

July 20, 2007

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

Re: EB-2007-0598 Union Gas Reply Argument

Dear Ms. Walli:

Enclosed please find ten copies of Union's reply argument. The Confidential portion of this argument has been filed under separate Confidential cover.

If you have any questions, please contact me at (519) 436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

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

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule. B);

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders amending or varying the rate or rates charged to customers as of July 1, 2007;

**UNION GAS LIMITED
REPLY ARGUMENT**

1. By Application dated April 27, 2007, Union applied to the Board for final disposition of Union's 2006 deferral account balances and for final disposition of the 2006 earnings sharing amount.
2. The Board issued Procedural Order No. 1 on May 16, 2007 providing for a written hearing, including written evidence, written interrogatories and written argument. Union's written prefiled evidence was delivered, with its application, to the Board on April 27, 2007. Union's written responses to interrogatories were delivered to the Board on June 5, 2007.
3. Union submitted its Argument-in-Chief on June 11, 2007.
4. The Board issued Procedural Order No. 2 providing for an oral hearing on July 9, 2007 for the deferred taxes issue. Board staff and intervenors were to submit argument on all issues other than deferred taxes by July 9, 2007.
5. Written argument was filed by the London Property Management Association ("LPMA"), the Industrial Gas User's Association ("IGUA"), the Vulnerable Energy Consumers Coalition ("VECC") and the Consumer Council of Canada ("CCC"). All

parties took issue with one aspect of Union's non-confidential filing. All intervenors argued that the allocation of Demand Side Management ("DSM") costs in the Demand Side Management Variance Account ("DSMVA") (179-111) should be allocated as the 2006 DSM dollars were spent rather than Union's proposed allocation which used the Board approved 2004 allocation factors.

6. LPMA, IGUA and VECC also take issue with the confidential "non-utility adjustment" as proposed in Union's prefiled evidence on earnings sharing. Intervenor argument on the "non-utility adjustment" was submitted under separate confidential cover.
7. This is Union's reply argument on the non-confidential issue. Union will file reply argument on the non-utility adjustment under separate confidential cover.

Demand Side Management Variance Account Allocation

8. As noted in Exhibit A, Tab 2, p. 5 of Union's prefiled evidence, Union proposed to allocate the balance in the DSMVA to the rate classes in proportion to the approved 2004 allocation of DSM costs. This allocation is the same as that used to allocate the DSM amount approved in rates.
9. LPMA, IGUA, VECC and CCC argue that Union's 2006 DSM expenditures should be allocated to each rate class in proportion to the actual spending by rate class.
10. Union does not object to the DSM allocator put forward by LPMA, IGUA, VECC and CCC. Union proposed using the approved 2004 allocator of DSM costs primarily for two reasons. First, this was the last DSM allocator approved by the Board. Second, Union did not anticipate there would be significant differences between an allocation of DSM

costs based on the 2004 Board approved allocation and an allocation based on 2006 actual spending.

11. Union has redrafted Schedule 1 in Exhibit A, Tab 2 of the prefiled evidence to show the impact of allocating the 2006 DSM costs by rate class based on actual spending. The redrafted schedule is attached for information purposes.
12. No other issues were brought forward in argument by intervenors. Union, therefore, requests an order of the Board approving the 2006 deferral accounts and earnings sharing amount for 2006 as outlined in Exhibit A, Schedules 1 Corrected, 2 Corrected, 3 Corrected and 4. Union also seeks an order of the Board approving the method of allocation of these amounts as outlined in Exhibit A, Tab 2, Schedule 1 Corrected.