December 20, 2012

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2012-0087 - Union Gas Limited - 2011 Earnings Sharing & Disposition of Deferral Accounts and Other Balances – Responses to Intervenor Questions

On December 7, 2012, Union received questions from the Federation of Rental Property Owners ("FRPO") on the deductibility of compressor fuel and unaccounted-for-gas ("UFG") from FT-RAM related optimization revenue. On December 17, 2012, Union also received questions of a similar nature from the Canadian Manufactures and Exporters ("CME"). Additional questions were received from CME on December 18, 2012. Please find attached the responses to the questions of FRPO and CME.

If you have any questions please contact me at (519) 436-5473.

Yours truly,

[Original Signed by]

Karen Hockin
Manager, Regulatory Initiatives

cc Alexander Smith (Torys)
Crawford Smith (Torys)
EB-2012-0087 Intervenors

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

UNION GAS LIMITED

Answer to Question from
Canadian Manufacturers & Exporters ("CME")

The Proposed Deduction of $0.948M from the $22M of FT-RAM Revenues Net of Third Party Costs

1. Union seeks to deduct from the FT-RAM revenue realized in 2011 of $22.0M (net of third party costs), a further amount of $0.948M for compressor fuel and unaccounted for gas ("UFG") costs on its own system. The $22.0M stems from transactions where Union deviated from the Gas Supply Plan upon which its 2011 rates were based. This Gas Supply Plan included FT service on TransCanada PipeLines Limited ("TCPL"), along with related fuel and UFG on the Union system.

Instead of adhering to the TCPL FT component of its Gas Supply Plan, Union created unused FT and then used "Capacity Assignments" and its own use of IT optionality under its unused FT contracts to realize $22.0M of reductions in its TCPL Upstream Transportation costs. The evidence in EB-2011-0210, Exhibit J.C-4-7-9, Attachment 2, at lines 2 and 3 indicates that RAM revenue realized by Union from Capacity Assignments was $14.4M in 2011 and from its own use of IT optionality, about $9.6M. In order to help parties determine the appropriateness of the $0.948M of deductions that Union is claiming in 2011, we request that Union provide written responses in advance of the hearing to the following questions:

a) Please explain how the use of Union's own system differs under a Capacity Assignment whereby a marketer takes delivery of Union's gas upstream and delivers an equivalent amount on the points on Union's system where the gas is needed compared to the case where FT is used to deliver gas to those points on Union's system.

b) Please explain how the use of Union's system differs where Union uses the IT optionality available to it under its unused FT contracts to deliver gas to its system at the points where the gas is needed rather than using the initially planned FT service to deliver gas to those points.

c) Please provide a summary description of the manner in which and the extent to which compressor fuel volumes and costs, as well as UFG volumes and costs on Union's system are trued-up from year to year under the auspices of the IRM Agreement and the combination of Union's QRAM process and its Gas Supply Deferral Accounts. In particular, please provide separately the following information:

   (i) The forecast compressor fuel volumes and costs embedded in Union's 2007 Base Rates;

   (ii) The forecast UFG volumes and costs embedded in Union's 2007 Base Rates;

   (iii) The actual compressor fuel volumes and costs incurred by Union in 2007;

(iv) The actual UFG volumes and costs incurred by Union in 2007; and

(v) To what extent did the difference between Union's actual and forecast compressor fuel and UFG volumes and costs in 2007 get refunded/charged to ratepayers.

d) For each of the years 2008, 2009, 2010 and 2011, provide the same information requested in (i) to (v) above so interested parties can get a clear understanding of the extent to which the volumes and costs of UFG and compressor fuel on Union's system embedded in Union's 2011 rates differ from the actual volumes and costs Union incurred for those items on its system for that year.

e) Please explain the methodology Union applied to derive the UFG and compressor fuel costs on its own system for the entire Gas Supply Plan in 2011, including the TCPL FT transportation that Union decided to refrain from using so as to generate revenues from FT-RAM transactions.

f) What is the proportion of UFG and compressor fuel volumes and costs on Union's system that is attributable to the TCPL FT component of the Gas Supply Plan that Union decided to refrain from using in 2011 in order to generate revenues from FT-RAM transactions?

g) In its November 26, 2012 letter at page 2, Union refers to EB-2011-0210 Exhibits J6.1 and J6.2 to support its calculation of $0.948M as its proposed UFG and compressor fuel cost deduction from FT-RAM net revenues. In connection with that calculation, please explain the following:

(i) How Union derives the UFG and compressor fuel amount of $9.965M that it says are compressor fuel and UFG costs that it incurs on its system for all exchange activity, including exchanges that Union provides to third parties;

(ii) Does Union charge third parties for the compressor fuel and UFG costs that it incurs on its system to support this component of exchanges? If not, then why not?

(iii) Please explain how the understatement of $1.225M described in the letter and related to Union's initial calculation of compressor fuel and UFG costs attributable to FT-RAM transactions occurred and explain the method that Union followed to correct the calculation.

h) Please point to any information on which Union relies to demonstrate that the amount that it is proposing to deduct of $0.948M is incremental to amounts for UFG and compressor fuel already embedded in Union's 2011 rates.

i) Please provide a revised and updated earnings sharing calculation for the year ended December 31, 2011, found at Appendix G of the November 26, 2012 letter to exclude therefrom the deduction that Union has claimed for fuel costs and UFG of $0.948M related to FT-RAM optimization.

Response:

The last sentence in the first paragraph of the question states "…. This Gas Supply Plan included FT service on TransCanada .. along with related fuel and UFG on the Union system."

This statement is incorrect. The cost of compressor fuel and UFG on Union's system are not related to the Gas Supply plan. These costs are incurred to provide storage, transportation and distribution service, the forecast of these costs is based on the demand for these services on the Union system; they are recovered in the applicable, storage, transportation and delivery rates not the gas supply or transportation charges. The current rates recover the costs as forecast in 2007 adjusted in the QRAM process for the changes in the cost of gas during the IR period.

As noted in the response to FRPO question #1 at the time current rates were set in 2007 there was no forecast of optimization activity and therefore, no associated compressor fuel costs in the forecast to be recovered. The actual cost of the compressor fuel on the Union Dawn Parkway system related to any optimization activity on this system are recovered in the optimization revenue.

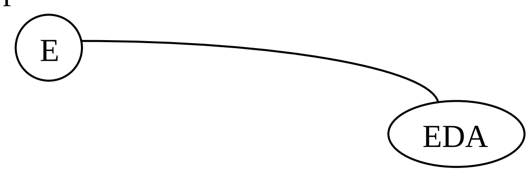
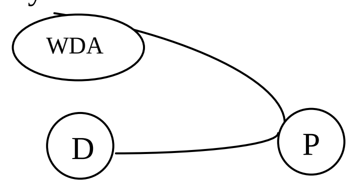
The cost of compressor fuel and UFG recovered in the TCPL commodity charges are recovered in the gas supply commodity rates. To the extent that a variance in the upstream costs occurred as a result of optimization activities these costs variances are included in the $22 million of revenue.

a) **<u>Use of Union's System With Capacity Assignment Optimization Activity (FT-RAM Related)</u>**

Union has provided the following illustrative example of the optimization of the flow of gas through a Capacity Assignment (FT-RAM related) in order to demonstrate how fuel and UFG are incurred on Union's system as part of facilitating optimization through capacity assignments.

<u>Contracted Flow per the Gas Supply Plan</u>

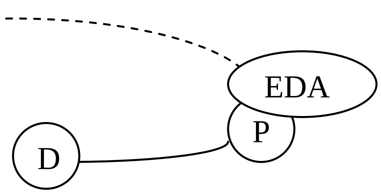
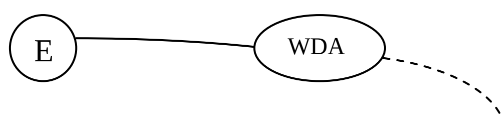
Union holds TCPL Empress to EDA contracts for Firm Transportation to meet some of the demands in the EDA (Figure A). Union also holds Dawn – Parkway capacity and TCPL STS to move gas out of storage to meet some of the demands in the WDA (Figure B). Union plans to incur Dawn-Parkway compressor fuel and UFG on its system to meet demands in the WDA in this example.

<table>
<tr><th>Figure A - EDA demand</th><th>Figure B- WDA demand</th></tr>
<tr><td>TCPL Firm Transportation
Empress – EDA
</td><td>Withdrawal from storage
Dawn - Parkway - WDA
</td></tr>
</table>

Optimization of Physical Gas Flow

When a capacity assignment is used for FT-RAM related optimization, Union assigns the Empress to EDA contract to a marketer. At the same time, Union completes a firm exchange with the same marketer whereby Union provides gas to the marketer at Empress and the marketer provides gas back to Union at the WDA to help meet market demands in the WDA (Figure D). In this example, STS is no longer used to help meet demands in the WDA and hence UFG and compressor fuel on the Union system is not incurred to serve the WDA.

For the volumes required by the EDA, Union would then flow from Dawn to Parkway on its system, and then Parkway to the EDA on TCPL (Figure C). These volumes flowing to the EDA on the Union Dawn to Parkway system would incur UFG and compressor fuel costs on the Union system.

<table>
<tr><th>Figure C -EDA demand</th><th>Figure D -WDA demand</th></tr>
<tr><td>Dawn – Parkway EDA
</td><td>Empress to WDA
</td></tr>
</table>

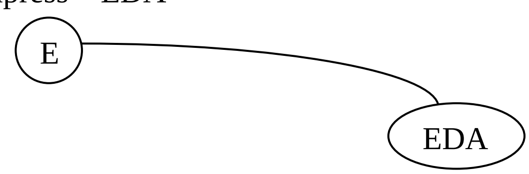
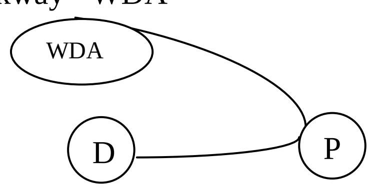
Both on a planned basis (Figure B) and on a physical basis (Figure C) the same quantity of Dawn–Parkway compressor fuel and UFG are incurred on the Union system.

b) **Use of Union's System When Union Optimizes (FT-RAM Related) the Capacity**

Union has provided the following illustrative example where Union optimizes the flow of gas directly and sells an FT RAM related transportation exchange. This example demonstrates how incremental fuel and UFG are incurred on Union's system as part of facilitating the exchange.

Contracted Flow per the Gas Supply Plan

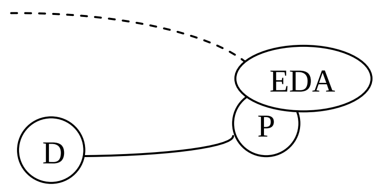
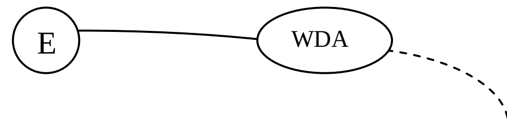
The steps described in Figures A through D above are similar in the two cases (Capacity Assignment Optimization and Union Optimization). In this example, Union still holds TCPL Empress to EDA contracts for Firm Transportation to meet some of the demands in the EDA (Figure A). Union also holds Dawn – Parkway capacity and TCPL STS to move gas out of storage to meet some of the demands in the WDA (Figure B). As in the previous example, Union on a planned basis incurs Dawn-Parkway compressor fuel and UFG to meet demands in the WDA.

Figure A - EDA demand	Figure B- WDA demand
TCPL Firm Transportation Empress – EDA 	Withdrawal from storage Dawn - Parkway - WDA 

Optimization of Physical Gas Flow

On a physical basis, the firm transportation from Empress to the EDA is left empty by Union to earn FT-RAM credits. Union then purchases IT transportation from Empress to the WDA. The Empress gas that was physically flowing from Empress to the EDA now flows to the WDA to meet demands (Figure D). In this example, STS is no longer used to help meet demands in the WDA, and compressor fuel and UDC on the Union system is no longer incurred.

For the volumes required by the EDA, Union then flows from Dawn to Parkway on its system, and then Parkway to the EDA on TCPL (Figure C). These volumes flowing to the EDA on Union's Dawn to Parkway system would incur UDC and Fuel costs.

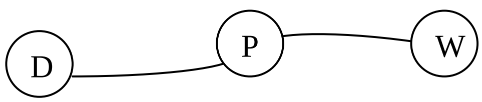
Figure C -EDA demand	Figure D -WDA demand
Dawn – Parkway EDA 	Empress to WDA 

Both on a planned basis (Figure B) and on a physical basis (Figure C) the same quality of Dawn–Parkway compressor fuel and UFG are incurred on the Union system.

Under TCPL's RAM program, the empty firm transportation from Empress to EDA results in credits that may be used to purchase TCPL IT services in the same month as the credits were earned. In the above example, some of the credits would have been used to pay for the Empress to WDA IT flows in that month. The remaining credits would be available to purchase additional IT services on TCPL. These remaining credits then allow Union to complete one additional step as outlined below.

FT-RAM Transportation Exchange Service

In the same month that Union generates the FT-RAM credits, Union enters into a new Dawn-Waddington transportation exchange service (Figure E) to meet an incremental market need. To facilitate the Dawn to Waddington transportation exchange, Union purchases TCPL IT capacity from Parkway to Waddington, using the remaining RAM credits to reduce the cost. To complete the path, Union also uses available Dawn – Parkway capacity, and it is this Dawn – Parkway flow that results in the additional fuel and UFG costs that are recovered in the transportation exchange service revenue. Figure F illustrates the calculation of net revenue for a Dawn-Waddington exchange.

Figure E	Figure F	
Dawn - Parkway - Waddington	Transportation exchange revenue	xxx
	Less:	
	TCPL IT (Parkway – Waddington)	(xx)
	Offset by FT RAM credit	xx
	Revenue	xx
	Less cost of gas:	
	Dawn – Parkway commodity cost	(xx)
	Net revenue	xx

This illustrative example demonstrates how fuel and UFG costs are incurred when providing transportation exchange services. This example is typical of the types of exchanges underpinning the 2011 FT-RAM related transportation exchange revenue and the associated costs of $0.948 million.

c) & d)

Attachment 1 shows the 2007 Board approved compressor fuel and UFG volumes and costs as well as actual volumes and costs recorded from 2007 through 2011.

Ex-franchise transportation commodity rates reflect actual costs. Current infranchise delivery rates are based on the 2007 Board approved forecast adjusted for the impact of changes in cost of gas through the QRAM process. The remaining variance in costs flows through to utility earnings and is subject to earnings sharing

e)

As set out above, the cost of compressor fuel and UFG on Union’s own system are not related to the Gas Supply plan. These costs are incurred to provide storage, transportation and distribution service, the forecast of these costs is based on the demand for these services on the Union system.

Union’s current delivery rates are based on the 2007 forecast adjusted through the QRAM process for changes in the cost of gas. The 2007 compressor fuel forecast approved in rates is based on the 2007 forecast demands and the 2005 system operating experience. The UFG forecast approved in rates is based on a weighted average of the of the actual UFG ratios experienced in 2005, 2004 and 2003 applied to the 2007 volume forecast. This calculation for 2013 shown in evidence in EB-2011-0210 and is provided at attachment 2.

f) There are none. Please see response to 1e) above.

g)

i) The fuel costs in J6.1 and J6.2 are calculated in the same manner as presented in Appendix B of Union's letter dated November 26, 2012. The primary difference is that J6.2 includes UFG and compressor fuel for all short-term transportation and exchange services, which includes FT-RAM related exchanges, whereas Appendix B is only for compressor fuel on the easterly Dawn-Parkway system and UFG relating to FT-RAM related exchanges. The breakout is as follows:

Service	Compressor Fuel & UFG costs ($000's)
Exchange services – FT-RAM related	948
Exchange services – non FT-RAM related	1,734
C1 Short term Firm Transportation service	5,715
C1 Short term Interruptible Transportation Service	1,568
Total	9,965

ii) Yes

iii) The overstatement was a result of a calculation error. When calculating the fuel costs for J6.1 we misclassified some volumes as being FT-RAM related when they were in fact non FT-RAM related volumes.

h) Please see the responses to questions 1 (a) and (g) above, and FRPO question 4.

i) Please see Attachment 3 for the updated Earnings sharing calculation schedule. This is an update to the ES calculation filed with the Settlement Agreement on December 14, 2012 and reflects removal of the fuel and UFG cost adjustment.

UNION GAS LIMITED
Utility Compressor Fuel and Unaccounted For Gas Volumes and Costs
Years Ending December 31

		Compressor Fuel		Unaccounted For Gas	
Line No.	Year	Volume (10^3m^3)	Cost ($000's)	Volume (10^3m^3)	Cost ($000's)
		(a)	(b)	(c)	(d)
1	2007 Board Approved	150,795	53,603	134,996	47,987
2	2007 Actual	120,674	43,116	189,731	65,581
3	2008 Actual	120,839	41,262	133,363	52,131
4	2009 Actual	111,810	35,102	184,050	51,062
5	2010 Actual	142,285	35,921	60,037	12,212
6	2011 Actual	135,189	28,677	32,794	7,393
7	Variance in cost between 2011 and 2007 Board approved (line 1 less line 6)		24,926		40,594
8	Less: estimated gas cost changes flowed through rates in the QRAM		(21,616)		(17,554)
9	Variance		3,310		23,040

UNION GAS LIMITED
Unaccounted for Gas Volume
For the Year Ending December 31, 2013

Line No.	Particulars	Volume (a)	Weighting (b)	Volume Weighted (c)	
	Determination of Forecast UFG volume for 2013				
	3 year average of actual UFG (10^3m^3):				
1	2011	35,668	50%	17,834	/u
2	2010	67,283	33%	22,203	/u
3	2009	201,845	17%	34,314	/u
4	Average actual UFG volume			74,351	/u
	3 year average of actual throughput (10^6m^3):				
5	2011	33,824	50%	16,912	/u
6	2010	35,090	33%	11,580	/u
7	2009	31,677	17%	5,385	/u
8	Average actual UFG throughput			33,877	/u
9	UFG ratio for 2013 (line 4 / line 8 / 1,000)			0.219%	/u
10	2013 total forecast throughput (10^6m^3)			32,010	
11	Estimated UFG volume for 2013 (10^3m^3) (1)			70,253	/u
12	Estimated UFG for 2013 ($000's) (2)			14,234	/u
13	Unregulated Allocation - Short-Term ($000's)		2.514%	(358)	/u
14	Unregulated Allocation - Long-Term ($000's)		7.036%	(1,001)	/u

Note:
(1) Line 9 * line 10 * 1,000.
(2) Calculated using EB-2010-0359 reference price of $202.61/$10^3m^3$.

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ended December 31

Line No.	Particulars ($000s)	2011 (a)	Non-Utility Storage (b)	Adjustments (c)		2011 Utility (d)=(a)-(b)+(c)
	Operating Revenues:					
1	Gas Sales and distribution	$ 1,484,768	$ -	$ (2,030)	i	1,482,738
2	Storage & Transportation	310,109	116,314	(22,190)	ii	171,605
3	Other	34,226	-	(11,146)	iv	23,080
4		1,829,103	116,314	(35,366)		1,677,423
	Operating Expenses:					
5	Cost of gas	755,265	(215)	(342)	iii	755,138
6	Operating and maintenance expenses	384,773	14,716	(587)	v	369,470
7	Depreciation	204,344	8,731	(136)	i	195,477
8	Other financing	-	-	343	vi	343
9	Property and capital taxes	62,057	1,358	-		60,699
10		1,406,439	24,590	(722)		1,381,127
	Other					
11	Gain / (Loss) on sale of assets	6,322	(115)	(6,402)	vii	35
12	Other / HTLP	(1,165)	(1,165)	-		-
13	Gain / (Loss) on foreign exchange	701	27	-		674
14		5,858	(1,253)	(6,402)		709
15	Earning Before Interest and Taxes	$ 428,522	$ 90,471	$ (41,046)	$	297,005
	Financial Expenses:					
16	Long-term debt					142,509
17	Unfunded short-term debt					1,312
18						143,821
19	Utility income before income taxes					153,184
20	Income taxes					24,929
21	Preferred dividend requirements					3,075
22	Utility earnings					125,180
23	Long term storage premium subsidy (after tax)					-
24	Short term storage premium subsidy (after tax)					8,075
25						8,075
26	Earnings subject to sharing				$	133,255
27	Common equity					1,289,973
28	Return on equity (line 26 / line 27)					10.33%
29	Benchmark return on equity					10.10%
30	50% Earnings sharing % (line 28 - line 29, maximum 1%)					0.23%
31	90% Earnings sharing to ratepayer % (if line 30 = 1% then line 28 - line 29 - line 30)					0.00%
32	50% Earnings sharing $ (line 27 x line 30 x 50%)					1,484
33	90% Earnings sharing to ratepayer $ (line 27 x line 31 x 90%)					-
34	Total earnings sharing $ (line 32 + line 33)					1,484
35	Pre-tax earnings sharing (line 34 / (1 minus tax rate))				$	2,068

Notes:

i)	Impact of Removing St. Clair Transmission Line from rates	
ii)	Impact of Removing St. Clair Transmission Line from rates	(190)
	Removal of FT-RAM optimization revenue (net of TCPL cost)	(22,000)
		(22,190)
iii)	Impact of Removing St. Clair Transmission Line from rates	(342)
iv)	Shared Savings Mechanism	(9,862)
	Market Transformation Incentive	(500)
	Low Income Incentive	(500)
	CDM / HPNC	(244)
	Cash Distribution from DGLP	(40)
		(11,146)
v)	Donations	
vi)	Customer deposit interest	
vii)	Cumulative Under-recovery St. Clair Transmission Line	

UNION GAS LIMITED

Answer to Question from
Canadian Manufacturers & Exporters ("CME")

Verification Mechanism

Assume that the Board agrees that it would be appropriate to adopt a mechanism that could be applied to verify that the method that Union is proposing to remit FT-RAM net revenues to its customers, does actually refund to them the 2011 amount of $22M. What is the mechanism that Union would recommend to establish that its deferral account clearance mechanism actually refunds to ratepayers the full amount of the $22M.

Response:

Union did not propose a true-up mechanism for deferral balance disposition as the average variance is not material. Please refer to Union's response to FRPO Question 5.

If the Board finds it appropriate to order a true up mechanism, this should be done by establishing a deferral account to capture any over or under recovery for all deferral accounts. The balance in this account would be included in the next Deferral disposition proceeding for disposition.

UNION GAS LIMITED

Answer to Question from
Canadian Manufacturers & Exporters ("CME")

In Union's 2013 Rates Application, evidence was provided by the company that indicated that a material component of its cumulative over-earnings during the course of the IRM Agreement from 2008 to 2012 inclusive was attributable to the fact that amounts being recovered in rates for unaccounted for gas ("UFG") and compressor fuel exceeded actual costs for each of those items. In connection with that evidence, please provide the following information:

a) Please provide a description of the extent to which 2011 UFG and compressor fuel amounts recovered in rates exceeded the actual costs incurred for those items and provide the references to the evidence in the EB-2011-0210 proceeding transcript and exhibits that describe that outcome.

Response:

Please see response provided to CME Question 1 d).

UNION GAS LIMITED

Answer to Question from Canadian Manufacturers & Exporters ("CME")

Appendix B to Union's November 26, 2012 letter contains a table entitled "Summary of Compressor Fuel and UFG Costs Related to FT-RAM Optimization for the year ended December 31, 2011". Please provide a schedule in the same format as Appendix B that shows, for each month and in total, the following information:

a) A summary of compressor fuel and UFG costs embedded in rates for the year ended December 31, 2011, from each of the different paths relating to all of the FT capacity that Union choose to refrain from using so as to reduce its TCPL Upstream Transportation costs under the auspices of Capacity Assignments where Union did not use the FT service but instead assigned it to marketers in conjunction with a marketer provided exchange.

b) A summary of compressor fuel and UFG costs embedded in rates for the year ended December 31, 2011, from each of the contracted FT paths that were not used so that Union could use instead the IT optionality under those contracts and thereby reduce its actual Upstream Transportation costs to amounts less than those being recovered from ratepayers.

Response:

The premise of the question is misconceived. The compressor fuel and UFG at issue is compressor fuel and UFG associated with 2011 FT-RAM related transportation and exchange services on Union's Dawn-Parkway system. Since 2011 delivery rates, which is where Union compressor fuel and UFG are recovered, include compressor fuel and UFG at 2007 Board Approved levels, none of the fuel at issue is included in 2011 delivery rates.

To the extent that the question is asking about compressor fuel and UFG on the TransCanada system, any compressor fuel and UFG savings (or costs) on the TCPL system resulting from these FT-RAM related transportation and exchange services are captured in the calculation of the FT-RAM related transportation and exchange revenue. These savings or costs are part of third party costs and are captured in line 3 of Appendix E of Union's November 26, 2012 submission.

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Please provide the Dawn-Trafalgar easterly compressor fuel for:

a) EB-2005-0520 forecast of 2007 units of fuel (GJ) and dollar value ($) allocated to:
  i) In-franchise requirements
  ii) Ex-franchise requirements
    (1) M12 contracts
    (2) Other transportation services

b) 2011 actual units of fuel (GJ) and dollar value ($)
  i) In-franchise requirements
  ii) Ex-franchise requirements
    (1) M12 contracts
    (2) Other transportation services

c) For each of the above figures, please provide the evidentiary reference.

Response:

Attachment 1 shows the allocation of the 2007 forecast of Dawn-Parkway compressor fuel compared to the 2011 costs incurred as requested. The amount attributed to in-franchise customers shown at line 5 is the residual amount of fuel after recovery of costs from the ex-franchise customers. Of the reduction in costs attributed to in-franchise activity of $3.4 million approximately $1.8 million is related to changes in the cost of gas and was passed on to ratepayers through delivery rates through the QRAM process. The remaining $1.6 million variance was included in Union's 2011 earnings subject to earnings sharing.

The favorable variance in compressor fuel is the result of an increase in ex-franchise volumes through Parkway recovering a greater proportion of the cost of compressor fuel on the Dawn-Parkway system from ex-franchise customers.

It is important to realize that the compressor fuel forecast embedded in 2007 rates was prepared in 2005, is based on 2005 system operations and forecast demands for 2007. Between 2005 and

2011, the Dawn to Parkway system has seen many changes in physical capacity, and operational flow. Most notably;

- Union has added approximately 1 Pj/d of new capacity through pipe and compressor additions (primarily in 2006-2008);
- Union has seen significant de-contracting of capacity and use of the Dawn to Kirkwall path due to the emergence of the Marcellus supply;
- As a result of the reversal of the Kirkwall station in November 2012, gas is now imported at Niagara and flows into the Union system at Kirkwall (in 2005 volumes would have flowed from Union to TCPL at Kirkwall);
- In 2005, the Parkway interconnect with TCPL was bi-directional. Union would deliver gas into the TCPL system in the winter period and would take gas from TCPL (for injection into storage) in the summer period. By 2011, the flow pattern had changed dramatically such that volumes only flow into TCPL. The change in flow was driven primarily by parties wanting to contract short haul back to Dawn rather than long haul back to Empress, new Power load downstream of Parkway, and volumes that were leaving the system at Kirkwall now finding new markets downstream of Parkway; and
- In 2005 the peak day flows at Parkway into TCPL were slightly higher than 1 Pj/d. By 2011, the peak day was 2 Pj/d, almost double.

The graph at Attachment 2 shows the change in operation at Parkway between 2005 and 2011.

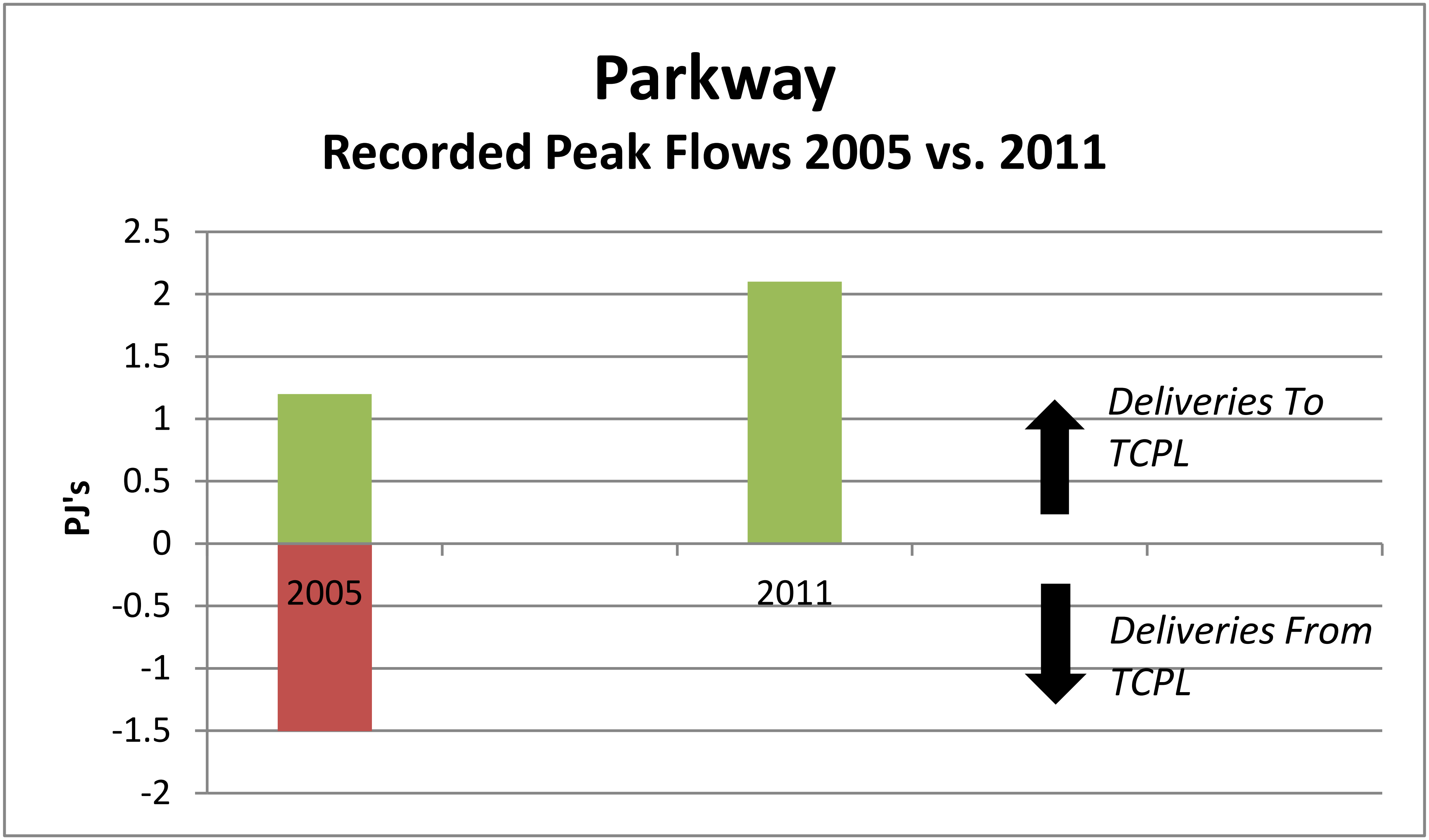
The 2007 Board-approved forecast for fuel allocated to C1 and M12 transportation services reflects the demand for these services at the time the forecast was prepared. At that time,Union was not anticipating the level of actual C1 short term transportation and exchanges services experienced during the incentive regulation period. As a result,there were no compressor fuel costs included in the 2007 compressor fuel forecast related to this additional activity. Union's pricing of M12 and C1 services allows for the recovery of the actual costs incurred in 2011 to provide these services. The amount of $5.2 million recovered from C1 transportation services includes the compressor fuel portion of the costs included in the $0.948 million related to FT-RAM optimization transactions.

The benefit of the increased activity and the recovery from ex-franchise customers is reflected in the reduction of remaining fuel attributed to in-franchise activity. This reduction is included in the calculation of the utility earnings sharing calculation.

UNION GAS LIMITED
Dawn-Parkway Compressor Fuel Summary
Years Ending December 31

Line No.	Particulars	Board Approved 2007 Volume (GJ)	Board Approved 2007 Cost ($000's)	Actual 2011 Volume (GJ)	Actual 2011 Cost ($000's)
		(a)	(b)	(c)	(d)
1	Total Dawn-Parkway compressor fuel	2,800,250	$ 26,418 (1)	4,152,908	$ 23,219
	Less: recovery from Ex-Franchise services				
2	M12 and M12-X transportation	2,366,063	22,322	3,160,493	17,681
3	C1 transportation and exchange services	38,415	362	917,513	5,165
4	Total Ex-Franchise Recovery	2,404,478	22,684	4,078,006	22,846
5	Remaining costs attributed to in-franchise activity	395,772	3,734	74,902	373
6	Variance in cost between 2011 and 2007 Board approved (line 5 column b less d)				3,361
7	Less: estimated gas cost changes flowed through rates in the QRAM				(1,763)
8	Variance in compressor fuel costs related to activity				1,598

Notes:
(1) EB-2005-0520 Exhibit G3 Tab 5 Schedule 16


Parkway
Recorded Peak Flows 2005 vs. 2011
2.5
2
1.5
1
0.5
0
-0.5
-1
-1.5
-2
PJ's
2005
2011
Deliveries To TCPL
Deliveries From TCPL

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Does Union S&T nominate additional fuel for Union Gas Transportation related transactions in each of the following categories?

(1) M12 contracts

(2) Other transportation services

(3) FT-RAM credit supported exchanges

Response:

No. For the categories listed above, as well as exchanges not supported by FT-RAM, S&T customers submit a nomination to Union to transact the service. If the customer is providing its own compressor fuel and UFG fuel as part of payment for the service, its nomination would include fuel. If the customer is not providing its own compressor fuel and UFG, then the price it pays for the service would include a charge for compressor fuel and UFG. Since the customer has nominated to transact the service, Union does not nominate to itself to provide the service.

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Please provide the specific expense type in Union's filings that capture the costs for the above services.

Response:

The cost of compressor fuel and unaccounted for gas incurred on Union's system are considered to be company used gas costs and are included in the cost of gas expense. These costs are separate from the gas commodity and upstream transportation costs.

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Please provide any evidentiary basis demonstrating Union's deduction of fuel gas from Net Revenue of S&T revenue and the Board's specific acceptance of that accounting.

Response:

The Ontario Energy Board (the "Board") found, in its Decision and Order on the Preliminary Issue in EB-2012-0087, that Union's 2011 upstream transportation optimization revenues derived through the utilization of TCPL's FT-RAM program shall be treated as a reduction to gas supply costs. The Board ordered that Union defer for refund to ratepayers 90% of the net revenue related to upstream transportation FT-RAM optimization activities for 2011. The Board also directed Union to confirm that the net revenue amount related to FT-RAM optimization activities for 2011 is $22 million.

Net revenue is revenue for services provided, adjusted for the costs incurred to provide those services. Here, revenue is from transportation exchange services related to FT-RAM optimization, and the costs incurred to provide the service are third party costs and commodity related costs on Union's Dawn – Parkway system. Third party and commodity related costs are matched to the revenues from services they were incurred to provide in order to determine the amount to be refunded. To defer revenues without recognizing the costs incurred to provide the service would not be appropriate.

This approach is consistent with evidence given by Union witnesses at the EB-2012-0087 Technical Conference, as well as the methodology used to determine amounts deferred (and ultimately approved by the Board for disposition) in the Transportation Exchange Services Deferral Account No. 179-69 since the early 1990's. Deferral Account No. 179-69 was eliminated as part of EB-2007-0606 (Union's Incentive Rate Mechanism) Settlement Agreement.

Calculation of Net Exchange Revenue Prior to Elimination of Deferral Account 179-69

Prior to 2008, Union shared net transportation and exchange revenue with rate payers through the disposition of Deferral Account No. 179-69. To arrive at net transportation and exchange revenues to be shared with ratepayers, Union deducted the costs of compressor fuel and UFG incurred to provide the transportation and exchange service. This had been Union's practice since 1993 when transportation and exchange margin was first deferred and shared with ratepayers (EB-2011-0210, Transcript Volume 6, p. 78, line 4-13).

Union has provided at Attachment 1, the calculations of actual and forecast deferred margin related to transportation exchanges for 1997 to 1999 from EBRO 499, Exhibit C1, Tab 3, Page 5 of 15. Attachment 2 provides the actual and forecast balances from 1999 to 2007 (EB-2005-0520, Exhibit J14.36, Attachment 2). Both attachments show that for the purposes of calculating transportation exchange revenue to be disposed of to the benefit of ratepayers Union deducted the costs associated with providing transportation exchange services. The costs deducted from the transportation and exchange revenue were primarily related to compressor fuel and UFG.

Further, during cross examination in RP-2002-0130, Union's 2003 Customer Review Process, Union was asked to describe the types of costs included in storage and transportation deferral accounts. Union stated in relation to the Storage and Transportation deferral accounts that the costs deducted from revenue include the compressor fuel and UFG costs. Union noted the following:

> *MR. AIKEN: You also mentioned about the deferral accounts, and the revenues would continue to be assigned to those deferral accounts. What type of costs are current put in those deferral accounts?*
>
> *MR. BAKER: The costs that typically go against the revenues in those deferral accounts are costs associated with activity, they can be things like compressor fuel and unaccounted for gas and those kinds of things, so it's costs associated with the activity that we're pursuing.* (RP-2002-0130, Transcript Volume 1, pp.168 and 169*)*

The evidence given in the RP-2002-0130 proceeding by Mr. Baker is consistent with the evidence given in this proceeding by Ms. Elliott at the Technical Conference on August 21, 2012 (EB-2012-0087, Technical Conference Transcript, p. 29 -31).

<u>Treatment of Exchange Revenue and Costs During the IR Term</u>

As indicated above, as part of the EB-2007-0606 Settlement Agreement, parties agreed to the elimination of Deferral Account 179-69. In exchange for eliminating deferral account 179-69, Union also agreed to increase transportation and exchange net margin included in delivery rates by $4.3 million for a total transportation and exchange net margin included in delivery rates of $6.9 million.

Under the terms of the EB-2007-0606 Settlement Agreement, ratepayers were guaranteed an upfront reduction in delivery rates equivalent to $6.9 million after taking into account the costs of providing the transportation and exchange service. In other words, in order for Union to earn the net margin included in delivery rates, Union would have to achieve $10-12 million of transportation and exchange revenue (EB 2009-0101, Exhibit A, p. 7). The difference between revenue and the margin in rates is attributable to third party costs and compressor fuel and UFG on Union's system.

Since the beginning of Union's Incentive Regulation framework, (2008, 2009 and 2010), with the elimination of Deferral Account No. 179-069, transportation and exchange revenues and costs were part of utility earnings and subject to earnings sharing. This means that the revenues associated with FT-RAM exchanges would have been included in S&T revenue and the commodity related costs associated with FT-RAM exchanges (Fuel and UFG on exchange transactions utilizing Union's transmission system) would have been included in Cost of Gas in the earnings sharing calculation.

As a result of the Board's November 19, 2012 Decision to treat FT-RAM optimization revenues (which include the recovery of costs associated with providing exchange services) as a gas cost reduction, Union must remove from utility earnings both the revenues and costs. To do otherwise results in an inappropriate mismatch. Specifically, since Union is in earnings sharing in 2011, if the Board determines that the cost of compressor fuel and UFG attributable to FT-RAM transportation and exchanges is not deductible, South sales service customers and North sales service and bundled direct purchase customers will receive 90% of the FT-RAM transportation and exchange revenue while "paying" only 50% of the associated costs (none of which are included in delivery rates) through earnings sharing. If Union was not in earnings sharing in 2011, then South sales service customers and North sales service and bundled direct purchase customers would receive 90% of the FT-RAM transportation and exchange revenue (Union would receive 10%) and Union would incur 100% of the costs.

Particulars ($000's)		Actual 1997	Forecast 1998	Forecast 1999
C1 Interruptible Transportation	Revenue	$ 1,220	$ 852	$ 647
	Less: Costs	332	134	138
	Gross Margin	888	718	509
	Less: Approved Forecast	1,032	1,032	509
	Deferred Margin	$ (144)	$ (314)	$ -
Exchanges	Revenue	$ 1,006	$ 776	$ 500
	Less: Costs	471	(37)	186
	Gross Margin	535	813	314
	Less: Approved Forecast	578	578	314
	Deferred Margin	$ (43)	$ 235	$ -
C1 Short Term Transport	Revenue	$ 715	$ 177	$ -
	Less: Costs	-	145	-
	Gross Margin	715	32	-
	Less: Approved Forecast	-	-	-
	Deferred Margin	$ 715	$ 32	$ -
M12 Limited Firm	Revenue	$ 91	$ -	$ -
	Less: Costs	13	-	-
	Gross Margin	78	-	-
	Less: Approved Forecast	-	-	-
	Deferred Margin	$ 78	$ -	$ -
M12 Transport Overrun	Revenue	$ 404	$ 372	$ 287
	Less: Costs	17	139	85
	Gross Margin	387	233	202
	Less: Approved Forecast	937	937	202
	Deferred Margin	$ (550)	$ (704)	$ -
Total Service Block	Revenue	$ 3,436	$ 2,177	$ 1,434
	Less: Costs	833	381	409
	Gross Margin	2,603	1,796	1,025
	Less: Approved Forecast	2,547	2,547	1,025
	Deferred Margin	$ 56	$ (751)	$ -

Filed: 2012-12-20
EB-2012-0087
FRPO Question 4
Attachment 2

Exhibit J14.36
Attachment #2

Union Gas Limited
Summary of Transactional Services by Account
For the Years Ending December 31
($000's)

Line No.	Particulars		Actual 1999 (a)	Actual 2000 (b)	Actual 2001 (c)	Actual 2002 (d)	Actual 2003 (e)	Actual 2004 (f)	Board Approved 2004 (g)	Forecast 2005 (h)	Forecast 2006 (i)	Forecast 2007 (j)
	Total C1 Transporation Service Block #179-69											
1	Revenue	(1)	4,289	7,139	5,903	12,525	10,546	11,851	1,963	7,843	3,370	4,000
2	Less: Costs		1,252	3,836	3,781	6,549	9,109	1,230	1,275	978	1,366	1,423
3	Gross Margin		3,037	3,303	2,122	5,976	1,437	10,621	688	6,865	2,004	2,577
4	Less: Board Approved		1,025	1,025	1,025	1,025	1,025	688	688	688	688	
5	Deferred Margin		2,012	2,278	1,097	4,951	412	9,933	-	6,177	1,316	2,577
	Total Balancing Service Block #179-70											
6	Revenue '	(2)	9,810	11,336	9,833	37,073	21,659	27,929	7,289	7,206	10,880	5,961
7	Less: Costs		3,074	8,919	6,986	22,123	10,196	5,901	496	3,012	3,398	2,185
8	Gross Margin		6,736	2,417	2,847	14,950	11,463	22,027	6,793	4,195	7,482	3,775
9	Less: Board Approved		2,698	2,699	2,698	2,698	2,698	6,793	6,793	6,793	6,793	
10	Deferred Margin		4,038	(282)	148	12,252	8,764	15,234	(0)	(2,598)	689	3,775
	Market Premium #179-72											
11	Long Term Storage Revenue	(3)	5,657	6,185	16,132	25,350	28,709	36,579	36,026	38,905	46,450	50,028
12	Less: Costs		6,836	5,943	14,463	20,181	19,695	20,308	18,061	21,096	20,795	22,370
13	Gross Margin		(1,179)	242	1,669	5,169	9,014	16,271	17,965	17,810	25,655	27,658
14	Less: Board Approved		-	-	-	-	-	17,965	17,965	17,965	17,965	
15	Long Term Market Premium		(1,179)	242	1,669	5,169	9,014	(1,694)	-	(155)	7,690	
	Other S&T Services #179-73											
16	Revenue	(4)	1,201	1,715	1,737	3,770	(2,973)	1,089	865	1,120	895	895
17	Less: Costs		23	23	463	1,670	132	90	405	90	90	42
18	Gross Margin		1,178	1,692	1,274	2,100	(3,104)	999	460	1,030	805	853
19	Less: Board Approved		1,838	1,838	1,838	1,838	1,838	460	460	460	460	
20	Deferred Margin		(660)	(146)	(564)	262	(4,942)	539	(0)	570	345	
	Total Deferred Revenue											
21	Revenue (line 1 + line 6 + Line 11 + line 16)		20,957	26,375	33,605	78,718	57,941	77,448	46,143	55,075	61,596	60,883
22	Less: Costs (line 2 + line 7 + line 12 + line 17)		11,185	18,721	25,693	50,523	39,133	27,529	20,237	25,176	25,650	26,020
23	Gross Margin (line 21 - line 22)		9,772	7,654	7,912	28,195	18,809	49,918	25,906	29,899	35,946	34,863
24	Less: Board Approved (line 4 + line 9 + line 14 + line 19)		5,561	5,562	5,561	5,561	5,561	25,906	25,906	25,906	25,906	-
25	Deferred Margin (line 23 - line 24)		4,211	2,092	2,350	22,634	13,248	24,012	(0)	3,993	10,040	34,863

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Reporting of Deferral Account Balances - Post Disposition

Preamble:
From EB-2009-0052 Decision page 9
Forecast used to determine volumes for calculation of rate riders
Union and ratepayers would be exposed to over/under-recovery depending on the accuracy of the volume forecast used for the calculation of rate riders. LPMA requested that the Board direct Union to provide in the next proceeding the difference between the actual recovery/refund amounts and amounts approved by the Board to allow the Board to determine whether or not a true-up is necessary. Union indicated in its reply that it over-refunded amounts to ratepayers in both 2007 and 2008, and did not seek a true-up in either year. The Board sees no harm in Union addressing the merits of a true-up mechanism going forward. The Board expects Union to address this matter at the time it files for disposition of its 2009 accounts.

From EB-2010-0039 Application (20110625), pages 1 and 2
In Union's 2008 Deferral Account Disposition proceeding (EB-2009-0052), the Board requested that Union investigate the possibility of implementing a true-up mechanism which would reconcile any over or under recovery related to the disposition of deferral accounts. Upon review, Union determined that the average historical impact of not truing-up the deferral disposition recovery was approximately $25,000 per year to Union's benefit. Union does not believe that this surplus represents a material impact which would warrant the implementation of a true-up mechanism for deferral disposition recovery. Accordingly, Union is proposing not to implement a true-up mechanism.

In response to an IR, in Exhibit B2.01, Union explained that the $25,000 per year reported was a result of a 3 year period from 2005 to 2007 in which the individual year balances varied from an over-refund of $342,000 to an under-refund of $521,000.

5) Please update the table presented in Exhibit B2.01 to add years 2008, 2009 and 2010 year-to-date and/or forecast.

Response:

Historical Disposition Recovery (In-Franchise)
($000's)

Line No.	Year	Projected Recovery/(Refund)		Actual Recovery/(Refund)	Variance [4]	Rates Effective
1	2009	(18,643)	[2]	(18,996)	(353)	October 1, 2010
2	2008	(57,203)	[2]	(56,910)	293	October 1, 2009
3	2007	(5,335)		(5,677)	(342)	July 1, 2008
4	2006	(6,074)	[2]	(6,179)	(105)	January 1, 2008
5	2005	(8,312)	[2]	(7,791)	521	October 1, 2006
6	Average	(19,113)	[3]	(19,111)	3	

Notes:
[1] 2010 deferral balances (of 12,870) are expected to be fully disposed of by end of 2012.
[2] Includes deferral balances and earnings sharing amount for disposition.
[3] 2010 year excluded from average since disposition has not yet occurred.
[4] If refunding, a positive variance represents an under-refund, while a negative variance represents an over-refund.

If recovering, a positive variance represents an over-recovery, while a negative variance represents and under-recovery.

The difference between the projected recovery (refund) and the actual recovery (refund) of deferral account balances and earnings sharing between 2005 and 2009 is approximately $0.003 million. The average of the absolute variance between projected recovery/(refund) and actual recovery/(refund) is approximately $0.322 million. This variance is not material as it would result in an approximate 25 cents per year per customer charge to customers or cost to Union. In 3 of the 5 years it was a cost to Union.

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Please add to the table the respective months in which each year's disposition occurred.

Response:

Please see response to FRPO Question 5.

UNION GAS LIMITED

Answer to Question from
Federation of Rental-housing Providers of Ontario ("FRPO")

Preamble:
The final paragraph of the response to Exhibit B2.01 reads: Beyond the additional administration required to track variances and reallocate to ratepayers, there are no significant challenges to truing up the over or under-recovery of balances from deferral and earnings sharing dispositions.

Please confirm the above statement is still true.

a) Please estimate the hours involved to effect this tracking and subsequent reallocation.

b) If not true, please provide an update and an estimate of the hours involved to effect this tracking and subsequent reallocation.

Response:

a) Confirmed. The estimated hours involved in tracking and subsequent reallocation is approximately 1 week.

b) n/a