vs. Forecasted Throughput Volume data for the Total Contract Demand & Wholesale market for the years 2008, 2009 and 2010.

IR # 2

Ref: Exh C1/Tab 2/Pg.11

A comparison of the 2011 outlook filed in November 2011 and the update of March 27, 2012 with the actual data reveals that the volume throughput has been under forecasted across all rate classes (100, 20, 25, T1, M7, M4, M5). The error as compared to actuals is 4.2%.

a) Please provide reasons for the under forecast in throughput for 2011.

b) Please explain why the throughput is expected to decline for all rate classes apart from M5 in 2013 as compared to 2011.

4. Is the 2013 S&T forecast appropriate?

IR # 1

Ref: Exh C1/Tab 3/Pg.10

In the update on Short-term Transportation Revenue (C1/T3/Table 3), the revenues related to the St.Clair/Bluewater system has been revised from $1.2 million to $3.5 million in 2011 which translates to almost a three-fold increase.

a) Please provide reasons for the significant difference between the outlook and actual numbers in 2011.
b) Is it a one-time increase? If not, will the revenue generation carry over to 2012 and 2013?

5. Is the proposed amount for the Test Year Other Revenues, including the methodologies used to cost and price those services, appropriate?

IR # 1

Ref: Exh C4/Tab 1/Sched.1

Union's update of March 27, 2012 revised Other Operating Revenue from $1.222 million to 2.413 million.

a) Please provide the reasons for the significant revision to Other Operating Revenue
b) Is this increase in revenue likely to continue into 2012 and 2013?

D. COST OF SERVICE

1. Is the 2013 O&M budget appropriate?

IR # 1

Ref: Exh D1/Summary Schedule 2 and Exh C1/Tab 1/Pg 11

Union summarizes its operating and maintenance expense by cost type by year in Exh D1/Summary Schedule 2 and total billed customers in Exh C1, Tab1, Page 11 (Table 2). Please complete the table below.

	Actual 2007	**Actual 2008**	**Actual 2009**	**Actual 2010**	**Actual 2011**	**Forecast 2012**	**Forecast 2013**
OM&A (in $000s)							
# of customers							
OM&A per customer							

IR # 2

Ref: Exh D1/Tab 2/Pg.4

Union's evidence indicates that inflation will increase costs other than salary, pension/benefits and DSM by $17.5 million in the 2013 Test Year as compared to the 2007 Board approved amount. Union is projecting an average rate of inflation of 2.2%, 2.1% and 2.1% for 2011, 2012 and 2013 respectively.

a) What has been the impact of historical low natural gas prices on Union's operating costs?

b) If possible, please provide the savings achieved as a result of low natural gas prices for the years 2008 to 2011 when compared to the 2007 Board approved budgeted amounts.
c) What impact if any does low natural gas prices have on the inflation outlook for the years 2012 and 2013?

IR # 3

Ref: Exh D1/Tab 6/Pg.2

Union's evidence states that as part of the Union Gas International Financial Reporting Standards conversion project, it was determined that overhead costs are capital within a regulatory environment, but are expensed in an unregulated environment. As a result, overhead costs was no longer distributed to individual assets, but capitalized to a single asset per functional category as Regulatory Overhead Assets.

a) Union has moved to US GAAP and has filed its current application based on this accounting standard. Why has Union treated this cost category according to International Financial Reporting Standards when all other costs and expenses are according to US GAAP?
b) Does Union intend to reverse the treatment of overhead costs according to US GAAP standards?
c) What would be the impact on capital expenditures and O&M if Union were to treat overhead costs as per US GAAP? Please provide the impacts.

IR # 4

Ref: Exh D1/Summary Schedule 1

The cost of service summary schedule shows Other Financing as one of the items.

a) What does other financing consist of? Please provide a detailed response.

b) Please explain why other financing is forecasted to increase by more than 275% over the 2007 Board approved amount and by more than 244% over 2011 actual?

2. Are the 2013 affiliate charges appropriate?

IR # 1

Ref: Exh D1/Tab 7/Pg.4

Union's evidence indicates that it does not have a Treasury function. Union purchases treasury services from Spectra. Spectra's Treasury system is being modified and Union will bear a portion of the depreciation expense beginning in 2012.

a) Please explain why a Treasury function would have a depreciation component.
b) What is the forecasted depreciation expense for 2012 and 2013 that Union will have to bear?

7. Is the proposed Energy Technology Innovation Canada program funding appropriate?

IR # 1

Ref: Exh D1/Tab 10

Union's proposed 2013 O&M budget includes $5.0 million related to the Energy Technology Innovation Canada ("ETIC") program. Union states that the initial focus of ETIC is to facilitate and drive natural gas technology innovation that ensures natural gas remains a preferred foundational fuel.

a) Please provide the adverse impacts to ratepayers if Union does not undertake the ETIC program.
b) Union has budgeted an amount of $5.0 million that is consistent with the average level of R&D investment for the six primarily natural gas utilities

included in the 2011 EU scorecard. Does Union have any information on whether activities undertaken by the above six natural gas utilities have spurred innovation or led to the development of new or advanced technologies within the natural gas sector? Please provide details.

c) Has Union considered sharing financial resources or partnering with other utilities and agencies to collaborate on innovation or development of new technology within the natural gas sector. Please provide a detailed response on the collaborative efforts undertaken or will be undertaken in the future.

8. Is the forecast of Employee Future Benefit costs which will be incurred under USGAAP appropriate?

IR # 1

Ref: Exh D1/Tab 3/ Pg.1

Union provided the updates of the assumptions used to calculate Union's defined benefit pension and post-retirement benefits costs forecast for 2012 and 2013. Union stated that the assumptions are finalized at the 2011 year end.

a) Please provide the actuarial report to support these assumptions and confirm that the actuarial report is reviewed by Union's external auditor.
b) If the actuarial report is not available,
- please provide the date when it will be available and filed with the Board;
- please provide the most recent actuarial report available and confirm that the report is reviewed by Union's external auditor.

IR # 2

Ref: Exh D1/Tab 3/ Pg.2

Union updated its assumption of the discount rates for defined benefits pension costs to 4.3% and post-retirement benefits to 4.33% based on a hypothetical AA Corporate yield curve for long terms bonds.

a) Please provide the hypothetical AA Corporate yield curve to show that the 4.3% and 4.33% discounted rates used are supported by the yield curve of the long term bonds.
b) Please also demonstrate that the long term bonds selected by Union covering a time period horizon approximate the period of Union's future benefit payments for its defined benefit pension plans and post-retirement benefit plans.

IR # 3

Ref: Exh D1/Tab 3/ Pg.3

Union updated its assumption related to expected return on plan assets from 7% in 2011 to 6.75% in 2012 and 6.50% in 2013. Union stated that the reduction is to reflect the low returns being experienced in the marketplace in addition to broad industry benchmarking information.

a) Please explain further how the expected returns on plan assets are determined.
b) Please provide Union's internal analysis of these two figures.
c) Please provide the broad industry benchmarking information referred above.

IR # 4

Ref: Exh D1/Tab 3/ Pg.10

Union provided in Table 4 a comparison of employee future benefit costs, which comprise of defined benefits pension costs, post-retirement benefits costs, and defined contribution pension costs, for the years of 2007, 2011, 2012 and 2013. Union indicated that the expenses for defined benefit pension and post-retirement benefits for 2012 and 2013 are determined in accordance with USGAAP while the expenses are determined in accordance with CGAAP for years 2007 through 2011. Please reproduce the table to include the years 2007 to 2013 for defined benefit pension costs as shown below:

Defined benefits Pension	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
	CGAAP					USGAAP	
1) Current service Cost							
2) Interest Cost							
3) Benefits Paid							
4) Expected return on assets							
5) Amortization of Past service Cost							
5) Amortization of Actuarial gains/losses							
6) Amortization of Transitional Obligation						Not applicable under US GAAP	
Total	**$21.5**				**$35.4**	**$36.2**	**$34.2**

Note: please include other lines in the table as needed.

Please ensure that the total defined benefit pension costs in each year agree to the defined benefit pension costs in relevant years' AFSs.

IR # 5

Ref: Exh D1/Tab 3/ Pg.10

Union has indicated in its application that the change to U.S. GAAP results in a decrease in net pension cost of $2.8 million.

a) Please provide in which year this decrease has occured.
b) Please provide the calculations for the $2.8 million.

IR # 6

Ref: Exh D1/Tab 3/ Pg.10; Exh D1/Tab 3/Schedule 1

Union provided a reconciliation of pension costs from 2011 Canadian GAAP to 2013 USGAAP in schedule 1 of Exhibit D1 Tab 3. As per the reconciliation schedule line 2 and line 3, the decrease in net pension expenses in 2011 under USGAAP as compared to CGAAP is $3.9 million, which is comprised of the $3.3 million for transitional obligation and 0.6 million for change in measurement date.

Please reconcile the $3.9 million with the $2.8 million referred on page 10 of Exhibit D1 Tab 3.

IR # 7

Ref: Exh D1/Tab 3/ Pg.12

Union has indicated that the post-retirement benefit costs for 2013 are forecast to be approximately $7.6 million, a decrease of $0.7 million from the amount included in rates approved in 2007. The decrease in DB costs is primarily as a result of the change in accounting to USGAAP.

Please confirm that the change in accounting to USGAAP is related to unamortized transitional obligation to be recorded in the USGAAP deferral account which was approved by the Board in EB-2011-0025. Please provide the amount related to the post-retirement benefits to be recorded in the deferral account and proposed by Union for recovery in 2013.

9. Are the Test Year Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?

IR # 1

Ref: Exh D1/Tab 3/Pg.15

Union has proposed to source payroll/Human Resource Management System ("HRMS") through a Service Level Agreement with Spectra Energy utilizing SAP on a go-forward basis. SAP will be implemented across Spectra Energy business units. The cost of implementation will be shared amongst the other business units within the broader company.

a) Please indicate the basis on which costs will be split amongst the different business units within Spectra. Please provide a detailed response.
b) Please provide a copy of the Service Level Agreement between Union and Spectra Energy for providing payroll and HRMS services.

11. Is the amount proposed for income taxes, including the methodology, appropriate?

IR # 1

Ref: Exh D1/Tab 4/Pg.1; D3/Tab 5/Schedule 1

On Line 1 "Tax on Income" of Table 2 "2013 Income Tax Expense" on Exhibit D1 Tab 4 page 1, Union has forecasted an amount of $23.6 million for income tax. However, on Line 12 "Income taxes" of Union's calculation of utility's income taxes for 2013 on Exhibit D3 Tab 5 Schedule 1, the income tax is calculated as $21,743,000. Please confirm which figure is the forecast income tax for 2013 and please update the respective evidence accordingly.

IR # 2

Ref: Exh D1/Tab 4; Exh D5/Tab 5/Schedule 1; Exh D6/Tab 5/Schedule 1

Union filed the calculation of 2010 utility income tax in schedule 1 of Exhibit D6 Tab 5. Please provide the complete sets of tax returns, tax assessments, and reassessments if applicable for the years 2010.

IR # 3

Ref: Exh D1/Tab 4

It appears that Union did not provide the calculations for the Capital Cost Allowance ("CCA") for the years 2010 to 2013.

a) Please provide the Schedule 8 CCA in Union's income tax returns for 2010.
b) Please provide the CCA calculations for the years 2011, 2012 and 2013. Please provide the tax act references for the CCA classes and CCA rates for the capital asset additions in 2011, 2012 and 2013.
c) Please confirm that the capital assets showing the CCA calculation schedules to be provided by Union are 100% related to Union's regulated business. Please provide the explanation and the supporting documents if otherwise.

IR # 4

Ref: Exh D1/Tab 4/ Pg.2

Union described its forecast methodology for its income tax in Exhibit D1, Tab 4, page 2.

Please disclose any significant changes that Union has incorporated into its forecast 2013 income tax calculation as compared to the prior years. The changes should include but not limited to the impact from the transitioning to USGAAP, the CCA class changes for Union's existing capital assets, the CCA rate changes for Union's existing capital assets and the CCA class and rates chosen for the capital assets additions in 2013.

IR # 5

Ref: Exh D1/Tab 4/ Pg.2

Union has indicated that in the E.B.R.O. 499 ADR Settlement Agreement, parties agreed that the accumulated deferred tax balance would be used to reduce Union's cost of service in future years.

Union provided the deferral tax draw down schedule in Appendix A of Exhibit D1/ Tab 4.

a) Please provide the original deferred tax draw down schedule evidence provided and agreed in E.B.R.O 499 Settlement Agreement.
b) If the draw down schedule provided in this rate application differs from the one provided in E.B.R.O 499, please provide the explanation and reconciliation with the original schedule.

IR # 6

Ref: Exh D1/Tab 4/ Appendix A

Union provided the deferral tax draw down schedule for the years 2010 to 2018 in Appendix A of Exhibit D1/ Tab 4. Union also provided a similar schedule in its last cost of service rate application EB-2005-0520.

a) Please provide the deferred tax draw down schedule evidence in Union's last CoS rate application EB-2005-0520.
b) Please reformat the deferred tax draw down schedule in this rate application based on the format of the deferred tax draw down schedule in Union's last CoS rate application EB-2005-0520.
c) If the draw down schedule provided in this rate application differs from the one provided in EB-2005-0520, please explain the differences and perform necessary reconciliation.

IR # 7

Ref: Exh D3/Tab 5/Schedule 1

Union provided the calculation for the 2013 utility income tax in schedule 1 of Exhibit D3/Tab 5. Please provide the breakdown, the calculation for the breakdown and supporting documents for the figures noted below:

- Utility Permanent Difference: 4,693,000
- Other: (32,921,000)

IR # 8

Ref: Exh D3/Tab 5/Schedule 1

Union provided the calculation for the 2013 utility income tax in schedule 1 of Exhibit D3/Tab 5. The figure on line 9 “Gas Cost Deferral and Other (current)” and the figure on line 13 “Deferred tax on Gas Cost Deferral” on the schedule are both zero. Please explain why Union has forecasted these two figures to be nil in 2013?

15. Is the allocation of O&M costs between utility and non-utility operations appropriate?

IR # 1

Ref: Natural Gas Reporting & Record Keeping Requirements (RRR) rule for gas utilities; Exh A3/Tab 2

Natural Gas RRR 2.1.6 states that

> A utility shall provide the Board annually, by the last day of the fourth month after the financial year end, audited financial statements for the preceding financial year for the corporate entity regulated by the Board. **Where the financial statements of the corporate entity regulated by the Board contain material businesses not regulated by the Board,**

> **the utility shall disclose the information separately according to the segment disclosure provisions** in the Canadian Institute of Chartered Accountants Handbook. [Emphasis added]

It appears that there is no segmented information disclosed for Union's regulated business vs. unregulated business in Union's 2010 and 2011 audited financial statements filed in Exhibit A3 Tab 2.

a) Please explain whether the unregulated business is considered by Union as material business in 2010 and 2011.
b) If the unregulated business is not considered by Union as material business in 2010 and 2011, please provide Union's threshold for material business in 2010 and 2011.
c) Please provide Union's external auditor's opinion on management's assessment and decision of not disclosing the segmented information.

E. COST OF CAPITAL

1. Is the forecast of the cost of debt for the Test Year, including the mix of short and long term debt and preference shares, and the rates and calculation methodologies for each, appropriate?

IR # 1

Ref: Exh E3/Tab 1/Schedule 1

a) Please recreate Schedule 1 of Exhibit E3/Tab1 using the Board's current approved capital structure.
b) Please explain the negative unfunded short-term debt and the impact on this item if the schedule is recreated using the Board's current approved capital structure.

IR # 2

Ref: Exh E1/Tab 1/Pg.8 and E3/Tab1/Sched.1

Union plans to issue an additional $125 of long-term debt at an effective rate of 3.90% in 2013. Union has also indicated that there are no scheduled redemptions of long-term debt between the date of filing and December 31, 2013.

a) Please explain why Union intends to issue long-term debt when its proposed capital structure shows negative unfunded short-term debt of $115 million.
b) In issuing $125 million of long-term debt Union will pay an effective rate of 3.90%. Would Union have paid a lower effective rate if its equity component was 40%? Please provide a detailed response.

IR # 3

Ref: Exh E3/Tab 1/Sched.2

The Schedule providing the effective cost rate of Union's long-term debt shows that the rate has been declining over the years, from 1990 to 2012 (Column H in Schedule 2). Please provide a list of the significant factors that have contributed to lowering the effective long-term debt rate over the years.

2. Is the proposed change in capital structure increasing Union's deemed common equity component from 36% to 40% appropriate?

IR # 1

Ref: Exh E1/Tab 1/Pg.4

Union's evidence indicates that the approved capital structure must allow the company to raise capital in the market when it is needed under reasonable terms and conditions. Union's proposal to increase the common equity component to 40% provides financing capacity for Union's investment growth forecast for 2013.

a) Please indicate all cases in the last 5 years where Union Gas has had to defer or abandon expenditures needed to provide service due to an inability to raise the necessary capital under reasonable terms and conditions. Please provide details.
b) What will be the impact on Union's ability to raise capital if the Board does not approve Union's proposed capital structure?

IR # 2

Ref: Exh E1/Tab 1/Pg.4

Please provide a table that shows the actual return, the requested rate of return and the return if the equity component was 40% for the years 2007 through to 2011.

IR # 3

Ref: Exh E1/Tab 1/Pg.9

Union considers it prudent to plan for an "A" debt rating. This rating provides a safety net in the event of a rating downgrade and helps Union achieve the lowest risk adjusted cost of debt.

a) Please indicate what effect an equity weighting of 40% would have on the DBRS and S&P rating.

F. REVENUE REQUIREMENT

1. Are the revenue requirement and revenue deficiency or sufficiency for the Test Year calculated correctly?

IR # 1

Ref: Exh H1/Tab 1 / pp.4-6

In its Phase I revenue deficiency calculation, Union assumed that there would be approximately $7.535 million of short-term storage margin available for sharing. This sharing amount is the difference between forecast 2013 revenues of $11.488 million and costs of $3.953 million (consisting of $1.692 million of forecast compressor fuel and UFG costs and a $2.261 million non-utility cross charge). Union noted that these costs reflect excess utility space of 7.9PJ.

Union noted that it has increased the non-utility cross charge to $4.569 (which reflects 13PJs of excess utility space) as a result of preparing its 2013 cost allocation study. As a result of this update, the forecast of short-term storage revenue available for sharing has been reduced to $5.227 million (11.488 million in revenue minus $4.569 million non-utility cross charge minus $1.692 million compressor / UFG costs).

Union noted that it has decreased the revenue deficiency in its Phase II filing by $0.231 to reflect the noted changes to the non-utility cross charge.

a) Please explain why the amount of excess utility storage space has increased from 7.9PJs to 13PJs?
b) Please explain why the non-utility cross charge amount related to a PJ of storage space has increased from approx. $286,202 to $351,461?

IR # 2

Ref: Exh H1/Tab 1/pp.7-8 and Exh H3/Tab 8/Sched 14

Union noted that it decreased its Phase I deficiency by $0.060 million to recognize the use of utility transmission assets by Union's non-utility storage operation at the Heritage Storage Pool.

This amount is based on a 2013 forecast of 900,000 GJs of throughput from Union's non-utility storage operation on utility transmission assets.

a) Please provide an explanation of the 900,000 GJ estimate discussed above.
b) Please confirm that if a customer (other than Union’s unregulated storage business) owns its customer station then that customer also does not pay the monthly fixed charge per customer station.

G. COST ALLOCATION

1. Is Union's utility Cost Allocation Study, including the methodologies and judgments used and the proposed application of that study with respect to Test Year rates, appropriate?

IR # 1

Ref: Exh G3/Tab 1/Sch 2

a) Please explain the adjustments made in Exhibit G3 / Tab 1 / Sch 2 between the statement of utility income and the cost study.

IR # 2

Ref: Exh H1/Tab 1 / pp.50-52

Union noted that it has reviewed the cost allocation and rate design association with the M12-X, Firm C1 Kirkwall to Dawn and M12/C1 Kirkwall to Parkway transportation services. Union stated that, based on this review, it is not proposing any changes to the M12-X or the M12/C1 Kirkwall to Parkway cost allocation and rate design.

In regards to the M12-X service, Board staff submitted in EB-2010-0296 that Union’s proposal to allocate all of the costs related to the facility modifications to C1 Kirkwall to Dawn customers, when the facility modifications are required to provide both C1 and M12-X services, raises some concerns regarding Union’s compliance with cost allocation principles. However, Board staff submitted that given the relatively small annual revenue requirement ($0.266 million) related to the facility modifications and Union’s uncertainty, at this time, regarding how shippers plan to use the new transportation services, Board staff supported

Union's proposal to review cost allocation and rate design for the new transportation services at the time of rebasing.

In its EB-2010-0296 Decision and Order, the Board agreed with the submission of Board staff that Union's proposal to allocate all of the costs related to the facility modifications to C1 Kirkwall to Dawn customers raises concerns regarding Union's compliance with cost allocation principles.

a) Please provide an update on how M12-X shippers have been using (and are forecast to use) the service. Please confirm that the assets built as part of the facility modifications noted above are not being used to provide service to M12-X customers. Please explain why no facility modification costs have been allocated to M12-X customers.
b) Please provide rationale for maintaining the approved cost allocation and rate design for the M12/C1 Kirkwall to Parkway transportation services.

IR # 3

Ref: Exh G3/Tab1/Sch1/Page 5

In its application, Union has provided a summary description of the methodology followed to complete the cost allocation study used to support 2013 rate proposals. Union has indicated that general operating and engineering activity related expenses are functionalized primarily on the basis of an analysis of activities conducted by budget centre managers for their department.

a) Please explain how the analysis of activities is performed.
b) Please confirm if Union assesses the reasonability of the analysis of activities after the activities have occurred and if adjustments are made to reflect actual activities. If yes, please explain the process.
c) If not, please explain why an assessment is not performed or adjustments not made to reflect actual activities.

4. Is the Cost Allocation Study methodology to allocate the cost of system integrity appropriate?

IR # 1

Ref: Exh G1/Tab 1/pp. 3-6

Union noted that it requires empty system integrity space on November 1 to manage late season injection demands. This space is specifically held in reserve to manage the difference between in-franchise supplies and demand. Empty system integrity space is not required for short-term and long-term non-utility storage contracts as these contracts have little to no firm injection rights during October and November.

Please provide the expected amount of firm injection rights for short-term and long-term non-utility storage contracts during October and November 2013. Please compare this amount to the total expected amount of firm injection rights during that same period in 2013.

H. RATE DESIGN

1. Are the rates proposed in Exhibit H just and reasonable?

IR # 1

Ref: Exh H1/Tab 1 / pp.50-52

In the EB-2010-0296 proceeding, Union noted that a firm monthly transportation demand charge of $1.176/GJ will be applied to daily contracted demand for firm C1 Kirkwall to Dawn customers. Union noted that this component of the rate is intended to provide a reasonable recovery of the fixed costs associated with the assets used to provide the transportation service and to recover the costs associated with the new facilities necessary to provide the firm transportation service.

For the C1 Kirkwall to Dawn transportation service, Union is proposing to remove the direct assignment of Kirkwall metering facilities modification costs from the firm monthly demand charge. Union proposed to allocate the Kirkwall metering costs consistent with the Board-approved cost allocation methodology used to allocation Dawn-Trafalgar Easterly Transmission demand costs.

a) Please confirm that Union's proposal to remove the direct assignment of Kirkwall metering facility modifications from the firm monthly demand charge is only related to those assets which were constructed with the capital investment of $4.7 million discussed above (which Union stated were required to provide the firm C1 Kirkwall to Dawn transportation service).
b) Please confirm that these facility modification assets only provide service to firm C1 Kirkwall to Dawn transportation customers. If that is the case, please explain why any other group of customers should be responsible for the cost consequences of facilities that are used only to provide service to the C1 Kirkwall to Dawn customers.

IR # 2

Ref: Exh H3/Tab 4/ Sched. 1

Union's customer bill impacts reveal a significant difference between delivery rate impacts for southern customers as compared to the northern and eastern customers. While customers in the Southern Service area will experience an increase of $19, customers in the Northern, Eastern and Western Service areas will experience an increase anywhere between $59 and $76.

a) Please explain the reasons for the significant difference between rate impacts for southern customers as compared to customers of other service areas.
b) Has Union in the past cross-subsidized the residential rate classes. If yes, please provide details of the cross-subsidies and the period in which these occurred. Also, please explain the reasons for doing so.
c) Has Union considered any rate mitigation measures to reduce the impact for Northern, Eastern and Western Service area customers? If no, why not?

3. Is the proposal to lower the breakpoint between small and large volume general service customers to 5,000 M3 per year effective January 1, 2014 appropriate?

IR # 1

Ref: Exh H1/Tab 1/pp.14-27

Union proposed a reduction to the annual volume breakpoint for its North - Rate 01 / Rate 10 and South - Rate M1 / Rate M2 customers and the harmonization of the delivery rate block structures for the same rate classes. Union has proposed that this proposal take effect as of January 1, 2014.

These proposals, combined, can result in significant rate impacts for certain customers (depending on consumption levels) that fall in the above noted rate classes (as shown in Table 11 and 12 in Exhibit H1).

For example, a Northern customer consuming approx 30,000 M3/year that would have been served under the Rate 01 class would move to the Rate 10 class and see an annual decrease of approximately 14.9% from 2013 to 2014.

A Southern customer consuming approx. 7,000 M3/year that would have been served under the M1 rate class would move to the M2 rate class and see an annual increase of approximately 27.6% from 2013 to 2014.

a) Please explain why Union has proposed to implement this change in 2014 (as opposed to 2013)? Please provide a discussion of any communication activities that Union would undertake in 2013 to inform customers of the rate class changes.
b) Please provide the number of customers that would see rate impacts of greater than 10% (both upwards and downwards) resulting from Union's proposal.
c) Please discuss whether Union has considered creating a new medium volume general service rate class to resolve some of the issues discussed in its proposal. Please explain why lowering the volume threshold for the Rate 10 and Rate M2 classes is preferable to establishing a new medium volume general service rate class.
d) Please explain why Union is proposing to use its M1 and M2 rate blocking structures for its Rate 01 and Rate 10 classes. Please include discussion of the impacts of using the Rate 01 and Rate 10 rate blocking structures for the M1 and M2 rate classes instead. Please provide bill impact tables that use the Rate 01 and Rate 10 rate blocking structures for the Rate M1

and M2 rate classes (combined with Union's volume threshold change proposal).

9. Is recovering UFG on transportation activity in the winter months for the Dawn to Dawn-Vector transportation service appropriate?

IR # 1

Ref: Exh H1/Tab 1 / pp.52-54

Union has proposed to modify the fuel ratio design for the Dawn to Dawn-Vector transportation service to recover UFG on all transportation activity in both the summer and winter periods. Please provide Union's rationale for this proposed modification.

12. Are the proposed changes to the Distributor Consolidated Billing fee to $0.57 per month per customer appropriate?

IR # 1

Ref: Exh H1/Tab 3 / pp.1-6

Union proposed to reduce the Distribution Consolidated Billing ("DCB") fee from $1.35 to $0.57. Union noted that a charge of $0.57 will generate sufficient revenues to recover Union's projected costs of $2.137 million to provide DCB services. Union has indicated that the proposed fee is designed in a manner where the customer and utility remain cost and revenue neutral as customers choose to move between sales and service and direct purchase.

a) Please provide the over / under-recovery of DCB related costs for each year of the past IRM term.
b) Please explain how this revenue sufficiency / deficiency was treated during the IRM term.
c) Please provide Union's position on the establishment of a DCB related Deferral Account which would capture the difference between DCB revenues and DCB costs for disposition/recovery to/from ratepayers.

DV. DEFERRAL AND VARIANCE ACCOUNTS

1. Are Union's proposed and existing deferral and variance accounts appropriate?

IR # 1

Ref: Exh C1/Tab 7 and Exh H1/Tab 4/Apdx C

Union noted that following the NGEIR Decision (EB-2005-0551) Union's practice has been to sell its non-utility storage space on a long-term basis and to sell the excess utility space on a short-term basis. Despite this practice, Union is authorized by the Board to sell non-utility storage space under short-term contracts and retain 100% of the revenues.

Union proposed that when it sells short-term peak storage services using non-utility storage space, the total margins received from the sale of all peak short-term storage be allocated to ratepayers and shareholders based on the utility and non-utility share of the total quantity of peak short-term storage (less than 2 years) sold each calendar year.

Union noted that it is able to give effect to its proposal due to its ability to track what storage assets are being used for each type of storage transaction. At p. 5 of the Board's Decision on Rate Order in EB-2011-0038, the Board indicated that:

"… the Board's findings are informed by Union's ability to track what storage assets are being used for each type of storage transaction and state that the entire amount of utility storage above in-franchise requirements is available for sale as short-term storage services (and all costs of this space is to be paid for by in-franchise customers)."

Union noted that the proposed change does not impact ratepayers. Going forward, Union will continue to sell all excess annual utility storage as short-term peak storage, and likewise 90% of all margins from C1 Off-Peak Storage, Gas Loans, Enbridge LBA, Supplemental Balancing Services, and C1 Firm Short-Term Deliverability will accrue to ratepayers. Union proposed to modify the Short-term Storage and Other Balancing Services accounting order to specify that the revenues are associated with the excess utility space. (Para 1)

Union's proposed revised description for the Short-term Storage and Other Balancing Services Deferral Account is as follows:

To record, as a debit (credit) in Deferral Account No. 179-70 the difference between actual net revenues for Short term Storage and Other Balancing Services including; Peak Short-Term Storage underpinned by excess utility storage assets, Off-Peak Short-Term Storage, Gas Loans and Supplemental Balancing Services and the net revenue forecast for these services as approved by the Board for ratemaking purposes. (Para 2)

a) Please discuss whether Union is planning on selling non-utility storage space as short-term peak storage services in the future. Please highlight whether this is a change from Union's past practices.
b) Please explain why Union can not track only the short-term storage transactions which rely on excess utility storage space and include the entirety of those transactions in the Short Term Storage Deferral Account for margin sharing with ratepayers. Please explain why Union is proposing to use a proportional approach for allocating margins to shareholders and ratepayers.
c) Please explain if and how Union's proportional approach operates to record amounts for sharing in the Short Term Storage Deferral Account. Please provide an example using the 10PJ / 13PJ scenario provided in Union's evidence at Exhibit C1, Tab 7.
d) Please explain the differences in language between stating that 90% of all margins from C1 Off-Peak Storage, Gas Loans, Enbridge LBA, Supplemental Balancing Services, and C1 Firm Short-Term Deliverability will be accrue to ratepayers (Paragraph 1 cited in the preamble) and what is stated in Paragraph 2 (also cited in the preamble).
e) Does Union agree that the following description for the Accounting Order is more transparent:

   To record, as a debit (credit) in Deferral Account No. 179-70 the difference between actual net revenues for Short term Storage and Other Balancing Services including; Peak Short-Term Storage underpinned by the excess utility storage assets (above utility requirements and below the 100 PJ fixed utility asset), Off-Peak Short-Term Storage, Gas Loans and

Supplemental Balancing Services and the net revenue forecast for these services as approved by the Board for ratemaking purposes.

IR # 2

Ref: Exh H1/Tab 4/Apdx B

The Deferral Account Summary Table at Exhibit H1, Tab 4, Appendix B notes that the following accounts will be continued:

- Long-Term Peak Storage Deferral Account
- Cumulative Under-Recovery – St. Clair Transmission Line Deferral Account
- Impact of Removing St. Clair Transmission Line from Rates

a) Please confirm that Union intends to close the above noted accounts in accordance with recent Board orders. If not, please explain why.

O. OTHER ISSUES

4. Are sustainable efficiency improvements (or efficiency gains) achieved under incentive regulation reflected in Union's CoS estimates?

IR # 1

Ref: Exh A2/Tab 5/ Pgs 1, 3 and 4

Union states that the estimates of cost savings associated with various productivity initiatives "are often estimates of cost savings calculated by comparing projected costs to that which would have been incurred had specific savings initiatives not been undertaken".

a) In Tables 2 and 3, do any of the "projected costs" used to develop estimates of the cost savings project inflation in the prices of any of the inputs (including labor) associated with the initiative?
b) If so, please identify each such initiative and the input price inflation rates used to develop the estimated cost savings.

IR # 2

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3. In Table 1, do the "Total Cost Savings and Incremental Revenue Generation" in any given year reflect the annual savings/revenue generation achieved in that year, or the cumulative savings/revenue generation achieved for the period beginning in 2008? For example, does the total of $29.3 million in total cost savings and incremental revenue generation in 2009 mean Union was able to achieve *incremental* cost savings and revenue generation of that amount in 2009, or does it refer to the $8.3 million in cost savings/revenue generation in 2008 plus an addition $21 million in cost savings/revenue generation in 2009?

IR # 3

Ref: Exh A2/Tab 5/ Pg 2

Union states that for a cost savings/revenue increase to be considered "productivity", it "must be sustainable over multiple periods and not a one-time exercise".

a) Please define what Union means by "sustainable" and the number of periods that would qualify as "multiple".
b) Under Union's definition, would there be any difference between a "sustainable" cost savings and a permanent cost savings? If so, please identify any such cost initiatives in Tables 2 and 3 that Union believes may not be sustained over the term of a multi-year plan that may be approved after the current incentive regulation plan expires.

IR # 4

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3. Please identify whether any of the activities outlined in Exh A2 Tab 5 were initiated and/or implemented before 2008. If so, please provide the annual OM&A and capital cost savings attributed to these initiatives.

IR # 5
Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3. Please identify whether Union's productivity gains from 2008 and 2011 are net of any incremental operating or administrative expenses that Union incurred implementing these activities. If so, please identify the total dollar amount(s) and the year(s) in which these expenses were incurred.

IR # 6

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3.

a) Please identify whether Union's productivity gains from 2008 and 2011 are net of any incremental capital expenditures that Union incurred to implement these activities. If so, please identify the total dollar amount(s) of the capital expenditures and the year(s) in which these expenditures were incurred.
b) If any incremental capital expenditures were incurred to achieve the cost savings, please confirm that those incremental investments are reflected in Union's capital data reported in Exhibit B of this filing, and estimate the net impact on Union's overall cost of service in 2013 (e.g., reductions in

O&M expenses plus the net carrying costs on investments (return on and return of capital, net of taxes) resulting from each such initiative that required incremental investment.

IR # 7

Ref: Exh A2/Tab 1/Sch 1/ Pg 7

Union states that its “ability to achieve incremental productivity gains beyond 2012 is limited and uncertain”; and “going forward, productivity gains will be harder to achieve and will require significant investment”.

a) Does Union believe the “significant” investment necessary to achieve future productivity gains will be greater than the investment necessary to achieve its productivity gains identified in Exh A2/Tab 5/Pages 3 and 4 (Tables 2 and 3)?
b) Please explain and provide all empirical or related, available evidence that supports Union’s conclusion.

IR # 8

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union’s regulated activities in Tables 1, 2 and 3. Please identify whether any of Union’s productivity gains involved Union capitalizing OM&A expenses. If so, please identify the productivity initiative and state the amount(s) of OM&A expenses that were capitalized, and the years in which they were capitalized.

IR # 9

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3.

a) Please provide estimates of the total cost savings and incremental revenue generation (by OM&A, capital and revenue) that Union is forecasting for 2012, which is the last year of Union's incentive regulation plan.
b) Are all of these cost savings and incremental revenue gains from 2008 to 2012 reflected in Union's estimated cost of service, and estimated revenue deficiency, for 2013? If not, please document and explain any discrepancy between "cost savings" and Union's estimated cost of service in 2013.

IR # 10

Ref: Exh A2/Tab 5/ Pgs 2, 3 and 4

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities in Tables 1, 2 and 3. Were any of Union's productivity initiatives initiated (recommended and/or motivated) by Spectra Energy Corp? If so, please identify those initiatives, and the approximate date of each such Spectra recommended initiative.

IR # 11

Ref: Exh A2/Tab 5/ Pg 2

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities.

a) Has Union participated in any independent benchmarking studies since 2007? If so, please identify all such studies done specifically for Union, or for a group of utilities in which Union participated, and provide copies of all benchmarking reports delivered to Union as part of the project.
b) Did Union participate in any benchmarking studies that identify specific "best practices" in various gas distribution operations? If so, was Union itself ever identified as having the "best practice" in a specific gas distribution operational area? If so, please identify all such areas.
c) Did Union adjust its own operations to incorporate or move towards "best practice" in any area where Union's operations were not deemed to be best practice? If not, please explain why.

IR # 12

Ref: Exh A2/Tab 5/ Pg 2

Union summarizes the total productivity cost savings and incremental revenue generation from 2008 to 2011 for Union's regulated activities.

a) Did Union participate in any benchmarking studies that identify specific "best practices" with respect to investment practices, or in optimizing the tradeoffs between distribution maintenance and replacement of gas distribution facilities? If so, was Union itself ever identified as having the "best practice" in any of these areas? If so, please identify all such areas.
b) Did Union adjust its own operations to incorporate or move towards "best practice" in any area where Union's capitalization practices, or assessment of the tradeoffs between maintenance and capital replacement, were not deemed to be best practice? If not, please explain why.

IR # 13

Ref: Exh A2/Tab 5/ Pg 7

Union states that that due to cost increases, primarily in employee training and travel expenses (e.g., air travel), Union was not able to maintain the 2007 employee spending amount beyond 2011. Since previous spending levels could not be maintained, please provide the rationale as to why Union has identified employee spending as a "sustainable" productivity improvement.

IR # 14

Ref: Exh A2/Tab 5/ Appendix A/Pg 1

Union states that a review of Union's sales and marketing processes found inefficiencies in Union's approach to general service sales and marketing efforts.

a) Please provide the year in which this review was initiated and completed.
b) Please identify the basis on which previous efforts were deemed to be "inefficient" and what specific practices were changed.
c) Please quantify any incremental capital or operational costs (e.g., expert consulting studies) that were associated with identifying or changing the inefficient practices in question.

IR # 15

Ref: Exh A2/Tab 5/ Appendix A/Pg 5

Union states that this initiative was designed to identify, develop, communicate, and implement business policies and practices that influenced behaviour resulting in OM&A cost savings. Please provide the year in which the "employee spending" initiative was initiated.

IR # 16

Ref: Exh A2/Tab 1/Sch 1/ Pg 7

Union states that its ability to achieve incremental productivity gains beyond 2012 is limited and uncertain; and going forward, productivity gains will be harder to achieve and will require significant investment.

a. Please outline the productivity activities that Union is considering in 2013 and beyond.

b. Please explain why the activities listed in (a) above will be harder to achieve and require significant investment. Does this statement apply equally to achieving reductions in OM&A and capital expenditures? Please explain why or why not.
c. Is “harder to achieve” different from requiring more labour, management and capital resources, to achieve a comparable level of cost savings or incremental revenue gains? Please explain in detail.

7. Have all impacts of the conversion of regulatory and financial accounting from CGAAP to USGAAP been identified, and reflected in the appropriate manner in the Application, the revenue requirement for the Test Year, and the proposed rates?

IR # 1

Ref: Exh A2/Tab 4/Pg. 4

Union stated that it changed its methodology for allocating indirect overhead (“OH”) costs to capital assets after completing work on the IFRS conversion project in 2010. Union has indicated that as a result, subsequent to 2010, OH was no longer distributed to individual assets but capitalized to a single asset. Regulatory Overhead Assets are amortized over the average life of the assets within each functional category that attracts overhead. Union has further indicated that the change of this methodology has no impact on utility earnings or rate base.

a) Please confirm that the change of the methodology will not impact the allocation of regulated assets vs. unregulated assets. Please provide reasons.
b) Please confirm if there are any other changes for Union’s capitalization policy under USGAAP as compared to that under CGAAP in addition to the change of the OH allocation methodology. If so, please explain the changes in details.
c) If the change of OH allocation methodology has no impact on Union’s earning and rate base, explain, identify, and justify any distinguishable drivers that may cause Union to use a different OH allocation methodology under USGAAP as compared to the one that Union used under CGAAP in the past?

d) If Union is directed to revert to its old OH allocation methodology, what is the impact, if any, to Union?

IR # 2

Ref: Exh A2/Tab 4/Pg. 4

Union has indicated that after completing work on the IFRS conversion project, Union determined that OH costs are capital within a regulatory environment, but are expensed in an unregulated environment…. Although Union is no longer adopting IFRS, it opted to continue to use this methodology.

a) Please explain what Union means by stating "Union determined that OH costs are capital within a regulatory environment, but are expensed in an unregulated environment."
b) Please explain in detail how and why Union is able to use a different capitalization methodology within a regulatory environment as compared to within an unregulated environment.
c) Please explain in detail the following impacts resulting from the inconsistent capitalization within a regulatory environment as compared to within an unregulated environment:
   - the impact on utility earning;
   - the impact on rate base; and
   - the impact on the allocation of regulated assets vs. unregulated assets
d) Has Union consulted with its professional advisors/consultants in terms of inconsistency of the capitalization methodologies? If so, please provide details.

IR # 3

Ref: Exh A2/Tab 4/Pg. 5

Union identified the change of accounting for line pack gas as one of the changes in this rate application. Union stated that in 2010, Union reclassified line pack gas ("LPG") from gas in inventory to property, plant and equipment ("PP&E"). Union explained that LPG is made of two components: base LPG and working LPG. Base LPG represents the minimum level required to remain in the transmission pipelines whereas working LPG is available for sale and is comprised of any remaining portion over-and-above base LPG. Union is proposing that LPG should not be revalued quarterly as a part of inventory. Union does not expect any material impact to utility earnings as a result of changing the accounting for base LPG.

a) Please provide the volumes and the dollar amounts of the base LPG and working LPG included in the 2013 test year separately.
b) Please confirm that only base LPG is proposed by Union to be reclassified from inventory to PP&E.
c) Please confirm that the base LPG is relevant for regulated vs. unregulated allocation of Union's storage assets. If so, please confirm whether the reclassification of the base LPG from inventory to PP&E will impact the allocation of Union's storage assets.

IR # 4

Ref: Exh A2/Tab 4

Please confirm that apart from employee future benefits, there are no other material differences from the transition to and implementation of US GAAP.