

April 25, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, ON
M4P 1E4

**Re: Union Gas Disposition of 2007 Deferral Account and Other Balances
(EB-2008-0034)**

Dear Ms. Walli:

Enclosed is Union's argument in chief concerning the final disposition and recovery of certain 2007 year-end deferral and other account balances.

If you have any questions concerning this application and evidence please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

cc C. Smith (Torys)
M. Penny (Torys)
EB-2007-0606 Intervenors

ONTARIO ENERGY BOARD

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 for an order or orders amending or varying the rate or rates charged to customers as of April 1, 2008;

**UNION GAS LIMITED
ARGUMENT**

1. By Application dated March 3, 2008, Union applied to the Board for final disposition of Union's 2007 deferral and other account balances.
2. The Board issued Procedural Order No. 1 on March 31, 2008 providing for a written hearing, including written evidence, written interrogatories and written argument. Union's written pre-filed evidence was delivered, with its application, to the Board on March 3, 2008. Union's written responses to interrogatories were delivered to the Board on April 18, 2008.
3. This is Union's Argument-in-Chief.

Overview

4. With respect to deferral and other account balances, as at the end of December 2007, the accounts contained a net credit of \$101.250 million. This amount is comprised of \$96.889 million in credits in the gas-supply related deferral accounts (the majority of which has been managed through the QRAM process), \$7.482 million in credits in the storage and transportation-related deferral accounts, \$4.434 million in debits in the "other" deferral accounts, a \$0.500 million debit for Market Transformation Incentive

related to Demand Side Management (“DSM”) activities and a \$1.813 million credit resulting from 2007 capital tax changes. The individual deferral account balances are shown at Exhibit A, Tab 1, Schedules 1, 2, 3 and 4 of Union’s pre-filed evidence and are described in detail at pp. 1-19 of Union’s pre-filed evidence. Each account balance shown in the evidence includes interest up to December 31, 2007. Interest is computed monthly on the opening balance of each account. Of the net balance of Union’s deferral and other accounts, Union is proposing to refund \$7.930 million to customers.

5. It is now evident that it will not be possible to implement Union’s proposed disposition of deferral and other account balances as part of the April 1, 2008 QRAM. Union, therefore, is proposing to implement the disposition of the deferral and other account balances as part of the July 1, 2008 QRAM proceeding.
6. Union is proposing that interest accrue starting January 1, 2008 on the deferral and other account balances as approved by the Board in EB-2006-0117.

Gas Supply Deferral Accounts

7. Union’s Board approved QRAM process establishes reference prices for select gas supply deferral accounts and provides for the prospective refund/recovery of the projected balances in these accounts, including interest, over the following 12 month period. Variances between the forecast and actual prospective refund/recovery amounts are tracked and included in the amounts prospectively recovered in future QRAM proceedings. Union made four QRAM applications in 2007. The Board approved all of them.

8. Under the QRAM process, the actual year end deferral account balances are subject to final Board approval.
9. As shown at Exhibit A, Tab 1, Schedule 1, p. 1 (and described at pp. 1-7 of Union's pre-filed evidence) the final 2007 gas supply related deferral accounts contain a credit of \$96.889 million, all but \$3.570 million of which (UDC and heating value) is recovered through the QRAM process.

Storage and Transportation and Other Deferral Accounts

10. Actual net revenues from storage and transportation services have been deferred against the net revenues included in rates as approved by the Board in the RB-2005-0520 Rate Order. Balances in the S&T deferral accounts are currently shared on a 75/25 basis between customers and Union. The credit balance of \$7.482 million represents the customer portion of the S&T deferral accounts. The S&T deferral accounts are discussed in detail at pp. 7-10 in Exhibit A, Tab 1 and shown at Schedule 1 of Union's pre-filed evidence.
11. The other deferral accounts represent such things as Gas Distribution Access Rule costs and several DSM variance accounts, including the Market Transformation Incentive , and capital tax changes. The total balance from these accounts is a customer debit of \$3.121 million. These accounts are discussed in detail at pp. 10-19 in Exhibit A, Tab 1 and shown at Schedule 1 of Union's pre-filed evidence.

Allocation and Disposition of 2007 Deferral and Other Account Balances

12. Union's pre-filed evidence at Exhibit A, Tab 2, pages 1-7 and Schedules 1 and 2 proposes the methodology for allocation and disposition of Union's 2007 deferral and

other account balances. Exhibit A, Tab 2, Schedule 3 provides the impact of the proposed dispositions per residential customer in the Southern and Northern and Eastern Operations areas.

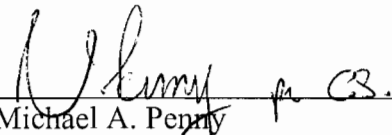
13. Union proposes to allocate the deferral and other account balances in accordance with the methods approved by the Board in the past.
14. For the gas supply deferral accounts not recovered prospectively through the QRAM process, Union is proposing to allocate the balances using the approach Union has followed and the Board has approved in the past.
15. Similarly, the allocation factors proposed for the S&T deferral accounts and the “other” deferral accounts are all the same as the allocation factors approved by the Board in the RP-2003-0063, EB-2005-0211, EB-2005-0520 and EB-2007-0598 proceedings.
16. Union is proposing to dispose of the deferral and other account balances to infranchise general service (Rates M2, 01 and 10) customers prospectively commencing July 1, 2008 and ending December 31, 2008. The prospective refund or recovery of variances is consistent with how Union refunds or recovers deferral account balances through the QRAM process.
17. Union is proposing to dispose of the deferral and other account balances to distribution contract and exfranchise customers as a one time credit/charge with July 2008 bills.

Order Requested

18. Accordingly, Union requests an order of the Board approving the disposition of final deferral and other account balances for 2007 as outlined in Exhibit A, Tab 1, Schedules 1,

2, 3 and 4. Union also seeks an order of the Board approving the method of allocation of these amounts proposed in Union's evidence at Tab 2, Schedule 1.

All of which is respectfully submitted


Michael A. Penny
Counsel to the Applicant,
Union Gas Limited