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April 10, 2012

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Interrogatories EB-2011-0210

Union Gas Limited 2013 Rebasing Application

Please find enclosed the interrogatories of VECC in the above-noted proceeding. Please note that we have attempted to minimize duplication by reviewing the interrogatories of the LPMA that were filed early last week. Please also note that further interrogatories on behalf of VECC with respect to the cost of capital will be filed separately.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

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, pursuant to section 36(1) of the *Ontario Energy Board Act, 1998*, for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission, and storage of gas as of January 1, 2013.

INTERROGATORIES OF THE VULNERABLE ENERGY CONSUMERS COALITION

B. Rate Base

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

4. Is the proposed Test Year Rate Base appropriate?

Interrogatory #1

Ref: B1 T1 Table 1 page 1

Please add columns to show actuals for each year 2007-2009 inclusive.

Interrogatory #2

Ref: B1 T2 Table 1 page 1

Please expand this table by adding Union's internally forecasted/budgeted capital spending for each year 2007-2011 inclusive.

Interrogatory #3

Ref: B1 T2 page 2

The updated evidence states that the actual 2007 utility rate base was $68.2M less than the Board approved 2007 rate base of $3,270.9M. Please provide the amount by which the revenue requirement would have been lower in 2007 had the approved rate base been $68.2M less than the amount actually approved.

Interrogatory #4

Ref: B1

Please provide the approved (by Spectra) capital budgets for each year 2007-2011 inclusive.

Interrogatory #5

Ref: A2 T3 S1, page 8

Please provide any differences between the capital budgets submitted for Senior Management Review and Approval and the final capital budget approved for each year 2007-2013 inclusive.

Interrogatory #6

Ref: General

Please provide the impact on the revenue deficiency of a decrease in 2013 rate base of $10M.

5. Is the proposed working capital allowance appropriate?

Interrogatory #1

Ref: B1 T1 Table 4, page 6

a) Please describe fully the methodology used in forecasting customer deposits.

b) Please provide the interest rate paid on customer deposits.

c) Please explain why customer deposits are forecasted to be significantly less in 2012 and 2013 than in 2010 and 2011.

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?

Interrogatory #1

Ref: A2 T2 page 7

Please explain how working capital is allocated to unregulated operations.

Interrogatory #2

Ref: A2 T2 page 6

a) Please explain how the 37.7% storage and deliverability allocator for allocating costs to Union's unregulated operations are determined?

b) Does the 37.7% allocation reflect current allocation and usage of assets?

c) What is the impact on the deficiency of changing this allocator from 39.2% to 37.7%?

Interrogatory #3

Ref: A2 T2 page 8

Does use of compressor fuel correlate more closely with storage volumes or rather with the frequency of injections or withdrawals and with average volumes withdrawn and injected? Please explain.

C. Operating Revenues

2. What is the appropriate methodology to be used to forecast degree days for the Test Year?

Interrogatory #1

Ref: C1 T5

a) Please provide the sources for the HDD data used for the North and South Operating Areas.

b) Please indicate which particular statistical software package(s) was used for the 20 year declining trend regression.

c) Please provide all maintained assumptions regarding the error generating mechanism in the selected model, i.e. is it assumed that the errors are independent and identically distributed normally with zero mean and constant variance?

d) Were any alternatives – such as a 10-year linear trend or a Box-Jenkins or ARIMA formulation or non-linear regression – other than the 20-year declining trend, 30-year average considered, and the currently approved 55:45 hybrid model, considered and tested by Union?

e) Was the time series data used in the 20-year trend method tested for stationarity? If so, please provide the test results; if not, why not?

f) Did Union transform the data in any way to address problems associated with non-stationarity? If so, please explain how; if not, why not?

g) Did Union test for any violations of the standard assumptions underpinning the use of linear regression such as heteroskedasticity or autocorrelation? If so, please provide full details; if not, why not?

h) Please provide scatterplots of the residuals for each regression underpinning the 2013 forecast demand.

i) Did Union use all available HDD data in its 2013 forecast?

j) If not provided elsewhere, please provide the F-statistics for assumptions an each regression underpinning the 2013 forecast demand.

k) What would be the impact on the 2013 revenue deficiency if the Board ordered that the currently approved forecasting methodology be retained?

D. Cost of Service

1. Is the 2013 O&M budget appropriate?

Interrogatory #1

Ref: A2 T3 S1 page 5

For each year 2007-2013 inclusive, please provide (i) the internally approved O&M budget and (ii) a list of any differences between the O&M budgets submitted for Senior Management Review and Approval and the final O&M budget approved.

Interrogatory #2

Ref: D1, SS2 Updated, line 2 and Exhibit D1, Tab 3

The referenced exhibit shows an increase in benefits costs of almost $20M in 2013. Also, 2011 and 2012 costs show large increases over 2010 and 2010 costs show a huge increase over 2009.

a) How many of Union`s employees have a defined benefits pension plan?

b) How many of Union`s employees have a defined contributions pension plan?

c) Among Union's cohorts for comparative compensation purposes, how many and what percentage have defined benefits pension plans?

d) Has Union considered moving towards a defined contribution pension plan for all employees?

e) The Updated exhibit shows an increase of almost $20M extra for 2013 over the originally forecasted 2013. Please explain why the cost of benefits has increased so much since the originally filed exhibit.

Interrogatory #3

Ref: A2 T1 S1 page 27

a) Absent the LTIP, does Union expect it would lose the key leadership employees who enjoy this benefit?

b) Please provide a list of positions which received the LTIP for each year 2007-2013 inclusive.

3. Has Union complied with the Affiliate Relationships Code (“ARC”) and the Board's "three prong test" (as described by the Board in the E.B.R.O. 493/494 Decision with Reasons)?

Interrogatory #1

Ref: General

a) Please provide a list of all financial transactions between Union with its affiliates – that are not listed elsewhere in the pre-filed evidence – for each year 2008-11, and projected for 2012 and 2013.

b) Please provide generic descriptions of each type of transaction listed in the previous part along with a rationale as to why said transaction was in the interest of Union’s ratepayers.

Interrogatory #2

Ref: A1 T9

a) Are the interest rates on Inter-Company Loans the same for lending as for borrowing? Please provide these rates if different and indicate how the interest rate is determined.

b) Are all costs under Gas and Storage purchases for gas purchase? If not, please provide a breakdown of these costs.

c) If applicable, please provide a similar breakdown for upstream transportation costs.

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?

Interrogatory #1

Ref: E1 T1 pages 7 and 8

Union has a Medium Term Note ("MTN") program under a shelf prospectus that allows it to issue up to $500.0 million of debentures with terms ranging from 1 to 31 years. The MTN program allows Union to issue debt on a frequent basis to meet its financing needs. Debt can be issued with varying terms to manage the maturity profile, such that significant refinancing risk in any one period can be avoided while still prudently securing long-term financing for the long-lived assets of the Company.

The MTN program also provides the flexibility to stagger maturities such that frequent refinancing of

Union's long-term debt results in an embedded cost which reflects the average of market interest rates across economic cycles. The current shelf prospectus will expire in October 2012 and Union expects to file a new shelf prospectus, with similar terms, prior to expiration.

a) Please provide a copy of the documentation underpinning the "Medium Term Note Program under a shelf prospectus" that Union has indicated will expire in October 2012.

b) Please summarize the methodology used by Union in connection with the existing shelf prospectus to derive the interest rate for any particular MTN. For example, at Exhibit E1, Tab 1, page 8 lines 6-7 Union indicates that $300.0 million of MTNs with a 30 year term and a coupon rate of 4.88% (4.93% effective cost rate) were issued; how were the coupon and effective cost rates determined? Without limiting the scope of the requested summary we ask that you please indicate to what extent, under the existing shelf prospectus, the coupon and effective rates of any debt issuances are derived either automatically by formula, through negotiation, or both.

c) Please confirm that, in accordance with the evidence at Exhibit E1, Tab 1, page 8 Union is forecasting an additional issuance of $125 million of long term debt in 2012 and is not forecasting any issuance of long term debt in 2013.

H. Rate Design

4. Is the proposal to harmonize the general service rate structures between the North and South operating areas effective January 1, 2014 appropriate?

Interrogatory #1

Ref: H1 T1

a) Please provide Union's definition of customer-related costs.

b) If Union's definition of customer-related costs differs from its definition of fixed costs, please provide the distinction made.

c) For each rate class M1, M2, Rate 01, and Rate 10, please provide the percentage of customer-related costs recovered through the most recently approved fixed monthly charge for the class.

DV. Deferral and Variance Accounts

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

Interrogatory #1

Ref: H1 T4 page 1

Union plans to file an application for final disposition of the 2011 year-end deferral account balances early in 2012 as soon as the year-end balances are known. This approach is consistent with the approach taken to dispose of the 2010 year-end deferral account balances (EB-2011-0038) and the requirements of Section 36 (4.2) of the OEB Act.

Please confirm that Union is not proposing the clear any existing deferral or variance accounts in relation to any year as part of this (the EB-2011-0210) proceeding. If Union is proposing to clear any existing deferral or variance accounts in this proceeding please provide details as to which accounts and the amounts proposed for clearance.

Interrogatory #2

Ref: H1 T4 page 4

Technology and Innovation Canada ("ETIC")

This account will track the difference between actual spending for ETIC and the amount approved for recovery in rates.

a) Please explain how Union proposes the Board distinguish between costs recorded in the proposed ETIC account that would be legitimately recoverable as "actual spending for ETIC" and costs which should not be recoverable. For example, if for 2013 Union claims to have spent $4.5 million in ETIC spending with a corresponding proposed credit to ratepayers of $.5 million (assuming $5M of ETIC spending is embedded in rates) how is the Board to evaluate the appropriateness of the claimed $4.5M in spending?

b) Please explain any concerns Union has with, instead of a proposal to track the variance between $5M (or some other approved maximum ETIC budget) embedded in rates and any under spending of that amount, a proposal to allow Union to track up to $5M (or some other approved maximum ETIC budget) in ETIC related spending in an ETIC deferral account with a Board review of the appropriateness of the tracked spending.

O. Other Issues

2. Are Union's economic and business planning assumptions for the Test Year appropriate?

Interrogatory #1

Ref: A2 T1 S1 page 23

a) Please provide the actual 2011 GDP growth.

b) Please provide any available updates to the Bank of Canada's forecasts for 2012 and 2013.

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

Interrogatory #1

Ref: A2 T1 S1 Table 5 page 25

Are the amounts shown in this table incremental for each year or are they cumulative? If cumulative, why do the O&M savings decrease by $0.5M in 2011?

Interrogatory #2

Ref: A2 T1 S1 page 5, lines 12-14 and A2 T1 Table 3 page 6:

The first referenced exhibit states: *"One of the primary drivers to the 2013 deficiency is the fact that, although revenue increased over the IR term, rate increases as determined by the PCI formula were not sufficient to offset cost increases."*

Yet, from Table 3, the actual ROE was above (by 237 to 454 bp) approved/utility had a sufficiency for each of the years 2008-2011 inclusive. Please reconcile the quoted statement with Union's historical overearning.