



uniongas

A Spectra Energy Company

June 5, 2007

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

**Re: Union_IRs_deferralbalanceESM_20070427
EB-2007-0598**

Dear Ms. Walli:

Enclosed please find ten copies of Union's responses to interrogatories from Board Staff, LPMA, CCC, IGUA and VECC.

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

Yours truly,

Chris Ripley
Manager, Regulatory Applications

cc Michael Penny (Torys)
Vincent Cooney (OEB)
Michael Millar (OEB)
EB-2005-0520 Intervenors

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Question:

Reference: Exhibit A, Tab 1, Page 3: "In response to the warmer than normal weather in 2006, Union reduced a portion of its planned purchases through the spring and summer to balance demand and supply. The resulting unfilled pipe capacity was sold for the then-current market prices which minimized UDC to the extent possible. The favourable cost variance more than offset the unfavourable volume variance which resulted in less UDC overall than had been forecast."

- (a) Historically, has Union made a similar sale of excess pipe capacity in the past?
- (b) How is this revenue treated? Is this market price sale subject to shared earnings with customers? Please clarify.
- (c) Please confirm how the revenue from the sale of unfilled pipe capacity is categorized and recorded.

Response:

- (a) Yes. It is normal practice to sell excess pipe capacity in order to reduce UDC.
- (b) & (c)

The revenue from the sale of the unfilled capacity was recorded as a credit in the UDC deferral account. As a result, the entire proceeds from the sale of unfilled capacity are refunded to ratepayers.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Question:

Reference: Exhibit A, Tab 1, Schedule 1: Account No. 179-113:

Please provide a cost breakdown of the Late Payment Penalty Litigation account (\$303,000).

Response:

The cost breakdown of the Late Payment Litigation account is provided in the table below.

	<u>\$000's</u>
Third party legal costs	80
Actuarial and billing analysis	218
Interest	<u>5</u>
Total	<u>303</u>

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Question:

Reference: Exhibit A, Tab 1, Schedule 3 (2005 Audited and 2006 Unaudited results):

When will the audit of 2006 SSM be completed?

Response:

The audit of the 2006 DSM Evaluation Report is underway and Union currently expects to file the completed report with the Board by the end of June, in accordance with Section 2.1.12 of the “Natural Gas Reporting & Record Keeping Requirements Rule”.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Question:

Reference: Exhibit A, Tab 1, Schedule 4 (Earnings Sharing Calculation):

At line 12 Union states that “Benchmark ROE” is 8.89%. In the footnotes Union further states that this is based on “October 2005 consensus forecast.”

- (a) Where and how has Union obtained this value for Benchmark ROE?
 - (b) Please provide a derivation of how this value was obtained.
-

Response:

- a) The benchmark ROE of 8.89% was determined using the Board approved ROE formula based on the October 2005 consensus forecast. The Board’s EB-2005-0189 decision confirmed the use of the October consensus forecast of the immediately preceding year for purposes of calculating earnings sharing.
- b) Union has used the October 2005 consensus forecast as published by Consensus Economics Inc. and the average spread on the 10 and 30 year Canadian Bond rate as reported in the Financial Post. The attached Schedule A contains the ROE calculation and Schedule B contains the calculation of the 10 and 30 average Long Canada spread.

October 2005 Consensus Forecast

<u>Line no.</u>		<u>Oct-05</u>
	10 Year Consensus Forecast ¹ .	
1	3 Month	4.20%
2	12 Month	4.60%
3	Average	<u>4.40%</u>
4	Average Spread on 10 & 30 Year Canadian Bonds (refer to Schedule B)	<u>0.30%</u>
5	Average Long-term Bond Yields	4.70%
	Adjustment factor	
6	Long Canada in E.B.R.O. 499	7.25%
7	Average Long Canada per above	<u>4.70%</u>
8	Difference	2.55%
9	25% of Difference	0.64%
10	Risk Premium on Long Canada of 7.25%	<u>3.55%</u>
11	Formula Based ROE	<u><u>8.89%</u></u>

Notes:

- (1) The 10 Year Consensus Forecast is per the Consensus Forecasts as published by Consensus Economics, Inc.

10 Year vs 30 year Spread

	<u>10 Year Yield</u>	<u>30 Year Yield</u>	<u>Spread</u>
09-Sep-05	3.85%	4.19%	0.34%
10-Sep-05	3.81%	4.15%	0.34%
13-Sep-05	3.86%	4.19%	0.33%
14-Sep-05	3.83%	4.16%	0.33%
15-Sep-05	3.85%	4.18%	0.33%
16-Sep-05	3.87%	4.19%	0.32%
17-Sep-05	3.92%	4.23%	0.31%
20-Sep-05	3.88%	4.20%	0.32%
21-Sep-05	3.90%	4.21%	0.31%
22-Sep-05	3.86%	4.17%	0.31%
23-Sep-05	3.86%	4.18%	0.32%
24-Sep-05	3.92%	4.22%	0.30%
27-Sep-05	3.95%	4.24%	0.29%
28-Sep-05	3.94%	4.23%	0.29%
29-Sep-05	3.94%	4.21%	0.27%
30-Sep-05	3.97%	4.24%	0.27%
01-Oct-05	3.96%	4.22%	0.26%
04-Oct-05	3.99%	4.24%	0.25%
05-Oct-05	3.95%	4.21%	0.26%
06-Oct-05	3.93%	4.19%	0.26%
	3.90%	4.20%	0.30%

The average spread on the 10 & 30 year Canadian Bonds rate are as reported in the Financial Post.

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Question:

Reference: Exhibit A, Tab 2, Page 7: "...the charge for the period July 1, 2007 to December 31, 2007 is \$3.06 in the Southern Operations area." Union has requested that these amounts be disposed of as part of the July 1, 2007 QRAM application.

- (a) What effect will a decision as part of October 1, 2007 QRAM have on the calculation and amounts for rebates and charges to customers if any?
 - (b) Given the October 1, 2007 effective date, please provide the time period in which the disposition of amounts would take place.
-

Response:

- (a) The only difference associated with disposing of deferral account balances as part of the October 1, 2007 QRAM rather than the July 1, 2007 QRAM is that an additional 3 months of interest will accrue.

The amount of \$3.06 referenced at Tab 2, page 7 includes interest to December 31, 2006.

- (b) For general service rate classes (Rate 01, 10 and M2), Union proposes to dispose of the earnings sharing and deferral account balances over the October 1 to December 31, 2007 period.

For in-franchise contract and ex-franchise rate classes, the amounts will be disposed of in a one-time credit or charge.

The time period and approach to disposing of the 2006 earnings sharing and deferral account balances is the same as that approved by the Board for disposition of the 2005 balances (EB-2006-0057).

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada (“CCC”)

Question:

Reference: Exhibit A, Tab 1, p. 11

Please specifically explain how the “costs to provide service” are calculated for each of the following categories. Please set out all cost components:

- Short-Term Storage and Other Balancing Services – 2006 (actual)
- Short-Term Storage and Other Balancing Services – 2004 (approved)
- Long-Term Peak Storage Services – 2006 (actual)
- Long-Term Peak Storage Services – 2004 (approved)

Response:

Short-term Storage and Other Balancing Services – 2006 Actual

The cost to provide short-term storage and other balancing services consist of commodity related variable costs (compressor fuel and unaccounted for gas) and asset related costs.

The commodity related costs are determined by applying Board approved compressor fuel and UFG ratios against actual storage activity (gas commodity injected/withdrawn). The resulting volume is then multiplied by Union’s approved WACOG in order to convert the compressor fuel and UFG volume into dollars.

The asset or “space” costs consist of O&M, depreciation, financing, return and taxes. This cost is calculated by applying the cost based storage rates per the 2004 cost allocation study (RP-2003-0063) against the applicable storage space. The applicable storage space consists of the storage assets allocated to ex-franchise customers in the 2004 cost allocation study sold on a short term basis.

Long-term Peak Storage Services – 2006 Actual

The cost to provide long-term storage service consists of only space costs. The commodity related variable costs (compressor fuel and UFG) are excluded as they are provided by customers in kind (customer supplied fuel). This differs from short-term customers in that the compressor fuel and UFG costs are recovered in the price paid by short-term storage customers.

The space costs were calculated by applying the cost based storage rates per the 2004 cost allocation study (RP-2003-0063) against the storage space. The deferred tax adjustment and associated current tax impact were then added to better reflect Union's actual tax costs.

The attached Schedule A provides a breakdown of the costs described above.

Short-term Storage and Other Balancing Services – 2004 Approved
and Long-term Peak Storage Services – 2004 Approved

The 2004 approved costs for both short-term storage and other balancing services and long-term peak storage services are from the 2004 cost allocation study (RP-2003-0063).

Line no.		Actual - 2006		Approved - 2004		Variance	
		Total	Short term	Long term	Total	Short term	Long term
1	Storage Revenue	89,510	45,940	43,570	44,747	7,694	37,053
2	Cost to provide service 1.						
3	Cost of gas (compressor fuel and						
4	unaccounted for gas)	9,423	9,423	-	0,261	0,261	9,161
5	O&M	5,849	0,252	5,598	5,116	0,166	4,950
6	Depreciation, property and capital taxes	5,761	0,248	5,513	5,038	0,163	4,875
7	Interest, preferred dividends	6,187	0,266	5,921	5,412	0,176	5,236
8	Allowed return	3,884	0,167	3,717	3,397	0,110	3,287
9	Current tax expense	8,150	0,095	8,055	1,923	0,062	1,861
10	Deferred tax expense	9,199	(0,057)	9,256	(1,159)	(0,038)	(1,121)
	Total cost to provide service	48,453	10,393	38,060	19,989	0,901	19,088
11	Net revenue sufficiency	41,057	35,547	5,510	24,758	6,793	17,965
12	Ratepayer portion deferred (75%)						
					16,299	28,753	(12,455)
13	Deferral account balance				12,224	21,565	(9,341)
					(12,224)	(21,565)	9,341

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 11

With respect to Short-term Storage and Other Balancing Services please provide a detailed explanation as to why the variance from forecast of \$28.7 million is so significant.

Response:

In 2006 the market value for short term storage reached record levels. These prices compared to the embedded forecast value were a major contributor to the variance.

Also, contributing to the variance was the fact that Union renewed some expiring long term storage contracts on a short term basis and was able to create additional storage space to capture the high market values.

Balancing services in 2006 were utilized to a greater level than forecast primarily driven by the warmer than normal weather.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 15

With respect to the treatment of the \$16.475 million in deferred taxes the evidence states, "The company's approach was reviewed by the external auditors Deloitte and Touche in connection with their year end audit and incorporated into their evaluation leading to their audit opinion accompanying the financial statements." Please describe all options that were considered by Union regarding the treatment of the deferred taxes. Please explain why the other options considered were rejected by Union.

Response:

There were no other options available to Union with respect to the treatment of deferred taxes associated with the deregulation of storage services which were compliant with Canadian generally accepted accounting standards ("GAAP").

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 15

Please indicate when Union knew that there would be a deferred tax issue arising from a change in the regulatory framework for ex-franchise storage. Why was this issue not brought before the Board in the NGEIR proceeding?

Response:

The accounting for deferred taxes using the flow-through methodology has always been dependent on meeting the criteria to qualify for rate regulated accounting. Determining the actual impact of the change in regulation was only possible after receiving the Board's decision in the NGEIR proceeding.

This was one of a number of implementation items that needed to be addressed after the NGEIR decision was issued. The focus of the NGEIR proceeding was on whether there was competition sufficient to protect the public interest and whether the Board should forbear from regulating the rates charged for storage services.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 14

Please provide specific details as to how the \$10.524 million was derived.

Response:

During the period 1997 to 2006, Union was on flow through taxes for both accounting and rate making purposes. Under this methodology, the tax savings resulting from a more rapid rate of depreciation in the early years of an asset's life for tax purposes (relative to accounting or book depreciation) were flowed-through to customers in the form of lower rates relative to what they would otherwise have been under normalized taxes. Under normalized taxes, the taxes recorded in a year reflect both the current taxes payable and income taxes deferred (future taxes) which relate to the difference between tax and accounting depreciation in a period. Normalized tax accounting is the approach prescribed by the CICA Handbook. As Union's evidence indicates on page 12, the ability to account for income taxes using the flow through methodology under Canadian GAAP was based on the expectation that rates in the future would be approved to recover the increased tax expense that results when the difference between tax depreciation and book depreciation reverses (i.e. book depreciation starts to exceed tax depreciation).

Said another way, under flow through accounting, ratepayers do not pay for future taxes associated with current economic activity until they become due. Under normalized accounting, ratepayers pay for all of the taxes (current and future) associated with current economic activity at the time of that activity. Under either methodology, ratepayers pay for all of the taxes associated with current and past economic activity. At the time certain storage services became unregulated, it is proper for ratepayers to pay for all of the taxes associated with economic activity up to the point of deregulation.

Once the Board issued its decision in the NGEIR proceeding, refraining from regulating certain storage services the deferred tax expenses that relate to the historical investment in what will now be unregulated operations will no longer be recovered in future rates and needed to be recorded to comply with GAAP.

From 1997 to 2004, Union invested \$204.2 million in assets at Dawn. The depreciation and other deductions for tax purposes related to these investments during the period were \$131.4 million compared to depreciation for accounting purposes of \$26.9 million. These timing differences of \$104.5 million gave rise to tax savings in the past that were flowed through in rates. The future tax liability on these investments assuming a tax rate of 33% is \$34.5 million. The portion of this amount related to the investment to provide unregulated storage services is 30.5% (\$10.524 million) based on the 2007 approved cost allocation study. See attached Schedule A for a summary of this calculation by asset type.

Line no.	Plant Type (\$millions)	Net Book Value (a)	Undepreciated Capital Cost (b)	Timing Difference (c) = (a) - (b)	Future Tax ¹ (d) = (c) x 33%	% to Un-regulated Storage 2. (e)	Deferred Tax Adjustment (f) = (d) x (e)
1	Land Rights	\$ 16,029	\$ 2,133	\$ 13,896	\$ 4,586	36.67%	\$ 1,682
2	Structures & Improvements	11,422	10,139	1,283	0,423	15.59%	0,066
3	Wells and Lines	62,125	11,502	50,623	16,706	36.67%	6,126
4	Measuring and Regulating	18,009	13,179	4,829	1,594	8.58%	0,137
5	Base Pressure Gas	12,343	2,051	10,292	3,396	38.19%	1,297
6	Compressor Equipment	57,435	33,810	23,625	7,796	15.59%	1,216
7		\$ 177,363	\$ 72,815	\$ 104,548	\$ 34,501	30.50%	\$ 10,524

Notes:

- (1) Based on a future income tax rate of 33%.
(2) The amount to allocate to ex-franchise storage is based on the post-1996 assets run through an adjusted Cost Allocation Study using 100P-J's of storage space allocated to in-franchise customers as per the OEB's NGEIR decision. Reclasses for Storage assets dedicated to transmission were also made as necessary.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 14

If Union's shareholders made the decision to seek approval for the Board to forebear from regulating ex-franchise storage rates why should ratepayers now be responsible for the incremental costs arising from that decision?

Response:

As indicated in Union's response at Exhibit B2.5, the amount of the deferred tax expense recorded as a result of the NGEIR decision of \$10.524 million is the adjustment required to normalize for the impact of the tax savings recorded during the period 1997 to 2006. This tax savings benefit was flowed-through to ratepayers during this period in the form of lower regulated rates relative to what they would otherwise have been had Union been recording deferred income taxes during the period.

These costs have been charged against the revenue recorded from market based storage services in 2006 in the calculation of the revenue excess from storage to be refunded to the ratepayers in this proceeding. Not recognizing these costs in this calculation would understate the costs related to providing the service and overstate the benefit to the ratepayer.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 22

Please provide detailed amounts for the legal costs, costs of actuarial advice and the costs of analyzing historical material related to the late payment penalty litigation. Please include all assumptions.

Response:

Please see response at Exhibit B1.2.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 25

Please indicate whether the proposed method for calculating earnings sharing is the same method used in previous years. If not, please explain how the proposed method differs.

Response:

The method used to calculate earnings sharing is the same method as used in 2005.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada ("CCC")

Question:

Reference: Exhibit A, Tab 1, p. 25

Please indicate what weather normalization methodology Union used in calculating the 2006 weather normalized earnings.

Response:

The adjustment for weather is described in Union's evidence at Exhibit A, Tab 1, page 29. This method is the same method approved to normalize for weather in 2005.

UNION GAS LIMITED

Answer to Interrogatory from
Consumers Council of Canada (“CCC”)

Question:

Reference: Exhibit A, Tab 2

With respect the proposed clearance of the deferral accounts and the earnings sharing amount, please indicate where a new approach is being used relative to previous years and explain why that new approach is being proposed.

Response:

Union’s proposal to clear the 2006 earnings sharing and 2006 deferral account balances is consistent with that used by Union and approved by the Ontario Energy Board in previous years.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Please provide a breakdown of the "Cost to provide service" shown in lines 2 and 5 of Table 3 at page 11 of Ex. A, Tab 1, for each of the columns in the Table, with the cost to be broken down between the "costs of owning and operating the storage facilities, including depreciation, interest, income taxes and the allowed return to the shareholder" described at Ex. A, Tab 1, page 10, lines 6 to 8.

Response:

Please see response at Exhibit B2.1.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Please revise the cost breakdown provided in response to the previous question to exclude any and all amounts that pertain to deferred income tax expense and, in particular, the deferred income tax expense of \$10.524M described at page 10, line 14 of Ex. A, Tab 1 and the grossed-up amount thereof of \$16.475M described at page 14, line 25 of Ex. A, Tab 1.

Response:

Please refer to attached schedule A. In order to provide a complete analysis of this particular scenario, it is also necessary to identify the resulting impact on Union's 2006 earnings sharing calculation. The 2006 earnings sharing impact can be found in Union's response at Exhibit B3.4.

Line no.		Actual - 2006		Approved - 2004		Variance	
		Total	Short term	Long term	Total	Short term	Long term
1	Storage Revenue	89,510	45,940	43,570	44,763	38,246	6,517
2	Cost to provide service 1.						
3	Cost of gas (compressor fuel and						
4	unaccounted for gas)	9,423	9,423	-	9,161	9,161	-
5	O&M	5,849	0,252	5,598	0,733	0,086	0,648
6	Depreciation, property and capital taxes	5,761	0,248	5,513	0,723	0,085	0,638
7	Interest, preferred dividends	6,187	0,266	5,921	0,775	0,090	0,685
8	Allowed return	3,884	0,167	3,717	0,487	0,057	0,430
9	Current tax expense	2,199	0,095	2,104	0,276	0,033	0,243
10	Deferred tax expense	(1,325)	(0,057)	(1,268)	(0,166)	(0,019)	(0,147)
	Total cost to provide service	31,978	10,393	21,585	11,990	9,493	2,497
11	Net revenue sufficiency	57,532	35,547	21,985	32,774	28,753	4,020
12	Ratepayer portion deferred (75%)				24,581	21,565	3,015
13	Deferral account balance				(24,581)	(21,565)	(3,015)

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Please revise Table 3 at Ex. A, Tab 1, page 11 to eliminate any and all deferred income tax expense therefrom. In the event that the total "Variance" of \$16.299M shown in column 1 of line 7 of Table 3 in the revised Table 3 does not increase by \$16.475M, (the grossed-up amount attributable to deferred income taxes) to \$32,744M, then please explain why.

Response:

<u>Line No.</u>		<u>Total</u>	<u>Deferral Accounts</u>	
			Short-Term Storage and Other Balancing Services (No 179-70)	Long-Term Peak Storage Services (No 179-72)
1	Actual storage revenue - 2006	89.510	45.940	43.570
2	Cost to provide service	<u>31.978</u>	<u>10.393</u>	<u>21.585</u>
3	Net revenue sufficiency (Line 1- Line 2)	57.532	35.547	21.985
4	Approved storage revenue - 2004	44.747	7.694	37.053
5	Cost to provide service	<u>19.989</u>	<u>0.901</u>	<u>19.088</u>
6	Net revenue sufficiency (Line 4- Line 5)	24.758	6.793	17.965
7	Variance (Line 3- Line 6)	32.774	28.754	4.020
8	Ratepayer portion deferred (Line 7 x 75%)	24.580	21.565	3.015
9	Deferral Account Balance	(24.580)	(21.565)	(3.015)

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Please show the extent to which Union's after tax Actual Earnings for 2006, subject to earnings sharing, before weather normalization of \$98.023M shown at Ex. A, Tab 1, page 24, line 19, and after weather normalization of \$117.936M shown at Ex. A, Tab 1, page 27, line 6, as well as the earnings amount payable to ratepayers of \$12.579M shown at Ex. A, Tab 1, page 27, line 9 increases, if there is no recording in Union's 2006 Financial Statements of deferred taxes allegedly attributable to the Board's NGEIR Decision.

Response:

The attached Schedule A contains the hypothetical earnings sharing calculation assuming the deferred tax entry was not required.

However, given that the deferred tax entry was required to remain compliant with generally accepted accounting standards and policies, the attached Schedule B is a more accurate representation of the 2006 earnings sharing calculation assuming that the deferred tax cost is excluded from the long-term peak storage services deferral account (No. 179-72).

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ending December 31, 2006

Line No.	Particulars (\$000's)	Calendar 2006 (a)	Adjustment	Calendar 2006 as Adjusted
1	Corporate earnings	\$ 98,636	\$ 2,631 (1)	\$ 101,267
	Adjustments required for Earnings Sharing (net of tax):			
2	Add back provision for earnings sharing	8,521		8,521
3	S&T base revenue - shareholder portion (10%)	(1,655)		(1,655)
4	S&T revenue in excess of base - shareholder portion (25%)	(3,846)	(2,631) (2)	(6,477)
5	Shared savings mechanism incentive (SSM) ¹	(2,356)		(2,356)
6	Other non-utility adjustment	(1,278)		(1,278)
7	Earnings subject to sharing before weather normalization (lines 1 through 6)	98,023	(0)	98,023
8	Weather normalization ³	19,913	-	19,913
9	Earnings subject to sharing (lines 7 + 8)	<u>\$ 117,936</u>	<u>\$ (0)</u>	<u>\$ 117,936</u>
10	Average corporate common equity	\$ 1,141,528		\$ 1,141,528
11	ROE used for earnings sharing (line 9 / line 10)	10.33%		10.33%
12	Benchmark ROE ²	8.89%		8.89%
13	Earnings sharing % (line 11 minus line 12)	1.44%		1.44%
14	Earnings sharing amount (line 13 x line 10 / 2)	\$ 8,226.9		\$ 8,226.9
15	Pre-tax earnings sharing amount (line 14 / (1 minus tax rate))	<u>\$ 12,879</u>		<u>\$ 12,879</u>

Notes:

- | | | |
|---|---|----------------|
| 1 | Remove deferred tax entry | 10,524 |
| | After-tax ratepayer impact associated with S&T deferral entry (16,475 x 75% x (1 - 36.12%)) | <u>(7,893)</u> |
| | | <u>2,631</u> |
| 2 | After-tax shareholder portion of deferral impact (\$16,475 X 25% X (1 - 36.12%)) | |

UNION GAS LIMITED
Earnings Sharing Calculation
Year Ending December 31, 2006

Line No.	Particulars (\$000's)	Calendar 2006 (a)	Adjustment	Calendar 2006 as Adjusted
1	Corporate earnings	\$ 98,636	\$ (7,893) (1)	\$ 90,743
	Adjustments required for Earnings Sharing (net of tax):			
2	Add back provision for earnings sharing	8,521		8,521
3	S&T base revenue - shareholder portion (10%)	(1,655)		(1,655)
4	S&T revenue in excess of base - shareholder portion (25%)	(3,846)	(2,631) (2)	(6,477)
5	Shared savings mechanism incentive (SSM)	(2,356)		(2,356)
6	Other non-utility adjustment	(1,278)		(1,278)
7	Earnings subject to sharing before weather normalization (lines 1 through 6)	98,023	(10,524)	87,499
8	Weather normalization	19,913	-	19,913
9	Earnings subject to sharing (lines 7 + 8)	\$ <u>117,936</u>	\$ <u>(10,524)</u>	\$ <u>107,412</u>
10	Average corporate common equity	\$ 1,141,528		\$ 1,141,528
11	ROE used for earnings sharing (line 9 / line 10)	10.33%		9.41%
12	Benchmark ROE	8.89%		8.89%
13	Earnings sharing % (line 11 minus line 12)	1.44%		0.52%
14	Earnings sharing amount (line 13 x line 10 / 2)	\$ 8,226.9		\$ 2,964.9
15	Pre-tax earnings sharing amount (line 14 / (1 minus tax rate))	\$ <u>12,879</u>		\$ <u>4,641</u>

Notes:

- 1 After-tax ratepayer impact associated with S&T deferral entry (16,475 x 75% x (1 - 36.12%))
- 2 After-tax shareholder portion of deferral impact (\$16,475 X 25% X (1 - 36.12%))

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

Please revise Ex.A, Tab 2, Schedule 1 entitled "Allocation of 2006 Deferral Account Balances and 2006 Earnings Sharing to Rate Class" to reflect the elimination of any and all deferred taxes allegedly attributable to the Board's NGEIR Decision from Union's 2006 Storage Revenue Deferral Accounts and the 2006 Earnings Sharing amount payable to ratepayers.

Response:

Please refer to attached revised Schedule 1.

UNION GAS LIMITED
Allocation of 2006 Deferral Account Balances and 2006 Earnings Sharing to Rate Classes

Line No.	Particulars	Acct No.	Northern and Eastern Operations Area										Southern Operations Area										Total (1) (\$'000's) (t)
			Rate 01 (\$'000's) (b)	Rate 10 (\$'000's) (c)	Rate 20 (\$'000's) (d)	Rate 77 (\$'000's) (e)	Rate 100 (\$'000's) (f)	Rate 25 (\$'000's) (g)	M2 (\$'000's) (h)	M4 (\$'000's) (i)	M5A (\$'000's) (j)	M7 (\$'000's) (k)	M9 (\$'000's) (l)	M10 (\$'000's) (m)	T1 (\$'000's) (n)	T3 (\$'000's) (o)	M12 (\$'000's) (p)	M13 (\$'000's) (q)	C1 (\$'000's) (r)	M16 (\$'000's) (s)			
1	Gas Supply Transportation-Related Deferrals:																						
2	Unabsorbed Demand Cost (UDC) Variance	179-108	(874)	(261)	(59)				481	5				0							(708)		
	Heating Value	179-89	(1,655)	(750)																	(2,405)		
3	Storage and Transportation-Related Deferrals:																						
4	Balancing and Exchange Services	179-69	(157)	(47)	(11)	-	-	(7)	(630)	(63)	(3)	(68)	(4)	(0)	(199)	(41)	(2,648)	(126)	-	-	(4,004)		
5	Long-Term Peak Storage Services	179-70	(2,860)	(854)	(194)	-	-	(129)	(10,957)	(1,098)	(53)	(1,181)	(61)	(3)	(3,462)	(711)	-	-	-	-	(21,565)		
6	Other S&T Services	179-72	(398)	(119)	(27)	-	-	(18)	(1,533)	(154)	(7)	(165)	(9)	(0)	(484)	(100)	-	-	-	-	(3,015)		
7	Other Direct Purchase Services	179-73	(52)	(15)	(3)	-	-	(2)	(198)	(20)	(1)	(21)	(1)	(0)	(63)	(13)	-	-	-	-	(390)		
8	Total Gas Supply Transportation-Related	179-74	(49)	(15)	(3)	-	-	(2)	(190)	(19)	(1)	(20)	(1)	(0)	(60)	(12)	-	(2,648)	(126)	-	(373)		
			(6,045)	(2,061)	(298)	-	-	(158)	(13,027)	(1,348)	(66)	(1,456)	(75)	(4)	(4,266)	(877)	-	-	-	-	(32,460)		
9	Delivery-Related Deferrals:																						
10	Deferred Customer Rebates/Charges	179-26	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
11	Comprehensive Customer Information Program	179-56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
12	Direct Purchase Revenue and Payments	179-60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
13	Lost Revenue Adjustment Mechanism (2)	179-75	1,069	418	50	-	49	-	2,037	263	(0)	(8)	(1)	(0)	(23)	(10)	-	-	-	-	(171)		
14	Intra-period WACOG	179-102	2,247	532	130	-	848	-	8,211	990	800	1,268	47	1	4	-	-	183	429	55	3,960		
15	Unbundled Services Unauthorized Storage Overrun	179-103	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,742		
16	Storage Rights Compensation Costs	179-110	54	16	4	-	3	-	299	17	7	13	2	-	77	19	-	-	-	-	511		
17	Demand Side Management Variance Account	179-111	1,262	292	278	-	278	-	3,992	278	278	278	-	-	278	-	-	-	-	-	7,213		
18	Gas Distribution Access Rule Costs	179-112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
19	Late Payment Penalty Litigation	179-113	68	3	0	-	0	0	231	0	0	-	-	-	0	-	-	-	-	-	303		
20	Incremental OEB Cost Assessment	179-114	273	27	11	-	21	7	933	30	19	26	1	0	64	8	118	-	3	0	1,541		
21	Shared Savings Mechanism Variance Account	179-115	468	400	672	-	668	-	2,508	1,008	-	376	-	-	899	-	-	-	-	-	7,000		
	Total Delivery-Related		5,441	1,689	1,146	-	1,866	7	18,093	2,576	1,168	1,979	49	1	1,299	17	118	183	432	55	36,119		
22	Total 2006 Deferral Account Disposition		(604)	(372)	848	0	0	7	5,065	1,228	1,102	523	(27)	(3)	(2,970)	(860)	(2,530)	183	306	55	3,660		
23	Earnings Sharing for 2006		(886)	(145)	(47)	(0)	(119)	(45)	(2,173)	(87)	(54)	(76)	(3)	(0)	(159)	(25)	(807)	(1)	(12)	(1)	(4,641)		
24	Grand Total		(1,489)	(517)	801	(0)	1,588	(38)	2,893	1,141	1,048	446	(30)	(3)	(3,129)	(885)	(3,337)	183	294	54	(981)		

Notes:

- (1) EB-2007-0598, Tab 1, Schedule 1
(2) Per Exhibit A, Tab 1, Schedule 2, Page 1 of 5, column (e)

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

It is IGUA's position that the portion of the Board's NGEIR Decision which characterized Union's ex-franchise storage business as a non-utility line of business was never intended to affect the ratepayers' share of 2006 Storage Revenue Deferral Accounts, nor their share of Union's 2006 Normalized Earnings. To obtain an estimate of the impact on Union's shareholder of a Board Decision refusing Union's attempt to recover, from Union utility ratepayers, deferred taxes allegedly attributable to a Board-determined non-utility line of business having an effective date no earlier than January 1, 2007, IGUA seeks the following:

- (a) Production of that part of Ex.B, Tab 3, UGL Undertaking K.2.2 in the NGEIR proceedings showing that, in the end-state it was proposing, Union would earn \$44.530M of additional revenue (based on a 2007 forecast) and an adjusted ROE of 86.41%. A copy of UGL Undertaking K.2.2 is attached. IGUA understands that the current price for market-based storage is considerably higher than that originally forecast by Union.
 - (b) Please revise the revenues, costs, and return on rate-base calculation for ex-franchise storage services provided above to reflect the end-state of the Board's NGEIR Decision with respect to "non-utility" storage revenues, costs, assets and the higher forecast prices for market-based storage.
-

UNION GAS LIMITED

Undertaking of Steve Baker
To Peter Thompson

The company will perform a calculation of the costs of capital in the 30 cents shown in undertaking U.16 from the technical conference in this hearing.

As a result of the EB-2005-0520 Settlement Agreement, the cost based storage rate will be approximately 30 cents/GJ which is made up as follows:

	<u>Cents/GJ</u>
Return – Equity	5
Debt & Preference Shares	7
Income Tax	2
Capital & Property Tax	1
Accumulated Deferred Tax Drawdown	(1)
Depreciation	6
O&M	<u>10</u>
Total	<u>30</u>

In Union's view the storage market in and around Ontario is competitive and the Board should refrain from regulating rates for ex-franchise storage services. To refrain from the regulation of rates pursuant to Section 29, it is Union's view that this would require all revenues and costs associated with competitive services to be outside of regulation. As such, the calculation of return on rate base would no longer be meaningful or appropriate.

However, if 2007 forecast revenues and costs were used to complete a return on rate base calculation for ex-franchise storage services the following would be the result. Union notes that storage services are valued by the market, largely based on seasonal natural gas commodity pricing spreads which fluctuate widely from year to year. The revenues forecast for 2007 represent a point in time estimate of storage service values. As seasonal natural gas commodity pricing spreads change so will the value of storage services. Union also notes that the rate base associated with ex-franchise storage services in 2007 reflects depreciated assets that were developed years ago.

Witness: Steve Baker
Question: June 20, 2006
Answer: June 26, 2006
Docket: EB-2005-0551

	<u>\$000's</u>
Rate base – ex-franchise storage	102,916
Equity component @ 36%	37,050
Return @ 9.63%	3,568
Add \$44.5 million additional revenue	44,530
Less tax @ 36.12%	(16,084)
Adjusted net income	32,014
Adjusted return on equity	<u>86.41%</u>

Witness: Steve Baker
Question: June 20, 2006
Answer: June 26, 2006
Docket: EB-2005-0551

Response:

The impact on Union of a Board's decision refusing to allocate ratepayer costs to ratepayers will have no impact on the information provided in Union's reply to undertaking K.2.2 from the NGEIR proceeding.

Should the Board decide that the deferred tax cost be excluded from long-term peak storage costs but included in the 2006 earnings sharing calculation, Union's earnings would be \$2.631 million lower. The impact is summarized in the table below:

<u>\$Millions</u>	<u>S&T Deferral Accounting</u>	<u>2006 Earnings Accounting</u>	<u>Shareholder Impact</u>
Deferred tax	10,524	10,524	
Union sharing (25%)	<u>(2,631)</u>	<u>-</u>	
Sub-total	7,893	10,524	
Union sharing (50%)	<u>-</u>	<u>(5,262)</u>	
Ratepayer sharing	<u>7,893</u>	<u>5,262</u>	<u>(2,631)</u>

Should the Board decide that the deferred tax cost should be excluded from both long-term peak storage costs and earnings sharing, Union's earnings would be \$7,893 million lower.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

At Ex.A, Tab 1, pp. 17-19 of 29, and pp. 22-23 of 29, Union seeks to clear LRAM and SSM amounts attributable to unaudited 2006 DSM activities. Please confirm that Union has not previously cleared LRAM or SSM amounts prior to finalizing those DSM-related balances through the audit of Union's annual DSM Evaluation Report, its review by the Audit Sub-Committee and its approval by the DSM Consultative. If Union has previously cleared unaudited DSM-related balances, then please detail the circumstances under which those balances were cleared.

Response:

In EB-2006-0057, Union proposed the disposition of the LRAM balance attributable to 2004 DSM activities prior to completion of the audit process (which includes completion of the audit of the DSM Evaluation Report, review by the Audit Sub-Committee and communication to the DSM Consultative). At the time, Union stated that any amount disposed of would be subject to future true-up. In the EB-2006-0057 Decision and Order dated August 2, 2006, the Board approved the disposition of an LRAM balance as proposed which did not reflect the final result of the audit process.

Union subsequently recorded true-up amounts for the LRAM balance in the LRAM deferral account and is proposing the disposition of these amounts in this proceeding.

UNION GAS LIMITED

Answer to Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

At Ex.A, Tab 1, p.19 of 29, Union indicates that the clearing of unaudited LRAM balances is "consistent with the desire of parties to dispose of deferral account balances in a timely manner". At Ex.A, Tab 1, p.23 of 29, Union states that in an effort "to recognize the desires of parties to move to a more timely disposition of deferral account balances", Union proposes to clear the recorded SSM balance related to unaudited 2006 DSM activities. Has any party requested that Union dispose of the deferral account balances relating to LRAM and SSM prior to completion of the audit of Union's DSM Evaluation Report, its review by the Audit Sub-Committee and its approval by the DSM Consultative? If so, please provide details of such requests.

Response:

The desire to dispose of deferral account balances in a timely manner is not based on a request specific to DSM, rather the move to avoid accumulation of significant deferral account balances and the resulting customer impacts. Based on the established timeline for this proceeding, the final audit results will be available prior to final deferral account disposition. Union proposes that the LRAM and SSM deferral account balances disposed of reflect the final audit results.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Page 24

The evidence states that "In January 2007, the OEB provided further clarity to the June 2006 Decision. That Board decided that it does not have the jurisdiction to consider the proceeds of the cushion gas sale in setting rates." Please provide the relevant passages from the January, 2007 clarification that supports this conclusion.

Response:

The inclusion of the word "not" in Exhibit A, Tab 1, Page 24, line 6 was an inadvertent error. The sentence should read "The Board decided that it does have jurisdiction to consider the proceeds of the cushion gas sale in setting rates".

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Page 29

What is the Board-approved short term rate, starting January 1, 2007 that Union has used to calculate interest on the earnings sharing amount due to ratepayers?

Response:

Consistent with the Board's decision released on November 28, 2006 regarding prescribed interest rates, Union has used a rate of 4.59% starting January 2007.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Page 24

Please provide all the information and the calculation used to determine that the benchmark ROE for 2006 was 8.89%.

Response:

Please see response at Exhibit B1.4.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Page 24 & Schedule 4

Please provide the details on the "Other non-utility adjustment" that totals 1, 278.

Response:

The answer to this question is confidential. In connection with Rules 10 and 29.02 of the OEB's Rules of Practice and Procedure and the OEB's Practice Direction on Confidential Filings, by letter dated June 5, 2007 Union has requested that Union's response to this interrogatory be held in confidence by the Board.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Schedule 4

What is the difference between "Average corporate common equity" and the deemed equity component of rate base?

Response:

Average corporate common equity represents Union's 2006 actual average common equity level. Deemed equity represents the equity level required to finance utility rate base. Deemed equity is calculated by multiplying actual rate base against the Board approved equity level (35% for 2006).

Since earnings subject to sharing reflects actual corporate financing costs, it is appropriate to use the corporate equity level for purposes of calculating earnings sharing. The use of average actual corporate common equity is also consistent with prior year earning sharing calculations.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 2, Pages 3 & 4

- a) Please confirm that the proposed methods for allocating the amounts in deferral accounts 179-69, 179-70, 179-72, 179-73 and 179-74 are consistent with that used by Union and approved by the board in the past.
 - b) For any account where the proposed methodology is different, please provide a table showing the allocation by rate class based on the proposed methodology and the approved methodology used in the past and explain the rationale for the change in the methodology.
-

Response:

- a) Confirmed. The allocation of the balance in Accounts 179-69, 179-70, 179-72, 179-73 and 179-74 among rate classes is consistent with that used by Union and approved by the Board in the past.
- b) Please see above.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 2, Schedule 3

Given that the volume over which the prospective recovery is to be applied is a forecast, how is the over or under recovery resulting from higher or lower volumes treated? Is the difference captured in a variance account or is the difference to the account of the shareholder?

Response:

Consistent with past practice, Union is at risk for variances resulting from the general service (Rate 01, 10 and M2) prospective recovery.

For in-franchise contract and ex-franchise rate classes, the net 2006 earnings sharing and 2006 delivery-related deferral account balances will be disposed of in a one-time credit or charge based on actual 2006 activity levels.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Page 29 and Ex. A, Tab 1, Schedule 4

Please reconcile the reduction in the weather normalized amount in Note 3 of 2,145 related to an increase in UFG/Fuel Costs and the statement on page 29 that UFG and compressor fuel cost would have been lower based on normalized volumes.

Response:

The second sentence in the paragraph on page 29, line 14 should have stated; "On a weather normalized basis, consumption would have been lower and Union would have experienced higher compressor fuel and UFG costs." This correction will now align the evidence on page 29 with note 3 on Exhibit A, Tab 1, Schedule 4.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Schedule 4

Please confirm that the weather normalization amount of \$33,317 for the general service market in Note 3 has been calculated based on the most recent Board approved normalization methodology.

Response:

The 2006 weather normalization is same methodology used in calculating the 2005 earnings sharing approved by the Board in the RP-2006-0057 proceeding.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, pages 9 - 15

- a) Please provide a revised Table 3 assuming the \$10.524 million related to deferred income taxes is removed from the cost of provide storage service for 2006.
 - b) Please confirm that the deferred tax liability arose from using the tax allocation methodology related to utility operations prior to 1997. Please provide the deferred tax figure at the end of 1996 that is comparable to the \$10.524 million.
 - c) Please provide the annual deferred tax liability remaining in each year 1997 through 2006, including all calculations used.
 - d) The Annual Report indicates that the timing differences that gave rise to the deferred income taxes are expected to full reverse by 2018. Please provide a schedule that shows the reduction related to the \$10.524 million if this amount was not recovered as part of this proceeding and was recovered in the same manner as the remaining deferred taxes.
 - e) Does the recovery of deferred income taxes impact on the utility rate base? Please explain. Will Union be proposing any adjustment to the storage related utility rate base in subsequent years as a result of the proposal to recover these deferred taxes? Please explain.
 - f) What is the total amount of deferred taxes related to storage that corresponds to the same timeframe as the \$10.524 million? How will any changes to this amount be flowed back to customers assuming declines in tax rates as currently contemplated in the most recent federal budget?
 - g) When does Union expect the storage related deferred taxes to reverse (i.e. when will the CCA be less than the depreciation expense)?
 - h) What impact will changes in income tax rates in future years have on the actual taxes paid by Union and on the deferred amount of \$10.524 million? How will any changes to this amount be flowed back to customers assuming declines in tax rates as currently contemplated in the most recent federal budget?
 - i) If the \$10.524 million in deferred taxes is related to the "non-utility" portion of the deferred tax liability associated with the storage assets, why is Union proposing to recover this amount from in-franchise customers?
-

Response:

- a) Please refer to Union's response to Exhibit B3.3.
- b) As indicated in Exhibit B2.5, the deferred tax liability of \$10.524 million recorded in 2006 as a result of the NGEIR decision was the result of normalizing the tax impact related to storage investments made by Union during the period 1997 to 2006.

Prior to 1997, Union normalized taxes for both accounting and rate making purposes. In 1997, Union adopted flow-through accounting for taxes. At December 31, 2006, Union had \$194 million of the deferred tax liability recorded prior to 1997 remaining on the books. This amount had been recovered in rates charged for service prior to 1997. The timing differences that gave rise to this liability are expected to fully reverse by 2018. As the timing differences reverse the drawdown of the deferred tax balance offsets the tax impact on rates.

- c) Of the total pre-1997 deferred tax balance on the books at December 31, 2006, approximately \$11.2 million would be attributed to the investment in assets associated with the market based storage services. The total deferred tax liability associated with the market based storage services recorded on the books at December 31, 2006 is \$21.7 million (\$11.2 million – pre 1997 and \$10.5 million - 1997 to 2006).
- d) See part b) above. The pre-1997 amount was recovered from customers as it was recorded during that period. It is not possible to go back to the 1997 to 2006 period to recover these costs.
- e) The deferred taxes related to the unregulated storage operation will have no impact on the utility rate base. Union will not be proposing any adjustment to utility rate base in subsequent years.
- f) The total amount of deferred tax related to all 1997 to 2006 storage asset additions was \$34.5 million as shown at Exhibit B2.5.
- g) Union has not calculated when the timing differences related to the 1997 to 2006 tax liability will reverse because doing the calculations is an onerous process, time consuming and serves no purpose.
- h) Future changes in income tax rates will either increase or decrease the actual taxes paid by Union. These changes will have not impact on Union's regulated rates for service.
- i) Please see response at Exhibit B2.6.

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 1, Schedule 1

Please provide a revised Schedule 1 assuming the Board does not allow the recovery of the \$10.524 million associated with deferred taxes at this time.

Response:

Please refer to the attached Schedule A.

UNION GAS LIMITED
Deferral Account Balances
Year Ending December 31, 2006
(\$000's)

Line No.	Account Number	Account Name	Balance	(1)
<u>Gas Supply Accounts:</u>				
<u>Joint Accounts:</u>				
	179-107	Spot Gas Variance Account		
1		Spot Gas Purchases	\$ 12	
2		Load Balancing	(6,496)	
3	179-108	Unabsorbed Demand Costs	(708)	
4	179-109	Inventory revaluations	12,769	
5		(Lines 1 through 4)	<u>5,578</u>	
<u>Southern Operations Area:</u>				
6	179-106	PGVA	(145,719)	
<u>Northern and Eastern Operations Area:</u>				
7	179-89	Heating Value	(2,405)	
	179-100	TCPL Tolls and Fuel		
8		Tolls, LBA, Capacity Assignments	(445)	
9		Fuel	(77)	
10	179-105	PGVA	(54,735)	
11		(Lines 7 through 10)	<u>(57,662)</u>	
12	Total Gas Supply Accounts (Lines 5 + 6 + 11)		<u>(197,803)</u>	(2)
<u>Storage and Transportation Accounts:</u>				
13	179-69	Transportation and Exchange Services	(4,004)	
14	179-70	Short Term Storage and Balancing Services	(21,565)	
15	179-72	Long-term Peak Storage	(3,015)	
16	179-73	Other S&T Services	(390)	
17	179-74	Other Direct Purchase Services	<u>(373)</u>	
18	Total Storage and Transportation Accounts (Lines 13 through 17)		<u>(29,347)</u>	

UNION GAS LIMITED
Deferral Account Balances
Year Ending December 31, 2006
(\$000's)

Line No.	Account Number	Account Name	Balance	(1)
	<u>Other:</u>			
19	179-26	Deferred Customer Rebates/Charges	-	
20	179-56	Comprehensive Customer Information Program	-	
21	179-60	Direct Purchase Revenue and Payments	(171)	
22	179-75	Lost Revenue Adjustment Mechanism	3,980	
23	179-102	Intra-period WACOG Changes	15,742	
24	179-103	Unbundled Services Unauthorized Storage Overrun	-	
25	179-110	Storage Rights Compensation Costs	511	
26	179-111	Demand Side Management Variance Account	7,213	
27	179-112	Gas Distribution Access Rule Costs	-	
28	179-113	Late Payment Penalty Litigation	303	
29	179-114	Incremental OEB Cost Assessment	1,541	
30	179-115	Shared Savings Mechanism Variance Account	7,000	
31	179-116	Interest on the Gain on the 2004 Cushion Gas Disposition	(896)	(3)
32	Total Other Accounts (Lines 19 through 31)		35,224	
33	Total Deferral Account Balances (Lines 12 + 18 + 32)		\$ (191,926)	
34	Total Deferral Account Balances for Recovery/(Refund)		\$ 3,660	(4)

Notes:

- (1) Account balances include interest to December 31, 2006.
- (2) With the exception of UDC (No. 179-108) and Heating Value (No. 179-89) accounts, all gas supply-related deferral account balances are recovered through the QRAM process.
- (3) The balance of the Interest on the Gain on the 2004 Cushion Gas Disposition (No. 179-116) will be disposed of in a future proceeding.

- (4) Breakdown of the deferral account balances for recovery/(refund):

Total Deferral Account Balances (Line 33)	\$	(191,926)
Less Total Gas Supply-related balances recovered through the QRAM process		
Total Gas Supply-related balances (Line 12)	\$	(197,803)
Less: Balance of Unabsorbed Demand Costs Account (No. 179-108) (Line 3)		(708)
Balance of Heating Value Account (No. 179-89) (Line 7)		(2,405)
Net Amount		2,764
Less: Balance of the Interest on the Gain on the 2004 Cushion Gas Disposition Account (No. 179-116) (Line 31).		(896)
Total Amount for Recovery/(Refund)	\$	3,660

UNION GAS LIMITED

Answer to Interrogatory from
London Property Management Association ("LPMA")

Question:

Reference: Ex. A, Tab 2

- a) Please provide revised Schedules 1 and 3 assuming the \$10.542 million associated with deferred taxes is not recovered at this time.
 - b) Please provide revised schedules for Appendix A, B and C assuming the deferred tax amount of \$10.542 is not recovered at this time.
-

Response:

- a) Please refer to Exhibit B3.5 for a revised Schedule 1. Please refer to attached revised Schedule 3.
- b) The 2006 earnings sharing and deferral account balances include interest to December 31, 2006. The update for interest from January 1, 2007 to the date of disposition will form part of the EB-2007-0598 Draft Rate Order submission. Accordingly, producing the requested appendices is onerous, time consuming and would serve no purpose since they will be updated later for changes in interest. The relevant schedules are provided in part (a) above.

Union will file Appendix A, B and C to reflect the Board's decision with respect to deferred tax amounts as part of the EB-2007-0598 Draft Rate Order submission.

UNION GAS LIMITED
General Service Bill Impacts
2006 Deferral Account and 2006 Earnings Sharing Disposition

Line No.	Particulars	Rate Component	Balance for Disposition (\$000's) (1)	Forecast Volume (10*3m*3) (2)	Unit Rate for Prospective Recovery (cents/m*3) (c)	Volume (m*3) (3)	Bill Impact (\$)	(e) = (c*d) / 100
1	Rate 01	Delivery	1,039	349,669	0.2972	1,013	3.01	
2		Transportation	(2,529)	349,669	(0.7232)	1,013	(7.33)	
3			(1,489)		(0.4260)		(4.32)	
4	Rate 10	Delivery	494	155,907	0.3167	38,833	122.99	
5		Transportation	(1,011)	154,329	(0.6551)	38,833	(254.39)	
6			(517)		(0.3384)		(131.40)	
7	Rate M2 Residential	Delivery	2,412	1,543,695	0.1562	829	1.30	
8		Commodity	481	874,823	0.0549	829	0.46	
9			2,893		0.2111		1.76	
10	Rate M2 Commercial/ Industrial	Delivery			0.1562	5,559	8.68	
11		Commodity			0.0549	5,559	3.05	
12					0.2111		11.74	

Notes:

- (1) Includes the 2006 deferral account balances and 2006 Earnings Sharing.
- (2) July 1 to December 31, 2007 forecast volumes.
- (3) Average consumption, per customer, for the period July 1 to December 31, 2007.
- (4) Tab 2, Schedule 1, Column (b), Line 1 + Line 2.
- (5) Tab 2, Schedule 1, Column (c), Line 1 + Line 2.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Question:

Reference: Ex. A, Tab 1, Pages 19 and 20, and Ex. A, Tab 2, Page 5

The evidence states that "[t]he debit balance of \$15.742 million in the Intra-Period WACOG account reflects the difference between the actual WACOG approved by the Board during the year and the WACOG approved for recovery in Union's delivery rates in the RP-2003-0063 proceeding related to inventory carrying costs, compressor fuel, customer supplied fuel and unaccounted for gas." [Emphasis added]

- a) Please indicate when Union first began reflecting adjustments for "customer supplied fuel" in Account No. 179-102.
- b) Please confirm that in Union's 2005 Deferral Account Disposition and Earnings Sharing proceeding ((EB-2006-0057), there was no explicit adjustment to this account for "customer supplied fuel."
- c) Please provide a breakdown of the \$15.742M balance by component, i.e., the specific amounts related to inventory carrying costs, compressor fuel, customer supplied fuel and unaccounted for gas.

Response:

- a) Union has including customer supplied fuel in the calculation of the intra-period deferral account since the account was created in 2000.
- b) Customer supplied fuel was, in fact, included in the 2005 intra-period deferral balance calculation.
- c) Please refer to table below.

	<u>(\$millions)</u>
UFG	16.534
Compressor fuel/own use	16.851
Customer supplied fuel	(21.315)
Inventory carrying costs	3.271
Interest	<u>0.401</u>
	<u>15.742</u>

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Question:

Reference: Ex. A, Tab 2, Page 5

Please confirm that the allocation of the balance in Account 179-102 among rate classes is the same as previously approved by the Ontario Energy Board. If unable to so confirm, please provide any changes made to the methodology and the impact of any such changes by rate class.

Response:

Confirmed. The allocation of the balance in Account 179-102 among rate classes is the same as previously approved by the Ontario Energy Board.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Question:

Reference: Ex. A, Tab 1, Page 20

Please confirm that the debit balance of \$0.511M in the Storage Rights Compensation deferral account captures the difference between the actual compensation paid for storage rights in 2006 and the amount included in rates.

Response:

Union confirms the debit balance of \$0.511 million represents the difference between the actual compensation paid for storage rights in 2006 and the amount included in rates.

UNION GAS LIMITED

Answer to Interrogatory from
Vulnerable Energy Consumers Coalition ("VECC")

Question:

Reference: Ex. A, Tab 1, Pages 9-15

Please provide the expected present value of the \$10.524M in deferred taxes and show how the expected present value was calculated.

Response:

This information is not available.