E.B.R.O. 499

UNION GAS

SETTLEMENT AGREEMENT

November 16, 1998

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E.B.R.O. 499

AGREEMENT AMONG INTERESTED PARTIES

This Alternative Dispute Resolution Agreement ("Agreement") is for the consideration of the Ontario Energy Board ("the Board") in its determination, under Docket No. E.B.R.O. 499, of calendar 1999 rates for Union Gas Limited ("Union"). The Agreement identifies all issues on the Board's list of issues even if no agreement has been reached. The Agreement is supported by the evidence filed in E.B.R.O. 499.

It is acknowledged and agreed that this Agreement will be null and void if the Board does not, prior to the commencement of the hearing of evidence, accept the Agreement in its entirety, including the Agreement reached by all parties other than Pollution Probe on Section D.5.4 (concerning high efficiency fireplace information and the return on equity penalty related to on bill third party financing), without amendment, as the basis for the Board's decision on the matters which are the subject of the Agreement.

It is further acknowledged and agreed that parties will not withdraw from this Agreement under any circumstances.

The parties further acknowledge and agree that these conditions apply to settled issues in respect of which they are shown as taking no position.

With respect to Phase I issues (Issues A to E) the Agreement reflects, as contemplated by the Settlement Guidelines, only those parties who took no position or were opposed to the Settlement of each issue. As noted above, there is only one such issue, D.5.4.

With respect to Phase II issues, (Issues G and H), because of the nature of those issues and the disagreements among parties in respect of them, where no agreement was reached, the document sets out who supported Union's proposals, who opposed Union's proposals and who took no position.

The evidence supporting the agreement on each issue is set out in each section of the Agreement. Abbreviations will be used when identifying exhibit references. For example, Exhibit D1, Tab 2, Schedule 1, Page 31 will be referred to as D1/T2/S1/p31. There are Appendices to this Agreement which provide further evidentiary support. Included as an Appendix to this Agreement is a list of all interrogatories identified and sorted by issue (Appendix R). The parties agree that this Agreement and the appendices form part of the record in this proceeding.

Appendix A demonstrates the effect of the ADR Agreement on the 1999 rate base, revenues and costs. This Appendix is provided to assist the Board in its review of the financial consequences of the ADR Agreement reached among the interested parties.

By Procedural Order No. 2 dated August 14, 1998, the Board scheduled a Settlement Conference to commence October 26, 1998. The Settlement Conference was duly convened, in accordance with Procedural Order No. 2, with Mr. Ken Rosenberg as facilitator. The Settlement Conference proceeded until November 6, 1998.

The following parties participated in the ADR: Consumers Association of Canada ("CAC"), Alliance of Manufacturers and Exporters Canada ("Alliance"), Coalition for Efficient Energy Distribution ("CEED"), City of Kitchener ("Kitchener"), Enbridge Consumers Gas ("Consumers"), CENGAS, Energy Probe, Green Energy Coalition ("GEC"), HVAC Coalition ("HVAC"), Industrial Gas Users Association ("IGUA"), London Board of Education Gas Purchase Consortium and the Ontario Association of School Business Officials (the "Consortium"), Canadian Association of Energy Service Companies ("CAESCO"), Comsatec Inc. ("Comsatec"), Ontario Association of Physical Plant Administrators ("OAPPA"), Nova Chemicals (Canada) Ltd. ("Nova"), Natural Resource Gas Limited ("NRG"), Tractebel, Ontario Coalition Against Poverty ("OCAP"), Ontario Hydro, Pollution Probe Foundation, TransCanada PipeLines Limited ("TCPL"), TransCanada Power ("TCP"), Alliance Gas Management, Wholesale Gas Service Purchasers Group ("WGSPG"), Consumersfirst Ltd., Northland Power, ECNG and Association of Municipalities of Ontario ("ECNG").

The role adopted by Board Staff in Settlement Conferences is set out on page 5 of the Board's Settlement Conference Guidelines. As noted in that document "Board Staff will attend the Settlement Conference to ensure that all relevant information is brought forward and considered in negotiations. They will present options for the consideration of the parties and will offer advice on the strengths and weaknesses of the parties' proposals. Staff will endeavour to help the parties reach a settlement but will not sign the settlement proposal". Board Staff takes no position on any issue and as a result is not a party to this Settlement Agreement.

All parties acknowledge that Board Staff will, at the request of the Board, advise the Board before, during and subsequent to the ADR Settlement Conference on all resolved and unresolved issues. Board Staff will not provide information gained from its participation in the Settlement Conference on proposals, options or positions of individual parties that is not indicated in the settlement agreement filed with the Board.

A. ADMINISTRATION / POLICY

No issues were raised by any party during the Settlement Conference on any matter included under this heading. To the extent specific issues touched on in this portion of Union's evidence were raised during the Settlement Conference, they are reflected under the specific headings below taken from the Issues List.

B. RATE BASE

B.1. Removal of Ancillary Services

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

At D1/T11/App B/p2, Union forecast the impact on rate base for removal of the ancillary programs as $523.1 million. Further detail regarding amounts removed from gross plant and accumulated depreciation are shown at B3/T3/S2/Column (c), and B3/T3/S3/ Column (c), respectively. In addition, consistent with the Board's E.B.O. 177-17 Decision, Union adjusted the 1999 revenue requirement to reflect a reduction of approximately $0.7 million in O&M and $7.4 million in rate base or $0.7 million in rate base carrying costs to reflect the forecast of unutilized space relating to company leased and owned facilities respectively. The O&M decrease is subsumed within the global agreement on O&M set out at Section D.2. The $7.4 million reduction in rate base is shown at B3/T1/S1. Union acknowledged Condition 8 in the Board's E.B.O. 177-17 Decision related to filing certain information subsequent to the separation transaction. In addition, it was noted that any variances between Union's estimates as filed and the actual value of the ancillary programs will result simply from variances related to the actual value of the ancillary programs at December 31, 1998. Union acknowledged that the actual values related to all ancillary program assets will be removed January 1, 1999.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T11/p2; D1/T11/App B/p2 Written Direct Evidence of Mr. Birmingham
2. B1/T1 Written Direct Evidence of Mr. Byng
3. B3/T3/S2 & S3 - Continuity of Gross Plant & Accumulated Depreciation
4. B3/T1/S1 - Utility Rate Base
5. J1.B1.4
6. J14.B1.8

B.2. 1999 Capital Budget

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

The parties agree that Union's capital budget proposals for 1999, except where specifically indicated to the contrary in this section, should be accepted.

Evidence References:

1. A/T13 Capital Budget Process
2. B1/T1 Written Direct Evidence of Mr. Byng

3. B1/T2 Written Direct Evidence of Ms. Hockin
4. J1.B.2 Annual Capital Expenditures by Function - 1999 to 2003

B.2.1. Distribution Facilities

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

At B1/T4, Union forecast gross customer additions of 34,678 in 1998 and 35,258 in 1999. Union's forecast distribution new business capital budget is $91.3 million for 1999. At B1/T4/p2, Union has indicated that it is continuing discussions with Consumers' Gas to prepare a common set of customer connection policies.

At B1/T4/App B, Union has responded to the Board's directives issued in previous cases.

The parties agree that Union's evidence on this subject should be accepted. It is noted that System Expansion is addressed further under Section B.4.

Evidence References:

1. B1/T4 Written Direct Evidence of Mr. Hockin and Ms. Beattie
2. B3/T2/S3/p4

B.2.2. Transmission & Storage Facilities

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; ECNG; and Energy Probe.

Union's capital budget for transmission facilities for 1999 is forecast at $56.9 million. The largest portion of the transmission capital expenditures relates to the Dawn to Enniskillen TFEP Expansion. The Board has assigned Docket No. E.B.L.O. 267 to this application, which was filed June 29, 1998.

The 1999 transmission capital expenditure forecast also includes the Bickford Dawn line, Parkway Modifications, and an NPS 26 Trafalgar Line. These projects are not scheduled to be in service in 1999 and have no impact on the 1999 cost of service. The Owen Sound Line Reinforcement, the Integrity Pigging Program, Hensall Line Reinforcement, and Trafalgar Integrity Program are also included in the 1999 Transmission Capital Expenditures and are scheduled to be in service in 1999.

Union's storage capital expenditures in 1999 are forecast to be $24.7 million. The largest component of the storage capital budget relates to Century Pools Phase I ($12.2 million). The Century Pool Development (Phase I) will provide 181.8 10*6 m*3 of storage capacity for ex-franchise customers and is part of the continued expansion of Union's storage business. The revenues associated with this project are included in the long term peak storage revenue as detailed in the evidence of Mr. Black and Ms. Galbraith at C1/T3. The application for this facility was filed July 22, 1998 and has been assigned Docket No. E.B.L.O. 268, 269; E.B.O. 206, 207; E.B.R.M. 111, 112. The project is expected to go into service in July of 1999.

In addition, Union has budgeted pre-spending costs for Phase II of the Century Pool Development in the amount of $4.2 million. The application for this facility is expected to be filed in mid-1999 and the project is scheduled to be in service in July 2000. Union also proposes to develop Storage Pool E which will provide 50.0 10*6 m*3 of storage capacity to meet the demand for natural gas storage by ex-franchise customers. Pre-spending of $4.1 million will occur in 1999 and represents costs related to 3D Seismic, storage rights, and residual gas. The application for this facility is expected to be filed in 2000 and in service in July, 2001. The pre-spending budget for Storage Pool E and Century Pool Development Phase II have no impact on Union's 1999 cost of service.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. B1/T5/p4 Written Direct Evidence of Mr. Meanwell
2. B1/T6 Written Direct Evidence of Ms. Patterson
3. B3/T2/S3/p1-4 Justification for projects in excess of $500,000
4. J1.B2.11 Storage projects less than $500,000
5. J1.B2.12 Transmission projects less than $500,000

B.2.3. General

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

General Capital Expenditures are forecast to be $32.6 million for the 1999 test year which reflects the removal of the rental/leasing equipment associated with the separation of the ancillary programs from the capital budget.

Intervenors expressed concerns over the level of capital related to vehicles. Generally, parties felt that the capital spending forecast for 1999 ($7.9) was excessive in comparison to the amount the Board approved in E.B.R.O. 493/494 and that the budget did not adequately recognize the impacts of separation.

During the ADR settlement conference, Union provided parties with a continuity of the 1997 Board approved, 1997 actual and the forecast of 1998 and 1999 vehicle capital budget broken down between vehicles and heavy work equipment with detail related to the number of units and total budget amounts. A copy is found at Appendix B

For purposes of setting rates for 1999, Union has agreed to a reduction of $2.0 million in vehicle expenditures. Union will attempt to achieve this reduction through a deferral of certain vehicle replacements. Union's agreement is without prejudice to its position that its replacement policy is reasonable and without prejudice to Union's position on this matter in the future.

With the exception of the adjustments to vehicle capital spending noted above, and the specific IT related items noted below, the parties accept Union's evidence as filed related to general capital expenditures.

Evidence References:

1. B3/T2/S3/p5-8 Justification for projects in excess of $500,000
2. J1.B2.7 General projects less than $500,000
3. Agreement, Appendix B

B.3. Information Technology/Computer Spending

Union's total capital budget related to Information Technology capital projects is forecast to be $21.3 million in 1999. This represents an increase of approximately $3.0 million from the 1997 Board approved level. The 1999 Information Technology budget includes amounts related to Automated Meter Reading (AMR) ($2.1 million) and Work Management ($1.5 million). The parties agree that the 1999 budget for AMR will be reduced by $2.1 million. The parties further agree that the 1999 capital budget will be reduced by an additional $3.0 million to be managed at Union's discretion. It was noted that expenditures in the areas of ITE, work management and capital less than $500,000 would be examined by Union in managing the $3.0 million global reduction. The 1999 IT budget reductions are reflected in the forecast 1999 rate base.

Considering all of the above noted reductions, the IT budget is reduced from $21.3 million to $16.2 million which represents a reduction of approximately 25%.

The specific components of the IT capital budget are discussed below.

B.3.1. Automated Meter Reading (AMR) Project

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

At B1/T3/p21-45, Union outlined its proposal with regard to automated meter reading. The automated meter reading program involves installing radio based technology to customers' meters to allow data collection through transmitters. This advanced meter reading technology is being pursued / investigated by Union to seek improvements in customer service, cost containment, enhanced billing accuracy and to provide a platform for other benefits in the future.

Union currently has a pilot project in Sarnia. The purpose of the pilot is not to test the technology which is already proven, but rather to confirm the economic assumptions of AMR internal to Union. The total cost of the pilot is estimated at $2.6 million. Union also indicated its intention to continue with the pilot evaluation and, subject to confirming the economic benefits, Union intends to proceed with the rollout of the AMR project as outlined in the evidence at B1/T3.

The parties agree that the implementation of the AMR project should not proceed until the results of the pilot have been evaluated by Union, and that, therefore, Union's 1999 capital budget should be reduced by $2.1 million. Union's forecast O&M expense for 1999 reflected net O&M savings of $79,000 related to the AMR project. As a result of excluding the AMR project in 1999, Union's O&M expense will increase by $79,000 and rate base will decrease by $1,061,000. The O&M expense increase will be managed within the global agreement on O&M set out in Section D of this agreement.

Evidence References:

1. B1/T3/p21-45 Written Direct Evidence of Messrs Vlasic, Black, Wellard, Craven, and Ms. Beattie
2. J1.B3.23
3. J1.B3.24 - 38
4. J14.B3.15
5. J22.B3.8

B.3.2. Work Management

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

The parties agree that the $1.5 million related to the Work Management project is an item of capital expenditure which Union, in its discretion, may reduce.

Evidence References:

1. B1/T3/p9 Written Direct Evidence of Messrs Vlasic, Black, Wellard, and Craven and Ms. Beattie
2. J14.B3.20
3. J19.B3.7

B.3.3. ITE

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG;

Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

The capital spending related to the information technology environment is comprised of expenditures for personal computers, large computers or processors, a telecommunications network, and miscellaneous hardware and software. The objective underlying the information technology environment is to provide a stable, reliable and secure foundation upon which all applications will function. The ITE capital expenditure for 1999 is forecast to be $7.8 million as outlined at B1/T3/ p4.

Given the adjustments to the Information Technology / Computer Spending budget described in Sections B.3 to B.3.2 above, the parties agree that the forecast of $7.8 million related to ITE is an item of capital expenditures which Union, in its discretion, may reduce.

Evidence References:

1. B1/T3/p8-19 Written Direct Evidence of Messrs. Vlasic, Black, Wellard, Craven and Ms. Beattie
2. J1.B3.20
3. J1.B3.21

B.3.4. Automated Mapping

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

In the E.B.R.O. 493/494 ADR Agreement, the parties agreed to the inclusion of this project in the capital budget and in rate base. The Board, however, disallowed capital expenditures related to the AM project as Centra had not completed an evaluation of a Thunder Bay project and, in the Board's view, did not have sufficient justification to proceed. Subsequent to the E.B.R.O. 493/494 Decision, Centra responded to the Board's concern, outlined the options available to the Company and proposed a plan that would maintain project manpower at existing levels while attempting to minimize capital spending to the greatest extent practical. The company indicated that it was proceeding with the plan as outlined in a May 23, 1997 letter to the Board. Union also filed a copy of the 1995 UGC Consulting report which evaluated the AM technology specific to Centra and committed to complete a formal evaluation of the Thunder Bay pilot. In June, 1997, Union filed, with the Board, the Thunder Bay evaluation and an update from UGC Consulting confirming the project benefits for the Centra franchise. Capital expenditures of $1 million in 1997, $2.3 million in 1998, and $2.1 million in 1999 are reflected in the company's capital budget found at B3, B4, and B6/T2/S2, respectively. The project has a P.I. of 1.26 and an NPV of $1.7 million.

The parties acknowledge their support for this project in the E.B.R.O. 493/494 ADR Settlement. The parties continue to support the inclusion of this project in cost of service and agree that the Board, having disallowed the project in E.B.R.O. 493/494, should determine whether Union has adequately addressed the Board's concerns as raised in E.B.R.O. 493/494. Union noted to parties that it has responded to all of the concerns raised by the Board and in its view has addressed the matter in a responsible and complete manner.

Evidence References:

1. E1/T3/p19-21 Written Direct Evidence of Messrs. Vlasic, Black, Wellard, Craven and Ms. Beattie
2. J1.B3.49
3. J1.B3.50
4. J14.B3.14

B.3.5. CIS-1 / Theseus Inclusions

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

In E.B.O. 177-15, at B1/ Tab 14, Union proposed certain accounting and regulatory treatment of the residual CIS-1 and Theseus costs. The CIS-1 system had an original capital cost of $4.5 million and went into service in 1992. The opening net book value of the system in 1998 was approximately $1 million and the asset will be fully depreciated during 1999. The CIS-1 system will continue to be used and useful in 1999 as the system will aid in the conversion of data from CIS-1 to the new database and will help maintain data integrity during the conversion period. In addition, CIS-1 is required for approximately one year until inquiries about historic time periods subside. Union is proposing to continue to maintain the cost associated with CIS-1 in rate base and depreciate the asset during 1999.

The parties agree that Union's evidence on CIS-1 should be accepted. CIS-1 is used and useful in 1999 and is, therefore, properly included in rate base.

The parties have agreed that Theseus costs will not be included in rate base for purposes of setting rates for 1999 or any subsequent year. The resulting impact on rate base reflecting the results of Union's depreciation study, is a reduction of $554,000. This is comprised of a reduction to gross plant and accumulated depreciation of $700,000 and $146,000, respectively.

Evidence References:

1. B1/T1/p2-3 Written Direct Evidence of Mr. Byng
2. J1.B3.52
3. J14.B3.10

B.4. System Expansion - New Distribution Guidelines (implementation of E.B.O. 188)

B.4.1. Rate Impacts of Projects

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CAC; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

At the time of preparing the 1999 capital budget for Union, the Board had not reached a conclusion in the E.B.O. 188 proceeding. The 1999 capital budget was prepared using the approved guidelines contained in the Board's E.B.O. 134 report, the accepted standard prior to the E.B.O. 188 proceeding. Although the E.B.O. 188 final report does not have a significant impact on the economic feasibility policies of Union, there are some changes which will need to be incorporated into the existing policy. These primarily affect the treatment of reinforcement expenditures, the revenue horizon, customer attachment horizon, Societal Cost Test ("SCT") analysis, and reporting requirements. Union continues to work, both internally and in conjunction with Consumers' Gas, to implement the new requirements. At A/T13/S2/App A, Union outlined the status of implementation as it relates to the E.B.O. 188 final report. Union has committed to implementing all aspects of E.B.O. 188 by January 1, 1999. Intervenors' primary concern, as it related to E.B.O. 188 implementation, is the rate impact of the capital projects under System Expansion. During the ADR Settlement Conference, Union filed J1.B4.54, (Updated) to reflect the estimated impact of including reinforcements in the calculation of the Investment Portfolio. In addition, the rate impacts have been provided and schedules have been revised to mirror the information that Board requested from Consumers' Gas in E.B.R.O. 497. This information is attached as Appendix C.

Unions' methods of collection of contributions for specific distribution projects were outlined at B1/T4/App B.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. A/T13/S2 Written Direct Evidence of Ms. Waddick
2. A/T13/S2/App A - E.B.O. 188 - Status of Implementation
3. J1.B4.54
4. J5.B4.3
5. Agreement, Appendix C

B.4.2. Societal Cost Test Analysis

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CAC; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; NRG; WGSPG; Nova; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union has worked with Consumers' Gas and external consultants to develop the societal cost test analysis for the distribution portfolio. The results of the SCT analysis modelling were included in Union's updated response to J1.B4.54.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. A/T13/S2/App A E.B.O. 188 - Status of Implementation
2. J25.B4.2
3. Agreement, Appendix C

B.5. Variance/Increase in Calendar 1997, 1998 Rate Base over E.B.R.O. 493/494 Approved Rate Base

The following parties take no position on this issue: the "Alliance"; CEED; City of Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst; Northland Power; and ECNG.

In E.B.R.O. 493/494 the Board approved Union's 1997 rate base at $3,000.2 million. Union's 1997 actual rate base was $3035.9 million and the forecast of 1998 rate base at $3,214.8 million. The increase in calendar 1998 over 1997 Board Approved is $214.5 million.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. B1/T1 Written Direct Evidence of Mr. Byng
2. B3, B4, B5, B6/T1/S1
3. J1.B1.4
4. J1.B.1
5. J1.B3.67
6. J1.B3.70

B.6. Working Capital for Calendar 1999

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CAC; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

The working capital components of rate base are \$295.7 million in 1997 Board Approved, \$343.3 million - 1997 Actual, \$413.5 million - 1998 Bridge, \$171.0 million - 1999 Test. The decline in working capital from 1998 to 1999 is mainly attributable to the removal of financing accounts receivable related to separation, and lower 1999 gas in storage costs relative to 1998 which was impacted by warmer than normal weather.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. B1/T1 Written Direct Evidence of Mr. Byng
2. B3, B4, B5, B6/T4/S1-8
3. D1/T11/App B Written Direct Evidence of Mr. Birmingham

C. OPERATING REVENUE

C.1. Economic Outlook

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CAC; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; HVAC; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

The Company's economic forecast for Ontario for calendar years 1998 and 1999 makes use of Standard and Poors and the DRI 1st Quarter 1998 regional focus. Details of Union's economic forecast are provided at C1/T1/p7-10.

Any specific issue arising from the subject of the economic outlook is addressed in the context of specific issues addressed elsewhere in this Agreement.

Evidence References:

1. C1/T1/p7-10 Written Direct Evidence of Mr. Gardiner and Ms. Elliott
2. K1.2 Written Direct Evidence of Peter Dungan

C.2. Removal of Ancillary Services

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; Alliance; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; Ontario Hydro; Pollution Probe; Energy Probe; WGSPG; TCPL; TCP; and Northland Power.

The company's forecast of other revenue for 1998 is $153.0 million. On a post-separated basis, Union's forecast of other revenue is $16.3 million. The reduction in other revenue is due to the removal of the Ancillary Services.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T11/App B/p1 Written Direct Evidence of Mr. Birmingham

C.3. General Service Additions and Normalized Annual Consumption (NAC) and Large Wholesale Sales

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; Alliance; CEED; Consumers; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

i) <u>General Service Additions</u>

Annual growth for general service customers by rate class from 1991 to 1997 (Historic) and 1998 to 2003 (Forecast) is provided at C3/T2/S8. The cumulative increase in the number of general service (rate M2 and 01) customers over 1991 to 1997 was 252,838. Union has forecast customer additions of 34,540 for 1999. The breakdown of general service customers by service class indicates that the residential service class will represent 53% of general service volumes and 90% of general service customers; corresponding figures for the other service classes are (respectively): commercial 36% and 9%; industrial 11% and 0.5%. The growth in the number of customers from 1998 to 1999 for each of these service classes is 3.2% for residential, 3.1% for commercial and 1.7% for industrial.

The parties agree that Union's 1998 and 1999 forecast for general service additions should be accepted.

ii) <u>Normalized Annual Consumption</u>

Union's normalized annual consumption ("NAC") for 1990 to 1999 is provided at C3/T2/S6. In previous filings, Rates 01 and 10 were provided on an aggregate basis. In this filing, Rate 01 has been disaggregated into residential and small commercial components. In addition Rate 10 has been disaggregated into commercial and small industrial components. During the Settlement Conference, Union provided intervenors with a revised interrogatory J2.C3.17 which provides a comparison of actual and Board Approved NAC for years 1990 to 1997 on the same aggregated basis as previous filings. A copy is attached as Appendix D.

Intervenors accept Union's forecast NACs for general service industrial customers and parties agree that this evidence should be accepted. The parties agreed to determine the NACs for residential and commercial customers based upon the application of the actual average annual decline (for the 1992 to 1997 period) to the 1997 actual NAC. A schedule summarizing the determination of the NAC on this basis is attached as Appendix E. The following table provides a summary of the NACs filed by Union, the adjusted NACs as agreed to by the parties, and the resulting impact on Union's 1999 delivery margin.

	Filed (m*3)	Adjusted (m*3)	Margin Impact ($ millions)
M2 residential	2 964	2 973	$1.094
01 residential	2 966	2 943	(.546)
M2 small commercial	17 880	18 325	2.029
01 small commercial	9 770	10 064	.582
10 commercial group	110 341	109 833	(.070)
M2 small industrial	59 500	59 500	-
10 small industrial	281 433	281 433	-
			$3.089

iii) Large Wholesale Sales

In its evidence at K31, WGSPG indicated that the commodity volumes for NRG should be increased by 3,350 10*3 m*3 to recognize significant growth within its franchise.

J31.H1.51 indicates that the most recent CD level for M9 customers has increased 9.6 10*3 m*3/d.

All parties agreed to the above commodity and demand level changes. The impact of these changes is an increase in Union's 1999 delivery margin of $0.043 million.

Evidence References:

1. C1/T1 Written Direct Evidence of Mr. Gardiner and Ms. Elliott
2. C3/T2/S1-9
3. Agreement, Appendix D
4. Agreement, Appendix E
5. K31.1 Written Direct Evidence of WGSPG

C.4. Industrial Sales

C.4.1. Forecast

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Consumers.

Union's 1999 industrial sales forecast reflects an overall increase of 2.2% over 1998 forecast. This overall increase reflected a 4.6% increase in the Southern Operations area and a 1.1% decrease in the Northern and Eastern Operations area. The 1999 industrial sales forecast, as well as being supported by Union's evidence, is consistent with the economic growth projections for various industrial sectors as outlined in the forecast evidence of Peter Dungan. Union's evidence also reflects the recent economic trends in world and North American markets, including continued low oil prices.

However, parties agreed to an increase in the industrial forecast for the Northern and Eastern operations area to a level generally in line with the 1998 volume level. Specifically, the parties agreed to an increase of 1 Bcf (28 328 10*3 m*3) in Rate 100 throughput. The impact of this adjustment is an increase to Union's delivery margin of $0.055 million.

Evidence References:

1. C1/T2 Written Direct Evidence of Messrs Rogers and Simpson
2. C3, C4, C5/T2
3. K1.2 Written Direct Evidence of Peter Dungan

C.4.2. Energy Balancing

The following parties take no position on this issue: Alliance Gas Management; CENGAS; Consumersfirst Ltd.; CAC; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

The natural gas industry continues to move towards using energy rather than volume as the standard measure for natural gas transactions. Effective November 1, 1998, TCPL has converted to energy measurement. As a result, the upstream arrangements for large industrial customers are in energy. Union proposes to introduce energy balancing to the large industrial customers in its Southern Operations area (ie. all M7 and T1 customers). Due to the configuration of the delivery system, large industrial customers in the Northern and Eastern Operations area are effectively energy balanced. Union's proposal to use a System Wide Average Heating Value (SWAHV) for the purpose of converting end use consumption and calculating direct purchase imbalances in the Northern & Eastern Operations Area that may be a different factor than that used by TransCanada to convert their transportation contracts from volume to energy effective November 1, 1998 will not adversely impact customers. Other changes resulting from the movement towards transacting in energy are dealt with at Section D.12 (below).

For the Southern Operations area, Union proposes to install sampling equipment at each individual large industrial account to measure the heat value ("energy content") of gas delivered and consumed by its M7 and T1 customers. The heat value of the gas delivered by industrial customers to Union's system interconnects will continue to be measured at the point that the gas is delivered to Union's system. Each month, this energy data will be used to reconcile the heat value imbalance between the deliveries at the plant and the deliveries to Union's system. The resulting imbalance will be monitored monthly with any imbalances settled annually.

Incremental capital and O&M costs related to energy balancing M7 and T1 customers are estimated to be approximately $0.240 million and $0.136 million, respectively.

Union currently has a heat value deferral account (Deferral Account No. 179-38) to record the impact of energy balancing ex-franchise storage and transportation customers. Union proposes to extend this account to record the impact of energy balancing M7 and T1 customers and to rename the account "Energy Balancing".

All parties agree with Union's energy balancing proposal including the forecast costs associated with the proposal and the extension of the deferral account. The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. C1/T2/p22-24 Written Direct Evidence of Messrs Rogers and Simpson
2. D1/T8/p11-12 Written Direct Evidence of Mr. Byng
3. D1/T18 Written Direct Evidence of Mr. Safranyos

C.5. S&T Forecast

C.5.1. M12 Forecast

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; Consumers; GEC; HVAC; CAESCO; Comsatec; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union's 1999 forecast of M12 is $147.747 million.

The parties agreed that Union's evidence on this subject should be accepted.

Evidence References:

1. C1/T3 Written Direct Evidence of Mr. Black and Ms. Galbraith

C.5.2. Transactional Services Forecast

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; Consumers; GEC; HVAC; CAESCO; Comsatec; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union's 1999 forecast of transactional services is $5.561 million excluding the long-term storage premium of $2.571 million. The 1999 forecast of storage and transportation transactional services was addressed in combination with Union's margin sharing proposals as discussed below. Accordingly, the parties agreed that Union's evidence on this subject should be accepted.

Evidence References:

1. C1/T3 Written Direct Evidence of Mr. Black and Ms. Galbraith

C.5.3. Deferral and Margin Sharing

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe and Consumers.

i) <u>Transactional Service - 1997 and 1998</u>

The 1997 Board approved level of storage and transportation transactional margin is $11.604 million. As such, the total margin returned to customers through rates in 1997 and 1998 is $23.203 million. The total transactional margin variance recorded in the various deferral accounts in relation to the $23.203 million is forecast to be $4.365 million as outlined at C1/T3/App B, line 29, Updated. This balance excludes the premium related to long-term storage sold under market rates which is addressed separately below. Union proposed to dispose of the actual December 31, 1998 balance 75:25 in favour of customers (ie. $3.274 million to customers and $1.191 million to Union). It was noted that in E.B.R.O. 493/494, the Board approved the disposition of the storage related deferral account balance on a 90:10 basis and the remaining transportation deferral account balances on a 75:25 basis. During the ADR, Union provided an analysis (Appendix F) which highlighted the total impact of the 1996 deferral account disposition approved by the Board in E.B.R.O. 493/494 as compared to the disposition being sought by Union for the 1997 and 1998 deferral amounts.

The parties agree that Union's evidence on this subject should be accepted and determined Union's proposed disposition of the 1997 and 1998 deferral balances reasonable in comparison to the disposition of the 1996 balances approved by the Board in E.B.R.O. 493/494.

ii) Transactional Services - 1999 and beyond

Union's evidence at C1/T3, Updated sought approval for transactional margin sharing proposal effective January 1, 1999. Union proposed to share the 1999 forecast margin of $5.561 million on a 90:10 basis in favour of customers (ie. $5.006 million to customers and $0.555 million to Union). Union's proposal further requested that any variance either below or up to $1.0 million above the 1999 forecast level be shared on the same 90:10 basis, while variances in excess of the $1.0 million threshold above forecast be shared 67:33 in favour of customers.

All parties agreed to the 1999 forecast of transactional services margin, excluding the 1999 forecast long term storage premium of $2.571 million (as discussed further below), of $5.561 million and further agreed that the sharing of S&T transactional services margin should be consistent with the mechanism approved by the Board for Consumers' Gas in E.B.R.O. 495. Specifically, this results in a sharing of the base forecast margin on a 90:10 basis while any variances in excess of the forecast are to be shared, on a pre-approved basis, 75:25 in favour of ratepayers. Negative variances will be to the account of the shareholder.

iii) Long-term storage under market-based rates

Union has forecast a market premium, in 1999, of $2.571 million related to long-term storage sold at market rates. This premium represents the amount of revenue earned in excess of the cost-based rates last approved by the Board under E.B.R.O. 493-04/494-06. The premium for a period will be determined relative to the cost based rates approved for 1999. Union proposed that the premium be removed from the determination of the revenue requirement with 60% (ie. $1.543 million) to be placed in a market premium deferral account for use in the future and the remaining 40% (ie. $1.023 million) to be provided to in-franchise customers by way of a one-time refund at the time Union disposes of all other 1998 deferral account amounts. Union noted that the specific purpose of the 60% deferred portion was not yet determined but that Board approval would be required prior to disposing of any amounts deferred. In any event, the 60% deferred portion would remain in the deferral account for a maximum of three years.

Given the lack of specificity associated with the 60% deferred portion, parties were not accepting of Union's proposal at this time. Consequently, the parties agreed that the full amount of the market premium will be provided to in-franchise customers by way of a one-time credit and as part of the disposition of Union's other 1998 deferral account balances. Union will continue to track the long term storage premium and any variances separately from other S&T transactional services.

Evidence References:

1. C1/T3 Written Direct Evidence of Mr. Black and Ms. Galbraith
2. Agreement, Appendix F

C.6. Extensions of E.B.O. 166 Blanket Approval

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe and Consumers.

The parties agree that the administration of storage contracts for storage volumes of up to 2 Bcf will be enhanced by the ability to extend the term for contracts falling within the E.B.O. 166 blanket approved parameters beyond one year to enable Union to contract for a term which covers two off peak periods. The terms of this extended blanket approval would be as follows:

a) the term of the contract may cover no more than one peak period; and

b) the term of the contract may not exceed 17 months.

The parties agree that the extension of the blanket approval described above will not be to the detriment of Union's storage operations nor to any infranchise customers seeking access to storage services.

The parties agree, subject to the conditions noted, that Union's evidence on this subject should be accepted.

Evidence References:

1. C1/T3 Written Direct Evidence of Mr. Black and Ms. Galbraith

C.7. Marketing (CCIP) Estimates

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED;

Consumers; GEC; CAESCO; Comsatec; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; WGSPG; and Energy Probe

The estimated and actual cost of the CCIP are provided at C1/T4/p12.

In response to the Board's directive in E.B.R.O. 493/494, Union provided information on the costs and revenues associated with the Union Energy catalogue (C1/T4/p15). Further details of the required accounting were provided in response to HVAC interrogatory J13.C7.8 and subsequent discussions during the ADR process. The costs and revenues of the program were managed within Union Energy and accordingly, were not included in Union's financial statements. An elimination of $35,000 was included in the accounting and paid by Union Energy to cover the "joint and common cost" portion of fully allocated costs for the project as incurred by Union. The parties accept this accounting.

In E.B.R.O. 493/494, the Board also directed Union to develop and implement a consumer information and marketing plan for higher efficiency fireplaces. Union designed a Consumer Fireplace Efficiency Package and promoted the availability of this package as part of a bill insert sent to all customers.

The parties agree that Union's evidence on these subjects should be accepted.

Evidence References:

1. C1/T4/p12 Written Direct Evidence of Mr. Shervill

C.8. NGV

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; Consumers; GEC; HVAC; CAESCO; Comsatec; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and WGSPG

Union's evidence outlined its plans to restructure the NGV program for the 1999 test year. The drivers supporting this change included the emergence of competition, the status of market development, and the shift to fully loaded costing of the NGV program. In 1999, the forecast rate of return of the NGV program under fully loaded costing is forecast at 7.5%. Under marginal costing, the rate of return for 1999 is forecast at 11.9%. As shown at C3/T4/S6/p2, Union is forecasting that the NGV program will achieve the utility return on rate base on a fully loaded costing basis by the year 2001.

Union, while agreeing in principle to evaluating the NGV program on a fully loaded costing basis, felt that a one year period in which to manage the program on a fully loaded basis was warranted given that historically, the NGV program was both managed and evaluated on a marginal costing basis.

The parties agree that Union's 1999 forecast should be adjusted to incorporate additional revenue of $526,000 (J14.C5.53) in order to take the 1999 NGV program return up to the overall utility return on a fully allocated basis. The parties agree that the revenue projection of $526,000 should be adjusted for any changes in the utility cost of capital as further agreed to by the parties. Based on the agreement reached by the parties respecting the cost of capital, the revenue adjustment is reduced to $473,000 based on a return on equity of 9.86% which is based on an assumed 6% long Canada bond rate.

Evidence References:

1. C1/T15 Written Direct Evidence of Mr. Shervill and Ms. Arkell
2. C3/T4 Rate of return on NGV
3. J14.C5.53

C.9. ABC Service Fee

The following parties take no position on this issue: Alliance; CEED; City of Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; Tractebel; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Gas Metopolitain; Consumersfirst; Northland Power; and ECNG.

Union's evidence proposed to continue with the existing ABC service fee of $0.50 per customer per month for 1999. Union indicated that its view is that the service is transitional and was put in place to facilitate additional direct purchase pricing flexibility prior to ABM's being able to bill burner tip offerings to customers directly. As a result, Union proposed to continue to provide the service as long as the incremental costs are recovered.

Intervenors noted that, per the Board's E.B.R.O. 497 Decision for Consumers' Gas, revenue was imputed such that costs were recovered on a fully allocated basis.

Given the Board's E.B.R.O. 497 Decision and the fact that a fully allocated study for Union's ABC service was not completed, parties agreed that a revenue adjustment equal to that determined in E.B.R.O. 497 ($0.6 million) should be made.

Evidence References:

1. C3/T3/S1
2. H1/T4 Written Direct Evidence of Mr. Andrews

D. COST OF SERVICE

D.1. Gas Supply

D.1.1. Price Forecast Methodology

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

Union's updated gas cost forecast was prepared in July using the June 1998 consensus gas price forecast. At the time of the update, Union noted that it would normally file information pursuant to the Board approved Quarterly Rate Adjustment Mechanism (QRAM) at the end of November for a change in its Alberta border WACOG January 1, 1999, if necessary. Union committed to reflect the impact of the November consensus forecast on its 1999 test year gas supply plan in order to evaluate the need for a change to the Alberta border WACOG.

The parties agreed that Union's evidence on this issue should be accepted.

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos
2. A/T21 Blue Page Update Overview

D.1.2. Transportation Plans/Costs

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and ECNG.

Union's evidence outlined its efforts respecting the development of a transportation bridging program to address the firm capacity shortfall projected for November 1, 1998. This bridging capacity was required as firm capacity was not available directly from TCPL due to changes in TCPL's 98/99 build program. There is a premium relative to TCPL tolls for this capacity which has been included in Union's gas cost forecast. Union's bridging commitments to date were outlined at D1/T1/p4-6. Details of Union's procedures for acquiring transportation capacity are provided at D1/T1/App.C.

Union also plans to receive an additional 566.6 10*3 m*3/d (20 mmcfd) of new TCPL capacity commencing November 1, 1999.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos
2. D3, D4, D5, D6/T2/S2

D.1.3. Short-Term Gas Supply Allocation

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

Union's evidence outlined its proposal to continue with the short-term supply allocation methodology approved by the Board in E.B.R.O. 493-04/494-06 for its Southern Operations Area. In its blue page update, Union identified short-term supply and load balancing costs to be $7.561 million when compared to a forecast cost of gas underpinned entirely by firm TCPL service.

Union's evidence outlined the rationale for its proposal to continue with this methodology which highlighted the difficulty in determining supplies purchased for rate classes or specific customers within rate classes when the service provided is a bundled service. Union indicated that the approved methodology provides an appropriate approximation of the costs by rate class for bundled service given the administrative and operational constraints of other alternatives.

The parties agree that Union's evidence on the determination of $7.561 million should be accepted.

The issue of allocation is addressed at Section G.2.4.

Evidence References:

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos

D.1.4. Gas Supply Portfolio

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

Union has prepared its gas cost forecast on a merged basis, for the first time, using the SENDOUT™ modelling software. Although Union and Centra merged effective January 1, 1998, there is still a need to allocate costs to the former Centra (Northern and Eastern) and former Union (Southern) operational area in order to determine the appropriate cost of service and rates for each area.

Union's evidence outlined its proposal to move to a common Alberta border WACOG to be applied to its two operational areas commencing with 1999. Firm Canadian gas supply costs which are unique/identifiable to a particular delivery area are specifically allocated to that area. All other supplies including Ontario production, U.S. supply, and delivered spot supplies are all considered to have a Dawn delivery point and are allocated, as a pool, to the two operational areas based on the demands in each area. The resulting gas supply plans and costs are provided at D3/T2/S1.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos

D.1.5. Risk Management Study

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

Union commissioned a review of its risk management program in response to the Board's directive in E.B.R.O. 493/494. The study was done by Risk Management Inc., and was filed at D2/T1. An overview of the study findings are provided at D1/T19.

The review indicated that Union's risk management policies and procedures are appropriate and consistent with industry standards for regulated utilities. However, it was recommended that Union should:

i) place increased emphasis on statistical analysis in order to determine "pricing tiers" based on historical average pricing and to provide Union's risk management group more flexibility to transact within "target ranges";

ii) place increased emphasis on the use of caps and collars as means to help further achieve the goals and objectives of the risk management program; and

iii) incorporate the use of NYMEX futures into the Union purchasing plan.

In its evidence, Union indicated that it will adopt the recommendations related to placing increased emphasis on statistical analysis in developing the quartile pricing methodology and to place increased emphasis on the use the caps and collars. However, Union indicated that it does not intend to incorporate the use of trading NYMEX futures contracts as part of its risk management plan for the reasons outlined at D1/T19/p3.

The parties agreed that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T19 Written Direct Evidence of Messrs. Stedman and Dent
2. D2/T1 Written Direct Evidence of Risk Management Inc.

D.1.6. Storage Plans

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

i) Available Storage

The storage available to in-franchise customers is unchanged from the bridge year to the test year. The storage space associated with the former Centra M12 contract continues to be available to customers in the Northern and Eastern operations area.

The parties agree that Union's evidence on this subject should be accepted.

ii) Storage Accounting Change

In addition, Union has changed the accounting of storage costs related to Union's Northern and Eastern operations to achieve consistency in the treatment of storage costs. The former Union recognized storage costs for income purposes as they were incurred while the former Centra charged its annual storage costs to inventory by October 31 and recognized the costs for income purposes as the volumes were withdrawn from storage. Approximately $5.9 million of the costs in inventory at December 31, 1997 were related to costs that were incurred during 1997 but not expensed. Under File No. U.A. 126, Union proposed to establish a deferral account to record this amount for recovery from customers. By letter dated July 11, 1998, the Board indicated that the request should be addressed in E.B.R.O. 499 and that Union should provide proposals to mitigate the rate impacts associated with the recovery of this amount (Appendix G). In its updated (blue page) evidence, Union proposed to amortize the $5.9 million through cost of service over a two year period commencing January 1, 1999.

Intervenors expressed their view that the costs associated with the storage accounting change appeared to be a transition cost related to the merger. Union clarified that this was not correct and that the accounting change could be made at the end of any calendar year and that the result, in terms of storage costs recorded in inventory as at December 31, would be the same. The impact of the change in storage cost accounting should not be viewed any differently than impacts arising from other accounting changes such as the implication of depreciation studies.

As such, the parties agree that the $5.9 million amount related to the storage accounting change should be recovered from customers. The parties agree that a deferral account should be established and the $5.9 million amount recovered from customers in rates over a two year period beginning in 1999.

Evidence References:

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos
2. D1/T15 Written Direct Evidence of Messrs. Byng and Hanbidge
3. Agreement, Appendix G

D.1.7. Unaccounted for Gas - Balances and Forecasting Methodology

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

No party raised an issue on the methodology for forecasting and tracking of unaccounted for gas. The allocation of the forecast level of unaccounted for gas is addressed at Section G.2.2.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D3/T2/S3 Unaccounted for gas volumes

D.1.8. Gas Supply Deferral Accounts

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

The balances in Union's gas supply related deferral accounts were provided in Union's updated (blue page) evidence at D1/T1/p19-20 and D1/T8/App A. Union's evidence disaggregated the PGVA (Account No. 179-24) for the Southern Operations into its major subcomponents (ie. Alberta Border WACOG, firm TCPL tolls, other short-term supply costs, and inventory revaluations). The major components of the Northern and Eastern Operations Spot Gas deferral account (Account No. 179-81) included spot purchases, Rate 25 deferred margin and inventory revaluations. The balance for each account is summarized at Appendix H.

With the exception of the portion of the spot account related to Rate 25, Union proposes to dispose of the actual December 31, 1998 balances in these accounts. Consistent with past practice, Union will manage the balance in the spot gas deferral account as part of the overall management of the Rate 25 service.

Union has also proposed to disaggregate the PGVA for the Southern Operations (Account No. 179-24) into three separate accounts effective January 1, 1999. The three major components of this account are the Alberta Border commodity, firm TCPL tolls and fuel, and other purchased gas costs (ie. short-term supply costs and inventory revaluations). As Union has proposed a common Alberta Border WACOG for the merged company, Union proposes to extend the existing firm PGVA for the Northern and Eastern Operations (Account No. 179-80) to capture differences between the actual cost of gas purchased at the Alberta border and the Alberta border WACOG included in rates. New accounts will be established to record variances in TCPL tolls and fuel and variances in other purchased gas costs (ie. short-term supply costs referred to in Section D1.3 and inventory revaluations) for the Southern Operations area. The changes will introduce more consistency in the reporting of gas cost variances for the two operational areas and recognizes that the components of the former Southern Operations PGVA are disposed of differently.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T1 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, Poredos

2. D1/T8 Written Direct Evidence of Mr. Byng
3. Agreement, Appendix H

D.2. Operations & Maintenance Expense

D.2.1. Human Resources (wages and benefits, staff levels, incentive plans)

D.2.2. Other O&M Expenses

D.2.3. Productivity Improvements and Measures

The following parties take no position on this issue: Alliance Gas Management; CENGAS; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; Consumers; GEC; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

Union's updated evidence forecast total operations and maintenance expenditures for 1999 of $262.926 million. The parties agreed during the settlement conference to negotiate O&M on a global or "envelope" basis, consistent with the "envelope approach" to O&M adopted by the Board most recently in E.B.R.O. 497. The O&M settlement recorded in this Agreement, therefore, is a global settlement of all items within the O&M envelope including CIS.

The parties agree that total O&M expenditures for 1999 should be $258 million, representing a reduction in O&M spending for 1999 of $4.926 million.

The parties used as their starting point Union's 1997 Board approved O&M budget of $290.5 million (D5/T3/S2/p1), adjusted for the $11.0 million reclassification of customer supplied compressor fuel (D5/T3/S2/p1/line 26/column b), resulting in an adjusted 1997 Board Approved O&M budget of $301.5 million. Using the envelope approach, the parties adjusted this amount for 1998 inflation, customer growth and productivity. The parties recognize that adjustments based on these factors were incapable of precise determination and that they must be viewed as falling within a range of reasonableness.

Based on year end customer numbers, the year end net customer growth for 1998 over 1997 was 2.7%. Union's evidence is that approximately 1/3 of its O&M budget is tied directly to customer growth. The range of inflation for 1998, based on the evidence, lay between 1.1% - 1.5%. The parties discussed a range of productivity adjustments. For purposes of estimating the 1998 O&M expense envelope, a productivity adjustment of about 1.0% was used by the parties.

To arrive at the budget range for 1999 O&M, the parties started with the 1998 O&M budget produced by the application of these factors and adjusted for separation of the ancillary business (a reduction of $61.4 million). The resulting post-separation O&M budget figure was then adjusted for inflation, productivity and customer growth in 1999. Union's evidence supports net customer growth in 1999 of 3.2%. The range of inflation, based on the evidence, lay between 1.3% and 1.7%. The Board, in its decision in E.B.R.O. 497, used an inflation factor in 1999 of 1.9%. A productivity adjustment of about 1% was used by the parties to estimate the 1999 O&M envelope.

The parties agree with Union that incorporated into the 1999 O&M budget are cost increases relative to the 1997 Board approved O&M budget of approximately $2.7 million and $0.9 million related to compressor fuel and direct purchase administration costs respectively. These cost increases are offset in their entirety by forecast revenues related to customer supplied compressor fuel (S&T revenue) and direct purchase administration fee revenue (other revenue). As such, the parties agree that in considering the 1999 O&M budget, the $3.6 million increase is appropriately considered a normalizing adjustment within the O&M envelope.

The parties also discussed the appropriate treatment of the 1999 CIS O&M in relation to the 1997 and 1998 O&M budget figures. Union regarded the 1999 CIS costs of $6.9 million as a normalizing item on the basis that had Union followed the traditional approach of constructing CIS within the utility, the associated costs would have been in the form of rate base carrying costs and depreciation expense rather than an O&M expense. Certain Intervenors did not agree with Union and felt that a portion of the CIS expense should be offset by productivity gains incorporated within the O&M envelope.

The global amount for the 1999 O&M envelope of $258 million is agreed by the parties to represent a compromise within the range of reasonable adjustments for productivity, customer growth and inflation and the appropriate treatment of the revenue generating O&M and the 1999 CIS costs, based on the evidence.

The parties agree that the affiliate transactions proposed in the evidence for 1999 will be managed within the 1999 O&M envelope of $258 million. The parties agree that the 1999 affiliate transactions should be approved and that Union, operating within the agreed upon O&M envelope, may pursue these transactions up to the levels set out in the evidence (and as specified in Section D.7 of this agreement).

The parties recognize that Union has forecast a shortfall of $2.5 million in relation to the amount of specific shared services offered to Union Energy Inc. in connection with the separation of the ancillary business. The Intervenors agree that Union should be permitted to engage in additional affiliate transactions in order to enable Union to effectively manage this shortfall. In addition, the parties acknowledge that under the existing Undertakings, the Board's approval will not be withheld subject to ensuring that the transaction is not to the detriment of any customer or if a sale takes place at or above fair market value. Union has undertaken to hold ratepayers harmless in relation to this shortfall by reflecting the non-utility elimination in its 1999 O&M budget. Union has also undertaken that any future services to affiliates in respect of this $2.5 million will be priced in accordance with the fully loaded cost transfer pricing methodology accepted by the Board in E.B.O. 177-17 and outlined in Section D.7 (below). The Intervenors, therefore, do not oppose Union's request, in this instance, for approval of additional affiliate transactions up to the shortfall amount to enable Union to manage this shortfall more effectively.

Intervenors wish to record their view that, within the O&M envelope, a portion of the 1999 costs for CIS is caught by the productivity factor that was applied to 1999 in determining the global settlement amount.

The parties also wish to record their position that this O&M settlement for 1999 rates is without prejudice to:

(a) any position parties may wish to take on the establishment of the benchmark O&M, including the appropriate productivity factor, in relation to the possible introduction of performance-based rates; and

(b) any position the parties may wish to take concerning the Board's belief that two years is adequate to allow Union to wind-down the services offered to Union Energy as expressed in E.B.O. 177-17.

(c) any position parties may wish to take concerning the appropriateness of expanding capacity within the utility for the purpose of providing shared services to other companies both within or outside of the Westcoast group.

Evidence References:

1. D1/T2 Written Direct Evidence of Ms. Hockin, Ms. Elliott, Ms. Beattie and Messrs. Bracken, Bodnar and Little
2. D1/T3 Written Direct Evidence of Messrs. Rumiel, Bodnar & Reaume
3. D1/T10 Written Direct Evidence of Mr. Wellard
4. K1.2 Written Direct Evidence of Peter Dungan

D.2.4. Review of CIS Expenses / CIS Decision Follow-up

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and Energy Probe.

Union's evidence at D1/T10 Updated described the 1998 CIS service charge of $667,000 as compared against the $1.958 million as forecast in E.B.O. 177-15. Union's evidence noted that the 1998 variance is to be recorded in the CIS Affiliate Payment variance account (Account No. 179-57). The 1998 deferral account balance will be disposed of as part of the disposition of all of Union's other December 31, 1998 deferral account balances.

The forecast of the 1999 CIS service charge is $6.9 million as described at D1/T10 and is consistent with the forecast of delivery related charges underlying the evidence in E.B.O. 177-15 (Exhibit G3, TR 123). As described above, the cost associated with the CIS service charge is within the agreed to 1999 O&M budget of $258.0 million using the envelope approach. Union reaffirmed its intention to file with the Board, prior to the end of November, a forecast of CIS activity and associated costs as part of the requirement to seek prior approval, on an annual basis, for the forecast CIS service charges. In addition, Union noted that it is anticipating the completion of the Price Waterhouse/Coopers study respecting a comparison of Union's CIS services to other options available in the marketplace by the end of November and will file the report with the Board and all E.B.R.O. 499 intervenors.

Evidence References:

1. D1/T10 Written Direct Evidence of Mr. Wellard
2. D1/T8 Written Direct Evidence of Mr. Byng

D.3. Impact of Removal of Ancillary Programs

D.3.1. Emergency and Diagnostic Service Plans/Costs

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe; and ECNG.

In the Board's E.B.O. 177-17 Decision with Reasons, the Board directed Union to file a letter confirming that it would continue to provide appliance emergency response and diagnostic service in areas where Union Energy did not anticipate providing service and where no access to other third party HVAC services was available. In response to J13.C2.12 and 13, Union noted that these services fall into two categories:

- Emergency response service - immediate response to gas odour, gas leak, line break, gas pressure problem or fume complaint calls with the primary objective of making safe and preserving life and property. This service would continue and is covered by delivery rates. No change in this service will occur as a result of separation.

- Appliance Service - diagnosis and repair of appliances at the request of a customer on a charge per service basis.

On October 13, 1998, Union filed a letter with the Board indicating that there were no areas within the Union franchise where customers did not have access to basic diagnostic and repair service. As a result, Union would not provide any diagnostic or repair service in 1999 and, therefore, no cross-subsidization issues would occur.

On October 16, 1998, the Board replied to Union's October 13 letter and requested that Union make its analysis available to all parties as part of the ADR Settlement process, and in addition, indicate how the company would respond to emergency no heat situations. Attached as Appendix I is a letter filed with the Board providing a summary of Union's analysis verifying that there are no areas within Union's franchise where alternate service providers are not available to provide basic diagnostic and repair service. In addition, Union outlined how it would respond to no heat situations.

The parties agreed that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T11 Written Direct Evidence of Mr. Birmingham
2. J13.C2.12, 13
3. Agreement, Appendix I

D.3.2. Separation Decision Follow-up

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

At D1/T11/App A, the conditions associated with the Board's approval of the separation transaction in E.B.O. 177-17 are provided. The following is a summary of the status of all conditions that have been addressed to date as part of the E.B.R.O. 499 evidence:

1. *Union will reduce its delivery revenue requirement by at least $12 million annually following separation*. At D1/T11/App B/p3, Union has indicated

that the savings related to separation are $11.3 million. The incremental amount of $0.7 million required to achieve $12 million in savings has been reflected as a reduction in Union's O&M budget at D3/T3/S1.

2. *The applicants agree to absorb all the one-time transition costs and any other residual costs.* At F4/T2/S1/line 11,Union has included the write-off of one-time transition costs in the amount of $11.5 million. In addition, as noted at Section B.1, Union has adjusted the 1999 revenue requirement to reflect a reduction of approximately $0.7 million in O&M and $7.4 million in rate base ($0.7 million in rate base carrying costs) related to unutilized space associated with company leased and owned facilities respectively.

3. *Union will file a letter confirming that it will continue to provide appliance emergency response and diagnostic service.* Please refer to Section D.3.1 (above).

4. *Union will provide a comprehensive customer information program prior to transfer to inform ancillary program customers of the impending change of their service provider.* On September 14, 1998, Union provided the Board and Intervenors with a copy of Union's draft communication package. On October 16, 1998, the Board suggested changes to the communication package. The final communication package is attached as Appendix J to this agreement.

5. *Union will provide a plan to monitor the impact of the separation of the ancillary businesses on its utility DSM program.* This issue has been addressed as part of the DSM plan (See Section D.4).

6. *Union shall file complete evidence for a review of the capital structure and cost of capital for the merged Union/Centra, and information on the proposed post-separation capital structure of the delivery business and the consolidated company.* (See Section E - Cost of Capital (below)).

7. *Union shall file a copy of the service agreement with Union Energy and confirm that the total revenue is no less than the fully allocated costs of the services.* Union is in the process of finalizing the service level agreement with Union Energy and copies of the agreement will be filed with the Board upon completion. At D1/T11 (Updated), Union indicated that the total revenue would exceed the fully distributed cost of the shared services forecast to be provided to Union Energy by approximately $146,000.

8. *Union shall file an amended interim LDC Code of Conduct incorporating new standards of business practice related to affiliate and non-affiliate service providers.* At J13.C2.11, Union provided a copy of the amended interim LDC

Code of Conduct. During the ADR Settlement Conference, parties agreed to establish a subcommittee to meet following the ADR to review Union's Amended Interim Code of Conduct as filed to attempt to get an agreement. Subject to the revisions to the Amended Interim Code of Conduct provided at Appendix K, there is no agreement on this issue.

All other conditions of approval related to E.B.O. 177-17 have already been addressed, or will be addressed upon closing of the transaction.

The parties agreed that Union's evidence on this issue should be accepted subject to the specific items listed above.

Evidence References:

1. D1/T11 Written Direct Evidence of Mr. Birmingham
2. Agreement, Appendix I
3. Agreement, Appendix J
4. D1/T5 DSM Plan
5. E1/T1 Written Direct Evidence of Messrs Brazier and Bingham
6. J13.C2.11
7. Agreement, Appendix K

D.4. Overhead Capitalization Practices

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; Alliance; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; and Northland Power.

At D1/T2/pp10-13, Union responded to the Board's concerns raised in E.B.R.O. 493/494.

The parties agreed that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T2/p10-13 Written Direct Evidence of Ms. Hockin, Ms. Elliott, Ms. Woodruff, Ms. Beattie and Messrs. Bodnar and Bracken

D.5. DSM Plan

D.5.1. Screening, Performance, Monitoring and, Evaluation

D.5.2. LRAM and SSM

D.5.3. Post Separation Plans for DSM

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CEED; City of Kitchener; Consumers' HVAC; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; TCPL; TCP; Northland Power; and Energy Probe

The parties agree that Union's DSM Plan as filed should be approved unless otherwise indicated in the specific areas noted below.

1. Lost Revenue Adjustment Mechanism (LRAM)

The parties agree that a Lost Revenue Adjustment Mechanism should be established for DSM. The LRAM tracks distribution margin impacts attributable to DSM activities by rate class as compared to the forecast levels. It is a revenue neutral mechanism that is designed to keep the utility indifferent to the level of energy efficiency that is achieved.

As stated in the GEC evidence from P. Chernick: [K11.1, page 2]

" The Company's LRAM proposal appears to be entirely consistent with the public interest."

The parties agree that the LRAM as shown in the prefiled evidence at D1/T5/App E is designed to mitigate actual revenue impacts. Union agrees to use the best available estimates for savings resulting from energy efficiency measures and will use actual participation values to calculate the LRAM.

The parties agree that a deferral account will be established to record the margin impact of all DSM savings realized effective January 1, 1999.

2. Shared Savings Mechanism (SSM)

Union agrees to retain an independent consultant to audit its DSM performance including cost effectiveness. This information will form the basis of any PBR mechanism. The parties agree to develop a PBR mechanism for DSM and prefiling requirements and to file this for consideration as part of Union's PBR application.

3. Adjustments to the Existing 1999 DSM Plan

For the purpose of improving the accuracy of the current performance targets in the 1999 DSM Plan, Union will:

a) change the target of the total number of residential high efficiency furnaces in 1999 to 7,818 furnaces.

b) change the volume savings estimate for the low emissivity windows measure in the home retrofit program to reflect the increased number of windows being installed per customer.

c) refile Section 9 and portions of appendix C3 of D1/T5 to reflect the changes noted above.

GEC does not accept the water heater forecast but will not contest it in this hearing.

4. General Planning Process

For purposes of improving DSM programs:

a) the parties recognize the uncertainty in the free rider estimate applicable to power vented residential water heaters. In filings prior to E.B.R.O. 499, Union has assumed a zero free ridership rate for this measure. Union agrees to continue with this assumption for calendar 1999. Union agrees to investigate the matter and provide information by March 31, 1999 to support any change in the estimates for subsequent DSM Plans.

b) Union will provide a report by Dec 31, 1998 detailing the assumptions used to determine the number of residential water heaters credited for DSM purposes. This report will reconcile the number of residential water heaters reported in both the 1998 DSM Plan and the 1999 DSM Plan. This report shall include the total number of Rental Water Heaters in Calendar 1998 and its forecast for the total number of residential type gas hot water tanks in Union's franchise area for calendar 1999.

c) Union will investigate the cost effectiveness of three alternate program delivery mechanisms including an assessment in each case of other utility experience with high participation rates transferability to the Union Gas delivery area markets, consistency with Plan objectives, consistency with Union's overall marketing approach, quantitative impacts including participation rates and volume savings, and qualitative assessments. Specifically the company will review:

   1) several delivery mechanisms in the industrial process improvements program
   2) promotion of high efficiency furnaces through financial support and education and promotion
   3) promotion of higher efficiency residential water heaters through financial support and education and promotion

   Union will file this report by June 30, 1999 or before its next rate case, whichever comes first.

d) Union will provide, by Dec 31, 1998, the company's plan to ensure that the weighted average energy efficiency of new residential water heaters in its franchise area in 1999 is greater than the corresponding level in 1998.

e) In collaboration with NRCan, Enbridge Consumers Gas and the Ontario Ministry of Energy, Science and Technology, Union commits to develop a EnerGuide label, consistent with the EnerGuide criteria, for rooftop gas heating and cooling units, infrared heaters and commercial cookers by year end 2001.

5. Monitoring and Evaluation Process

For purposes of improving the monitoring and evaluation of DSM activities, Union Gas will:

a) Annually, conduct an impact evaluation of the actual costs, natural gas savings, free riders, information only participants (free drivers) and changes in the market place for some of the general measures identified in Appendix C.1 and C.2 of the 1999 DSM Plan. The number and scope of the impact evaluations to be included in the 1999 evaluation will be the subject of discussion by the DSM consultative group.

b) for future evaluation reports, Union will:

    1) include a report on the actuals for the year, and document any changed assumptions from those of the OEB approved plan;
    2) have the report audited by an independent consultant, to be selected by Union, and provide sufficient resources to complete the audit;
    3) prior to retaining the auditor, file the terms of references for the audit with the DSM consultative;
    4) provide sufficient time for an audit of the evaluation report by the auditor and a review of the evaluation report by the DSM consultative group prior to publication;
    5) the results and documentation of engineering audits and feasibility studies for custom projects will be part of the audit of the annual evaluation report;
    6) the results and documentation of all research activities and reports will be part of the audit of the annual evaluation report;
    7) file the audit report as part of Union's application for a PBR Mechanism for DSM.

Evidence References:

1. D1/T5 DSM Plan
2. D1/T5/App E DSM Plan
3. D1/T8/p7 Written Direct Evidence of Mr. Byng
4. K11.1 Written Evidence of Mr. Chernick
5. K11.2 Written Evidence of Mr. Neme

D.5.4. Compliance with E.B.R.O. 493/494 ADR Agreement/Board Decision

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Consumersfirst Ltd.; CEED; City of Kitchener; Consumers'; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; OCAP; Ontario Hydro; TCPL; TCP; Northland Power; and Energy Probe.

In E.B.R.O. 493/494, the Board directed Union to develop and implement a consumer information and marketing plan for higher efficiency fireplaces. Union designed a Consumers Fireplace Efficiency Package and promoted the availability of this package as part of a bill insert sent to all customers.

No fireplace passes the definition of high efficiency heating unit identified by the OEB in the E.B.R.O. 493/494 Decision.

Pollution Probe has taken the position that Union's response to this Board directive was inadequate and is seeking further consumer information as part of Union's DSM plan.

In addition, Pollution Probe takes the position that Union has failed to live up to a commitment made by the former Centra in the E.B.R.O. 483/484 ADR Agreement regarding DSM to investigate and implement on bill third party financing for purchases of natural gas consumer goods.

Pollution Probe raised a similar issue in E.B.R.O. 493/494 (para. 3.6.5) and the Board directed Union to investigate the costs and technical requirements necessary to provide third party billing (paragraph 3.6.12). The Board in that case found that, given plans to separate Union's merchandise financing plan from the utility in 1998, the Board would await the results of any studies and Union's proposals in that regard (paragraph 3.6.11).

In E.B.O. 177-17, Union applied to the Board for prior approval to transfer its ancillary business, including merchandise sales and financing, to Union Energy Inc. On May 28, 1998 the Board granted the requisite prior approval. It is contemplated that the transfer will take place January 1, 1999. Thereafter, Union will not be in the merchandise sales or financing business.

Pollution Probe takes the position that Union's return on common equity should be reduced by the amount necessary to impose a penalty on Union's shareholders for this alleged failure.

Pollution Probe is the only party taking issue with Union on either of these subjects.

GEC reserves their right to argue on these matters.

The following parties reserve their rights to make submissions in support of Union's position that a penalty with respect to ROE should not be granted: the "Alliance"; IGUA; CAC; and the "Consortium".

Evidence References:

1. D1/T5 DSM Plan
2. C1/T4 Written Direct Evidence of Paul Shervill

D.5.5. Other DSM Program Issues

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Consumersfirst Ltd.; CAC; CEED; City of Kitchener; Consumers'; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; TCPL; TCP; Northland Power; and Energy Probe.

The following parties agree that Union's evidence on this issue should be accepted subject to conditions as stated below: Pollution Probe; GEC; HVAC; Alliance.

In response to interrogatory J11.D7.8 the Company has filed a copy of its letter to the Board dated July 7, 1998 in which the Company requests prior approval for potential affiliate transactions with Union Energy. Such transactions could involve payment to Union Energy of DSM equipment incentives as part of the Company's DSM programming. The letter describes, with respect to a number of proposed DSM programs, a "request for proposals" ("RFP") process under which retail energy service providers would apply to participate in these DSM incentive programs.

The Company has distributed to certain retail energy services providers, including Union Energy, an RFP with respect to the water heater portion of its DSM program. Certain Intervenors have concerns with the scope and terms of the RFP, which essentially resolve to:

1. A concern that access to the program is unduly restricted (from both a competitive perspective and a DSM "breadth of penetration" perspective) due to its targeting of a limited number of retail energy services providers.

2. A concern that the criteria included in the RFP result in an undue preference for Union Energy.

Certain Intervenors raised concerns about this RFP in relation to the Amended Interim Code of Conduct. While Union does not agree, the parties have agreed to a process to resolve the code of conduct issues in section D.3.2. The parties have agreed to resolve concerns with the RFP as follows:

1. The RFP document will be revised and re-issued:

2. The revised document will reflect:

    a) Removal of the minimum merchandising volume (in the initial version of the document there was a minimum "merchandising throughput volume of 500 tanks").

    b) Clarification that the "linkage between bidder and Union Gas" ranking criterion is intended to reward a congruence in marketing philosophy between the "bidder" and the utility's DSM group.

    c) The intention is that this is an open request for business proposals for efficiency related water heater merchandising services. A determination has been made to deliver these services through channel partners. However, Union Gas will be open to consider other relevant ideas generated by this RFP process. Participants need only be involved in the introduction of efficient water heaters into the marketplace in Union Gas' service area.

    d) Terms ensuring that the author(s) of any "winning" idea(s) that are proceeded with will be afforded an opportunity to participate in the resulting program, though not an exclusive one.

    e) The contracts flowing from the revised document will be structured within the primary objective of maximizing overall energy efficiency with the intent of obtaining wide geographic coverage and diversity of supply options for end use consumers. The intent of the contracts should be to ensure that the energy efficiency of new water heaters in Union's franchise area continues to achieve or exceed the 0.65 average that Union has in the past.

    f) The contracts flowing from the revised document will be structured to include a work plan that includes: an implementation time frame with milestones; a promotion plan; and a process whereby Union and the DSM independent auditor can evaluate and review the activities and results of the project. The supporting documentation must provide reporting on the type of water tank installed and proof of installation while maintaining the confidentiality of financial and customer information of the program participants.

g) Qualifying participants must demonstrate “capability in residential water heating merchandising.

h) Terms that do not discriminate with respect to the respondent’s position in the energy services market, geographic location nor ability to participate in other energy efficiency projects.

3. The revised document will be issued as follows:

   a. HVAC Coalition will provide the Company with a list of parties, and the Company will send the document to each of the listed parties.

   b. The Company will also post the RFP on its Internet site.

4. The revised document will be circulated to the DSM consultative in advance of its issuance and the consultative will be given a reasonable opportunity to comment on the revised draft prior to its issuance.

5. The revised document will provide 60 days for response. Union may proceed with partial implementation of the program, before the fulfilment of the 60 day period, with those who have responded to the original RFP. Union commits to reserving capacity in the program for those that respond to the revised RFP.

6. Following the implementation of the program, a summary of the RFP process, including essential ideas generated by the process, will be reported to the DSM consultative. The outcome of the process will be included in the Company’s 1999 DSM evaluation report.

The parties participating in this resolution reserve their positions on whether this RFP process is a good DSM strategy; including whether its outcome will adequately cover the market and will be the most cost effective vehicle to obtain such coverage.

Evidence References:

1. D1/T5 DSM Plan

D.6. Depreciation Study

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and Energy Probe.

Union's 1998 Depreciation Study and 1999 Technical Update as prepared by Foster Associates is filed at D2/T2. Depreciation rates currently used by the former Union were approved by the Board in E.B.R.O. 476-03 while the rates used formerly by Centra were approved by the Board in E.B.R.O. 489.

During the ADR Settlement Conference, IGUA indicated that they had an expert review the Depreciation Study, and that it was indicated that the study was sound and, as such, had no concerns.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T2 (updated - October 16, 1998) Written Direct Evidence of Ms. Hockin and Ms. Beattie
2. D1/T14 Written Direct Evidence of Ms. Hockin
3. D2/T2 1998 Depreciation Rate Study prepared by Foster Associates, Inc.
4. D2/T2 1999 Technical Update prepared by Foster Associates, Inc.

D.7. Affiliate Transactions/Non-Utility Eliminations

As discussed above under Section D.2, the 1999 O&M budget was negotiated pursuant to a global or envelope approach covering all components of the O&M budget, inlcuding all affiliate transactions. Accordingly, the parties agree that affiliate transactions are one item which Union, in its discretion, can manage within the agreed upon total O&M envelope. Specifically, the parties agree that Union has the ability to either contract and pay for affiliate services to be received or to contract and charge for affiliate services to be provided, up to the amounts, all as outlined in Union's evidence at D1/T6 within the total 1999 O&M envelope. The specific affiliate transactions outlined in Union's evidence are addressed separately below.

D.7.1. Corporate Centre Charges

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and Energy Probe.

Union's evidence at D1/T1 requested the Board's approval for the payment of the Corporate Centre Costs to Westcoast related to the provision of services for 1999 in the amount of $2.776 million. Union further sought the inclusion of these costs as part of the 1999 test year cost of service to be recovered in rates effective January 1, 1999.

The services to be received from the Corporate Centre in 1999 fall into two areas, direct services and other allocated services. All direct services will be supported by service level agreements that have been negotiated and the services will be costed on a fully loaded basis. Other allocated services are not incurred directly on behalf of Union and are therefore allocated to Union based on forecast rate base for 1999. The following table summarizes the Corporate Centre charges for 1999 compared to that approved by the Board in 1997 along with a summary of the 1999 forecast benefits.

	1999	1997 Approved	1999 Forecast Benefits
Direct Services			
Information Systems & Technology	$ 297	$ 295	$ 462
Human Resources	170	180	362
Communications	150	125	210
Financial Services			
- audit	76	-	115
- tax	80	221	808
- insurance	105	71	593
Business Development Consulting	50	-	50
Treasury and Investor Relations	691	774	1,258
Legal	150	146	240
Controller	129	125	195
Environment, Health & Safety	240	-	332
Other Allocated Services			
Audit Fees	-	22	
Legal and Consulting Fees	-	179	
Trustee Fees	180	-	
Planning and Development	163	118	
AGM and Annual Report	295	-	
Total	2,776	2,256	4,625

The benefits to be realized in the other allocated services are difficult to quantify. At J1.D7.206, Union indicates that the 1997 benefits are at least equal to the costs. If Union was a standalone entity, Union would directly incur costs related to trustee fees, AGM and annual reports. In 1997, the Planning and Development benefits were $192,000.

The parties agree that this item is one which Union, in its discretion, can manage within the agreed upon total O&M envelope.

Evidence References:

1. D1/T7 Written Direct Evidence of Ms. Woodruff and Mr. Kloostra
2. J1.D7.196 - 208
3. J2.D7.51
4. J14.D7.74; 75
5. J22.D7.20 - 25; 31; 32; 33

D.7.2. S&T Transactions

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC, the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; NRG; WGSPG: Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union provides storage and transportation services to affiliates pursuant to the Board approved rates and market rates. The Board provided blanket approval for these storage and transportation affiliate transactions subject to Union reporting the details to the Energy Returns Officer and as part of the evidence submitted in subsequent rate cases. Union has complied with these requirements.

Union also acquires transportation and storage services from Centra Transmission Holdings Inc., Centra Pipelines Minnesota Inc., and St. Clair Pipelines (1996) Ltd.

The parties agree that this item is one which Union, in its discretion, can manage within the agreed upon total O&M envelope.

Evidence References:

1. D1/T6 Written Direct Evidence of Ms. Elliott, Messrs. Byng, Hanbidge and Reaume
2. C1/T3 Written Direct Evidence of Mr. Black and Ms. Galbraith

D.7.3. Other Affiliate Transactions

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of

Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG: Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe.

Union has requested the Board's approval for the following affiliate transactions:

i) DSM initiatives
ii) Part VI.1 Tax Transfers
iii) Director's fees
iv) CIS services
v) Corporate centre services
vi) Shared services to affiliates

This section will address the first three items. The other services are addressed in further detail at sections D.2.4, D.7.1, and D.7.4 respectively.

i) DSM initiatives

Union has proposed to provide certain incentives to energy service companies as part of Union's DSM program. Further details regarding these initiatives are addressed at section D.5.5 of this agreement.

Union informed the Board by way of letter dated July 7, 1998 of its intention to include Union Energy on its list of qualified energy service companies. The specific initiatives contemplate a tendering or request for proposal process and the dollar amounts cannot be determined in advance.

With the agreement of Union to be bound by the following conditions, the parties accept that, in the context of these DSM payments, the Company's request for prior approval for potential DSM payments to Union Energy is appropriate:

1. No payments will be made to Union Energy as part of the Company's DSM programming unless Union Energy qualifies for such payments pursuant to an open tendering or RFP process put out with respect to the specific DSM program initiative for which such incentive payments are to be made. An open tender is one which is broadly circulated (at least as contemplated in the agreement under D.5.5., above).

2. The details of the process adopted for, and the results of, any tender/RFP in which Union Energy is qualified for receipt of any payments from the Company will be filed with the ERO and as part of the Company's rate case filings.

3. The Company agrees that any DSM transactions with Union Energy will be subject to the Code of Conduct in place from time to time and applicable to affiliate transactions. The Company commits to continuing to ensure that all Union channel managers and/or account representatives involved with any

DSM programs in which Union Energy is involved continue to be apprized of the Code of Conduct.

ii) Part VI.1 Tax Transfers

Under section 191.3 of the Income Tax Act, Union Energy and Westcoast are able to transfer Part VI.1 tax liabilities to Union. Union Energy and Westcoast Energy indemnify Union against any cost or expense related to these transfers. Union has sought and received repetitive approval from the Board for tax liability transfers related to Union Energy Class 1, Series 2, Westcoast 8.08% Series 2, and Westcoast 6.90% Series 4 preferred shares in previous rate cases. Union is seeking repetitive approval for Westcoast Series 5 and Westcoast Series 6. A summary of the amounts to be transfered with respect to the 1998 and 1999 tax years is provided below.

	1998	1999
UE Class 1, Series 2	.360	.360
WEI Series 2, 8.08%	3.878	3.878
WEI Series 4, 6.90%	3.450	3.450
WEI Series 5, 4.90%	3.920	3.920
WEI Series 6, 4.72%	1.919	2.360

The parties agree that Union's evidence on this issue should be accepted.

iii) Directors Fees

Union's Board of Directors includes four officers of Westcoast. The fees earned by these directors are the same as those paid to Union's other directors and are paid to Westcoast on their behalf. Union seeks repetitive approval associated with the payment of these Directors fees.

The parties agree that this item is one which Union, in its discretion, can manage within the agreed upon total O&M envelope.

Evidence References:

1. D1/T6 Written Direct Evidence of Ms. Elliott, Messrs. Byng, Hanbidge and Reaume

D.7.4. Costing Methodology and Reporting

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG: Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union is proposing to provide business support services to St. Clair Pipelines (1996) Ltd. ("SCPL"), Union Energy Canada Limited Partnership ("UE"), Centra Transmission Holdings Inc. ("CTH"), Centra Pipelines Minesotta Inc. ("CPM"), Enlogix CIS Inc. ("Enlogix"), Westcoast Energy Inc. ("WEI"), Centra Gas British Columbia Inc. ("CGBC"), Centra Gas Manitoba Inc. ("CGM"), Westcoast International ("WEI Int"), and Westcoast Energy Capital ("WEI Cap"). Union has provided services previously to SCPL, UE, CTH, CPM, Enlogix, WEI, and WEI Int. Services to CGBC, CGM, and WEI Cap are planned to commence in 1999.

Previously, different methodologies had been applied and approved by the Board to determine the non-utility allocation for services to affiliates. In E.B.O. 177-17, a fully allocated costing and transfer pricing approach had been introduced. The fully allocated costing methodology was a refinement of the cost driver approach in that it incorporated asset carrying costs. This approach facilitates a comparison to market prices for similar services. Transfer pricing is used to record the transactions at values which reflect "fair market value" based on the standards developed and accepted internationally under the "arm's length principle". The determination of a transfer price is as follows:

- Where a comparable service exists, the transfer price is set equal to the fully loaded cost with a market comparable return when the fully loaded cost falls within the market price range. To the extent that the fully loaded cost exceeds the upper limit of the market price range, the transfer price is set equal to the upper limit. If this cost is less than the lower limit of the market price range, the transfer price is set equal to the lower limit.

- Where no comparable service exists, the transfer price is set at the fully loaded cost plus a market comparable return.

- Where a comparable return cannot be determined, the transfer price is set at the fully loaded cost including rate base carrying costs.

Union proposed to move to a common costing and pricing methodology for these services and to support these transactions with service level agreements between Union and each affiliate. Union has indicated that services will only be provided where doing so reduces the costs that would otherwise be recovered from ratepayers. The benefit to ratepayers is that the costs recovered through the provision of services are greater than the reduction in costs if the service was not provided.

Exhibit J13.D7.26 provides a summary of the O&M budget by Administrator, the determination of the fully loaded costs, the transfer price, the driver volumes, and the charges to each affiliate by service.

The parties agree that Union's evidence on this subject should be accepted as filed without prejudice to the parties addressing the costing methodology in the future.

The amounts proposed to be charged to each affiliate is provided at D1/T6/App A and is summarized below:

($000)

Charges:	***1998***	***1999***
SCPL	2,166	1,849
UE	812	4,268
CTH	186	487
CPM	174	160
Enlogix	496	803
WEI	92	267
CGBC	-	23
CGM	-	59
WEI Int	-	25
WEI Corp	-	10
	3,925	7,952
Other	-	2,504
	3,925	10,456

In E.B.O. 177-17, Union proposed to provide $6.8 million in services to UE starting in 1999. UE has since determined that it will require services of $4.3 million. The reductions were primarily due to changes in UE's approach to Information Technology. Further details regarding this reduction were also provided at J1.D7.191. Given that the provision of services to UE comprise part of the $12 million in savings associated with separation, Union, as part of its commitment to the separations savings target, has included a $2.5 non-utility allocation as shown above.

The parties agree that Union can provide, as part of managing within the agreed upon total O&M envelope, up to $7.952 million in services to specific affiliates as summarized in the table above. In addition, and as outlined above under Section D.2, the parties support Union's proposal to engage in affiliate transactions up to the shortfall amount subject to Union's commitment to cost the services consistent with the transfer pricing methodology discussed above and to report the details of any additional transactions to the Board.

Evidence References:

1. D1/T6 Written Direct Evidence of Ms. Elliott and Messrs. Byng, Hanbidge, and Reaume
2. J1.D7.191
3. J13.D7.26

D.7.5. Compliance with the Interim LDC Code of Conduct

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; and Energy Probe.

Union's evidence at D1/T12 reports on three items which arise from the interim LDC Code of Conduct:

1. Establish a procedure for addressing complaints

2. File the results of annual compliance reviews

3. File an annual summary of complaints

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T12 Written Direct Evidence of Mr. Battista
2. J13.D7.30; 31; 32

D.8. Deferral Accounts

D.8.1. Tax Refund

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; Ontario Hydro; TCPL; TCP; Northland Power; Energy Probe; and Pollution Probe.

By Order dated July 14, 1998 (Board File No. U.A. 124), Union established a deferral account to record the impact of an agreement with Revenue Canada regarding the treatment of compressors and related equipment used primarily for the transmission of gas for third parties or the development of underground storage. The December 31, 1998 balance is forecast to be a credit of $27.159 million and Union is proposing to dispose of this balance by way of a one-time adjustment along with all other December 31, 1998 deferral account balances.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1.T4 Written Direct Evidence of Ms. McGrath
2. D1/T8 Written Direct Evidence of Mr. Byng

D.8.2. Year 2000

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; Nova; Ontario Hydro; TCPL; TCP; Northland Power; Energy Probe and Pollution Probe.

In its updated (blue page) evidence, Union indicated that the operating costs associated with addressing the Year 2000 issue were $6.4 million, $10.1 million, and $0.4 million for 1998, 1999 and 2000, respectively. Union also indicated that it would incur capital costs of $2.9 million and $0.8 million in 1998 and 1999, respectively. Union's 1999 test year cost of service reflected $10.1 million in operating costs and carrying costs associated with the original capital spending estimate of $1.5 million in 1998.

By Order dated October 21, 1998 (Appendix L), the Board authorized the establishment of a deferral account to record the costs associated with addressing the issue for 1998 and indicated that the continuation of the account beyond 1998 was a matter to be considered in the E.B.R.O. 499 proceeding.

By letter dated October 27, 1998 (Appendix M), Union applied for the Board's approval of an affiliate transaction authorizing the payment by Union to Westcoast for Year 2000 project office costs. The services provided by the Westcoast Year 2000 Project Office are complementary to the work that Union has undertaken to address the year 2000 issue. The charges to Union are projected to be $273,000 and $114,000 for 1998 and 1999, respectively. Union is seeking no recovery of the 1998 amount and the 1999 amount will be recorded in the deferral account consistent with the agreement discussed below.

Union has proposed that the deferral account be used to record the 1998 operating costs and that the account be extended to record any variances in 1999 operating costs from the level included in rates along with any costs incurred during 2000. Union also proposed recovery of the December 31, 1998 balance as part of the disposition, in this proceeding of all other December 31, 1998 deferral account balances.

Intervenors expressed concerns respecting Union's request to recover the full amount of any 1998 costs incurred as well as the level of the 1999 costs as compared to the costs approved by the Board for recovery in the Consumers' Gas E.B.R.O. 497 Decision with Reasons. Union expressed its view that the costs are to be incurred for the benefit of customers and are reasonable and are appropriately recovered from customers in a manner which would minimize any retroactivity.

Union indicated to parties that its most recent forecast of costs to be spent in 1998 relating to its Year 2000 efforts is $4.2 million. Union also noted that its forecast of total Year 2000 operating costs of $16.9 million over the 1998 - 2000 period was unchanged and that the most recent forecast of 1998 costs reflected a shift in the timing of certain costs from 1998 to 1999. Parties agreed that 75% of the actual 1998 costs incurred up to a maximum of $3.2 million should be disposed of as part of the 1998 deferral account dispositions. Parties agreed that a reasonable amount to be recovered in 1999 rates was $7.6 million which represented a compromise between Union's forecast costs for 1999 of $10.1 million and the costs approved for recovery by the Board in E.B.R.O. 497 of $6.2 million.

Finally, the parties agree that the variance account approved by the Board for 1998 should be extended to cover the 1999 - 2000 period. The variance account will record the difference between the total Year 2000 operating costs incurred and the sum of those recovered by way of 1998 deferral account disposition and through 1999 rates.

Evidence References:

1. D1/T16 Written Direct Evidence of Mr. Hoey
2. D1/T8 Written Direct Evidence of Mr. Byng
3. Agreement, Appendix L
4. Agreement, Appendix M

D.8.3. Property Tax

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; TCPL; TCP; Northland Power; Energy Probe; and Pollution Probe.

By letter dated January 22, 1997, Union applied to the Board for the establishment of a deferral account to record the cost consequences resulting from the Government of Ontario's enactment of Bills 106 and 149. Bills 106 and 149 amend the Assessment Act, the Municipal Act and other statutes in relation to local government financing and are expected to result in legal fees, consultant costs and higher property tax expenses. By letter dated August 14, 1998, the Board indicated that the application should be considered in this proceeding.

Union estimated that the impact of Bills 106 and 149 to be an increase to its property tax expense of $3.3 million in 1998 and also included an estimated impact in its 1999 cost of service. At J1.D3.217, Union indicated that there have been delays in receiving its final tax billings for 1998 and that some final bills may not be received until early 1999.

The parties agree that the requested deferral account should be approved to record the difference between Union's actual property tax expense paid in 1998 and its budget of $42.342 million (D4/T6/S1) and that no amounts relating to legal or consulting fees in respect of the new legislation will be recorded in the account. The parties also agree that the actual amount recorded in the account as at December 31, 1998 be recovered from ratepayers as part of the disposition of Union's other deferral account balances.

With respect to 1999, the parties agree that given the magnitude of municipal restructuring that is occurring, there is uncertainty regarding the impact on Union's 1999 cost of service. As a result, the parties agree that Union's 1999 property tax forecast should be reduced by $2.0 million to $47.035 million and that the deferral account should be extended to record the difference between Union's actual property tax expense paid in 1999 and the $47.035 million amount included in rates.

Evidence References:

1. D1/T8 Written Direct Evidence of Mr. Byng
2. D1/T17 Written Direct Evidence of Mr. McKellar
3. D3 & D4/T6/S1 Comparison of property and capital taxes
4. J1.D8.217 Interrogatory response

D.8.4. Rental Water Heater Deferral Account

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; CAESCO; Comsatec; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and Energy Probe.

Union's evidence proposed to dispose of the balance in this account to the shareholder and to close the account. Union's proposal was grounded in the position that the rental rate increase was implemented in contemplation of separation and would not have occurred in absence of separation. In the Board's E.B.O. 177-17 Decision with Reasons, the Board required that the company absorb all one-time costs related to affecting the separation of Union's ancillary programs in order to hold ratepayers harmless as a result of separation. In Union's view, both the one-time costs and the rental rate increase were implemented in contemplation of separation and would not have occurred in the absence of separation.

Intervenors took the position that had the rental rate increase been implemented during a time that rates were being set, ratepayers would have received the benefit.

The parties agree that the December 31, 1998 balance in the water heater rental revenue deferral account, currently estimated to be $9 million, should be disposed of to the benefit of ratepayers.

Evidence References:

1. D1/T11 Written Direct Evidence of Mr. Birmingham
2. D1/T8/p5 (Updated) Written Direct Evidence of Mr. Byng
3. J1.H12.328
4. J1.D8.223

D.8.5. Other Non-Gas Supply Deferral Accounts

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; CAC, the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; NRG; WGSPG; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe.

Attached as Appendix H is a schedule that summarizes all of Union's deferral accounts in the same sequence as Union's evidence at D1/T8/App A (forecast balances) and H3/T15/S2 (allocation to rate classes). The background to each account is provided at D1/T8, and Appendix H provides cross-references to other areas in Union's prefiled evidence where the accounts are addressed. In addition, Appendix H summarizes the forecast amounts as at December 31, 1998 to be disposed to customers, indicates which accounts are to be established through this proceeding indicates, whether the account is proposed to continue or be closed after disposition, and provides cross-references to other sections of this agreement where the account is addressed.

No issues were raised by any party in relation to these accounts during the settlement negotiations. Accordingly the parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T8 Written Direct Evidence of Mr. Byng
2. Agreement, Appendix H

D.9. No issue listed on issues list

D.10. No issue listed on issues list

D.11. Deferred Tax Drawdown

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of

Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power; Energy Probe.

In E.B.R.O. 493/494, the Board accepted Union's proposal to naturally drawdown its accumulated deferred tax balance. The Board also directed:

> "Union shall establish the necessary accounting and audit system to ensure the deferred tax drawdown and its allocation into rates is tracked and reported in future rates cases. Following the proposed amalgamation, the Companies shall ensure in its cost allocation and rate design that the benefits and costs flow only to those customers who contributed to the accumulated deferred tax pool."

Union's evidence at D1/T4, provides the drawdown schedule adjusted for the impacts of actual 1996 activity, separation, and the reclassification of compressors addressed at Section D.8.1 of this agreement.

At J31.D7.16, Union indicated that the 1998 drawdown had been postponed as 1998 was not a test year for rate-making purposes. Under Union's proposed drawdown schedule the 1998 amount will be drawn down in the final year.

The allocation of the deferred tax drawdown is addressed at Section G.5 of this agreement.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T4 Written Direct Evidence of Ms. McGrath.
2. J31.D7.16 Interrogatory Response

D.12. GISB

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power and Energy Probe.

At D1/T18, Union outlined its proposal to conduct all gas transactions in energy units of measure with the exception of end-use consumption transactions at the customer meter. The reasons for this change include: (i) standardization/ compliance with GISB recommendations; (ii) reduction in administrative effort/complexity; and, (iii) simplification of transaction processing and gas management. In cases where large quantities of gas are metered and consumed, it is possible to energy balance or adjust these volumes. A separate energy measurement proposal has been submitted to address energy balancing for large industrial customers at C1/T2 (Section C.4.2).

Changes and amendments will be required for the following: (i) Union's rate schedules (T-1, T-3, R1, M12, M13, C1); (ii) Centra rate schedules (01A, 10, 20, 30, 100); and, (iii) S&T and Direct Purchase Contracts. In addition, the movement to transacting in energy will require modifications to Union's existing computer systems.

The Company projects capital spending in the amount of $0.2 - $0.3 million to prepare its Gas CARE computer for TCPL's conversion to energy unit measurement and an additional $0.1 million on Gas CARE in 1999 to handle Union's conversion.

Further detail regarding the impacts of transacting in energy on the various rate schedules is discussed at Section H.11.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T18 Written Direct Evidence of Mr. Safranyos
2. C1/T2 Written Direct Evidence of Messrs. Rogers and Simpson
3. H1/T2 Written Direct Evidence of Messrs. Packer and Pankrac
4. H3/T5/S1 Proposed 1999 rate schedules - GISB

D.13. Large Corporations Tax

The following parties take no position on this issue: CAC; Alliance; CEED; City of Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Nova; Tractebel; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; Gas Metopolitain; Consumersfirst; Northland Power; and ECNG.

It was proposed that Union determine its utility Large Corporations Tax on a stand-alone basis. Under this approach, Union would utilize a $10 million capital budget deduction which would reduce is tax provision by $0.023 million.

Union has agreed to this proposal for the determination of 1999 cost of service.

Evidence References:

1. J21.D1.8

E. COST OF CAPITAL

E.1. Capital Structure

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

Union's evidence filed at E1/T1, along with the expert evidence of Ms. McShane at E2/T1, recommended a capital structure consisting of a 35% common equity component and a 3.8% equity like preferred share component. Union's evidence supported these capital structure recommendations based on a recognition of the business and financial risks facing Union and the need to ensure sufficient financing flexibility over a range of interest rates.

Dr. Cannon, retained by Board Staff to express an opinion on the appropriateness of Union's proposed capital structure, accepted Union's request for a 35% common equity ratio (p. 3) and further accepted the proposed equity-like preferred share capital component (p. 34).

The Ontario Coalition Against Poverty filed evidence from Professors Booth and Berkowitz who expressed the view that, in their judgement, Union is of similar risk to Consumers' Gas and recommended a 33% common equity component for Union which was consistent with their prior views on the appropriate capital structure for Consumers' Gas (p.5). They also indicated (p. 24) that Union's proposal respecting a 3.8% preferred share capital structure component was consistent with their own views and recommendations as expressed in the past.

Union pointed out that based on the common equity ratio approved by the Board for the former Union and Centra in E.B.R.O. 493/494 of 34% and 36%, respectively, that Union's weighted average approved capital structure reflecting the merger of Union and Centra was approximately 34.5%.

The parties agree that Union's evidence on this subject should be accepted and that a 35% common equity component is justified on the basis of the business and financial risks facing Union and further by an assessment of the relative risk of Union (new) as compared to Consumers' Gas.

Evidence References:

1. E1/T1 Written Direct Evidence of Messrs Bingham and Brazier
2. E2/T1 Written Direct Evidence of Ms. McShane, Fosters Associates Inc.
3. E2/T2 Written Direct Evidence of Mr. Carmichael

E.2. Cost of Equity - Application of Formula (Risk Premium)

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; TCPL; TCP; Northland Power.

Union's application sought a return on equity, based on a formula ROE mechanism, consisting of a 4.5% risk premium at a 6% long Canada. Union's evidence is that the merged entity is of somewhat higher business risk than the old Union because the customer mix reflects an increase in the merged entity's reliance on industrial volumes relative to the old Union Gas and because the merger adds Centra's less diverse base of industrial customers.

Union's evidence is that in the application of a formula based return, the Board should have regard to the changes in the relationship between returns on equity and bond returns which are occurring in a period of low inflation. Specifically, as investors have become increasingly confident that inflation is unlikely to reignite, the size of the purchasing power premium required by bond investors has essentially disappeared, increasing the spread between the yield on bonds and the expected return on equities.

Union's evidence also addressed the issue of interest coverage ratios. In order to be able to issue funded debt, Union's trust indenture requires that it have an interest coverage as calculated under the trust indenture in excess of 2. Moreover, Union's interest coverages, as calculated by DBRS and CBRS, is important to its investment rating, and to its ability to access capital markets. In this regard, Union drew to intervenors' attention the October 2, 1998 decision of CBRS to downgrade the investment rating of Newfoundland Power Inc. on the basis of the impact, including the impact on interest coverage ratios, of a formula based ROE mechanism which would grant Newfoundland Power a regulated ROE below industry norms (Appendix N).

Board Staff filed evidence of Dr. Cannon on the question of return on equity. Dr. Cannon expressed the view that the merger was risk neutral in relation to Union's overall business risk and that there was no net change in the relative business risks facing the regulated utility operations of Union - new and old - versus Consumers. He would expect an equity return differential of no more than 15 basis points would compensate investors for business risks which he views as "marginally greater" than Consumers. At a 6% long Canada, Dr. Cannon recommends a rate of return of 3.35%.

The Ontario Coalition Against Poverty filed evidence from Professors Booth and Berkowitz who expressed the view that full ROE testimony was not warranted in view of the Board's conclusion, as interpreted by them, that at a 7.25% long Canada, the appropriate risk premium for Union was 3.4 to 3.65%. (At a 6% long Canada this is an equity risk premium of 3.71 to 3.96%.) They also conclude that, on the basis of their analysis from first principles, the appropriate equity risk premium, assuming their recommended common equity ratio of 33%, would be 2.25%. It was clarified during the negotiations that this risk premium was consistent with the 200 basis points they recommended for Consumers' Gas in E.B.R.O. 495 at a common equity ratio of 35%.

In reply, Union filed evidence of Don Carmichael, Managing Director of Scotia Capital Markets. Amongst other things, Mr. Carmichael's evidence noted the market's perception that Union continues to be riskier than Consumers' Gas, in particular because Union's industrial exposure continues to be a significant issue from the viewpoint of both lenders and equity investors. He noted the increase in new issue spreads since Union's medium term note issue in July of 1998 and questioned any assumption that the reduction of Union's interest coverage ratio for trust indenture purposes would be a short term problem. Finally, he noted that given the 4.45% premium above long Canada's expected to be associated with cogeneration portfolio investments (whose risks are below those of Union) an equity risk premium for Union should be at least 4.5% over long Canada's.

Intervenors did not accept the extent of the equity risk differential between Consumers and Union, as outlined in Union's evidence. However, in light of that evidence, and in light of current market indicators, including that Union's credit rating according to both CBRS and DBRS is one level below that of Consumers, and that the market continues to price Union's debt at spreads in excess of those of Consumers, the parties were prepared to accept an equity risk differential between Consumers and Union of 15 basis points, which is within the range suggested by Dr. Cannon. In addition, Union noted during the negotiations that the October consensus forecast of 10 year bond yields and the 30 - 10 year spreads as reported in the Financial Post combined to produce a 30 year long Canada bond yield of 5.70%. This long Canada bond yield and the agreed to 15 basis point differential between Union and Consumers would produce an ROE using the Board's formula adjustment mechanism of 9.64% (ie. 394 basis point risk premium at a 5.70% long Canada yield) which is only 3 basis points greater than Union's 1999 embedded cost of long term debt of 9.61% (E3/T1/S1). Union noted its concerns respecting the extremely tight differential between the ROE and the embedded cost of long term debt and that Union could not support a risk premium that, at current long Canada bond yields, would produce an ROE below the embedded cost of long term debt.

All parties (other than Pollution Probe) accept that for 1999, the ROE for Union, as calculated on the basis of the Board's formula adjustment mechanism, should be 3.86% at a 6% long Canada.

The interest coverage ratios which result under Union's trust indenture are as follows:

ROE	1999	2000	2001	2002	2003
1. 9.86% (6.0 + 3.86)	2.10	2.04	2.11	2.17	2.18
2. 9.64% (5.70 + 3.94)	2.08	2.02	2.09	2.15	2.16

The parties further agree that Union's return on equity should be determined in accordance with the Board's Draft Guidelines on a Formula - Based Return on Common Equity for Regulated Utilities dated March, 1997. For Union, this will entail the determination of a 30 year long Canada bond yield calculated as the sum of the November consensus forecast average 10 year Canada bond yield and the 30 year to 10 year bond yield spreads as reported in the Financial Post for the period October 15 to November 15.

Evidence References:

1. E1/T1 Written Direct Evidence of Messrs Bingham and Brazier
2. E2/T1 Written Direct Evidence of Ms. McShane, Fosters Associates Inc.
3. E2/T2 Written Direct Evidence of Mr. Carmichael
4. K1 Evidence of Dr. Cannon
5. K22.1 Evidence of Professors Booth and Berkowitz
6. Agreement, Appendix N

E.3. Cost of Debt Including Preferred Shares

The following parties take no position on this issue: Alliance Gas Management; CENGAS; OAPPA; Tractebel; Consumersfirst Ltd.; the "Alliance"; CEED; City of Kitchener; Consumers; GEC; HVAC; CAESCO; Comsatec; Ontario Hydro; Pollution Probe; TCPL; TCP; Northland Power.

As Union proposed no long-term debt issue in the 1999 test year, the only issues addressed by the parties were the cost of Union's short-term debt and the cost of the proposed $100 million equity-like preferred share issue.

Union's evidence at E1/T1, p. 12 and E3/T1/S5 projected a cost of short-term debt of 5.25% for 1999. Union's cost of short-term debt reflects a weighted average rate associated with 94% commercial paper and 6% bank debt. The evidence on the 90 day T-Bill and prime rates used in the calculation of Union's cost of short-term debt is as follows:

	90 day T-Bill	Prime
Union	4.80%	6.67%
Dr. Dungan	4.90%	-
Dr. Cannon	4.50%	6.35%

Dr. Cannon projected an all in cost of Union's short-term debt of 4.94%.

Based on the evidence and the range of interest rates provided, the parties agree to a short-term debt rate of 5.05% for 1999.

An adjustment mechanism with respect to subsequent changes in short term interest rates has not been provided given the status of the Agreement as outlined at page 1 and also given the relative insignificance of the short term debt component in Union's 1999 utility capital structure.

Union's evidence at E1/T1 and E1/T1 Updated projected the cost of preferred shares to be in the range of 5.0 - 5.50%.

As described above under Section E.1, all parties agree to Union's preferred share equity component. Union informed all parties during the settlement negotiations that it was Union's intention, if possible, to complete the preferred share issue prior to the end of calendar 1998. Accordingly, Union committed to update the 1999 revenue requirement resulting from this agreement for any difference between the actual preferred share cost and the 5% rate reflected in the forecast in respect of the $100 million preferred share issue. Accordingly, all parties agree that there are no remaining issues respecting the cost of the preferred share issue.

Evidence references:

1. E1/T1 and E1/T1 Updated - Written Direct Evidence of Messrs Bingham and Brazier
2. K1.1 Written Direct Evidence of Mr. B. Cannon
3. K1.2 Written Direct Evidence of Peter Dungan
4. E3/T1/S5 Combined Weighted Average Cost of Short-term Debt

F. NO ISSUES ON ISSUES LIST

G. COST ALLOCATION

G.1. Separation of Merged Costs by Operational Area

G.1.1. O&M Expense Allocation Methodology

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

Two cost allocation studies have been completed to support Union's 1999 rate proposals; Union Gas - Northern & Eastern Operations Area (previously Centra) and Union Gas - Southern Operations Area (previously Union). Union's O&M budget has been prepared on a consolidated/merged basis by budget area administrators and allocated between the Northern & Eastern Operations Area and the Southern Operations Area using the Metzler Cost Separation Study Model (used in E.B.O. 177-17). The Metzler model replaces the Arthur Anderson model previously used to allocate costs between Union and Centra. The two studies produce similar results.

During the ADR negotiations, parties were provided with a schedule (Appendix O) identifying how the O&M budget was split between the Northern & Eastern Operations Area and the Southern Operations Area.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p2-4 Written Direct Evidence of Messrs. Packer and Kitchen

2. J1.G1.274
3. Agreement, Appendix O

G.1.2. Proposal For Merger of Cost Allocation Studies

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

On June 11, 1997 the LGIC approved the proposed amalgamation of Centra Gas Ontario Inc. and Union Gas Limited. During the E.B.O. 195 proceeding (prefiled evidence page 8) Centra and Union committed to filing, in the next rate case proceeding, a summary identifying the cost allocation methodology differences between the two companies and a plan for dealing with these differences. Both of the existing cost allocation methodologies have been approved by the Board in the past. A comparison of the treatment of cost elements at each step of the cost allocation process has been provided at G1/T1/App A-G1/T1/AppC. Union stated at G1/T1/p6 that a merged cost allocation study will be filed in the next rates case.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p6 Written Direct Evidence of Messrs. Packer and Kitchen

G.1.3. Appropriateness/Cost of New Cost Allocation Model

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union's evidence at G1/T1/p3-4 explains that, in preparing for the merger, Union evaluated alternative cost allocation models, including the possibility of modifying either of the two existing models (Centra and Union), the requirements for information resulting from Union's M12 cost allocation study, the need for flexibility in the number of service and cost classifications, and the internal resources available. Based on this evaluation, a decision was made to purchase a cost allocation model from R. J. Rudden Associates.

The parties agree that Union's evidence on this subject should be accepted.

On a separate but related matter, OCAP is of the view that access to Union's cost allocation model is required in order to evaluate the impending merger of the two separate cost allocation studies. Consequently, OCAP wishes to pursue the issue of access to an electronic version of the cost allocation model in the hearing.

Evidence References:

1. G1/T1/p3 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.276
3. J14.G1.91
4. J21.G2.2-3
5. J22.G2.80
6. J31.62.33-42

G.1.4. Northern and Eastern Operations Area Storage and Transmission Costs

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

The cost of storage and transportation services previously contracted for by Centra from Union under the M12 and C1 rate schedules have been identified in a new "rate class" called "UG-Northern and Eastern" in the Southern Operations Area cost allocation study. These costs are then incorporated into the Northern and Eastern Operations Area cost allocation study. As such, the costs allocated to the Northern and Eastern Operations Area are consistent with the costs incurred previously when the former Centra contracted with Union directly for M12 and C1 service.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p5 Written Direct Evidence of Messrs Packer and Kitchen

G.2. Southern Operations Area Cost Allocation Proposals

G.2.1. Distribution Capacity Cost Allocation

The following parties support Union’s position on this issue: IGUA; Nova; and OAPPA.

The following parties oppose Union’s position on this issue due to the resulting shift in costs: CAC; the “Consortium”; OCAP; Energy Probe; and Pollution Probe.

The following parties take no position on this issue: “Alliance”; CEED; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; Ontario Hydro; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Under Union’s current methodology, distribution capacity costs in the Southern Operations Area are allocated to rate classes based on the peak demand of all customers, including those customers who are served directly from transmission facilities. Union’s proposal to allocate these costs in proportion to the demands of only those customers served using distribution facilities is explained at G1/T1/p8. The proposed change results in a shift of approximately $6.8 million of costs from contract customers to M2 customers. In implementing final 1997 rates resulting from the Board’s E.B.R.O. 493/494 Decision, rates were based on Union’s rate proposals as filed.

There is no agreement on this issue.

Evidence References:

1. G1/T1/p8 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275
3. J1.G1.278
4. J1.G2.280-282
5. J31.G2.43
6. J38.19

G.2.2. Allocation of Unaccounted for Gas (UFG Study)

The following parties support Union’s position on this issue: the “Consortium”; IGUA; Nova; and OAPPA.

The following parties oppose Union’s position on this issue and are instead proposing that Union install additional custody transfer quality meters along the

Dawn-Trafalgar system at a cost of approximately $2 million: Kitchener; and Consumers.

OCAP reserves its position on this issue.

The following parties take no position on this issue: CAC; "Alliance"; CEED; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the settlement conference in E.B.R.O. 493/494 Union agreed to undertake a study which would examine whether the methodology used to allocate unaccounted for gas ("UFG") was appropriate. This study, completed by Harrington & Hrehor Energy Consulting Group and Radian International L.L.C. is filed at G2/T1. Based on the consultant's recommendations which were not to change Union's unaccounted for calculation and allocation procedures (G2/T11/p.5), Union is not proposing to install additional custody transfer quality meters or to change its current allocation methodology which uses storage injections and withdrawals and delivery volume to allocate unaccounted for gas (UFG).

There is no agreement on this issue.

Evidence References:

1. G2/T1 Written Direct Evidence of Harrington & Hrehor Energy Consulting Group and Radian International L.L.C.
2. J6.G2.15.1-19.3
3. J22.G2.81

G.2.3. Allocation of Storage Deliverability Costs

The following parties support Union's position on this issue: IGUA; OAPPA; OCAP; the "Consortium"; and Nova.

The following parties oppose Union's position on this issue due to the resulting shift in costs: Consumers.

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In E.B.R.O. 493/494, the Board indicated that the storage deliverability allocation units should reflect the increase in storage deliverability capability generated by the Bentpath-Rosedale Storage Project. Union proposes at G1/T1/p11-12 to use its existing methodology which allocates storage deliverability costs in proportion to forecast storage deliverability demands. In Union's view, this approach results in all customer classes receiving an allocation of "excess" storage deliverability costs. Union is not proposing to allocate all of the costs associated with deliverability in excess of the forecast deliverability demand to in-franchise customers given that:

i) ex-franchise (M12) customers have benefited from the Bentpath-Rosedale Storage Project through lower rates, and

ii) any margin earned from the sale of short-term storage deliverability will be allocated to in-franchise and ex-franchise customers in proportion to the allocation of storage deliverability costs.

There is no agreement on this issue.

Evidence References:

1. G1/T1/p11-12 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G2.283
3. J1.G2.284
4. J6.G2.1.1-6
5. J6.C5.2.1-3

G.2.4. Allocation of Gas Supply Load Balancing Costs

The following parties support Union's position on this issue: Kitchener and IGUA.

The following parties oppose Union's position on this issue due to impact on M2 rates: CAC; OCAP; the "Consortium"; and Energy Probe.

The following parties take no position on this issue: "Alliance"; CEED; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

The 1999 updated test year forecast includes $7.561 million in short-term supply costs. These costs were determined by comparing the 1999 updated forecast cost of gas supply with what the forecast cost of gas would be if it was entirely underpinned with Alberta commodity and TCPL FT capacity. Included in the short-term supply costs are $5.931 million of gas supply related load balancing costs attributable to direct purchase customers. These costs were calculated by multiplying the winter/summer spot differential by the forecast winter spot volume. These costs were allocated to each rate class in proportion to the forecast supply/demand direct purchase imbalance on March 31, 1999. The remaining $1.630 million of short-term supply costs were assigned to the M2 general service rate class. This methodology is unchanged from that utilized by Union and approved by the Board in E.B.R.O. 494-06. In E.B.R.O. 494-06, the short-term supply costs were forecast at approximately $21.4 million and were broken down into a $6.9 million load balancing component and a $14.5 million flexibility related component.

As identified at J1.G2.286, Union reviewed the allocation of load balancing and flexibility related costs as approved by the Board in E.B.R.O. 494-06 and has proposed to retain this methodology for the 1999 test year. Given the impending implementation of new legislation, the continuing efforts of the MDTF to address various issues including unbundling and load balancing, and the potential for the LDC's to develop an SSO, Union considered it necessary to devote resources to these initiatives rather than to investigate a further short-term proposal respecting balancing and flexibility related costs that could be significantly affected by the outcome of these initiatives.

Parties were provided with a schedule identifying the forecast March 31, 1999 direct purchase imbalance by rate class during the ADR discussions. This schedule has been attached as Appendix P.

There is no agreement on this issue.

OAPPA reserves their right to argue this issue.

Evidence References:

1. G1/T1/p3-4, UPDATED Written Direct Evidence of Messrs. Packer and Kitchen
2. G1/T1/p13 Written Direct Evidence of Messrs. Packer and Kitchen
3. D1/T13 Written Direct Evidence of Messrs. Bracken, Stedman, Killeen, and Poredos
4. J1.G2.285-286
5. Agreement, Appendix P

G.2.5. Allocation of DSM Costs

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO;

Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG;   Consumersfirst Ltd.; Northland Power; and ECNG.

The allocation of DSM costs reflects the customer classes targeted by each DSM program.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p13-14 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G3.294-295

G.2.6. Allocation of Dawn Compressor Costs

The following parties support Union's position on this issue: the "Consortium"; IGUA; OCAP; OAPPA; and Nova.

The following parties oppose Union's position on this issue due to the impact on M12 rates: TCPL.

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; Ontario Hydro; Pollution Probe; TCP; Alliance Gas Management; WGSPG;   Consumersfirst Ltd.; Northland Power; and ECNG.

In E.B.R.O. 493/494 Union was directed to examine the allocation of Dawn Compressor costs and to define in clear terms the exact design day compression requirements for storage and transmission services including those for Tecumseh Gas Storage.

Following the E.B.R.O. 493/494 Decision, Union examined the allocation of Dawn Compression costs and determined that no change in methodology is warranted. Union is proposing to continue its current methodology of functionalizing compression costs to storage based on the horsepower required to raise the pressure of gas up to 700 psi on design day and to transmission based on the horsepower required to raise the pressure of gas from 700 psi to 895 psi on design day.

Union provided the design day compression requirements for storage and transmission at G1/T1. Union concluded that the existing methodology is appropriate given that;

i) the separation point of 700 psi used to determine whether compression is storage related or transmission related is consistent with the pressure of gas received from connected pipelines, and

ii) it is not possible to specifically assign compressors to storage or transmission services due to the interchangeability of compressors at Dawn, and the use of compressors at Dawn for both transmission and storage purposes.

Union provided additional information on how the horsepower analysis is completed at G1/T1/App D.

By letter to the Board dated November 3, 1998, Union identified that it had agreed to respond to four supplementary interrogatories from TransCanada.

There is no agreement on this issue subject to Union completing the above noted interrogatories.

Consumers also reserves its position subject to responses to above noted interrogatories.

Evidence References:

1. G1/T1/p9-11 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G2.287
3. J28.G2.1-20

G.2.7. Allocation of M9 and T3 Costs

The following parties oppose Union's position on this issue due to the impact on M9 and T3 rates: Kitchener; NRG; and WGSPG.

The following parties support Union's position on this issue: OCAP and IGUA

The following parties take no position on this issue: CAC; "Alliance"; CEED; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; Consumersfirst Ltd.; Northland Power; and ECNG.

Union's (Southern Operations Area) existing cost allocation methodology classifies 50% of the forecast advertising expenditures as customer-related and 50% as commodity-related. Union incurs advertising costs to develop new business and to promote the use of natural gas. In recognition of the M9 utilities incurring their own advertising costs, no customer related advertising costs are allocated to the M9 class. In 1999, the M9 rate class has been allocated $20,000 in commodity-related advertising costs which recognizes the generic benefit provided to M9 customers resulting from Union's natural gas promotion.

T3 is the companion unbundled service to M9. There are currently no customers taking service under the T3 rate schedule.

There is no agreement on this issue.

Evidence References:

1. G4/T1/p10 Written Direct Evidence of Messrs. Packer and Kitchen
2. H1/T1/p11 Written Direct Evidence of Messrs. Packer and Pankrac
3. J21.H5.4

G.3. Northern & Eastern Operations Area Cost Allocation Proposals

G.3.1. Allocation of Storage Costs

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

Union is proposing to allocate storage commodity costs in proportion to winter sales volumes including bundled-T since bundled-T utilize storage. The impact is a decrease in costs allocated to Rate 01 of $434,000 and a decrease to Rate 10 of $61,000, an increase to Rate 20 of $253,000 and an increase to Rate 100 of $242,000.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p14 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275

G.3.2. Functionalization of Heavy Equipment and Capital Leases

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union proposes to functionalize these costs in a manner consistent with other general plant items which are functionalized in proportion to storage and distribution plant. These costs were previously functionalized entirely to storage. The impact of this change is to allocate $0.077 million more costs to Rate 01; $0.167 million less to Rate 10; $0.106 million less to Rate 20, $0.042 million more to Rate 100, $0.035 million more to Rate 16 and $0.119 million more to Rate 25.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p14-15 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275
3. J1.G3.289

G.3.3. Allocation of Taxes

The following parties support Union's position on this issue: IGUA; OAPPA; and Nova.

The following parties oppose Union's position on this issue due to the resulting shift in costs: CAC; the "Consortium"; and Energy Probe.

OCAP reserves its position on this issue.

The following parties take no position on this issue: "Alliance"; CEED; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union proposes to change the manner in which income taxes are allocated in the Northern and Eastern Operations Area. Union proposes to allocate income taxes in proportion to rate base as it is the return on rate base that gives rise to the tax. This is the methodology currently utilized for allocating taxes in the Southern

Operations Area. The effect of this change of this change is to allocate $1.086 million less costs to Rate 01; $1.296 million more to Rate 10, $0.755 million more to Rate 20, $0.444 million less to Rate 100, $0.479 million less to Rate 25 and $0.041 million less to Rate 16.

There is no agreement on this issue.

Evidence References:

1. G1/T1/p15 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275
3. J1.G3.290

G.3.4. Treatment of Distribution Structures Costs

The following parties oppose Union's position on this issue due to the resulting shift in costs: CAC; OCAP; and Energy Probe.

The following parties support Union's position on this issue: IGUA

The following parties take no position on this issue: "Alliance"; CEED; Kitchener; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

As a result of the merger between Centra and Union, plant accounting records were combined. In this process, $21.837 million in gross plant related to field offices has been reclassified from general plant structures and improvements to distribution plant structures and improvements. As a result, Union is proposing at G1/T1/p16 to treat distribution plant structures and improvements in a manner consistent with distribution land for cost allocation purposes. In the absence of a cost allocation change, the costs allocated to Rate 01 customers would decrease by $2.680 million as historically, distribution structures and improvements for the Northern and Eastern Operations Area have included costs relating to structures and fences associated with sales meter and town border stations. These costs have been allocated using average number of customers excluding Rate 01. The effect of Union's proposed treatment is to allocate $0.924 million more costs to Rate 01.

There is no agreement on this issue.

OAPPA reserves their right to argue on this issue.

Evidence References:

1. G1/T1/p16 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275
3. J1.G3.291

G.3.5. Treatment of Unaccounted for Gas

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union proposes to allocate unaccounted for gas to bundled-t and t-service customers as well as sales and buy/sell in proportion to volume. Unaccounted for gas is primarily a result of metering variances and as such should be allocated to all customers.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p17 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.275
3. J1.G3.292

G.3.6. Allocation of WPS Costs to Storage

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the Northern and Eastern Operations Area's cost allocation study, winter peaking service costs (WPS) have been functionalized to storage. This treatment is consistent with the treatment of TCPL STS transportation costs and recognizes that winter peaking service is a substitute for additional TCPL STS.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p18-19 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G1.293

G.3.7. Allocation of DSM Costs

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

DSM costs are allocated in relation to the customer classes targeted by each DSM program.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T1/p13 & 14 Written Direct Evidence of Messrs. Packer and Kitchen
2. J1.G3.295

G.4. Delivery Commitment Credit Proposal

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; Consumersfirst Ltd.; Northland Power; and ECNG.

In the E.B.R.O. 494-06 Decision, the Board directed Union to review the payment of a delivery commitment credit (DCC) for firm obligated deliveries in the next rates case. Union has provided an historical account of the DCC and an evaluation of replacement alternatives at G1/T2/p1-33.

Union pays a DCC on all obligated deliveries at Dawn and Oakville. The DCC is recovered in delivery rates in proportion to design day demand. In 1998 these costs amounted to $24 million.

Union proposes to continue paying a DCC on all obligated deliveries. Union also proposes that the DCC rate be based on both the avoided cost of transmission and storage facilities, using an average of existing M12 storage and transportation rates. On a forecast basis Union is relying on 21 10*6 m*3 of east end deliveries on design day. The effect of Union's proposal is to increase the DCC from its current level of $3.88 10*3m*3 to $4.25 10*3m*3 and results in approximately $27 million in DCC costs in 1999.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T2/p1-33 Written Direct Evidence of Mr. Packer
2. J1.G4.296-301
3. J6.G4.5
4. J14.G4.95
5. J31.G1.31

G.5. Deferred Tax Drawdown Proposal

The following parties take no position on this issue: CAC; "Alliance"; CEED; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; Consumersfirst Ltd.; Northland Power; and ECNG.

Union provided an analysis of alternate methods of allocating the deferred income tax balance and the deferred income tax drawdown at G1/T2/p33-44. In evaluating the various alternatives, Union took into consideration factors related to intergenerational equity, non-discriminatory treatment, competition, use, consistency, and administrative ease. Based on this evaluation, Union proposes to use the plant that existed in calendar 1996, depreciated to each test year period to functionalize the accumulated deferred income tax balance and deferred income tax drawdown to plant account functions (production, storage, transmission, distribution, general, intangible, CIAC, and exploration & development) for each year of the deferred tax drawdown. Union proposes to use the test year allocation values to complete the cost allocation functionalization process (reducing the functions to production, storage, transmission and distribution only) and to allocate the accumulated deferred income tax balance and deferred income tax drawdown to the various rate classes.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T2/p33-44 Written Direct Evidence of Mr. Packer
2. J1.G5.302
3. J1.G1.303
4. J6.G5.9
5. J5.G5.12
6. J14.G5.96

G.6. Impact of Ancillary Business Separation

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In E.B.O. 177-17, Union responded to an interrogatory from Board Staff (Exhibit C1, Question 32) outlining the rate impacts of the separation proposal and the differences in the costs allocated to each rate class. The analyses were done separately for Centra and Union. There was a delivery related revenue requirement increase to Union's in-franchise contract and ex-franchise rate classes of approximately 2%-4%. There was a delivery related reduction for the M2 rate class. The impact on Centra was a delivery related revenue requirement reduction in all rate classes except Rate 10 and Rate 77 which experienced no impact from separation. In completing the analyses required to respond to the interrogatory, Union was not in a position to propose cost allocation methodology changes and revenue to cost ratio adjustments.

As a result of the impacts identified in Exhibit C1, Question 32 Union reviewed the manner in which it allocates deferred income taxes. Union's cost allocation study has generally allocated deferred income taxes in proportion to net plant. There are two primary types of plant accounts that are categorized as Class 8 assets for CCA purposes; 1) rental assets and 2) storage and transportation, compression and measuring & regulating equipment. Under Union's separation proposal, the deferred income tax balance related to rental assets is assigned to the rental asset plant accounts with the net result being less deferred income taxes remaining to be allocated in the cost allocation study to other plant accounts. Prior to separation, if the cost allocation study had allocated deferred income taxes related to rental assets directly to the related plant accounts, the M2 rate class would have been allocated the majority of the rental asset's deferred income taxes. Similarly, if the cost allocation study had allocated the deferred income taxes related to storage and transportation, compression and measuring & regulating equipment directly to the related plant accounts, Union's ex-franchise rate classes would have been allocated the majority of the related compression and measuring & regulating deferred income taxes. When both types of assets and the associated deferred income taxes were included in cost of service any variances resulting from the use of net plant as the basis for allocating deferred income taxes would have been offsetting.

As a result of the separation proposal to remove the deferred income tax balance specifically related to rental assets, Union has calculated the deferred income tax balance related to storage and transportation, compression and measuring & regulating equipment, and proposes to assign these balances to the related plant accounts in the cost allocation study. There is approximately $95 million in deferred income taxes related to storage and transportation, compression and measuring & regulating equipment. Union proposes to directly assign this value to the related plant accounts in the cost allocation study and draw it down naturally.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. G1/T2/p44-49 Written Direct Evidence of Mr. Packer
2. J1.G6.304-306
3. J6.G5.11-12
4. J14.G6.97

H. RATE DESIGN

H.1. Proposed Rates

The following parties oppose Union's position with respect to the timing of dealing with rate seasonalization: Energy Probe; and Pollution Probe.

OCAP reserves its position with respect to rate seasonalization but takes no position on all other issues related to proposed rates.

The following parties oppose Union's position with respect to removing the Rate 25 buy/sell option: the "Consortium"; ECNG.

The following parties oppose Union's position with respect to the design of Rate 100: TCP.

The following parties take no position on these issues: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; Ontario Hydro; TCPL; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

Union did not file any 1999 rate proposals with respect to either seasonalizing general service rates in the Southern Operations Area or implementing a summer rate as advocated by the Ontario Hot Mix Producers Association in E.B.R.O. 493/494 (H1/T1/P18-19) in the Northern and Eastern Operations Area. Union proposes to deal with the issue of seasonalization in the context of rate harmonization and subsequent to changes resulting from further rate unbundling.

Union's evidence at C1/T2/p.18-19 states that historically, customers have been offered the opportunity to supply their Rate 25 volumes under a buy/sell contract. The customer would supply gas at Empress in an amount equal to their total annual consumption (firm and interruptible) at their facility. These supplies and the customers' consumption is targeted to be equal on an annual (contract term) basis such that the customer is not an overall net supplier to the system. These Rate 25 buy/sell supplies at Empress are, in essence, simply part of the overall gas supply portfolio utilized to serve firm customers. There is no link between the supply of Rate 25 buy/sell supplies at Empress and the molecules acquired and used to support the Rate 25 service at the customer's facility. Specifically, Union does not contract for firm transportation capacity to serve interruptible demands. Increased demand on both the Northern and Eastern area's system and TCPL's total system over time have resulted in an increasing reliance on Union acquiring delivered spot gas supplies to support the Rate 25 service. As future direct purchase is facilitated, Union's remaining TCPL capacity will continue to be utilized for new firm direct purchase customers. Given these two conditions, Union proposes to delink the Rate 25 service from a customer's direct purchase arrangement effective November 1, 1999 in order to ensure adequate TCPL capacity remains to accommodate the requirements of the remaining firm customers electing direct purchase. Issues related to interruptible service in the Northern and Eastern Operations area were also addressed in E.B.R.O. 493/494. ECNG opposes removing the buy/sell option from Rate 25. In ECNG's view, this would effectively eliminate and/or deny direct purchase as an option to Rate 25 customers.

Union is not proposing any changes with respect to the design of Rate 100. All customers receiving service, irrespective of the facilities in place to serve them are charged the same delivery rate. TCP opposes the application of Rate 100 delivery rates to them. In TCP's view, they are receiving an "invoicing service" and, therefore, bearing costs that are inappropriately allocated given the service they receive. Union does not share TCP's view as to special circumstances and is of the view that this issue was dealt with by the Board in E.B.R.O. 493/494.

Union was directed to allocate off-peak storage margin in proportion to available capacity. Given the relatively small amount of off-peak storage margin forecast in 1999 ($94,000), in Union's view, there is little benefit to be gained from accurately determining available storage capacity in place of contracted storage entitlement. For administration ease, Union is therefore proposing to allocate off-peak storage margin based on contracted storage entitlement. Union does not expect that the resulting allocation using either of these approaches to be materially different.

Rate 01 and Rate 10 Fort Frances rates were scheduled to be harmonized with overall system rates in the Northern and Eastern Operations Area effective January 1, 1997. As a result of trying to limit the rate impact to individual Fort Frances area customers to less than 10% Union is not proposing to entirely harmonize the last block of Rate 01 and the third and fourth block of Rate 10 in 1999.

Union is proposing to increase the maximum of the Rate 25 delivery range to $27.00/10*3 m*3. Union is also proposing a common minimum gas supply charge for winter and summer service.

There is no agreement on the following issues: timing of dealing with rate seasonalization, removing the buy/sell option from Rate 25, and the design of Rate 100.

OAPPA reserves their right to argue on this issue.

Evidence References:

1. H1/T1 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H1.307-310
3. J1.H6.316
4. J7.D2.2-4
5. J8.C4.1-15
6. J9.H1.15
7. J29.C1.1-16
8. J31.H1.45-51
9. J31.H1.54

H.2. Revenue to Cost Ratios

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

This issue relates to the appropriateness of the proposed revenue to cost ratios. Parties accept the revenue to cost ratios presented at H3/T1/S2 Updated (October 23, 1998) as being reasonable and acknowledge that revenue to cost ratios are a method of representing the results of cost allocation and rate design. Parties will have an opportunity to assess the reasonableness of the revenue to cost ratios as they relate to the cost allocation and rate design adjustments, required to reflect the ADR adjustments as part of the hearing, in the event they are different from those presented at H3/T1/S2 Updated.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p4 Updated Written Direct Evidence of Packer and Pankrac

2. H1/T1/p8 Written Direct Evidence of Packer and Pankrac
3. J1.H2.311
4. J5.G2.10
5. J5.H12.13-18
6. J9.H2.16
7. J14.H2.93
8. J14.H2.98
9. J31.H2.55

H.3. Proposed Harmonization of Rate Schedules and Terms and Conditions

The following parties support Union's position on this issue: the "Consortium"; IGUA; and OAPPA.

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

The only issue raised by intervenors relates to the timeliness of harmonizing Union's General Terms and Conditions of Service with respect to Force Majeure clauses. All other rate integration proposals are dealt with under issue H.13.

Pending the outcome of further discussions pertaining to this issue at Union's Customer Advisory Council, the parties have agreed to the following resolution of the matter: In the event of Force Majeure, as a result of a strike in the Northern and Eastern Operations Area, Union will use its reasonable efforts to provide the customer with the ability to mitigate its gas supply transportation related demand charges, subject to Union determining that the transportation capacity is not required by the overall integrated gas supply plan.

Evidence References:

1. H1/T3 Written Direct Evidence of Messrs. Packer and Pankrac
2. J14.H3.110

H.4. Rate 25 Applicability to Lennox Generating Station (Directive Response)

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the E.B.L.O. 264 Decision, the Board directed Union to provided complete evidence justifying the specific application of Rate 25 as set out in the Gas Transportation Contract with Ontario Hydro, or, as an alternative, propose a different rate or special rate of limited application. In doing so, the Board indicated that, in its view, the collection of costs of a dedicated line and the mitigation of business risk through the use of a minimum annual volume commitment did not conform to the standard terms of Rate 25. At H1/T1/p12 - 15 Union identifies the reasons why the provision of delivery services under Rate 25 to Ontario Hydro's Lennox Generation Facility is appropriate. These reasons include Union's view that the characteristics of service required by Ontario Hydro are consistent with the type of service and eligibility requirements set out for Rate 25 and that Union could not deny a customer access to a rate for which it qualifies.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p12-15 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H4.312-314
3. J9.H4.14

H.5. M9 Changes (Directive Response)

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the E.B.R.O. 493/494 Decision the Board directed Union to review the terms of the services provided to M9 utilities and propose adjustments, as appropriate, to cost allocation and rate design for the M9 rate class. Specifically, the Board acknowledged the desire of Kitchener and NRG to be treated more like storage and transportation customers with respect to the sales promotion and bad debt components of the gas supply administration fee. In paragraph 9.9.15 of the E.B.R.O. 493/494 Decision, the Board found that "as long as Kitchener and NRG take service under the provisions of the rate M9 class as currently defined, they should expect to receive their share of distribution sales promotion and uncollectible account related costs". None of the M9 utilities are forecast to be sales customers in 1999. As such, they will not be charged the gas supply administration fee.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p10-11 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H5.315

H.6. C1 Rate Changes (Directive Response)

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the E.B.R.O. 494-03 Decision, the Board extended the application of the C1 rate schedule to apply to Union's storage contracts with Co-Energy and Renaissance until a rate schedule, of general applicability to long-term storage contracts with market based rates, could be approved. In doing so, the Board indicated that storage, sold under long-term arrangements to ex-franchise customers at market rates must, at a minimum, recover its fully allocated cost.

Union is proposing to modify the existing C1 rate schedule to include a long-term storage range rate that has as its minimum the higher of the existing M12 storage rate or the M12 storage rate that existed prior to the Bentpath-Rosedale development. This will ensure that long-term storage services are provided at rates that recover the embedded, rolled-in cost of service. In this manner, these services will also recover, at a minimum, the same level of costs that would have been recovered had the storage service been sold as "traditional" M12 storage service to ex-franchise customers prior to the Bentpath-Rosedale development.

Union has also proposed certain administrative changes to the C1 rate schedule as outlined at H1/T1/p.2-22.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p19-22 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H6.317-319
3. J4.H6.8

H.7. M12 Rate Changes (Outstanding Application)

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and ECNG.

On February 2, 1998 Union applied to the Board for an order approving rates of limited application. The Board's approval is still pending. The following changes, requested by Union have been incorporated into the proposed M12 rate schedule:

i) a rate to be charged to operators of connected LDC systems for variances made in accordance with Limited Balancing Agreements (LBAs),

ii) monthly rather than seasonal fuel ratios, and

iii) incremental rather than average rates of fuel recovery in transportation overrun rates.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p22-23 Written Direct Evidence of Messrs. Packer and Pankrac
2. J6.C5.8

H.8. Storage Service Entitlements

The following parties take no position on this issue: CAC; "Alliance"; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; and Consumersfirst Ltd.

For customers requesting unbundled storage service in the Northern and Eastern Operations Area, Union's evidence at H1/T1/p26-27 proposed changes to the calculation of a customer's storage entitlement from contract demand to one based on a customer's excess peak demand over its annual average demand. The proposed methodology recognizes load factor in determining storage entitlement and thereby avoids what Union considers to be a potential problem of insufficient storage availability for poorer load factor customers choosing to unbundle in the future. Union considers that the new methodology for the Northern and Eastern Operations Area is consistent with the manner in which bundled storage demand costs are allocated. During 1998, Union received certain requests for unbundled service which precipitated a review of the previous storage entitlement. Union considers that changes were required in order to ensure sufficient storage for all customers electing unbundled storage service in the future.

Union proposed at H1/T1/p27-28 changes to the manner in which unbundled storage is charged for in the Northern and Eastern Operations Area. The storage costs in question include all storage costs allocated to all bundled service rates. The current unbundled storage rate has not been adjusted previously as there was only one customer taking unbundled service and consequently, Union was proposing to increase demand charges and reduce commodity charges to more accurately reflect the underlying cost considerations.

In Union's evidence at H1/T1/p29-30 changes were also proposed to the rate for optional storage gas supply. This service is available after April 1 in any given year and allows a customer to purchase from Union gas in storage in order to satisfy that customer's entitlement for the subsequent winter season. The current method charges a customer for a full 12 months of storage costs while not reflecting any transportation costs. Union's proposed methodology would reduce the storage costs to 7/12 of the annual level and include transportation costs specific to the customer's zone of delivery.

The parties have agreed to the following resolution of the matter:

i) Union will refer the issue of storage entitlement to the Market Design Task Force (MDTF). Union will request that the MDTF give this issue high priority so that it may be resolved by April 1, 1999. This will enable customers in the Northern and Eastern Operations Area to be aware of the unbundled storage parameters in which they would operate under in time to give proper notice to Union for service commencing November 1, 1999. In the event that the MDTF does not resolve the storage entitlement issue by April 1, 1999, parties have agreed that they will not oppose a Motion to address the issue of storage entitlement for service commencing November 1, 1999.

ii) Union will consult with customers further before requesting a change to the unbundled storage rate structure (demand/commodity). Union reserves its position on this issue pending the outcome of item (iii) below.

iii) All parties, except IGUA, agree with Union's proposal to increase unbundled storage rates to recover the same level of costs as recovered from bundled customers. IGUA reserves its position on this item until it reviews the implications of this change with its members on November 19, 1998.

iv) Parties agree with Union's proposal to change to the optional storage gas supply as described above.

The parties acknowledge that further unbundling issues related to storage and transportation services are appropriately being addressed by the MDTF in order to ensure that Union's operation of storage facilities and use of storage to provide competitive services is consistent with an open and competitive market.

Evidence References:

1. H1/T1/pp.25-29 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H8.320-322
3. J14.H8.38
4. J14.H8.99-108
5. J37.H8.1-46

H.9. Supplemental Gas Supply Service

The following parties oppose Union's position on this issue as they believe Union should not be providing gas sales services: Alliance Gas Management; IGUA; the "Consortium"; ECNG; and CEED.

OCAP reserves its position on this issue.

The following parties take no position on this issue: CAC; "Alliance"; Kitchener; Consumers; CENGAS; Comsatec; Energy Probe; GEC; HVAC; CAESCO; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; WGSPG; Consumersfirst Ltd.; and Northland Power.

Union proposes a supplemental gas supply service to sell gas to ex-franchise customers at negotiated prices under the C1 rate schedule. Throughout the year, ex-franchise customers are often in the market seeking offers to meet their incremental gas supply needs. A number of companies have requested storage and transportation services which include the supply of commodity as well. These customers would prefer to have all of their requirements fulfilled by Union. Having the flexibility to combine the sale of gas with the sale of short-term storage and transportation services will allow Union to provide a more complete and attractive offer to these customers. Specifically, Union's proposal facilitates greater transactional ease.

There is no agreement on this issue.

OAPPA reserves their right to argue on this issue.

Evidence References:

1. H1/T1/p31-32 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H9.323-324
3. J37.H8.29

H.10. Account Opening Charges

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union plans to standardize its account opening policies in the Northern and Eastern Operations Area and the Southern Operations Area. Union is proposing to remove account opening charges from the rate schedules applicable to the Northern and Eastern Operations Area. The account opening charge has not been identified on the rate schedules applicable to the Southern Operations Area.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p24 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H10.325
3. J38.20

H.11. Transacting in Energy (GISB)

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Nova; Ontario Hydro; Pollution Probe; TCPL; TCP; Consumersfirst Ltd.; Northland Power; and ECNG.

Union's evidence outlining the reasons underlying Union's proposal to conduct all gas transactions in energy units of measure with the exception of end-use consumption can be found at D1/T18. To affect this proposal Union has filed (H3/T5) energy based rate schedules reflecting energy based rates for all ex-franchise services and in-franchise storage services. Union is requesting that the Board approve both volumetric and energy based rate schedules in order to allow Union to transition to energy based rates in 1999.

Parties were provided with an example of how transacting in energy would work during the ADR discussions. This schedule has been attached as Appendix Q.

Union confirmed that its use of a system-wide heat value different from the heat factor used by TransCanada will not adversely impact customers (See Issue C.4.2 - "Energy Balancing").

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T1/p33 Written Direct Evidence of Messrs. Packer and Pankrac
2. D1/T18 Written Direct Evidence of Mr. Safranyos
3. J37.H8.30
4. Agreement, Appendix Q

H.12. Deferral Account Dispositions

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union's evidence with respect to the deferral account disposition methodology has been filed at H1/T3. A summary of deferral account balance has been attached as Appendix H.

The updated (for ADR) estimated impacts for residential customers is as follows:

Rate 01 customer with an annual consumption of 3,400 m*3:

Supply Related	($18.94)
Delivery Related	($7.45)
Total Adjustment	($26.39)

Rate M2 customer with an annual consumption of 3,100 m*3:

Supply Related	($27.55)
Delivery Related	($32.06)
Total Adjustment	($59.61)

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T3 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.D8.222
3. J1.H12.326
4. J6.C5.2.1-2.3
5. J6.C5.3-4
6. J6.C5.8
7. Agreement, Appendix H

H.13. Rate Integration Proposals

H.13.1.True-up for Rates M4 and 20

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

In the Ontario Energy Board E.B.O. 195 Report, certain rate issues related to the amalgamation of Centra Gas Ontario Inc. and Union Gas Limited were addressed. In particular Union proposed to file studies which would identify similarities and differences in the cost allocation methodologies for the two former utilities and proposals for the possible integration of the two methodologies. It was also noted that while it was anticipated that rate levels would not be common for former Union and Centra customers, common rate structures, classifications, services and terms and conditions of service would be developed to the extent possible. Union indicated that the rate integration process would take approximately three years to complete.

Union's evidence filed at H1/T2 identifies the similarities and differences in current rate structures, identifies a rate integration plan, reviews existing firm rate classes, identifies Union's rate design "true-up" for 1999 and 2000 and the Company's firm rate class boundary proposal for 2001.

In reviewing Rate M4 and Rate 20 Union confirmed that common rate structures were appropriate across Operations Areas. Union also identified two distinct subgroups within the classes; a group of customers with low volume and low load factors for which rates under-recovered costs by approximately 20% and a group of customers with high volume and high low factors for which rates over-recovered costs by approximately 20%. For 1999 and 2000 Union proposes to leave customers within their current Rate M4 and Rate 20 rate classes and to adjust the customer, demand and commodity charge levels to achieve a better matching of rates to the underlying costs to serve. Union is proposing to move customers within the M4 and Rate 20 rate classes closer to cost by (i) increasing the first demand block rate in M4 and decreasing the second and third demand block rate in M4 and (ii) increasing the Rate 20 customer and demand charge and reducing the commodity charge. Union is requesting that the Board approve the proposed M4 and Rate 20 rate structure change for 1999 and a further change to move customers closer to cost within the M4 and Rate 20 rate classes in 2000. Union proposes an annual threshold of 5,000 10*3m*3 to qualify for contract services, effective January 1, 2001.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T2 Written Direct Evidence of Messrs. Packer and Pankrac
2. J1.H13.329-332
3. J14.H8.109
4. J31.H14.44

H.14. Direct Purchase

H.14.1. Direct Purchase Load Balancing Requirements

a) Optional Two Point Balancing Proposal

The following parties take no position on Union's two point balancing proposal: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; WGSPG; Consumersfirst Ltd.; and Northland Power.

Union is proposing a new, two point balancing option for customers in the Southern Operations Area. A customer choosing the service is obligated to balance on March 31 and October 31 to within predetermined tolerances that would replace the current +- 4% annual allowed variance in current bundled contracts. March 31 imbalances less than 3×DCQ which are not corrected by the end of the 10th day of the following month are deemed to be sold at the applicable spot rate. Imbalances greater than 3×DCQ not corrected by the end of the 10th day of the following month would be deemed to be sold at the applicable spot rate plus the first block of the M2 delivery rate. October 31 imbalances less than 3xDCQ which are not corrected by the end of the 10th day of the following month would be charged the annual firm storage space monthly demand charge, as per the T1 rate schedule. Imbalances greater than 3xDCQ not corrected by the end of the 10th day of the following month would be charged the unauthorized overrun charge for annual storage space, as per the T1 rate schedule.

In return for choosing this service a customer will be provided additional flexibility to divert supply ex-franchise based on the customer's imbalance rather than the overall system balance position. Union will continue to retain the right to call back diversions under peak day requirements. Customers choosing this service would be subject to the regular balancing charge component incorporated into the delivery rate, but would not be subject to recovery of variances related to increased purchases (although they would be subject to costs related to higher cost of purchases).

Under the proposal Union would provide the customer at the beginning of the contract with an annual monthly forecast of supply and demand for the duration of the contract. During the course of the contract Union would use its best efforts to ensure timely and accurate monthly reports detailing actual supply and consumption. A change in a customer's forecast delivery or consumption would not result in any accompanying change in the two target points.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. D1/T13 Written Direct Evidence of Messrs. Simpson, MacEacheron and Korol
2. J1.H14.339-344
3. J8.H14.16
4. J14.H14.80-86
5. J19.H14.11-17
6. J31.H14.19-28

b) Balancing Requirements In General

The following parties seek balancing rules; IGUA; Alliance Gas Management; the "Consortium"; Nova; ECNG; OAPPA.

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; WGSPG; Consumersfirst Ltd.; and Northland Power.

OCAP reserves its position on this issue.

Alliance Gas Management proposes (i) flexibility during the term of a contract to access balancing methods, including but not limited to: diversions, meter bounces, assignments, and sales ex-franchise, (ii) penalty relief when balancing reports contain errors, and (iii) an ability to carry over imbalances when balancing reports contain errors.

Union is committed to working with customers to ensure that customers understand their obligations to balance and that Union's monthly reporting of supply and demand meets their needs. Although errors in reporting are infrequent, in instances where a customer has not been able to balance as a result of Union's reporting error, Union will ensure that a mutual agreement is reached which may include balancing extensions or waiving of penalty fees.

There is no agreement on this issue.

Evidence References:

This issue was brought forward by Alliance Gas Management during the settlement negotiations and as such, there is no evidence on the record related to this issue.

H.14.2.Direct Purchase Administration Fee Harmonization

The following parties take no position on this issue: CAC; "Alliance"; CEED; Kitchener; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; Northland Power; and ECNG.

Union is proposing to harmonize direct purchase administration fees by adopting a common structure and eliminating the direct purchase administration fee for large industrial customers in the Northern and Eastern Operations Area served in Rate 20, 25 and 100. Further Union proposes to recover the costs previously recovered through the direct purchase administration fee for large industrial customers through delivery rates.

Union's proposed harmonized direct purchase administration fees are $2.25 for initial processing, $40.00 per month per contract and $0.08 per month per customer. The initial processing and per contract fees remain unchanged from current levels. The existing per customer fees are $0.50 (1-100 customers) and $0.06 (over 100 customers) for Union and $2.50 (1-100 customers) and $0.17 (over 100 customers) for Centra.

The parties agree that Union's evidence on this subject should be accepted.

Evidence References:

1. H1/T4 Written Direct Evidence of Mr. Andrews
2. J1.H14.333-338
3. J2.H14.56
4. J7.H14.5-9
5. J8.H14.17

H.15. Access by Distributors to T3 Rates

Kitchener has identified its information requirements related to this issue in a letter to Union. Union will endeavour to respond to Kitchener's letter prior to the hearing.

The following parties take no position on this issue: CAC; "Alliance"; CEED; the "Consortium"; Consumers; CENGAS; Energy Probe; GEC; HVAC; CAESCO; Comsatec; OAPPA; Tractebel; Nova; NRG; OCAP; Ontario Hydro; Pollution Probe; TCPL; TCP; Alliance Gas Management; WGSPG; Consumersfirst Ltd.; and Northland Power.

This issue involves the principles to be followed when customers in the bundled M9 rate class move to unbundled T3.

There is no agreement on this issue.

Evidence References:

1. J31.G2.57