Costs, Revenues and Rates

The following includes the proposed rate and response to mandatory evidence Question 2: *What are the costs and revenues associated with providing these new services?*

Costs –To increase the number of nomination windows from the current four NAESB windows to Union's proposed ten nomination windows and to accommodate the firm all day services, Union estimates that it will require approximately $2.883 million in Information Technology (IT) capital and $1.035 million of ongoing operating and maintenance costs. The total annual revenue requirement associated with the IT capital spending and O&M is approximately $2.077 million.

The incremental IT capital is associated with necessary enhancements to Union's Gas Care, Unionline, ConTrax and Gas Control systems. The necessary enhancements include modifications to the existing nomination model to recognize new nomination windows; modifications to the current title transfer matching process; enforcement of elapsed prorated scheduled quantity; validation of hourly contractual entitlements; and improvements to capacity allocation procedures.

Of the $1.035 million of incremental O&M to support the additional nomination windows and ensure firm all-day transportation, approximately $0.945 million relates to additional staffing requirements. The staff additions are in Gas Management Services (4), Gas Control (2) and Operations (4). The remaining

$0.090 million is associated with expected increases in compressor maintenance resulting from providing firm all day service.

Rates – As indicated above, Union proposes to charge customers contracting for F24-T service the posted Dawn to Parkway/Kirkwall transmission rates appearing on the M12 rate schedule. In addition, Union proposes to charge F24-T service customers an additional charge of $0.692/GJ/Month ($0.023/GJ at 100% load factor) to recover the incremental costs associated with providing ten nomination windows and providing firm all day service. Union is proposing changes to the M12 rate schedule to add the F24-T service. These changes include the amendment of the Schedule B to describe the nomination flexibility of the F24-T service and the addition of a F24-T rate within the M12 rate schedule.

Union has derived the rate assuming that the total incremental revenue requirement will be recovered over 250,000 GJ/day of the 500,000 GJ/day of available capacity. Union would only develop this service if it had firm commitments from shippers for at least 250,000 GJ/d. Union is proposing to recover the entire cost associated with providing ten nomination windows from F24-T customers because the ten nomination window will primarily be used by F24-T customers directly or by other ex-franchise customers providing storage services to F24-T service customers. The derivation of the rate is provided at Appendix O, UPDATED.

- The shipper's nomination would contain the total amount of gas being requested for the day, plus the profile of the requested hourly deliveries to Parkway.

- The service is firm.

Cost, Revenues and Rates

The following includes the proposed rate and response to mandatory evidence Question 2: *What are the costs and revenues associated with providing these new services?*

Costs – Union estimates that it will require approximately $2.364 million in IT capital to modify its gas management systems (Gas Care and Unionline), Contrax and Gas Control systems to offer the UPBS and DPBS services. The enhancements include modifications to the existing nomination module to recognize hourly nominations and allocations, automation of interconnect confirmation and balancing, procedures and improvements to capacity scheduling procedures. The portion attributable to the UPBS service is approximately $1.182 million. The incremental annual revenue requirement associated with the development of the UPBS services is approximately $0.427 million.

Rates – As indicated above, Union is proposing to provide the UPBS under the C1 rate schedule at market based rates. This treatment is consistent with that of other ex-franchise Dawn based storage services that are sold using Union's C1 rate schedule.

This service will provide those shippers that require short notice service with the tools they need at Parkway to properly manage both their plant operation and daily gas imbalances.

Costs, Revenues, and Rates

The following includes the proposed rate and response to mandatory evidence Question 2: *What are the costs and revenues associated with providing these new services?*

Costs – As indicated above, Union estimates that it will require approximately $2.364 million in IT capital to modify its gas management systems (Gas Care and Unionline), Contrax and Gas Control systems to offer the UPBS and DPBS services. The enhancements include modifications to the existing nomination module to recognize hourly nominations and allocations; automation of interconnect confirmation and balancing procedures; and improvements to capacity scheduling procedures. The portion attributable to the DPBS service is approximately $1.182 million. The incremental annual revenue requirement associated with the development of the DPBS service is approximately $0.427 million

Rates – The DPBS is a firm park and loan service at Parkway. Union therefore proposes to offer the DPBS, under the C1 rate schedule, at market based rates. As discussed earlier, the C1 rate schedule has range rates that give Union the flexibility to negotiate market based pricing for balancing services. No changes to the C1 rate schedule are required to provide this service.

- The contracted space and deliverability parameters will be negotiated as per the C1 storage service. Deliverability of 1.2 to 10% will be available, subject to asset availability.

Costs, Revenues, Rates

The following includes the proposed rate and response to mandatory evidence Question 2: *What are the costs and revenues associated with providing these new services?*

4. Costs – As indicated above, customers that contract for the F24-S service will have access to the same ten nomination windows as those customers contracting for F24-T. To increase the number of nomination windows from the current four NAESB windows to Union's proposed ten nomination windows and to accommodate the firm all day services, Union estimates that it will be require approximately $2.883 million in IT capital and $1.035 million of ongoing operating and maintenance costs. The total annual revenue requirement associated with the IT capital spending and O&M is approximately $2.077 million. Union is proposing to recover the total revenue requirement associated with providing ten nomination windows from F24-T customers because the ten nomination window will primarily be used by F24-T shippers directly or by other ex-franchise shippers providing storage services to F24-T service shippers.

APPENDIX O - DERIVATION OF M12

UNION GAS LIMITED
Southern Operations Area
Calculation of Firm All Day Transportation Service Charges

Line No.	Particulars	($ 000's)
	Rate Base (1)	
1	Total rate base	**2,523**
	Cost of Service	
2	Operating & Maintenance Costs (2)	1,035
3	Depreciation Expense	**721**
4	Return, Income and Capital Taxes	**321**
5	Total Cost of Service	**2,077**
6	Demand (GJ's/day) (3)	250,000
7	Rate per GJ ((line 5 * 1000) / (line 6 *12))	**0.692**
8	Commoditized cost ($/GJ) (line 7 *12 /365)	**0.023**

Notes: (1) Based on first full year in service.
(2) Assumes 10 staff at $94,538 each per EB-2005-0520 Exhibit D3, Tab 7, Schedule 2, line 7 and additional compressor maintenance.
(3) Assumes 50% of available capacity is contracted.