UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

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?

Response:

a) The increase in excess utility storage space is driven by a reduction in the amount of in-franchise storage space requirements.

   The in-franchise storage space reduction is primarily the result of two factors:

   1. A reduction in the requirement for storage for South and North Sales Service and Bundled T customers due to reduced throughput requirements (approximately 1.8 PJ).

   2. A reduction in the storage requirement for T-service customers brought about by contract changes resulting from the NGEIR Natural Gas Storage Allocation Policies hearing (EB-2007-0724/0725) (approximately 3.7 PJ).

b) The non-utility cross charge per PJ of storage space has increased from $0.286 million to $0.352 million due to cost increases and the inclusion of non-utility system integrity costs in the non-utility cross charge.

   The cost increases are due to increases in return, depreciation and O&M expenses allocated to the Excess Utility Storage Space category in the cost allocation study. Union has also included system integrity costs of $0.344 million related to the non-utility storage business in the Excess Utility Storage Space category, in recognition that system integrity space is a utility function required to support the integrity of the system as a whole for all customers.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Exhibit H1, Tab 1, pages 7-8 and Exhibit H3, Tab 8, Schedule 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.

Response:

a) Based on a total working capacity of the Heritage Pool of 1.015 PJ, Union assumed an average annual turnover of 90%. This 90%, or roughly 900,000 GJ was assumed to be transported for injection and withdrawal purposes.

b) All third party storage operators who contract for M16 transportation, will pay the monthly fixed charge per customer station included in the M16 Rate Schedule.

UNION GAS LIMITED

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

Ref: Exhibit F6, Tab 3, Schedule 1, Updated & Exhibit F3, F4 & F5, Tabs 1 & 2, Updated

Has Union updated Exhibit F6, Tab 3, Schedule 1, Exhibits F3, F4 and F5, Tab 1, Schedules 1 & 2 and Exhibits F3, F4 and F5, Tab 2, Schedule 1 to reflect the Board's EB-2011-0038 Decision and Order on Draft Rate Order dated February 29, 2012 in which the Board found that utility portion of the short-term storage margin is 100%, replacing the 79% used by Union for 2010 sharing purposes. If Union has not updated these schedules for 2010, 2011, 2012 and 2013 please provide revised schedules that reflect the Decision applied to each of these years.

Response:

Please see Attachment 1 which shows the impact of the Board's EB-2011-0038 Decision finding that 90% of the net deferral debit is shared with ratepayers.

UNION GAS LIMITED
Short-Term Storage Revenue and Costs
Year Ending December 31

Line No.	Particulars ($000's)	Board - Approved 2007	Actual 2010	Actual 2011	Forecast 2012	Forecast 2013
		(a)	(b)	(c)	(d)	(e)
1	Short-term storage revenue [(1)]	17,962	20,887	10,964	9,090	11,488
2	Excess utility storage space fuel costs [(2)]	(1,532)	(1,873)	(803)	(1,720)	(1,692)
3	Excess utility storage space costs excluding fuel [(3)]	(599)	(2,261)	(2,261)	(2,261)	(2,261)
4	Net revenue	15,831	16,753	7,900	5,109	7,535
5	Net revenue per EB-2007-0606	15,829	15,829	15,829	15,829	
6	Net deferral credit(debit) [line 4 - line 5]		924	(7,929)	(10,720)	
7	Ratepayer portion [(4)]	90.0%	71.1%	71.1%	71.1%	90.0%
8	Net revenue in rates [line 5 x line 7]	14,246	11,254	11,254	11,254	
9	Portion of deferral credit(debit) [line 6 x 90%[(5)]]	-	832	(7,136)	(9,648)	
10	Net share of Short-term storage revenue and costs	14,246	12,086	4,118	1,606	6,782
11	Shareholder portion	10.0%	28.9%	28.9%	28.9%	10.0%
12	Net revenue	1,583	4,575	4,575	4,575	-
13	Portion of deferral credit(debit) [line 6 x 10%[(5)]]	-	92	(793)	(1,072)	
14	Net share of Short-term storage revenue and costs	1,583	4,667	3,782	3,503	754

Note:
(1) Exhibit C1, Schedule 5, Line 12.
(2) Exhibit D3-D6, Tab 2, Schedule 1, Line 15.
(3) Exhibit D1, Summary Schedule 2, Line 33.
(4) 2007 = 90%, 2010-12 = 71.1% (EB-2005-0551), 2013 = 90% due to resetting of rates.
(5) EB-2011-0038.

UNION GAS LIMITED

Answer to Interrogatory from
Energy Probe

Ref: Exhibit F, Summary Schedules

Please provide an update to reflect the 100% share of ST storage revenues per EB-2011-0038.

Response:

Please see the response at Exhibit J.F-1-2-1.

UNION GAS LIMITED

Answer to Interrogatory from
Association of Power Producers of Ontario ("APPRO")

Reference: Exhibit F3, Tab 1, Schedule 1
Exhibit H3, Tab 1, Schedule 1

The Exhibits below present different numbers for revenues generated by current rates

Exhibit F3, Tab 1, Schedule 1, Column 1 (see Line 1)	$1,598,544
Exhibit H3, Tab1, Schedule 1, Page 2 (see Line 19)	$1,679,040

Please explain why those numbers do not match and provide the detail of the discrepancy

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Response:

Please see Attachment 1 for the reconciliation of 2013 forecasted revenue (Exhibit F3, Tab 1, Schedule 1, Column (a), Line 1) to 2013 proposed revenue (Exhibit H3, Tab1, Schedule 1, Page 2, Line 19):

Reconciliation of 2013 Revenues
Forecasted and Proposed

Line No.	Revenues ($000's)	Notes/References
1	1,598,544	Exhibit F3, Tab 1, Schedule 1, Column (a), Line 1, Updated. Forecasted Revenues
2	30,443	Exhibit G3, Tab 1, Schedule 2, Column (b), Line 2, Updated. Customer Supplied Fuel moved from Cost of Gas to revenue.
3	103	Exhibit H1, Tab 1, Page 3, Table 1, Line 7, Updated. C1 Dawn-Parkway Union Supplied Fuel revenue adjustment.
4	(23,132)	Exhibit G3, Tab 1, Schedule 2, Column (a), Line 4, Updated. Other revenue (not collected in rates).
5	73,083	Exhibit H1, Tab 1, Page 9, Table 4, Line 4, Updated. Proposed 2013 revenue deficiency.
6	1,679,041	Exhibit H3, Tab 1, Schedule 1, Page 2, Column (f), Line 19, Updated. Proposed Revenues

UNION GAS LIMITED

Answer to Interrogatory from
Association of Power Producers of Ontario ("APPRO")

Reference: Exhibit H3, Tab 1, Schedule 1, Page 2, Column (e), Line 19

a) Please explain why Union is requesting rates that generate revenues $2.228 million higher than the allocated cost ($1,676,812 vs. $1,679,040)

b) Please provide the following breakdown for the corresponding cost sources of the requested revenue of $1,676,812

Particulars	**($000)**
Cost of gas	
Operating and Maintenance	
Depreciation	
Other financing	
Property and capital taxes	
Return on rate base	
Income taxes	
Other expenses	
Total	1 676 812

c) Please provide the breakdown of the Cost of Operating and Maintenance amount provided in the table above with the same level of details as in Exhibit D1, Summary Schedule 2.

Response:

a) Please see the response at Exhibit J.H-1-2-1a).

b) Please see Attachment 1.

c) The only difference to the summary schedule is the compressor fuel amount of $30,426 and other financing of $1,179.

Breakdown of 2013 Proposed Revenue Requirement

Line No.	Particulars ($000's)	Cost Study
		(a)
1	Cost of gas	698,189
2	Operating and maintenance expenses [1]	424,833
3	Depreciation	196,467
5	Property taxes	64,022
6	Return on Rate Base	291,851
7	Income Taxes	39,752
8	Deferred income tax	(15,169)
9	Revenue Requirement [2]	1,699,944
10	Less: Other Revenue [3]	23,132
11	Total Revenue Requirement [4]	1,676,812

Notes:

(1) Operating and maintenance expense includes:

Operating and maintenance expenses	393,228
Plus Compressor Fuel	30,426
Plus Other Financing	1,179
Operating and maintenance expenses	424,833

(2) As per Exhibit G3, Tab 2, Schedule 1.

(3) As pe Exhibit G3, Tab 1, Schedule 2, Column (a), Line 4.
Other revenue (not collected in rates).

(4) As per Exhibit H3, Tab 1, Schedule 1, Page 2, Column (d), Line 19.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Please provide copies of all materials provided to Union's Board of Directors when it sought Board approval of the 2013 revenue requirement. When was approval of the currently filed application (including updates) granted by Union's Board of Directors?

Response:

Please see Attachment 1 for the presentation to Union's Board of Directors.

There was no Board of Directors' approval, nor any requirement for Board of Directors' approval, for Union's 2013 rate application. As stated at Section 13 of the EB-2007-0606 settlement agreement, "Union agrees (subject to any subsequent agreement of all parties to the contrary) to provide a full cost of service filing (Phase I & II) at the time of rebasing, regardless of whether Union applies to set rates for 2013 on a cost of service basis or not".

2013 Rebasing Proceeding

Board of Directors
Presentation
March 21, 2012

Revenue Deficiency

- 2013 revenue deficiency is $75 million (approx.9% increase before cost allocation and rate design)
- Compared to 2007 Board-approved levels, key drivers of 2013 revenue deficiency are:
  - Operating Revenue - $61 million increase (with no rate increases)
  - Operating costs - $81 million increase (due to increased salaries and benefits)
  - Depreciation - $23 million increase (due to additional investment in property, plant and equipment offset by lower depreciation rates)
  - Cost of Capital - $32 million increase (due to higher rate base, higher ROE as per the OEB's formula and proposed common equity increase from 36% to 40%)

Key Issues

- Key issues for the proceeding are:
  - Past financial performance
  - Request for rate increase
  - Limited growth and cost increases
  - Weather normalization methodology
  - Changes in North American natural gas supply dynamics and significant uncertainty around Dawn-Parkway demands
  - Increase in common equity component of capital structure from 36% to 40%
  - Use of new ROE formula
  - Cost allocation updates and rate redesign proposals

Dawn-Parkway Uncertainty

unionGas

- Union’s single biggest issue for 2013 rebasing and the next incentive regulation framework is uncertainty around demands and capacity requirements on the Dawn-Parkway system
  - Union continues to face risk of further turn-back beyond 2013
  - Outcome of TCPL mainline toll application will have implications for Dawn-Parkway demands
  - The capacity constraint at Maple limits Union’s ability to sell excess Dawn-Parkway services
  - The potential need to expand Dawn-Parkway to meet requirements of new gas-fired power generation

Annual Bill Impacts – General Service

General Service Rate Class	Total Bill Impact	Total Bill Impact
<u>Union North</u>		
Small Volume Rate 01 (@ 2,200 m^3/yr)	\$ 60 - \$ 77	7 % – 9 %
Large Volume Rate 10 (@ 93,000 m^3/yr)	\$ 311 – \$ 1,042	1 % – 4 %
<u>Union South</u>		
Small Volume Rate M1 (@ 2,200 m^3/yr)	\$ 16	2 %
Large Volume Rate M2 (@ 73,000 m^3/yr)	\$ 414	2 %

Average Delivery Rate Impacts – Contract Rate Classes

Rate Class	Rate Change (cents/m^3)	Rate Change ($/GJ)	Delivery Bill Impact (%)
M4	0.4768	0.126	17
M5A	0.4733	0.125	28
M7	0.1142	0.030	4
M9	(0.0153)	(0.004)	(1)
M10	0.5021	0.133	20
T1 – Small	0.4201	0.111	38
T1 – Average	0.1153	0.031	10
T1 – Large	(0.1087)	(0.029)	(10)
T3	0.1019	0.027	6
Rate 20	0.6434	0.170	42
Rate 25	0.6402	0.170	36
Rate 100	0.1086	0.029	16

Rebasing Proceeding: Next Steps

- File evidence update - March
- Issues Conference/Day - March
- Interrogatories - April
- Technical Conference - May
- Settlement Conference - June
- Hearing - July/August
- Argument/Reply - September
- OEB Decision - late Fall
- Implement Rates - January 1, 2013

2014 and Beyond

- Due to uncertainty, need to consider options:
  - File next incentive regulation framework after 2013 rates decision
  - File COS application in the fall of 2013 for rates effective Jan. 1, 2015
- Factors to consider:
  - Changes in North American gas flows and implications on the Dawn-Parkway system
  - Outcome of TCPL mainline tolls application
  - Amount and timing of facilities east of Parkway
  - Ways to address incremental capital (Parkway, CIS)
  - Certainty around timing of new gas-fired power generation
  - Outcome of the 2013 rebasing application
  - OEB acceptance