PREFILED EVIDENCE OF

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INTRODUCTION

The purpose of this evidence is to set deferral account reference prices to reflect Union's gas cost forecast for the 12-month period commencing July 1, 2007 pursuant to the Quarterly Rate Adjustment Mechanism ("QRAM") as approved by the Board. Specifically, this evidence reviews the following:

1. Current Gas Market Outlook
2. Pricing
    - Alberta Border Reference Price
    - Ontario Landed Reference Price
    - South Portfolio Cost Differential
3. Deferral Accounts
    - Impact on Gas Supply Deferral Account Balances
    - Prospective Recovery of Deferral Account Balances

1. CURRENT GAS MARKET OUTLOOK

North American gas supply storage inventories remain above the historical five-year average as the injection season is now underway. Market prices appear to reflect a built-in risk premium for a potentially hot summer and a forecasted active hurricane season. Higher than normal temperatures mean increased cooling demand, while hurricanes may cause supply disruptions in the Gulf of Mexico. The Canadian dollar is currently at a 30 year high in relation to US currency which makes buying NYMEX-based gas in Canadian dollars relatively less expensive.

2. PRICING

2.1 Alberta Border Reference Price

The approved method for calculating the Alberta Border Reference Price uses the 21-day average of the twelve month NYMEX strip. The NYMEX strip used in this application is for July 2007 to June 2008. The one-year NYMEX strip is then converted to an Alberta Border Reference Price by taking into account the Empress-NYMEX basis, foreign exchange rate, and actual and forecast risk management activity for the July 2007 to June 2008 period. (See Tab 1, Schedule 1 for the details of this calculation.)

Based on the approved method, the Alberta Border Reference price for the period July 1, 2007 to June 30, 2008 is \$8.379/GJ. This represents an increase of \$0.091/GJ from the Alberta Border Reference price of \$8.288/GJ last approved by the Board in EB-2007-0053. Consistent with the updated Alberta Border Reference Price, Union proposes that the reference price of \$8.379/GJ be used for amounts to be recorded in the North PGVA Account ("NPGVA") (Deferral Account No.

179-105).

Union also proposes that the reference price of $8.379/GJ be used in determining the amounts to be recorded in the TCPL Tolls and Fuel – Northern and Eastern Operations Area deferral account (Deferral Account No. 179-100) with respect to fuel gas.

2.2 Ontario Landed Reference Price

The Ontario Landed Reference Price is $9.833/GJ and is calculated by adding the TCPL EDA toll and fuel to the Alberta Border Reference Price as shown on Schedule 1. This represents an increase of $0.122/GJ from the Ontario Landed Reference Price of $9.711/GJ last approved by the Board in EB-2007-0053. This change represents the increase in the Alberta Border Reference Price of $0.091/GJ plus the associated changes in TCPL tolls and compressor fuel costs. New TCPL tolls were approved by the National Energy Board (NEB) on March 22, 2007 effective April 1, 2007. The impacts of the updated TCPL tolls are reflected in the deferral account balances. The TCPL Eastern Zone toll of $1.03/GJ was used in calculating the proposed July 1, 2007 Ontario Landed Reference Price. TCPL's approved tolls (effective April 1, 2007) are provided in Attachment A.

As previously approved, the Ontario Landed Reference Price will be used to defer amounts to be recorded in the South PGVA Account ("SPGVA") (Deferral Account No. 179-106) and the Spot Gas Variance Account (Deferral Account No. 179-107). The Ontario Landed Reference Price will also be used to revalue the inventory attributable to Union's sales service customers.

2.3 South Portfolio Cost Differential

The South Portfolio Cost Differential ("SPCD") is determined by comparing the projected cost of serving South sales service customers, based on Union's South Portfolio, to the cost of serving South sales service customers based on the Ontario Landed Reference Price. This difference is divided by forecast South sales service demand to derive the SPCD. For the 12-month period beginning July 1, 2007 the SPCD is projected to be $0.073/GJ as shown on Schedule 2. The SPCD results in a South Transportation Sales Rate of $0.957/GJ calculated by subtracting the SPCD of $0.073/GJ from the EDA TCPL toll of $1.03/GJ. This ensures that South sales service rates are appropriately set at a level equal to the projected average cost over the 12-month forecast period.

3. DEFERRAL ACCOUNTS

3.1 Impact on Gas Supply Deferral Account Balances

The current forecast of gas cost related deferral account balances at June 30, 2008 is shown on Schedule 3. The opening deferral account balances are the projected deferral account balances at July 1, 2007 plus the projected inventory revaluation adjustment at July 1, 2007.

The deferral account forecast is based on the actual and forecast gas costs for the period July 1, 2007 to June 30, 2008 and on the proposed Alberta Border Reference Price and the Ontario Landed Reference Price effective July 1, 2007.

3.2 Prospective Recovery of Deferral Account Balances

July 1, 2007 deferral account balances relating to the North PGVA, North Tolls and Fuel, South PGVA, Inventory Revaluation, and Spot Gas accounts are identified below.

3.2.1 North PGVA

The balance in the North PGVA (Deferral Account No.179-105) as of July 1, 2007 is a credit of $77.322 million as identified in Schedule 3, page 2.

3.2.2 North Tolls and Fuel

The balance in the North Tolls and Fuel Account (Deferral Account No.179-100) as of July 1, 2007 is a credit of $5.530 million as identified in Schedule 3, page 3. This balance is comprised of a $10.396 million credit related to Northern tolls, offset by a $4.866 million debit related to fuel costs.

3.2.3 South PGVA

The balance in the South PGVA (Deferral Account No.179-106) as of July 1, 2007 is a credit of $186.410 million as identified in Schedule 3, page 4.

3.2.4 Inventory Revaluation

The balance in the Inventory Revaluation Account (Deferral Account 179-109) as of July 1, 2007 is a credit of $1.763 million. The calculation for the inventory revaluation amount is presented in Schedule 3, page 5.

3.2.5 North Heat Value and UDC Accounts

The balance in the North Heat Value Account as of July 1, 2007 is a credit of $1.188 million as identified in Schedule 3, page 1. The North Heat Value Account (Account No. 179-89) and the Joint Unabsorbed Demand Costs Account (Account No. 179-108) balances are not prospectively recovered in accordance with the current Board-approved QRAM process. Union has incurred Unabsorbed Demand Charges as a result of the need to balance the supply portfolio after the past warmer-than-normal winter. Union will propose to dispose of these deferral account balances after the end of the year.

3.2.6 Spot Gas Account/Load Balancing

Spot Gas and Load Balancing costs are tracked separately. There is a debit balance of $0.308 million for Spot Gas purchases and a credit balance of $11.586 million for Load Balancing. Both balances are recorded in the Spot Gas Variance Account (Deferral No.179-107) as identified in Schedule 3, page 6.