

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 Response to Undertaking J1.4

Dear Ms. Walli:

Enclosed please find ten copies of Union's response to Undertaking J1.4 requested by LPMA.

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

UNION GAS LIMITED

Undertaking of Ms. Elliott
To Mr. Aiken

To provide an explanation of how the reversal process is accounted for, for base pressure gas.

During the period of time Union was operating under flow-through tax accounting (1997 to 2006) ratepayers received the temporary benefit of tax depreciation on base pressure gas. The Board's decision to forego regulation of ex-franchise long term peak storage had the effect of reversing the temporary tax benefit previously provided to ratepayers during the 1997 to 2006 period.

The effect of the NGEIR decision, therefore, is simply to recapture tax liabilities which were deferred, never avoided. This deferred tax liability has nothing to do with tax liabilities that might be associated with capital gains on the sale of base pressure gas.¹ The deferred taxes involved in this proceeding are based exclusively on the original capital cost of base pressure gas and arise, not from a sale, but from a change in regulatory treatment which, as the evidence in chief and on cross examination demonstrated, triggers a mandatory change in the applicable accounting standards.

The precise technical answer to the question is that, with an asset such as base pressure gas, the only event that gives rise to a tax "reversal" is a sale. However, for the reasons explained above, that is not relevant to the current circumstances.

¹ The tax consequences of any gain on the sale of base pressure gas are entirely the responsibility of Union and its shareholder.

Witness: Pat Elliott
Question: July 9, 2007
Answer: July 20, 2007
Docket: EB-2007-0598