uniongas
P.O. Box 2001
50 Keil Drive North
Chatham, Ontario
N7M 5M1

May 1, 2006

Ontario Energy Board
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario
M4P 1E4

Attention: Mr. John Zych, Board Secretary

RE: EB-2005-0551 – Natural Gas Electricity Interface Review & Storage Regulation

Dear Mr. Zych,

Enclosed please find ten (10) copies of Union's written submission evidence pertaining to:

- Procedural Order No. 2: Appendix C, Issue II, Storage regulation. This evidence also includes an updated study prepared by Energy and Environmental Analysis Inc. and Professor Richard Schwindt entitled "Analysis of Competition in Natural Gas Storage Markets for Union Gas Limited"
- Procedural Order No. 3: Issues 1 through 3

Evidence pertaining to Procedural Order No. 2: Appendix C, Issue III, Transportation capacity bidding process and allocation, was filed with Union's Issue I evidence on March 20, 2006.

Also included in this package is a revised Index for EB-2005-0551 with the noted additions:

- Exhibit C
    - Tab 1 – Storage Regulation Evidence
    - Appendix A – Exhibit J5.02 of EB-2005-0520 proceeding
    - Appendix B – Storage Competition Study

An electronic copy will be included in cd format and via email in PDF format.

Yours truly,

Connie Burns, CMA, PMP
Manager, Regulatory Initiatives
Union Gas Limited
cburns@uniongas.com
Fax: (519)436-4641

cc: Glenn Leslie, Blakes
All EB-2005-0551 Intervenors

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STORAGE REGULATION

1.0 INTRODUCTION

The purpose of this evidence is to provide Union's positions related to the Ontario Energy Board ("OEB") initiated proceeding to determine whether the OEB should refrain, in whole or part, from regulating the rates for natural gas storage services.

In Union's submission, the storage market in and around the Great Lakes region is competitive sufficient to protect the public interest. Specifically, there is sufficient competition to preclude any party, including Union, from exercising market power. While these considerations should be dispositive for Union's ex-franchise sales, the in-franchise situation is more complex. Because of the predominance of customers continuing to elect service under a bundled service option (whereby storage is combined with monopoly transmission and distribution services), general forbearance from regulation is not appropriate at this time.

In support of theses positions, Union has filed an updated study prepared by Energy and Environmental Analysis Inc. ("EEA") and Professor Richard Schwindt entitled "Analysis of Competition in Natural Gas Storage Markets for Union Gas Limited" (also known as the "Storage Competition Study") dated April 28, 2006.

The question of whether the OEB should refrain from regulating natural gas storage services involves a determination under Section 29 of the Ontario Energy Board Act. Specifically, Subsection 29 (1) states the following:

> "On an application or in a proceeding, the Board shall make a determination to refrain, in whole or part, from exercising any power or performing any duty under this Act if it finds as a question of fact, that a licensee, person, product, class of products, service or class of services is or will be subject to competition sufficient to protect the public interest."

To refrain from the regulation of rates pursuant to this section, requires that all revenues and costs associated with competitive services are outside of regulation. Once a finding is made that the market is sufficiently competitive to protect the public interest, customers should pay the price set by the market for storage services. The risk and rewards associated with market prices should be entirely assumed by those who provide storage services.

Based on the conclusion that the storage market is competitive, Union proposes to fix the allocation of storage capacity between the in-franchise and ex-franchise markets effective January 1, 2007. Incremental in-franchise requirements after that date will be procured in the market at market prices and combined with existing storage capacity valued at cost. Going forward, the costs of storage for in-franchise customers will be a blend of cost of service and market prices. New storage capacity to meet ex-franchise market requirements will be developed or acquired outside of regulation.

Lastly, as the storage market is competitive, the current requirements for Board approval for the parties, term and volumes subject to storage contract under Subsection 39 (2) of the Ontario

Energy Board Act are no longer necessary or required. Accordingly, the Board should also forbear from exercising its power under Subsection 39 (2).

In Union's view, the storage market in and around Ontario is competitive as supported by the Storage Competition Study. Accordingly, the Board should refrain from regulating rates for ex-franchise storage services as it will provide benefits to Ontario, including new storage development. These benefits are discussed beginning at Section 6 of this submission and in the Storage Competition Study.

2.0 OVERVIEW OF EX-FRANCHISE AND IN-FRANCHISE STORAGE MARKETS

2.1 EX-FRANCHISE MARKET

Union's ex-franchise market consists of Canadian and U.S. local distribution companies ("LDCs"), transmission service providers (e.g. TCPL) and marketers. Storage services for these customers have been priced at market rates endorsed by the Board since 1989 in E.B.R.O. 456. Ex-franchise storage services are fully unbundled from transportation and other services, and ex-franchise customers can select among unbundled services for their requirements. Further, there is no requirement that ex-franchise customer's contract for transmission service or any other service provided by Union when they contract with Union for storage service.

Union's Dawn-Trafalgar transmission system is an open access transmission system designed largely to meet winter peak day requirements. The Dawn-Trafalgar system currently has a capacity of approximately 5.7 PJs per day. Union's expansion plans for November 1, 2006 and 2007 will increase the capacity of the Dawn-Trafalgar transmission system to approximately 6.4 PJs per day.

Approximately 75% of the total firm capacity on the Dawn Trafalgar system is contracted to ex-franchise shippers, with the remaining 25% being used by Union to provide in-franchise delivery services. Union controls none of the transmission capacity serving the ex-franchise market. The shippers decide when, if, and how this capacity is used.

The Dawn-Trafalgar transmission system is designed and operated as a winter peaking system, allowing significant amounts of interruptible transportation capacity to be available to market participants on non-peak days. Union markets this interruptible transportation capacity to all market participants on a non-discriminatory basis.

In addition to Union's transmission services for ex-franchise customers, there are other market options for Dawn to Trafalgar transportation service such as TCPL short haul services, and Dawn Trafalgar transportation and exchange services that are provided by most major marketers. Those transportation and exchange services are provided through the management of the transportation portfolios held by the marketers.

There are no restrictions or dynamics that restrict an ex-franchise customer's election or rejection of Union's storage services.

2.2 IN-FRANCHISE MARKET

Union's in-franchise market consists of small volume residential, commercial, and industrial customers as well as large volume commercial and industrial contract customers.

Union currently offers a range of delivery options consisting of bundled, semi-unbundled, and fully unbundled services.

To date, most of Union's in-franchise customers have elected either bundled or semi-unbundled delivery service options. The key operational features underlying these delivery services are 1) an obligated Daily Contract Quantity ("DCQ") and 2) a determination of the storage necessary to meet seasonal load balancing needs. A customer's DCQ is equal to their projected annual demand divided by 365 days. The current determination of the amount of storage capacity required by customers is based on and recognizes seasonal differences in demands. The methodology, known as "aggregate excess" determines what storage space in-franchise customers require to balance their load seasonally. A customer's storage requirement is the difference between their winter consumption and their average annual consumption over the 151 day winter period. This storage space is typically filled with a customer's summer supply deliveries (DCQ) in excess of a customer's summer demands, which provides for storage inventory to meet normalized winter consumption in excess of winter supply.

Most of Union's in-franchise customers have not yet chosen the unbundled delivery service option, although it has been available to contract customers since 2001 and retail customers since 2003. As a result, storage services are bundled with distribution and transmission services. There are therefore significant differences between storage services sold to in-franchise as opposed to ex-franchise customers. Specifically, the fact that Union's in-franchise customers have continued to use bundled delivery service means that there is no separate market for core storage requirements within this group of customers. This conclusion is supported by the Storage Competition Study, where the "views, strategies, behaviour and identity of buyers" (p.9) is a key determinant in assessing the existence of substitutable products and the associated competitiveness of a market. It is clear from the behaviour of Union's in-franchise customers that they do not yet purchase storage as a separate product for their core storage requirements.

3.0 THE STORAGE MARKET IN ONTARIO IS COMPETITIVE

3.1 THE STORAGE MARKET IN ONTARIO AND THE SURROUNDING AREA IS SUFFICIENTLY COMPETITIVE TO PROTECT THE PUBLIC INTEREST

This is the conclusion reached in the updated Storage Competition Study completed by EEA and Professor Schwindt. The Storage Competition Study is based on standard methodologies used in both the U.S. and Canada to evaluate competition in particular markets.

The Storage Competition Study (pages 1&2) provides the following conclusions:

1. *We find that Union Gas storage competes within a broad regional storage market. The market structure in the competitive geographic storage region does not raise competition policy concerns under either Canadian or United States' guidelines. Moreover, because of its modest market share and the ready availability of alternatives, we find that Union Gas does not have sufficient market power to significantly influence the price of natural gas storage within the relevant geographic storage market.*

2. *By utilizing the traditional methodology for examining market structure and finding that the level of storage concentration is moderate, our analysis supports a finding that the Board should forbear from price regulation for ex-franchise storage services.*

3. *Forbearance from rate regulation for ex-franchise storage services provides benefits to Ontario without an imposition of additional costs to ex-franchise customers. The current structure of ex-franchise natural gas storage transactions creates comparability between storage service providers competing in that market.*

4. *However, the analysis presented here is not in and of itself sufficient to support forbearance from rate regulation for in-franchise storage services. In-franchise utility services, which are provided in conjunction with storage services, exhibit economies of scope and scale common to utilities. Forbearance for in-franchise storage services would only be appropriate with a demonstration that the benefits of the competitive market exceed the costs associated with the losses in the economies of scope and scale that would likely occur if in-franchise customers were no longer supplied by a comprehensive, integrated service or by increased election of unbundled services by in-franchise customers indicating that the economies of scale and*

scope inherent as part of in-franchise natural gas services are no longer important in determining customer preferences in the selection of service.

3.2 MARKET BASED STORAGE RATES

Union began selling short-term storage services at market based rates to ex-franchise customers in 1989. Based on the Board's RP-1999-0017 Decision with Reasons dated July 21, 2001, Union also began to transition all long term ex-franchise customers to market based rates. During this period, the Board has recognized the development of a competitive market at Dawn and as a result has endorsed the sale of storage services to ex-franchise customers at market rates. In other words, the storage market has been competitive throughout this period and the Board has already recognized this, and acted on that conclusion.

3.3 STORAGE SUBSTITUTES

Customers have readily available and competitively priced alternatives to Union's storage services. These alternatives include but are not limited to the following:

- Storage services from 3rd party providers available at the Dawn hub
- Storage services from other storage providers available at other locations within the market area (i.e. Michigan)
- Winter supply and upstream pipeline capacity to move supply to Dawn
- Winter Spot purchases at Dawn
- Dawn delivered service (i.e. winter peaking services)
- Financial options to hedge winter gas deliveries

In addition to the above, as North American LNG supplies increase and become a larger source of supply, LNG will provide yet another alternative to traditional underground storage.

The Storage Competition Study concluded that storage is competitive within the core competitive market area by evaluating only the first two of the options listed above. The inclusion of the other options described would only serve to strengthen competition in the storage market.

3.4 DAWN HUB

The Dawn Hub exemplifies all of the characteristics of a liquid market including access to major supply regions, sufficient infrastructure in the form of multiple pipeline interconnections, storage availability and access to storage outside of Ontario, a significant geographic scope, and a significant volume of transactions. The liquidity of the Dawn Hub is evidenced by the significant number of buyers and sellers transacting at Dawn. Many online services and publications track and report pricing and volumes based on transactions at the Dawn Hub, and this means prices are transparent. Parties have access to a variety of firm and interruptible transportation services which permit the movement of gas to downstream markets. Dawn could not have become the trading centre that it is without unrestricted access to the capacity and related services offered by Union and its competitors at that location.

Union’s existing S&T products and services offered at Dawn are already sold at market prices, and are offered to all market participants on a non-discriminatory basis.

3.5 Conclusion

Dawn participates in a storage market that is subject to competition sufficient to protect the public interest. The fact that the Board has permitted Union to charge market rates is an implicit acknowledgement that the market is competitive. Furthermore, the Storage Competition Study, the availability of alternatives to storage and the liquidity of the Dawn Hub, fully support this conclusion.

4.0 EX-FRANCHISE MARKET AND STORAGE SERVICES

4.1 Ex-franchise Market

The ex-franchise market consists of customers located outside Union's franchise area, including TCPL, Enbridge, other LDCs outside of Ontario, marketers/brokers, and end use customers. The market reach of Dawn includes Ontario, Quebec, the U.S. Northeast and U.S. Midwest. This market is sometimes referred to as the wholesale market, as most of these customers are not consumers but rather intermediaries.

As described above, ex-franchise storage services are fully unbundled and market based pricing has been in place and endorsed by the Board since 1989. While short-term storage services have been at market rates since 1989, longer term storage services and related contracts have been moving to market based rates as existing cost-based rate contracts have expired.

4.2 Treatment of Revenues and Costs

Refraining from regulation means that all revenues and costs should be dealt with outside of regulation. All storage revenue earned from sales into the ex-franchise market, irrespective of the relationship to cost (profit or loss), should be retained by those who provide the related services.

4.3 TREATMENT OF STORAGE MARKET PREMIUM IN EXISTING RATES

The current cost of service regulatory framework in Ontario subsidizes in-franchise delivery rates by directing virtually all of the premium in excess of cost-based rates on sales of storage services to ex-franchise customers back to in-franchise ratepayers. This effectively charges in-franchise customers less than cost-based rates for storage services. This treatment is not appropriate and such treatment will not encourage or support the development of new storage in Ontario. It is also inconsistent with cost-based rates, where customers should pay for the costs of the services provided to them.

Union's 2007 cost of service evidence (EB-2005-0520, Exhibit C1, Tab 3, p.25) is consistent with these views and proposes that all revenue from sales of storage to ex-franchise customers should be treated outside of regulation.

Union's 2007 forecast includes the following premiums from sales of storage to ex-franchise customers:

i) Long term storage premium (Exhibit C3, Tab 4, Schedule 2, page 3 of 4, line 3)	$ 29.92 million
ii) Short term transitional storage premium (Exhibit C3, Tab 4, Schedule 2, page 2 of 4, line 3 and line 6)	$ 3.09 million
Total Storage Premium	$33.01 million

The total storage premium identified above was an estimate based on an allocation of costs derived from the 2004 cost allocation study used to support the rates approved by the Board for

2004. The evidence of Mark Kitchen, filed at Exhibit H1, Tab 1, page 4, lines 5 to 13 of the EB-2005-0520 proceeding, updates the margin estimate identified above to reflect the allocation of costs from the 2007 cost allocation study. Based on the 2007 cost allocation study, the impact of removing the storage premium from rates would be $31.4 million. Consequently, Union is seeking an Order from the Board to adjust rates effective January 1, 2007 to exclude all storage premiums from the determination of 2007 rates based on the fact that the market for storage is competitive and as such that the Board will forbear from regulating storage services and rates for ex-franchise customers. Union will actually remove all of the revenues and costs associated with ex-franchise storage services with the practical effect on in-franchise rates being exclusion of the storage premiums from the determination of rates.

4.4 FUTURE STORAGE ALLOCATIONS

Under the current regulatory framework, any future increase to in-franchise storage requirements would be provided through a reallocation of the portfolio of storage capacity owned and managed by Union.

This current practice is not appropriate as it does not reflect the fact that the storage market is competitive, nor does it encourage or support the development of new storage capacity. Specifically, Union would not be incented to assume the risk and commit the capital and resources to develop new storage capacity with economics premised on competitive market pricing, when there is a risk of this storage being reallocated in the future to meet in-franchise requirements at a cost of service rate.

Union therefore proposes that the existing ex-franchise and in-franchise storage capacity allocations identified for 2007 cost of service rates be frozen. Over the last 7 years, the in-franchise storage requirement has been very stable, increasing only 2.4 PJs or 0.4% per year from 88.2 PJs to 90.6 PJs (refer to Appendix A: EB-2005-0520, Exhibit J5.02, Attachment #1). Virtually all of this growth has been in the industrial sector (M7 and T1).

Union further proposes that any incremental in-franchise storage service requirements, beyond those identified for the purpose of determining 2007 cost of service rates (based on the approved aggregate excess methodology), be met through Union acquiring incremental assets or services at market prices. These market prices would be rolled into the overall in-franchise storage rates. Union would contract for incremental services through an RFP process open to all storage providers within the competitive market area. This would result in the least cost market alternative being chosen. Further, this would support the development of new storage capacity by other 3rd party storage providers to meet new requirements.

4.5 STORAGE CONTRACT APPROVALS

Currently, Section 39.2 of the OEB Act requires that the Board approve the party, term and amount contained in proposed storage agreements before a storage company enters into a binding storage agreement. Union currently has a Blanket Storage Order (E.B.O. 166) from the Board that was subsequently amended in the E.B.R.O. 499 Settlement Agreement. The amended Blanket Storage Order permits an exemption from the requirements of Section 39.2, and allows

Union to enter into storage agreements for up to 2.1 PJs (2.0 Bcf) of storage space, for terms of 17 months or less without prior Board approval. Any storage agreement Union enters into that exceeds these limitations must be filed with the Board for approval. In the current competitive market, it is extremely difficult for customers contracting for storage to manage a process where there is a requirement for Board approval of contracts and associated time lag. Customers bid the price of storage based on market conditions at a point in time but are constrained in their ability to commercially operate and manage the contract until Board approval of the contract is granted. This process and time requirement is not consistent with the needs of the competitive market.

Market opportunities are lost (for both Union and the potential storage customers) if a customer who has already contracted for 2.1 PJs of short term storage must wait for Board approval before they can use the contracted storage space or contract for additional storage space. Storage values fluctuate daily and hourly with commodity markets. Market participants are often unwilling to wait weeks for the Board to approve a storage agreement because of the inherent pricing and regulatory risks. Customer needs are more immediate, and they have the ability to pursue other competitively supplied options, or they will discount the value of Union's storage services to compensate for the pricing and regulatory risks. A customer will price storage services at the time the contract is signed, not based on when the contract may be approved by the Board. Customers require the assurance that Union can execute binding contractual arrangements in a very short time frame because they are operating and competing in the market. Also, requiring regulatory approval of a new agreement with a customer who already has reached the contracting parameters under the Blanket Storage Order disadvantages that customer relative to one who has not contracted for storage space with Union under the Blanket Storage Order.

Union notes that once a finding is made that the ex-franchise storage market is competitive, Section 29 of the OEB Act requires that the Board refrain from regulation. All requirements related to Board approval of the terms (parties, term and amount) of negotiated ex-franchise storage contracts should be eliminated. Such a change would better reflect and support the competitive market. Further, elimination of the requirement is consistent with the proposal to fix the in-franchise storage allocation as described above in Section 3.4.

Finally, Union is currently required to treat off-peak storage service the same as peak storage service from the perspective of Section 39.2 of the OEB Act and the Blanket Storage Order. Off-peak storage services are virtually unlimited during most of the year (off-peak storage space is space available at times of the year other than October 31). Consequently, there is no practical rationale for the existing situation that places limitations on Union's ability to execute off-peak storage agreements. Union also notes that the Board's E.B.O. 190 Blanket Order already allows Enbridge to enter into off-peak storage agreements for unlimited volume.

5.0 IN-FRANCHISE MARKET AND STORAGE SERVICES

5.1 IN-FRANCHISE MARKET

The in-franchise market and the storage services contained within the various bundled delivery service options are described in Section 2.2.

However, as outlined above in Section 1, while the overall storage market in Ontario is competitive, the in-franchise storage market requires different considerations because customers have continued to use the bundled service rather than the unbundled service. To the extent that storage is a component of a bundled distribution service (bundled delivery service), over which Union has a monopoly, regulatory forbearance is not yet warranted.

That is not to say that the in-franchise market will not become more competitive, but that development is primarily contingent on the behaviour of customers and other buyers. In Union's view, the principle of customer choice has been a continuing theme in Ontario regulation and the market evolution. Customer choice around significant cost items such as system gas versus direct purchase gas supply choices have served customers well. Union believes that a similar approach should be taken for the choice between bundled versus unbundled storage services, where customers should be allowed to choose the services they want.

5.2 IN-FRANCHISE STORAGE FRAMEWORK

As outlined above, Union proposes to freeze the storage required to meet in-franchise seasonal load balancing requirements as at January 1, 2007 and to continue to price this storage at cost-based rates. Beyond this initial allocation, there are three additional circumstances that warrant discussion which are:

- The treatment of incremental in-franchise storage required to meet future increases in seasonal load balancing.
- The treatment of in-franchise customer requests for storage in excess of that determined by the aggregate excess calculation.
- The management of storage variances

5.3 FUTURE IN-FRANCHISE STORAGE REQUIREMENTS

As outlined in Section 4.4, Union proposes to acquire additional storage services to meet future in-franchise requirements (based on aggregate excess methodology) in the market at market prices. Storage would be cost effectively procured through a market tender and the costs would be rolled in and combined with the January 1, 2007 base storage allocation priced at cost. This approach will support and attract the development of new storage by other 3rd party storage providers. As market prices start to be reflected in the rolled in storage service rate, the result will begin to slowly move in-franchise customers toward paying the true value of the storage services they use.

5.4 INDIVIDUAL CUSTOMER REQUESTS IN EXCESS OF AGGREGATE EXCESS DETERMINATION

Some customers may seek storage services in excess of their seasonal load balancing requirements (as determined through the aggregate excess calculation), or seek deliverability in excess of the standard storage deliverability of 1.2%. In these circumstances, customers would seek this storage capacity for market reasons beyond their seasonal load balancing requirements. Customers are free to pursue storage service from all 3rd party storage providers, including Union. As such, those customers should pay market prices for storage services that are in excess of their base requirements. This will ensure that customers efficiently assess their need for incremental storage capacity based on market value. Further, pricing incremental storage requirements at market value will provide the correct and necessary pricing signals required to develop and attract storage to Ontario.

5.5 MANAGEMENT OF STORAGE VARIANCES

Currently, Union manages its storage assets annually and seasonally taking into account weather, customer utilization and other market conditions. Storage can become available as a result of unforecasted market and operating conditions, such as warmer than normal weather and lower customer use. Storage that becomes available as a result of these unforecast market and operating conditions is sold into the market at market based rates. These revenues are needed by the company to help it manage these risks, and the opportunities are tied directly to the realization of these risks. Going forward, Union would envision no change to how storage is managed. The optimization of Union's storage assets involves all storage assets operated by Union including both in-franchise and ex-franchise storage.

It is Union's position that all market based revenues derived from selling storage services into the competitive ex-franchise market and created through managing all of the storage assets operated by Union should flow to Union as the owner of the underlying storage assets. As outlined above, Union's view is that the overall storage market is competitive and all storage assets and services operate within this competitive market.

Further, this proposal is directionally consistent with Union's proposal to eliminate the S&T transactional deferral accounts as described in Exhibit C1, Tab 3, p.22 of the EB-2005-0520 proceeding, and with the Board's incentive regulation policy direction to eliminate earnings sharing (Natural Gas Forum Report, March 30 2005, pp. 27-28).

5.6 STORAGE CONTRACT APPROVALS

Union's position on the need for and changes to the existing storage contract approvals currently required for in-franchise contracts in respect of the Blanket Storage Order is consistent with that outlined above in Section 4.5 for ex-franchise storage contracts. Specifically, given that in-franchise seasonal storage requirements are determined according to the Board approved aggregate excess allocation methodology and that incremental in-franchise storage requirements post January 1, 2007 will be procured by Union in the market at market prices, there is no practical need for any other Board review or approval.

6.0 BENEFITS OF UNION'S PROPOSALS

Union's proposals, as outlined above, provide value to Ontario and should be approved. The Board has already endorsed market-based storage rates for many years. Union's proposals do not materially alter the existing framework. The Storage Competition Study combined with the history of market-based rates supports a finding that the storage market is competitive. Section 29 of the OEB Act requires the Board to refrain from regulating a service where a finding is made that competition exists.

Forbearing from the regulation of storage in this manner will support and encourage the development of new storage within and connected to Ontario by providing storage providers with the opportunity to manage the costs and revenues associated with operating in the competitive storage market. It will continue to attract economic development of storage and related infrastructure in Ontario as well as gas volumes moving into and through Ontario which is critical to Ontario's security of supply. It will have a positive impact on the liquidity in Ontario which benefits all Ontario consumers, including new power generators. It will increase market efficiency, as customers will only contract for what they need, and the storage services will be given to those who value those most. Further, this framework will support all 3rd party storage providers which will continue to drive even greater levels of competition within the market.

7.0 RESPONDING TO PROCEDURAL ORDER ISSUE II

1. *Do the gas utilities (and/or their affiliates) either collectively or individually have market power in the provision of storage services for all or some categories of customers in Ontario?*

2. *If gas utilities (and/or their affiliates) do have market power in storage, is it appropriate for them to charge "market rates" for transactional and long-term storage services?*

3. *If gas utilities (and/or their affiliates) do not have market power, is it in the public interest that all or some customers continue to pay storage rates at cost as opposed to market rates? How should the extra revenue from storage services at market rates be allocated?*

4. *If the Board determines, based on considerations of market power and the public interest more generally, that some customers should pay for storage services at cost and others should pay for storage services at market prices, how should the line be drawn between the two types of customers, and, specifically, should there be a constraining allocation of physical storage facilities to some types of customers based on measures such as aggregate excess or whether customers are considered "in-franchise" or "ex-franchise"? How should the extra revenue from storage services at market rates be allocated?*

Union has attempted to respond to all the questions proposed by the Board with the submissions above. On the question of affiliates, Union notes that Duke Energy has no entity, other than Union Gas, offering storage in Ontario and the surrounding core competitive market areas.

8.0 TABLE SUMMARIZING UNION'S POSITION

Ontario Energy Board Storage Regulation Proceeding Union Gas Limited		
	Today	**Proposed**
Pricing In-Franchise		
In-franchise storage requirement (1)		
Existing base (2007 – approx. 85 Bcf)	Cost of service rates	Cost of service rates (2)
Add'l storage requirement (post 2007)	Cost of service rates	Market prices (2)
Storage requirement above customer's individual "aggregate excess" allocation (in Southern operating area)	Market prices	Market prices
Pricing Ex-franchise (approx. 67 Bcf available)	Market prices	Market prices
Storage Allocation	In-franchise growth is reallocated from ex-franchise use as needed	In-franchise and ex-franchise allocations are frozen. New storage is obtained or developed at market prices.
Sharing of LT Storage Premium (3)	10% of forecast premium flows to company 25% of variance to forecast flows to company	100% of forecast and unforecasted premium flows to company
Storage Contracts	Prior OEB approval required for contracts > 2 Bcf and/or term longer than 17 months	OEB approval not required (4)

Notes:

(1) In-franchise storage space requirements are calculated using the "aggregate excess" methodology. A customer's storage requirement in Southern operation area is the difference between their winter consumption and their average annual consumption over the 151 day winter period.

(2) Any incremental in-franchise storage requirements beyond those identified for 2007 cost of service rates would be provided to in-franchise customers at market prices. In-franchise storage rates would be priced uniformly at blended rolled in rates to all customers (i.e. approximately 85 BCF at cost and any additional in-franchise storage requirement at market prices).

(3) In the 2007 cost of service rates application, elimination of deferral accounts and of company sharing of forecast was proposed. Procedural Order No. 1 for this case identified that this issue was outside of the rate case and would be dealt with in the NGEIR / Storage Regulation proceeding.

(4) Procedural Order No. 3 for this case identified that changes to the Blanket Storage Order was outside of the rate case and would be dealt with in the NGEIR/ Storage Regulation proceeding.

UNION GAS LIMITED

Answer to Interrogatory from
City Of Kitchener ("CCK")

Reference: *S & T Revenue (C3 Tab 4 Schedule 1 and C3 Tab 4 Schedule 2)*

Issue 2.4 - Is the proposed total 2007 Storage and Transportation (S & T) Revenue Forecast appropriate?

Question:

a) Please reproduce and update Exhibit J1.60 from RP-2003-0063 to cover the years 2000 to 2007. Please advise whether the storage which is released to ex-franchise markets during the course of each year is shown as ex-franchise or in-franchise storage.

b) For the years 2000 to 2007, please quantify the storage which was released or is forecasted to be released from in-franchise to ex-franchise.

c) Please provide an updated version (to 2007) of Exhibit J1.60 from RP-2003-0063 showing the storage released to ex-franchise use as ex-franchise storage capacity.

d) When Union sells short term storage (term of one year or less) is it included in the in-franchise number shown? Please break-out the volumes sold under short term and the average price achieved for each year shown.

e) For Union's recent offer (January and February 2006) of short term peak storage service for the winter of 2006 / 2007, please provide the amount of storage that was awarded and the low, weighted average and high prices achieved for the service.

f) Please provide the Union Gas forecast submitted to the OEB for RP-1999-0017 and RP-2003-0063 for all Storage and Transportation revenue categories, i.e. C1 Storage, C1 Transportation, etc. Please provide the actual revenues achieved for each of the individual accounts for the years 2000 through 2005.

g) Union provides a margin calculation for C1 Storage transactions. Please provide the costs that contributed to the expense side of the equation. Is the total cost of in-franchise storage collected in in-franchise rates?

Response:

a) Please see Attachment # 1

Witness: Steve Poredos
Question: March 15, 2006
Answer: April 4, 2006
Docket: EB-2005-0520

The storage shown in Attachment # 1 includes physical space that is allocated to both in-franchise and ex-franchise customers. Physical storage space released that has been allocated to ex-franchise markets is shown on this schedule as ex-franchise storage.

In the year 2001 and 2002 Union repurchased storage space that was not being utilized by in-franchise customers and resold this space on a short term basis. This space is included in Appendix A as ex-franchise storage space.

b) Union does not forecast any storage to be released from in-franchise to ex-franchise.

c) The schedule remains unchanged.

d) No. Please see Attachment # 2.

e) Union notes that high volatility of natural gas prices due to last summer's supply disruptions followed by a warmer than normal winter, has resulted in storage prices hitting historically high levels. These prices, however, are not indicative of longer term normal values. Please see Attachment #3.

f) Please refer to Exhibit C1, Summary Schedule 7, Addendum.

g) The costs that contribute to the expense side of the margin calculation for C1 storage transactions are as follows:
   - Space Costs (cost based) – physical space allocated to ex-franchise customers only
   - Fuel
   - UFG

   Union only attributes space costs for storage that has been allocated to ex-franchise customers. Fuel and UFG is applied only if the customer does not provide fuel in kind.

   The total cost of in-franchise storage is included in-franchise rates but is only collected if in-franchise customers consume the forecasted amount.

Witness: Steve Poredos
Question: March 15, 2006
Answer: April 4, 2006
Docket: EB-2005-0520

Transmission & Storage Capacity Allocation

	Actual 2000 PJ or PJ/d	(%)	Actual 2001 PJ or PJ/d	(%)	Actual 2002 PJ or PJ/d	(%)	Actual 2003 PJ or PJ/d	(%)	Actual 2004 PJ or PJ/d	(%)	Actual 2005 PJ or PJ/d	(%)	Forecast 2006 PJ or PJ/d	(%)	Forecast 2007 PJ or PJ/d	(%)
Transmission Capacity	6.0		6.1		6.1		6.1		6.2		6.1		6.4		6.9	
In-Franchise		36%		35%		35%		36%		36%		35%		33%		31%
Ex-Franchise		64%		65%		65%		64%		64%		65%		67%		69%
Storage Capacity	154.9		163.0		163.0		162.7		159.5		162.7		163.5		163.5	
In-Franchise		57%		54%		54%		52%		55%		56%		55%		56%
Ex-Franchise		43%		46%		46%		48%		45%		44%		45%		44%
Deliverability	2.2		2.4		2.5		2.5		2.5		2.4		2.4		2.4	
In-Franchise		60%		61%		60%		56%		59%		58%		59%		61%
Ex-Franchise		40%		39%		40%		44%		41%		42%		41%		39%

UNION GAS LIMITED

Line No.	Particulars PJ"S	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Forecast 2006	Forecast 2007
	Space Available								
1	Base	151.8	159.9	159.9	159.6	159.6	161.7	162.5	162.5
2	(Unavailable)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
3	LNG	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
4	3rd Party	3.2	3.2	3.2	3.2	-	1.1	1.1	1.1
5	Total Storage Space	154.9	163.0	163.0	162.7	159.5	162.7	163.5	163.5
	Infranchise								
6	Union Requirement	67.0	67.1	68.6	63.1	63.0	64.5	63.6	63.8
7	Carriage	9.9	10.1	10.3	12.0	15.5	16.2	17.3	18.7
8	Contingency	11.4	11.3	9.7	9.7	9.7	9.7	9.7	9.7
9	Total Infranchise Space	88.2	88.5	88.6	84.8	88.2	90.4	90.6	92.1
10	Infranchise Demand	563.6	524.4	563.0	550.4	549.3	543.0	547.8	584.5
11	Storage Space as % of Demand	16%	17%	16%	15%	16%	17%	17%	16%
	Exfranchise								
12	Total Long Term C1 Contracts	19.3	31.7	38.8	46.1	67.9	64.3	69.4	67.9
13	Total M12 Contracts	44.8	30.1	30.1	24.3	-	-		
14	Total Short Term Contracts	2.6	12.7	5.5	7.5	3.4	8.1	3.5	3.5
15	Total Exfranchise	66.7	74.5	74.4	77.9	71.3	72.3	72.9	71.4
	Total Utilization	154.9	163.0	163.0	162.7	159.5	162.7	163.5	163.5

Physical Short Term Space

Line No.	Particulars	Actual 2000/2001	Actual 2001/2002	Actual 2002/2003	Actual 2003/2004	Actual 2004/2005	Actual 2005/2006	Year to Date 2006/2007	Forecast 2007/2008
1	Short Term Space Allocated to Exfranchise (PJ's)	2.6	12.7	5.5	7.5	3.4	8.1	2.1	2.1
3	Value per GJ/year	0.46	$ 0.55	$ 0.62	$ 0.86	$ 1.15	$ 1.49	$ 2.19	$ 0.85

Short Term Open Seasons

Line		Volume (a)	High (b)	Low (c)	Weighted Average (d)
1	US$/MMBtu	7,800,000	2.90	1.55	2.09
2	CDN$/GJ	8,229,437	3.43	1.84	2.48