July 5, 2007

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

Re: Union_IRs_deferralbalanceESM_20070705
EB-2007-0598

Dear Ms. Walli:

Enclosed please find ten copies of Union's responses to additional interrogatories from IGUA.

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 Additional Interrogatory from
Industrial Gas Users Association ("IGUA")

Question:

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.

Response:

(a) Attachment A is a letter from Union to Deloittes which prompted the Deloittes letter at Ex.A T1 Appendix A.

(b) No. Union's auditors from 1997 to 1998 were PriceWaterhouse, from 1999 to 2001 were E&Y and from 2002 to now are D&T.

uniongas
A Spectra Energy Company

Mr. Mark Morrison, CA
Partner, Assurance & Advisory
Deloitte & Touché LLP
150 Ouellette Place
Suite 200
Windsor, Ontario
N8X 1L9

April 13, 2007

Dear Mr. Morrison,

We recently discussed with you the possibility of Deloitte & Touché providing expert testimony before the Ontario Energy Board on behalf of Union Gas in connection with one aspect of its' 2006 audit opinion. You indicated to us that, because Deloitte is Union's auditor, Deloitte was unable to provide any collateral expert witness services, even in connection with the audit opinion itself, because of the rules of professional conduct governing the independence of auditors.

Will you please confirm that this is the case and provide us with the relevant rule and interpretation of the rules of professional conduct you are relying on?

Sincerely,

Pat Elliott
Director Accounting and Internal Controls

PE/cm

P.O. Box 2001, 50 Keil Drive North, Chatham, ON, N7M 5M1 www.uniongas.com
Union Gas Limited

UNION GAS LIMITED

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

Question:

When were Union's ancillary businesses transferred out of the utility company, Union Gas Limited?

Response:

Union sold its retail merchandise business January 1, 1999.

UNION GAS LIMITED

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

Question:

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?

Response:

Yes.

Up to 1996 Union recorded deferred income taxes on all components of its business including the ancillary business. These expenses were also recovered in customer's rates. Centra accounted for taxes using flow through taxes. In preparation for the merger (which was effective January 1, 1998), Union changed to flow through taxes for both rate making as well as accounting in 1997.

UNION GAS LIMITED

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

Question:

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").

Response:

Accounting for income taxes using flow through taxes is in accordance with GAAP provided the company meets the criteria to qualify for the exemption for rate-regulated entities, which Union and Centra did. Prior to the merger Price Waterhouse was Union's auditor and Ernst & Young was Centra's auditor.

UNION GAS LIMITED

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

Question:

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?

Response:

Yes.

UNION GAS LIMITED

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

Question:

If the answer to the previous question is yes, then what accounting firms certified that practice to be in accordance with GAPP.

Response:

PricewaterhouseCoopers LLP have been the auditors of Enbridge Inc. since 1999.

UNION GAS LIMITED

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

Question:

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 2 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.

Response:

(a) As indicated in the prefiled evidence at Exhibit A, Tab 1, page 14, Union's conclusion that it no longer meets the criteria to apply rate regulated accounting to the portion of the companies storage operation is based on the fact that the Board decided in the NGEIR proceeding to refrain from regulating the rates for certain storage services. Based on this change Union would no longer be able to recover the cost of future income taxes payable in future rates.
(b) No.
(c) N/A.
(d) When looking for other sources of GAAP for guidance when Canadian GAAP does not deal with specific events, in this case the deregulation of a portion of Union's storage operations, the Canadian handbook provides a hierarchy of other sources. US GAAP ranks well above industry precedents in the hierarchy. It was not necessary to look for industry precedents in this case because FAS statement 101 (described in the pre-filed evidence at Exhibit A, Tab 1, Appendix A) addresses this issue specifically.

UNION GAS LIMITED

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

Question:

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?

Response:

(a) The ability to allocate costs to the unregulated storage operations allows Union to account for and report these operations separately.
(b) Union continues to provide services to interruptible customers under range rates, these rates continue to be regulated by the Board, while individual rates for service may not be at cost overall the company's rates are designed to recover costs and are periodically reset using the cost of service. This allows Union to continue to meet the criteria for rate-regulated accounting.
(c) Prior to the NGEIR decision the Board approved market pricing for storage services for Union. However, the premium from this service was largely credited to the rate payer which put Union in the position of having rates overall that recovered the cost of service, as stated in part (b) to this question under these circumstances Union continued to meet the criteria for rate-regulated accounting.

(d) Under US GAAP companies are required to record future income taxes. An entity that meets the criteria for rate-regulated accounting will set up a regulatory asset for recovery of future income taxes payable in future rates.

(e) See responses to parts (b) & (c) above.

UNION GAS LIMITED

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

Question:

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) 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/GJm 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.

Response:

In Union's submission none of the information sought in these questions is relevant to the deferred tax issue being addressed in this proceeding. However, on a without prejudice basis, Union has provided answers to the questions asked.

(a) In 2006, the long term storage revenue exceeded the cost based value by $5.5 million (refer to Exhibit A, Tab 1, Page 11 Table 3).

(b) Confirmed.

(c) If the statement refers to storage volume over and above the Enbridge long-term storage contracts, it is correct.

(d) Confirmed.

(e) The calculations are correct.

(f) In Union's view, it is inappropriate to use current market values, which reflect historical highs, to estimate potential outcomes.

Storage service market values are driven by seasonal commodity price differentials and by the value various customers derive from their use of storage.

As Union described in the EB-2005-0551 proceeding, Exhibit D, Tab 2, pages 24 to 25 and the related Appendix L (Attachment 1), recent weather occurrences, including the effects of two consecutive summers of hurricanes impacting supplies in the Gulf, have resulted in widened summer / winter commodity spreads. This has led to increases in the market value of storage services in some seasons. However, historical storage service market values have been much closer to the cost of providing those services. In fact, on several occasions, the historical market values have dipped below the cost based levels and even to negative values.

Future storage market values are just as likely to fall to historic lows as new supplies are brought to market by upstream pipelines and as new storage is developed by market participants driven by higher demands for storage services and supported by the NGEIR outcomes. (Attachment 2, included in EB-2005-0551, Exhibit B, Tab 1, Undertaking 16 provides the formula for the calculation of market-based storage rates.)

(g) Please see response at (f) above.

(h) As noted in the response to (f) above, gas commodity prices fluctuate daily depending on market influences.

The current value of storage for the next full storage season, starting April 1, 2008, is approximately $1.00 U.S./MMBtu.

In some instances Union negotiates directly with the potential storage customer to determine the ultimate price for storage services. An example of this is Union's recent contracts with GMI. Union and the storage customer will each discuss the parameters of the storage service – the term, space, injection and withdrawal parameters. During this process, each participant will negotiate the appropriate price and terms for that service until agreement is reached. At any time the potential storage customer has the opportunity to negotiate a better arrangement from another service provider or to use a substitute product as previously discussed. Union is very aware of the interchangability of storage service providers and strives to negotiate storage agreements that satisfy all participants. As discussed by Ms. Brochu on May 18, 2006 of the Technical Conference (page 85 of the transcripts), GMI has alternatives to storage from Union and analyzes those alternatives while negotiating a storage contract with Union. Further, GMI feels that the negotiations for the storage services were fair for both parties (Union and GMI).

Since Union began offering storage services at market based rates in 1989, Union has not received any complaints regarding sale of storage services into the competitive market. Customers have the ability to lodge complaints with either the Board or the Competition Bureau on any part of the sale of Union's services. To date, Union is not aware of any customer who has lodged a complaint through any of the processes available. This fact, in and of itself, is an indication that Union has no market power in the sale of natural gas storage services in Ontario.

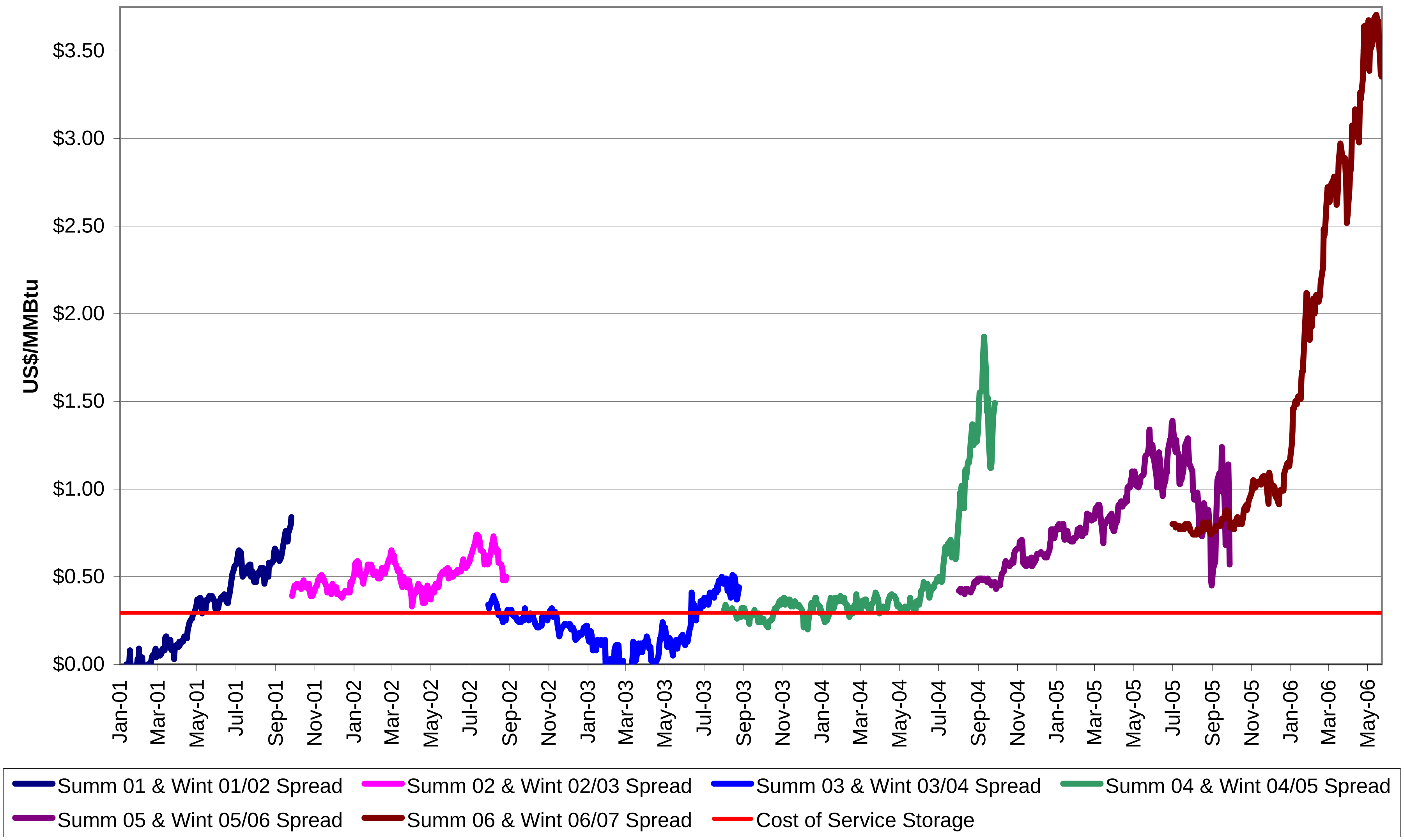
E) THE HISTORICAL VALUE OF STORAGE

A high level indication of the market value of storage is the simple winter/summer differential. Using the NYMEX values for seven summer months and five winter months is a simple calculation and approximates the intrinsic value of storage. Using this winter/summer methodology to calculate price differentials for seven summer months and five winter months, and ignoring the impact of Dawn basis, fuel and time value of money, the chart attached as Appendix L, illustrates the historical changes in the valuation of storage from prior to the injection season through October of each year.

During the 2001/02 storage season, and again during the 2003/04 storage season, the values of storage (without including the impacts of basis, fuel costs and time value of money) dipped below the cost-based level and at times had a negative value. During the summer of 2004/05, the impact of high gas inventories and the late season impacts of hurricane activity both resulted in a widening of the summer and winter spreads. This widening translated into higher values for storage. Last year, the continued impact of hurricanes and the uncertain gas inventory levels resulted in volatile storage values.

Over time, the value of storage (without including the impacts of basis, fuel costs and time value of money) are impacted by North American gas inventories, weather and the overall availability of natural gas. Storage valuation is derived, in part, based on the differences between gas prices at two different points in time. The variations of storage values are expected to continue into the future, with no assurances that today's storage levels will continue.

NYMEX WInter/Summer Differentials
January 2001 - May 2006



UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. Brown

For Union Gas to provide the formula for the calculation of market-based rates.

Response:

The theoretical market value of storage can be calculated using the following information. The true market value of storage has two components, the intrinsic value (theoretical calculation) plus the extrinsic value (a premium or discount to the theoretical value based on the actual value to the individual shipper).

A) Intrinsic Value

The intrinsic value would have the following components:

i) The future value of natural gas commodity on NYMEX
The New York Mercantile Exchange ("NYMEX") is the trading platform that is used to establish the future value of natural gas. Natural gas is traded as a monthly contract. Comparing the differences between monthly values of natural gas (ie. summer vs. winter) is the first step in establishing the theoretical value of storage.

ii) The future basis values at or near the storage location
The NYMEX assumes that all gas is purchased and sold at Henry Hub in Louisiana. As such, there is an additional value to be placed on the monthly NYMEX values that incorporate the value of gas at a particular trading location (such as Dawn) which is different than Henry Hub. Basis values at any location change daily. Basis can be either a positive or negative value, depending on the market's perceived value of gas at the another location. Basis is affected by the availability and costs of transportation between two locations, the cost of transportation fuel between two locations, and the natural gas supply and demand at a particular location. Basis values at Dawn are well established and are widely available from market participants.

iii) The time value of money
The time value of money, or TVM, recognizes that while gas is in storage, the capital required to purchase that gas is fully committed and is unavailable for other uses. Each corporation views this cost differently. Some market participants use the prevailing interest rate and other market participants have an established internal rate.

Witness:	Mark Isherwood / Carol Cameron
Question:	April 5, 2006
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iv) The variable (commodity and fuel) costs of the storage contract
The storage contract may require that the Shipper pay a usage fee for all gas injected and/or withdrawn. This fee may be in the form of fuel-in-kind, a commodity fee, or a combination of both.

Items i) through iv) above provided the foundation for the theoretical value of storage and is sometimes called the intrinsic value. However, every market participant values storage differently. This component of the storage is referred to as the extrinsic value.

B) Extrinsic Value

v) The extrinsic value of storage
This value is unique to each individual shipper and may be impacted by:

- the shipper's risk profile,
- market volatility and the Shipper's perceived ability to capture market opportunities,
- operational flexibility – the value placed on the ability to store gas for unplanned outages, weather swings, supply outages and/or capture market savings,
- the location of the storage facility - the liquidity at that location, the supply diversity, the ability to acquire transportation to and from the storage facility, and interconnections to other pipelines and access to other markets, and
- the ability to operate upstream transportation assets at higher load factors. This may avoid having to resell pipeline capacity in the summer at a loss.

It is impossible to estimate the extrinsic value of storage given that each individual shipper has their own unique circumstances. The following calculation covers the theoretical value based on the intrinsic values.

The Calculation

One methodology for calculating the theoretical market price for a standard storage service is:

Theoretical market value = (average NYMEX winter strip - average NYMEX summer strip ("A")) + basis ("B") – time value of money ("C") – variable costs ("D")

To provide an example, at the close of business on March 29, 2006, the calculation would have been (all values in $US/MMBtu):

A) NYMEX

Witness: Mark Isherwood / Carol Cameron
Question: April 5, 2006
Answer: April 17, 2006
Docket: EB-2005-0551

- simple average NYMEX winter strip for November 2007 to March 2008
    - November 2007 = $9.911
    - December 2007 = $10.496
    - January 2008 = $10.901
    - February 2008 = $10.891
    - March 2008 = $10.666
    - Total = $52.865
    - Divided by 5 months (November to March) = $10.573 US/MMbtu
- simple average NYMEX summer strip for April to October 2007
    - April 2007 = $9.221
    - May 2007 = $9.034
    - June 2007 = $9.084
    - July 2007 = $9.149
    - August 2007 = $9.16
    - September 2007 = $9.221
    - October 2007 = $9.291
    - Divided by 7 months (April to October) = $9.170 US/MMBtu
- Average winter NYMEX less average summer NYMEX
    - $10.573 - $9.170 = $1.403 US/MMBtu

B) Basis

- Dawn basis for Summer 2007 was ($0.05) US/MMBtu (as quoted on NGX on March 29, 2006)
- Dawn basis for Winter 07/08 was ($0.17) US/MMBtu (as quoted on NGX on March 29, 2006)
- Winter Basis – Summer Basis = ($0.17) – ($0.05) = ($0.12) US/MMBtu

C) Time Value of Money (TVM)

- The prime lending rate was 5.5%
- Assuming that half of the gas inventory is purchased by July 16 and half of the gas inventory is withdrawn by January 15, the capital required to purchase the gas is unavailable for 183 days
    - July 16 – 31 = 15 days
    - August, October, December = 31 days x 3
    - September, November = 30 days x 2
    - January 1 – 15 = 15 days
    - Total days = 183
- The prime lending rate is multiplied by the number of days in storage = 0.055 / 365 x 183 = 0.02757 (TVM)
- The TVM is multiplied by the cost of gas in storage plus Dawn basis
    - $9.170 + ($0.035) = $9.135
    - $9.135 x .02757 = $0.252 US/MMBtu

Witness: Mark Isherwood / Carol Cameron
Question: April 5, 2006
Answer: April 17, 2006
Docket: EB-2005-0551

D) Variable Costs

- Assume $0.0037 US/MMBtu commodity costs for each of 1 injection and 1 withdrawal cycle
  - $0.0037 x 2 = $0.0074 US/MMBtu
- Assume 0.63% injection and withdrawal fuel multiplied by the cost of gas in storage
  - 0.0063 x 2 x $9.135 = $0.115
- Total variable costs = $0.0074 + $0.115 = $0.123 US/MMBtu

Using the above calculation, the theoretical value of storage (without extrinsic values) on March 29, 2006 at Dawn for the April 2007 to March 2008 period is:

A + B - C - D

$1.403 + ($0.111) - $0.252 - $0.123 = $0.917 US/MMBtu

Witness: Mark Isherwood / Carol Cameron
Question: April 5, 2006
Answer: April 17, 2006
Docket: EB-2005-0551

UNION GAS LIMITED

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

Question:

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.

Response:

The attached schedule illustrates the impact to Union's 2006 income statement for; (1) an adjustment to reflect the NGEIR "end-state" and; (2) a subsequent "non-utility" elimination. The adjustment to reflect the NGEIR "end-state" includes an increase to in-franchise rates to reflect the credit removal related to the 2004 base S&T revenue and an additional adjustment to reflect the impact on the ratepayer portion of the sharing of revenue in excess of the 2004 base revenue. The level of detail required in order to prepare an adjusted balance sheet and cash flow is not available.

Line no.	Particulars ($millions)	2006	"End-state" Adjustment		Adjusted 2006	"Non-utility" Elimination		Adjusted 2006 net of "non-utility" elimination
1	Gas sales and distribution revenue	1,854.768	17.452	(1)	1,872.220	-		1,872.220
2	Cost of gas	1,248.454	-		1,248.454	-		1,248.454
3	Gas distribution margin	606.314	17.452		623.766	-		623.766
4	Storage and transportation revenue	191.292	(8.220)	(2)	183.072	(51.239)		131.834
5	Other revenue	32.697	-		32.697	-		32.697
6		830.303	9.233		839.536	(51.239)		788.297
	Expenses							
7	Operating and maintenance	310.756	-		310.756	(5.651)		305.105
8	Depreciation, property and capital taxes	225.974	-		225.974	(5.565)		220.409
9		536.730	-		536.730	(11.216)		525.514
10	Income before other items	293.573	9.233		302.806	(40.023)		262.783
11	Other income	1.889	-		1.889	-		1.889
12	Earnings before interest and income taxes	295.462	9.233		304.695	(40.023)		264.672
13	Interest expense and preference dividends	159.988	-		159.988	(5.977)		154.011
14	Income before income taxes	135.474	9.233		144.707	(34.046)		110.661
15	Income taxes	36.838	2.466	(3)	39.304	(22.005)		17.299
16	Earnings applicable to common shares	98.636	6.767		105.403	(12.040)	(4)	93.362

Notes:

(1) This adjustment represents the elimination of the credit previously built into in-franchise customer rates.
(($17.965 x 90%) + ($6.793 x (28.9% - 10%))) (Exhibit A, Tab 1, page 11)

(2) Represents adjustment to deferred S&T revenue ((-$12.455 x 75%) + ($28.754 x (75% - (1 - 28.9%)))) (Exhibit A, Tab 1, page 11)
base short term revenue in excess of "utility" base revenue.

(3) Line 14 x 36.12%.

(4) The non-utility elimination represents 100% of long-term storage income and 21% of short term storage income.

Reconciliation:

Short-term allowed return ($0.167 x 21%) (Exhibit B2.1, Schedule A, line 7)	(0.035)
Short-term net revenue sufficiency ($35.547 x 21% x (1 - 36.12%)) (Exhibit B2.1, Schedule A, line 11)	(4.769)
Long-term allowed return (Exhibit B2.1 Schedule A, line 7)	(3.717)
Long-term net revenue sufficiency ($5.510 x (1 - 36.12%)) (Exhibit B2.1, Schedule A, line 11)	(3.520)
	(12.040)

UNION GAS LIMITED

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

Question:

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?

Response:

Hypothetically, if the Board found that it was not appropriate to treat the deferred tax entry as a cost to provide storage services in 2006 as described at Exhibit A, Tab 1, page 11 and subsequently also found that it was not appropriate to reflect the deferred tax entry in the 2006 earnings sharing calculation, the earnings sharing amount would not change. However, Union's response as provided at Exhibit B3.4, Schedule B identifies what the more appropriate earnings sharing calculation would be assuming that the deferred tax cost is excluded from the long-term peak storage services deferral account.

UNION GAS LIMITED

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

Question:

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 and 2006 inclusive.

Response:

The variances between normalized and flow-through taxes for the years 1997 to 2006 are indicated below:

1997	$774,000
1998	828,000
1999	1,250,000
2000	2,720,000
2001	3,033,000
2002	2,398,000
2003	1,954,000
2004	1,266,000
2005	956,000
2006	1,296,000
Total	$16,475,000

EB-2007-0598
Exhibit B3.21

UNION GAS LIMITED

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

Question:

In that the NGEIR Decision has no impact on Union's 2006 Rates and, as a result, services Union provided to its ex-franchise customers in 2006 remain rate-regulated throughout that year, on what facts does Union rely to conclude that its sale of exfranchise storage services ceased to be regulated during the year ending December 31, 2006?

Response:

As noted at Exhibit A, Tab 1, pages 12 and 13 of the prefiled evidence the criteria to qualify for the exemption for rate regulated entities in accounting for deferred (future) income taxes includes the ability to recover the future costs in rates charged to customers.

The Board's decision to refrain from regulating storage services means that rates approved by the OEB in the future will no longer be designed to recover future income taxes related to the unregulated storage operation. As a result Union no longer qualifies for the exemption for rate regulated entities and must record the deferred income taxes related to the unregulated storage operations.

The cost related to future income taxes will not be recovered in rates approved by the regulator in the future based on the Board's decision in November 2006 to refrain from regulating exfranchise storage services. The fact that the change was not in effect for the 2006 year does not impact the change in accounting.

UNION GAS LIMITED

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

Question:

Since the storage assets supporting Union's "utility" and "non-utility" storage services are integrated and physically inseparable, Union cannot possibly transfer the assets supporting "non-utility" storage services to an arm's length third party or to an affiliate. In these circumstances, please answer the following question

(a) On what facts does Union rely to justify its classification of the deferred tax liability associated with Union's provision of "non-utility" storage services as a "utility" rather than a "non-utility" liability.

Response:

Based on the fact that Union has determined the cost to provide exfranchise storage services in the cost allocation study which includes an allocation of assets used to provide service, and the OEB accepted this allocation in their decision, Union is able determine the amount of the unrecorded deferred taxes related to investments to provide exfranchise storage services from 1997 to 2006.

Assuming that the non-utility classification refers to the unregulated storage operations, in the future the total deferred tax liability associated with the unregulated storage operations will be classified as non-utility as will the related revenue, gas cost, O&M, depreciation, property taxes, interest and the assets. In 2006, all of these amounts are included in arriving at the calculation of the amount to be deferred.

UNION GAS LIMITED

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

Question:

Please confirm the following facts:

(a) The accumulated deferred tax liability grossed-up for taxes of $16.475M built up year by year over the 10 year period from 1997 to 2006 inclusive.

(b) Assuming that the deferred tax liability is rounded at $17M and that the build-up occurred equally in each year, then the accumulated deferred tax liability in each year would be as follows:

	$M
1. 1997	$1.7
2. 1998	2.4
3. 1999	5.1
4. 2000	6.8
5. 2001	8.5
6. 2002	10.2
7. 2003	11.9
8. 2004	13.6
9. 2005	15.3
10. 2006	17.0
TOTAL	92.5M

(c) Had normalized accounting been applicable in each of the years 1997 to 2006 inclusive, then, under the rate-making approach the Board applies, there would have been a reduction in Rate Base in each of those years by the amount of the accumulated deferred tax balance in each year.

Response:

(a) Yes, the accumulated deferred tax liability grossed-up for taxes of $16.475M built up year by year over the 10 year period from 1997 to 2006 inclusive.

(b) Please see response at Exhibit B3.20.

(c) Had normalized accounting been applicable in each of the years 1997 to 2006 inclusive, then, under the rate-making approach the Board applies, the amount of the deferred tax expense would have been recovered from customers in rates. There would have been a corresponding reduction in rate base in each of those years by the amount of the accumulated deferred tax balance recovered from customers.

UNION GAS LIMITED

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

Question:

Using the assumed accumulated deferred tax balances in each of the years 1997 to 2006 inclusive shown in Question 15(b) above, please calculate the rate reductions that would have prevailed in each of the years 1997 to 2006 inclusive, by multiplying the Board approved overall return on Rate Base in each years, grossed-up for taxes, by the accumulated deferred tax balance in each year and provide a cumulative total for the period 1997 to 2006, excluding interest

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Response:

The 1997 to 2006 rate reductions resulting from the rate base adjustments using the annual tax figures in Union's response to Exhibit B3.20 is shown at line 7 of the attached schedule. Note that the $16.475 million tax impact consists of $10.524 million associated with deferred tax and $5.951 million of current tax. Only the accumulated deferred tax component should be reflected as a reduction to rate base. The rate reductions calculated at line 7 of the attached schedule would only apply if the amount of the deferred tax expense was in fact recovered in rates over this period. In this case the ratepayers had the benefit of the lower deferred tax expense during the period and are not entitled to any further benefit for the reduction in rate base as suggested in this question.

In the interest of completeness, the overall impact to delivery rates (including tax cost recovery) is shown on line 8.

Line no.	Particulars ($millions)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
1	Deferred tax	0.494	0.529	0.799	1.738	1.937	1.532	1.248	0.809	0.611	0.828	10.524
2	Current tax	0.280	0.299	0.452	0.982	1.096	0.866	0.706	0.457	0.345	0.468	5.951
3	Total tax	0.774	0.828	1.250	2.720	3.033	2.398	1.954	1.266	0.956	1.296	16.475
4	Deferred tax - Cumulative Impact	0.494	1.023	1.822	3.559	5.497	7.029	8.277	9.086	9.696	10.524	10.524
5	Approved pre-tax return	13.14%	13.14%	12.15%	12.15%	12.15%	12.15%	12.15%	10.60%	10.60%	10.60%	
6	Rate impact - Current/Deferred tax	0.774	0.828	1.250	2.720	3.033	2.398	1.954	1.266	0.956	1.296	16.475
7	Rate impact - Accumulated deferred tax (line 4 x line 5)	(0.065)	(0.135)	(0.221)	(0.432)	(0.668)	(0.854)	(1.006)	(0.963)	(1.028)	(1.116)	(6.487)
8	Total rate impact (1)	0.709	0.693	1.029	2.288	2.365	1.544	0.948	0.303	(0.072)	0.180	9.988
9	Board Approved short term interest rate	4.48%	4.48%	5.05%	5.05%	5.05%	5.05%	5.05%	4.15%	4.15%	4.15%	
10	Interest on rate impact - Current/Deferred tax (line 6 x line 9)	0.035	0.037	0.063	0.137	0.153	0.121	0.099	0.053	0.040	0.054	0.791
11	Interest on rate impact - Accumulated deferred tax (line 7 x line 9)	(0.003)	(0.006)	(0.011)	(0.022)	(0.034)	(0.043)	(0.051)	(0.040)	(0.043)	(0.046)	(0.298)
12	Total Interest	0.032	0.031	0.052	0.116	0.119	0.078	0.048	0.013	(0.003)	0.007	0.493

Note:
(1) Assumes delivery rates are re-based annually.

UNION GAS LIMITED

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

Question:

Please add interest to the Table provided in response to Question 16 for each year at the average of the Board approved short term interest rates for the 10 year period, 1997 to 2006 inclusive and provide a cumulative total for the period 1997 to 2006, including interest.

Response:

In Union's submission none of the information sought in this question is relevant to the deferred tax issue being addressed in this proceeding. However, on a without prejudice basis, Union has provided an answer to the question asked.

The calculation of interest at short term rates for the rate payer benefit calculated in the response provided at Exhibit B3.24 is shown at line 11 of the attached schedule. In addition, there is an interest component calculated on the tax expense amount at line 10. The total interest expense on the total rate impact is shown at line 12.

Given the number of assumptions that need to be made to answer this question, the answer is in Union's view meaningless.

EB-2007-0598
Exhibit B3.26

UNION GAS LIMITED

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

Question:

In the context of its distribution, transmission, and other long range system expansion plans, please provide the estimated cross-over date when Union Gas Limited will begin to draw down the addition to its accumulated Deferred Taxes balance which it recorded in its 2006 Financial Statements as a result of the NGEIR Decision.

Response:

The information requested has not been calculated and is not available.