

**IGUA'S QUESTIONS WITH RESPECT TO
THE PROPOSAL TO DEDUCT DEFERRED TAXES FROM
RATEPAYER CREDITS IN THE LONG TERM STORAGE DEFERRAL ACCOUNT**

1. Union's Pre-Filed Evidence at Ex.A T1 p15 suggests that Union's approach to deferred taxes related to unregulated storage operations was reviewed and approved by its external auditors, Deloitte & Touche LLP ("Deloittes"). The 2006 Annual Report, at Ex.A T1 Appendix B contains an opinion letter from Deloittes dated March 23, 2007. There is a further letter from Deloittes dated April 13, 2007, at Ex.A T1 Appendix A in which Deloittes states that it is not able to provide expert witness testimony with respect to the deferred taxes issue. In the context of these documents, please produce the following information:
 - (a) Please produce a copy of the letter or electronic communication from Ms Elliott to Deloittes which prompted the April 13, 2007 letter at Ex.A T1 Appendix A.
 - (b) Have Deloittes been Union's auditors since 1997? If not, then please provide a list of the company's auditors for the years 1997 to 2006 inclusive.
2. When were Union's ancillary businesses transferred out of the utility company, Union Gas Limited?
3. When the ancillary businesses were part of Union Gas Limited, were the revenues, costs and income from these business lines included within the ambit of flow-through accounting for taxes?
4. If the answer to the previous question is yes, then please identify the accounting firm or firms which certified that practice to be in accordance with Generally Accepted Accounting Principles ("GAPP").
5. Were the ancillary lines of business in Enbridge Gas Distribution Inc. ("EGD") and its predecessor companies included within the ambit of flow-through accounting for taxes prior to their transfer out of the utility?
6. If the answer to the previous question is yes, then what accounting firms certified that practice to be in accordance with GAPP.
7. In its April 27, 2007 letter to Ms Elliott contained in the Pre-Filed Evidence, Ernst & Young LLP ("E&Y") discusses the "Rate Regulated Enterprises" provisions of the CICA Handbook. E&Y's letter implies that the provisions of the CICA Handbook do not cover a situation in which the Board classifies a portion of the assets owned by the utility company, Union Gas Limited, as "non-utility" assets. In this context, please respond to the following questions:
 - (a) On what facts does E&Y base its conclusion that the taxpayer, Union Gas Limited, is no longer a "Rate-Related Enterprise" as described in the CICA Handbook?
 - (b) Based on its conclusion that it should seek "other guidance" with respect to the matter, did E&Y investigate whether Canadian regulators, including the Ontario Energy Board, have continued to treat the utilities they regulate as "Rate

Regulated Enterprises”, even though some of the prices for services which the corporate entity provides to consumers are not regulated?

- (c) If the answer to the previous question is yes, then what were the results of that investigation?
 - (d) If the answer to question 7(b) is no, then please explain why E&Y did not examine the regulatory precedents in Canada before turning to U.S. accounting pronouncements.
8. The E&Y April 27, 2007 letter to Ms Elliott says Union “should separate the storage operations between regulated and unregulated operations” to “overcome the presumption that the rate regulation relates to the entire gas storage operations”. The NGEIR Decision, to which the E&Y letter refers, recognizes, at page 101, that Union’s storage assets cannot physically be separated. The total cost of the assets can only be allocated between the different classifications of the storage services business. In the context of these facts, please respond to the following question:
- (a) Absent an ability to physically separate the assets, please explain how one corporate tax payer can possibly be classified as both a “Rate Regulated Enterprise” and something else.
 - (b) Do Canadian utilities such as EGD and Union, which provide services under the auspices of range rates, continue to be recognized as “Rate Regulated Enterprises”?
 - (c) Do utilities in Canada which are authorized by their regulator to sell services under the auspices of market-based rates continue to qualify as “Rate Regulated Enterprises”?
 - (d) Under the U.S. Financial Accounting Standards (“FAS”) to which E&Y refers in its letter, what income tax accounting method applies to a regulated entity which operates under the auspices of either market-based rates or range rates?
 - (e) Do market-based rates and/or range rates fall inside or outside the meaning to be ascribed to the phrase “cost-based rate making” to which E&Y refers on page 3 of its April 27, 2007 letter?
9. The extent to which the Board may require ratepayers to pay any deferred taxes associated with the ex-franchise sale of storage services which the Board has now classified as “non-utility” will involve fairness considerations. Relevant to these fairness considerations is the level of profit Union has realized and is likely to realize from the new “non-utility” storage services business line the Board has created. In its Interrogatory No. 6, Ex.B3.6, IGUA asked Union to update the return on equity estimates contained in the calculation provided by Union in the NGEIR proceedings shown at Ex.B3.6 at page 3 to provide “end-state” estimates of the profitability and adjusted return on equity the ex-franchise “non-utility” storage business is likely to produce. Union did not provide a complete response to this question. IGUA seeks responses to the following questions:
- (a) To enable a reasonable estimate of the “end-state” result of the profitability and adjusted ROE the NGEIR Decision will provide to Union’s shareholder, please advise of the extent to which the commodity value of storage in 2006 exceeded its utility or cost-based value of about 30¢/GJ.

- (b) Please confirm that EGD buys about 20 bcf of storage service from Union.
- (c) Please confirm that Union sells about 40 bcf of ex-franchise storage services under the auspices of long term contracts.
- (d) Assuming the spread between Union's cost-based storage of about 30¢/GJ and the commodity value of unregulated storage is about \$1/GJ, does Union agree that the revenue Union will recover from unregulated sales of 20 bcf to EGD will be about \$20M over the amount that produces the Board allowed return on equity in the "end-state" envisaged in the NGEIR Decision and be about \$40M over and above that amount from the long term storage services market at the conclusion of the transition described in the NGEIR Decision; for a total of \$60M?
- (e) Using the information which Union shows at Ex.B3.6, page 3 of 4, IGUA estimates that with \$60M of revenue over and above cost-based storage services rates, Union's adjusted return on equity will be about 113% and at a \$2/GJ spread will be about 216% as shown in the calculations set out below. Are these calculations correct? If not, then please provide correct calculations.

	Spread at \$1/GJ \$000's	Spread at \$2/GJ \$000's
Rate base - ex-franchise storage	102,916	102,916
Equity component	37,050	37,050
Return @ 9.63%	3,568	3,568
Add additional revenue	60,000	120,000
Less Tax @ 36.12%	21.6772	43.344
Adjusted net income	41,896	80,224
Adjusted return on equity	113%	216%

- (f) Does Union accept these estimates as reasonable estimates of the equity returns it will earn from the unregulated storage services line of business the Board has created when the spread between the cost-based rate and the commodity value of storage is \$1/GJ and \$2/GJ respectively?
 - (g) If Union questions the reasonableness of these estimates, then please provide estimates which Union regards as reasonable.
 - (h) Please provide evidence to demonstrate the current value of the spread between cost-based storage and the commodity value of unregulated ex-franchise storage services.
10. Assuming the "end-state" envisioned by the NGEIR Decision and using the audited financial statements for Union for 2006, please provide a complete set of these financial statements which illustrate the "non-utility" eliminations that would be made in the NGEIR Decision "end-state". Please assume that deferred taxes are to be treated as a non-utility elimination.
 11. If the Board decides to treat deferred taxes as a "non-utility" elimination, does the ratepayers earnings sharing amount stay at \$12.879M rather than declining to \$4.641M as shown in Ex.B3.4?

12. The amount of deferred taxes Union seeks to charge against the ratepayers' credit balances in the 2006 S&T deferral accounts is \$16.475M as described at page 14, line 25 of Ex.A, T1. IGUA understands that this total represents an accumulation of the differences between normalized and flow-through taxes for the years 1997 to 2006 inclusive.
 - (a) Please segregate the total amount of \$16.475M between each of the years 1997 to 2006 inclusive.

OTT01\3231341\1