

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing and cost allocation for natural gas distributors.

Ref: Exhibit E2, page 57, line 3-4

“Union supports a mechanism(s) for load balancing that supports the principle that those customers who cause the costs ought to bear them.”

- 1) Please confirm that Union maintains one pool of inventory for system gas, load balancing and company used gas.
- 2) Forecast of Functional Requirements
 - a) To meet the expected requirements for volumes of gas to get through the winter season, does Union forecast the monthly volume requirements of the respective functions of system gas, load balancing gas (both system and DP balancing) and company used gas separately?
 - b) How is the storage allocation for each function determined?
 - c) How is the allocation of system integrity space determined for each function?
 - d) Are the actual storage balances for each function maintained separately?
- 3) Procurement and Allocation
 - a) Are the respective functional needs subsequently pooled for the purposes of procurement?
 - b) Is a flat delivery profile used for the monthly deliveries?
 - c) If not, how is the monthly delivery forecast determined?
 - d) To the extent that more gas is purchased in the winter months than summer months, how are the cost consequences captured for the respective functions?
- 4) System Gas Balancing

The dates of March 1st, March 31st and October 31st were provided as calendar checkpoints in Union's RP-2005-0520 D1 evidence referenced above.

- a) Are these dates used as firm checkpoints (i.e., minimums or maximums must be maintained)?
 - b) What criteria are used to manage the integrated pool to determine if it is long or short?
 - c) If the integrated pool is short gas relative to forecast, how does Union determine which function has caused the apparent insufficiency?
 - d) Does Union have a published evidentiary protocol for handling the revenues and costs associated with variance to forecast for the integrated pool?
 - e) Is there discretion afforded management to determine the underlying source of difference to forecast?
- 5) Functionalization and Allocation of Balancing Costs
- a) If gas is sold or purchased to meet the established criteria, how are the cost consequences of any discounts or premiums tracked?
 - b) If a deferral account is used, what criteria is in place to ensure the cost causality principle for the system gas program and the distribution functions?
 - c) Are those criteria published in evidence?
- 6) System Gas Transportation Implications
- a) If the system gas program is long gas in the winter period, what is Union's planned approach to dealing with the transportation associated with the unneeded gas supply?
 - b) If UDC is incurred, does the system supply program pay for the cost or does it get paid for by a distribution or transportation account?
 - c) Was Union required to shed system supply gas in the winter of 2006-2007?
 - d) Was UDC incurred?
 - e) How was it paid?

- f) Was the transport used by any other functional area of Union Gas?
- g) If so, which area?
- h) If not, did Union sell the rights in the secondary market and what were the resulting cost consequences?

Ref. Exhibit E2, p. 44, line 20-22

“The checkpoint mechanism supports the principle of cost causality in that it clearly places more of the responsibility for balancing costs with BT customers. The Board supported this concept as noted at page 120 of its RP-2003-0063 Decision with Reasons.

Ref: EB-2005-0520 Exhibit D1, Tab 1, page 2,3,4, line 20-21, 16-20, 1-2

“Union’s five-year Gas Supply Plan (2006 – 2010), completed during the summer of 2005, includes the following key inputs and assumptions:

- **9.7 PJs of system integrity space as agreed to in the RP-1999-0017 ADR Settlement Agreement that was accepted by the Board. This storage space is used in a number of ways that include managing variances to plan of demand or gas supply for bundled customers. The Gas Supply Plan has 6.0 PJs of this space filled with system integrity molecules while the remaining 3.7 PJs is left empty. Union does not plan to use system integrity space, but rather, the space is held solely for the purpose of balancing unplanned demand or supply variances that may occur throughout each year.**
- 7) Cost Impacts of Two Point Balancing
- Union’s evidence in the last rate case relies on the ADR settlement space agreed to prior to the 2004 implementation of two point balancing.
- a) Given that one of the prime reasons for space is the managing of variances to plan of demand or gas supply for bundled customers, please provide Union’s rationale for maintaining a constant level of system integrity space after two point balancing implementation.
 - b) By way of comparison, please provide the cumulative DP storage position relative to forecast for Feb. 28 in the years 2002 through 2007.
 - c) Please provide the cumulative Nov. 1st to Feb. 28th degree days for each of those respective winter seasons.

Exhibit E2, page 59, line 5-6

“The DPAC recovers costs associated with contract administration, gas management and billing and reporting.”

- 8) Level Playing Field between Administration Costs of System Gas and Retail
Union allocates direct purchase costs on an incremental basis. The above reference provides the scope of cost recovery for the DPAC.
- a) Please provide the scope of recovery for the Agency, Billing and Collection (ABC) service for retailers who choose ABC.
 - a) Please provide the scope of recovery for the system gas management fee.
 - b) Please provide the current rates charged for each of the services.
 - c) Please provide a comparison to the gas supply administration fee that demonstrates the principle of level playing field between system gas customers and direct purchase customers who pay the DPAC and ABC charges.

Exhibit E2, page 60, line 3-6

“If Union determined the costs related to the gas supply administration fee on a fully allocated basis Union would be at risk of non recovery of the difference between the incremental and fully allocated costs should system sales activity levels decrease. By taking an incremental approach, Union eliminates the incentive to actively market the system supply option so as to maintain the recovery of the fully allocated cost.”

- 9) Utility Risk of Under-Recovery
- a) Please provide the total annualized cost of system gas for 2006 and 2007.
 - b) Please provide any recent cost study figure for the fully allocated and incrementally allocated cost of the gas supply administration fee.
 - c) If, after establishment of a QRAM price, system gas volumes decreased by 5% due to customer migration in that quarter relative to forecast yet the cost of gas was exactly the same as forecast leading to an under-recovery of about 5%, would Union Gas be at risk for non recovery of that amount?