August 2, 2012

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

RE: EB-2011-0210 – Union Gas Limited – 2013 Rates – Supplemental Questions on Undertaking Responses

Dear Ms. Walli,

On July 30, 2012, the Board indicated that it would allow parties to submit questions of clarification on Undertakings given by Union. Parties having questions were required to provide them to Union by 10:00 am, July 31, 2012. (EB-2011-0210, Transcript. Vol 12. Pg 156).Union received questions from Board Staff, the Canadian Manufacturers and Exporters ("CME") and the Federation of Rental-housing Providers of Ontario ("FRPO"). The questions asked by these parties are set out in Attachment 2.

Reponses to certain of the questions are set out in Attachment 1. The remaining questions, in Union's view, are not proper; that is, they do not seek clarification in respect of the Undertakings. Rather, the questions are in the nature of requests for new information. Union has not provided answers in respect of these questions, for the reasons set out below.

J5.5

CME has asked that Union calculate interest coverage ratios on a total company basis for the years 2010-2014.While referencing the unredacted version of J.O-4-15-1, the question is unrelated to that undertaking and does not seek clarification in relation to any of the amounts set out therein . It is a simply a request for new information.

J7.11

CME has asked that Union revise K7.3 to incorporate the response to J7.11. This too is a request for new information and is not clarifying in nature.

P. O. Box 2001, 50 Keil Drive North, Chatham, ON, N7M 5M1 www.uniongas.com
Union Gas Limited

J7.12

Finally, CME has asked that Union provide its Precedent Agreement ("PA") with Dawn Gateway Limited Partnership. There is no suggestion in the question that Union's answer requires clarification nor any explanation as to why the question could not have been asked either during discovery or at the hearing. Union is not prepared to provide the PA. Union has provided information regarding Union's DGLP commitment in response to Board Staff's questions. Union's response addresses the thrust of CME's question, as reflected in the preamble. In Union's view, if the failed Dawn Gateway project has any relevance (which is denied), than the entire record before the Board in proceedings EB-2008-0411, EB-2009-0422, and EB-2010-0039, should be incorporated by reference into this proceeding rather than a single piece of evidence, taken out of context which Union witnesses will not have the opportunity to respond to.

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

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: Crawford Smith, Torys
EB-2011-0210 Intervenors

Board Staff

Clarification Question Re: Undertaking Responses of Union in EB-2011-0210

Use of Utility Transportation for the Provision of Non-utility Storage Services

In J7.12, Union estimated that it would use approximately $60,000 of interruptible St. Clair – Dawn transportation for the non-utility storage business in 2013. Union noted that the volumes flowed on this path for the non-utility storage business is included in the $2.0 million forecast for St. Clair-Dawn transportation revenue.

a) Please confirm whether this is the $57,000 amount referenced in the Updated H1 / Tab 8 / Pg. 8 – 9 related to 900,000 GJs of annual transport. Or is this amount incremental? If the $60,000 amount referenced in J7.12 is incremental, please provide the calculation of that amount. Please discuss which path(s) are related to the $60,000 amount(s) referenced?

b) Staff expected that undertaking J7.12, which reflects that the St. Clair Line is back in rate base, would have a higher estimate for the use of utility transportation service for the provision of non-utility storage services. Union makes extensive use of transportation services for the provision of non-utility storage services, but it seems that only a small portion of that service is provided by utility transportation assets. By what means are non-utility storage volumes (incremental to the amounts shipped on utility assets) transported? What percentage of Union's non-utility storage business' transportation needs are fulfilled by utility transportation assets? Please explain why Union does not rely more heavily on its utility transport assets to provide non-utility storage services.

Response:

a) The $57,000 referenced in Exhibit H1, Tab 8, pg.8-9 is not the $60,000 referenced in Exhibit J7.12.

   The $57,000 referenced in Exhibit H1, Tab 8, pp.8-9 is M16 revenue associated with transporting natural gas to and from Union's un-regulated Heritage storage pool. As described in Exhibit J.F-1-1-2, M16 transportation revenue for Heritage is calculated by multiplying 90% of the pool capacity of 1.015 PJ (900,000 GJ) by the interruptible M16 transportation rate.

   The $60,000 referenced in Exhibit J7.12 is the C1 revenue associated with transporting natural gas from Michigan storage on the St. Clair to Dawn path by Union's non-utility storage business. The C1 revenue is calculated by multiplying 90% of the contracted Michigan storage capacity of 2.1 PJ (1.9 PJ) by the current approved St. Clair to Dawn transportation rate of $0.32 GJ/d ($0.967/GJ/month * 12 / 365).

b) In Union’s view, Board staff’s question does not seek to clarify J7.12. Nevertheless, the following information is provided.

Contrary to the question, Union does not make extensive use of transportation services for the provision of non-utility storage services.

Parties that contract for non-utility storage services arrange for their own transportation services to and/or from Dawn. To the extent that this transportation is forecast to take place using Union’s regulated transportation assets, the revenue associated for these services has been captured in the 2013 C1 and M12 revenue forecasts.

The use of utility transmission assets by the non-utility business is reflected in the C1 revenue forecast per Exhibit J7.12 and the M16 revenue forecast.

The underlying premise of Board staff’s clarifying questions and the request by CME that Union file the Union Gas Precedent Agreement (“PA”) related to the cancelled Dawn Gateway Pipeline Project (“Dawn Gateway”), appears to be that revenues related to the Union contract on Dawn Gateway would contribute significantly to the C1 revenue forecast in 2013. This premise is wrong.

As background, the Dawn Gateway pipeline, the purpose of which was to offer a point-to-point transportation service from the Belle River Mills storage facility in Michigan to Dawn, consisted of the St. Clair Line and a new 17 kilometre section of pipeline to be constructed from the eastern end of the St. Clair Line to Dawn.

Union’s non-utility storage business, contracted for capacity on Dawn Gateway to facilitate connecting approximately 10 PJ of Michigan storage to Dawn. The PA signed by Union’s non-utility storage business was for 100,000 GJ per day at 7.7 cents/GJ. Of the 10 PJ of Michigan storage, 8 PJ was conditional on the Dawn Gateway project proceeding. If Dawn Gateway did not proceed Union would only be required to contract for 2 PJ of Michigan storage. This was the case because, absent Dawn Gateway, existing transportation facilities between Michigan and Dawn could not accommodate the additional 8 PJ of Michigan storage. Further, the price of 7.7 cents/GJ was negotiated pursuant to a complaint based regulatory framework approved by the Board in EB-2009-0422, reflecting market conditions at the time and the “at-risk” nature of the investment in new transmission infrastructure by the Dawn Gateway proponents.

In December 2011, it was determined that there was insufficient shipper, and hence market, support for the Dawn Gateway Pipeline project to proceed and the project was cancelled. As a result, the sale of the St. Clair Line was cancelled and the new 17 kilometre section of pipeline connecting the eastern end of the St. Clair line to Dawn was not constructed. Further, Union’s non-utility storage business did not contract for the 8 PJ of Michigan storage that was conditional on the Dawn Gateway Project proceeding.

The $60,000 of C1 revenue from the non-utility business referenced in J7.12 relates to that remaining 2 PJ of Michigan storage. Further, the cancellation of the Dawn Gateway project and the return of the St. Clair Line to regulated rate base do not contribute any revenue beyond the $2,000,000 referenced in Section 2.4 of the EB-2011-0210 Revised Settlement Agreement or as reflected in Table 1 of Exhibit H1, Tab 1.

Canadian Manufacturers & Exporters (“CME”)
Supplemental Questions

Ref: J5.2

This shows that on an actual basis that Union Gas Ltd("UGL") operates at points of time during a year under the auspices of a common equity ratio that is less than 36 %.

In that connection the UGL Annual Report at Ex.A Tab 2 page 43 indicates that an"externally imposed capital requirement"contemplates "maximum Total Indebtedness to Total Capitalization"of 75 %.This suggests that an actual operating common equity ratio as low as 25 % is permitted under "Externally Imposed Capital Requirements "applicable to UGL.

Please elaborate on the nature and source of the "Externally Imposed Capital Requirements"that accommodates maximum total debt to total capitalization of 75 %.

Response:

In addition to the Undertaking to the Lieutenant Governor in Council of Ontario (LGIC) to maintain the common equity at the level approved by the OEB (36%), Union must maintain a Total Indebtedness to Total Capitalization ratio of less than 75% to comply with covenants included in its Revolving Credit Facility and in the Trust Indenture of the previous Centra Gas Ontario Inc. of which Union still has outstanding Debentures.

The covenant permits Union to a maximum Total Indebtedness to Total Capitalization of 75% however, Union maintains a Total Indebtedness to Total Capitalization of 64% for its regulated and unregulated operations determined on rate base methodology.

The calculation for purposes of the covenants is done at each reporting period end on the actual equity of the Company which includes share capital, retained earnings, accumulated other comprehensive loss and non-controlling interest.

The calculation for the purposes of the undertakings to the LGIC is done based on the average annual common equity using the average of the monthly averages methodology followed by the OEB for the determination of rate base. Using this methodology there could be reporting periods that fall below average as a result of the timing of dividend payments.

Canadian Manufacturers & Exporters ("CME")
<u>Supplemental Questions</u>

Ref: J7.7

Does the response provided mean that $60,000 of RAM credits generated by what Union calls RAM optimization activities was posted to a gas Supply Deferral Account?If so the to what deferral account was the amount credited and why?

Response:

Per the response to J4.1, $60,000 of revenue was generated using $240,000 of RAM credits for the purposes of UDC mitigation. The $60,000 of revenue should have been booked to the UDC deferral account to offset UDC costs but the revenues were booked to the PGVA. Should revenues be generated in the future by RAM credits for UDC purposes, the revenues will be booked to the UDC deferral account.

Federation of Rental-housing Providers of Ontario ("FRPO")
Supplemental Questions

1) In J8.5, what is meant by the "use of revised allocation factors on maintenance capital projects"?

   a) Specifically, what is the definition of maintenance capital projects?

   b) If maintenance capital projects does not mean all O&M that is allocated using the gross capital allocators, please provide the resulting impact for all O&M in 2013.

Response:

The allocation factors used to create the test year forecast filed in support of the 2013 rate proposals were based on the 2007 approved allocation factors used for the one time allocation of unregulated storage plant.

The allocation factors provided in the undertaking response were updated to reflect the effect of the new unregulated storage investment since 2007. The effect of using the revised allocation factors on storage capital expenditures for 2012 and 2013 decreases the utility storage assets by $50,000 in 2012 and $25,000 in 2013. The revenue requirement impact of these adjustments is not material (less than $10,000).

a) Maintenance capital projects replace existing capacity/deliverability or add assets that do not increase capacity or deliverability.

b) As noted in Exhibit A2, Tab 2, Page 8, there are four methods used to allocate costs to unregulated O&M. Not all O&M is allocated using asset based allocation factors.

   - Actual O&M related to the operation of the storage facilities was allocated to the unregulated storage operation using the same allocators applied to the assets for that facility.
   - Administrative and general expenses and benefits in support of unregulated storage operations were allocated in proportion to storage O&M.
   - O&M costs related to the development of new storage assets are assigned based on an estimate of time spent annually on the development of unregulated projects.
   - O&M costs related to the Regulatory department for development of new storage assets, are assigned based on an estimate of time spent annually on the development of unregulated projects.

   The following schedule categorizes the 2013 Forecast non utility allocation (Exhibit D1, SS2 Updated) by the methods noted above.

A2, Tab 2 Categories	$(M's)
Operation of Storage Facilities	6.2
Admin, General & Benefits	5.8
Development of New Storage Assets - Other	0.6
Development of New Storage Assets - Regulatory	0.3
Sub Total	12.9
Donations	0.7
Exhibit D1, SS2 Updated, Line 30 Non Utility Allocations	13.6

The pool by pool allocation factors provided in response to undertaking J8.3 show the approved factors at the time of the initial allocation used to determine the 2013 unregulated costs, and the revised allocations reflecting the additional investment since 2007. Using the revised allocations would decrease the utility O&M by $100,000.

Federation of Rental-housing Providers of Ontario ("FRPO")
Supplemental Questions

2) J8.5 did not address investments made in projects such as Plant A/J (JT1.34) and, we suspect, most of the projects identified in the above referenced J1.4 of EB-2009-0101 (such as the Dawn Delivery Deliverability project).

a) Please provide the ratio of the total gross plant in utility and non-utility projects for 2013.

b) Using the ratio, please provide the resulting impact on allocated O&M for 2013.

Response:

Undertaking J8.3 requested the regulated and unregulated allocation of O&M by storage pool, as these costs are allocated in proportion to the asset allocation.

Undertaking J8.5 provided the methodology for allocating capital additions. Contrary to the preamble, this response does address the methodology used for all storage capital expenditures including new unregulated storage expenditures as well as replacement expenditures. The Dawn A/J project is an example of a project that combines both replacement and increased capacity. See J8.5 middle of page 1, last row of the first table. This category is described as a Replacement Asset that increases capacity or deliverability. The allocation methodology is described as follows "Cost of replacing the existing asset like for like is allocated regulated versus unregulated based on the historic allocation of assets being replaced. The cost of providing the incremental capacity or deliverability is allocated 100% to the unregulated operation. This results in a new blended rate for this asset." Undertaking JT1.34 outlines how the allocation factor for Dawn Plant A/J was determined. The allocation factor (57.55% regulated and 42.45% unregulated) is applied to both the capital expenditure and the O&M associated with this facility.

The Dawn Deliverability project and the two Delta pressuring projects identified in J1.4 of EB-2009-0101 (page 2, Note 5, lines 4, 5 & 9) were not referenced in evidence as they are projects that increased the deliverability or capacity of Union's system and the capital cost associated with those projects was allocated 100% to the unregulated operation. The impact of these projects on facilities that existed at December 31, 2006 is reflected in the updated allocation factors. The storage pools that were upgraded since that time, and the revised factors, are set out in the table starting at the bottom of page 2 of J8.5. There were 10 pools impacted – Bentpath East, Bluewater, Dawn 156, Dawn 59-85, Dow A, Edys Mills, Enniskillen, Oil City, Oil Springs East and Payne.