

May 11, 2007

Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

**Attention: Ms. Kirsten Walli, Board Secretary**

Dear Ms. Walli:

**Re: Multi-Year Incentive Rate Regulation for Natural Gas Utilities  
EB-2007-0606**

Union is filing an application with the Ontario Energy Board for an order approving a multi-year incentive rate mechanism to determine rates for Union's regulated gas distribution, transmission and storage services effective January 1, 2008. The application is enclosed.

This application will be supported by written evidence. Union anticipates that its evidence will be filed approximately three weeks after the final study, Price Cap Index Design for Ontario's Natural Gas Utilities, being conducted by the Board staff's consultant, Pacific Economic Group, is made available.

Yours truly,

*[Original signed by Lynda Anderson for]*

Mike Packer  
Director, Regulatory Affairs

Enclosure

cc: All EB-2007- 0520 Intervenors of Record  
Michael Penny, Torys

**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 approving an incentive rate mechanism to determine rates for the distribution and transmission and storage of gas effective January 1, 2008

**APPLICATION**

1. Union Gas Limited ("Union") is a business corporation incorporated under the laws of the province of Ontario, with its head office in the Municipality of Chatham-Kent.
2. Union conducts both an integrated natural gas utility business that combines the operations of distributing, transmitting and storing natural gas, and a non-utility storage business.
3. Union hereby applies to the Ontario Energy Board ("OEB"), pursuant to section 36 of the *Ontario Energy Board Act, 1998* (the "Act") for an order approving a multi-year incentive rate ("IR") mechanism to determine rates for the regulated distribution, transmission and storage of gas effective January 1, 2008. Union seeks an IR mechanism, based on the parameters established in the Report of the Ontario Energy Board Natural Gas Forum, *Natural Gas Regulation in Ontario: A Renewed Policy Framework* dated March 30, 2005:
  - (a) which applies to the base rates approved by the OEB commencing January 1, 2007 in EB-2005-0520, as adjusted to reflect the use of the 20 year trend weather normalization methodology for 100% of the general service forecast underpinning those rates;
  - (b) in which the annual rate escalation is limited by a price cap index ("PCI"), where PCI growth is driven by:
    - (i) a macroeconomic inflation factor; and

- (ii) a productivity factor which reflects the trend in declining use of Union's general service customers;
  - (c) which exists for a 5 year term ending December 31, 2012;
  - (d) which has no provision for earnings sharing;
  - (e) which continues to pass-through routine gas commodity and other costs;
  - (f) which allows for non-routine cost adjustments for matters outside of the utility's control; and
  - (g) which maintains the existing level of service to customers.
4. Union also applies for an order terminating, effective January 1, 2008, certain deferral accounts, following final disposition of any 2007 balances therein, as follows:
- Transportation and Exchange Services (No. 179-69)
  - Other S&T Services (No. 179-73)
  - Other Direct Purchase Services (No. 179-74)
5. Union also applies for approval, under Section 2.0 of the Undertakings given by Union to the Lieutenant Governor in Council, to continue to sell gas to consumers.
6. Union requests that the OEB issue an order to enable the rates established as a result of this application to become effective January 1, 2008, regardless of the timing of the release of the OEB's Decision with Reasons approving these rates.
7. Union also applies to the OEB for such interim orders approving interim rates and accounting orders as may from time to time appear appropriate or necessary.
8. Union further applies to the OEB for all necessary orders and directions to provide for pre-hearing and hearing procedures for the determination of this application.
9. This application will be supported by written and oral evidence. The written evidence will be pre-filed and may be amended from time to time as circumstances may require.

10. The persons affected by this application are the customers resident or located in the municipalities, police villages and Indian reserves served by Union, together with those to whom Union sells gas, or on whose behalf Union transmits or stores gas. It is impractical to set out in this application the names and addresses of such persons because they are too numerous.
11. The address of service for Union is:

Union Gas Limited  
P.O. Box 2001  
50 Keil Drive North  
Chatham, ON N7M 5M1  
Attention: Mike Packer  
Director, Regulatory Affairs  
Telephone: 519.436.4538  
Fax: 519.436.4641  
Email: mpacker@uniongas.com

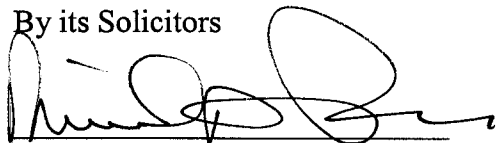
- and -

Torys LLP  
Suite 3000, P.O. Box 270  
79 Wellington St. W.  
Toronto-Dominion Centre  
Toronto, ON M5K 1N2  
Attention: Michael A. Penny  
Telephone: 416.865.7526  
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DATED: May 11, 2007

UNION GAS LIMITED

By its Solicitors



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