UNION GAS LIMITED
DECISION WITH REASONS - DECISION HIGHLIGHTS
RP-2003-0063/EB-2003-0087

This Decision deals with Union Gas Limited's (Union's) application for a Board Order approving rates and other charges effective January 1, 2004. It addresses issues where agreement could not be reached by all parties through the alternative dispute resolution settlement process.

The Board has found a revenue sufficiency of $1.485 million for 2004, based upon Union's existing rates. The rebate of this sufficiency will result in an overall rate decrease of approximately 0.1 percent, although the impact will vary by customer class.

With respect to the issue of Affiliate Relations, the Board has disallowed $15.2 million, subject to final adjustments, of the $28.7 million Union is seeking to recover that is attributable to the shared services arrangements existing between Union and its parent and other affiliated companies. In its Decision, the Board stated that if it was to approve such expenditures, it had to first be satisfied that they could be definitively quantified, were at a reasonable cost, had been incurred prudently, and met the governing regulatory requirements.

The Board determined that where Union's proposed changes to its weather normalization methodology were concerned, specifically using a 20- year trend in place of the previous 30- year rolling average approach, the Board would expect Union for 2004 to base its forecast on a 70:30 weighting of the 30-year average forecast and 20-year trend forecast respectively. The Board further stated that for each year, it would consider 5% decline and inclines to the weighting of the two methodologies until such time as a 50:50 weighting is in place.

With respect to other issues impacting operating revenues, the Board, while expressing concerns about Union's normalized average consumption (NAC) methodology, nonetheless approved it for the 2004 test year, and directed Union to undertake a thorough and statistically rigorous review of the methodology for presentation at its next rates case.

The Board accepted Union's contract class demand forecast. However, the Board also expressed the view that Union should work cooperatively with individual customers to develop forecasts that both parties could agree on, if necessary, with the involvement of the Board.

The Board accepted Union's operating and maintenance expense budget with some specific exceptions. The Board was not convinced that the proposed increases in bad debt expense had been adequately justified and ordered a reduction of three million dollars in the proposed recovery amount. The Board also did not accept that

Union had provided sufficient justification for its proposal to change the cost drivers used to determine capitalized overheads and, accordingly, directed Union to continue the use of the current cost drivers resulting in an approximate further reduction of seven million dollars in 2004 expenses. Finally, the Board also ordered a reduction of an additional $5.2 million related to a lower level of allowed recovery for salaries and wages.

The Board found Union's proposed capital expenditures to be reasonable, subject to an adjustment to reduce the pipeline integrity management program's expenditures to $8.15 million.

Regarding capital costs and capital structure, the Board noted that it had recently issued its RP-2002-0158 Decision in which it rejected the proposal made by Union and Enbridge Gas Distribution Inc. to make changes in the formula used to establish the allowed rate of return on common equity (ROE). Accordingly, the Board found the appropriate ROE to be 9.62%, based upon a long term Government of Canada bond yield of 6.00% as of December 2003. The Board also determined that Union was in compliance with its deemed capital structure. The Board noted concerns of some parties that Union's business risk may have been lowered by some of the changes resulting from this application. The Board stated that it would be open to submissions from parties on these matters in Union's next rates proceeding.

The Board approved Union's cost allocation study, but noted that such studies are complex and subject to anomalies, which when found to have arisen, must be addressed decisively and quickly by Union. Where rate design was concerned, the Board accepted that increasing the fixed customer charge, as proposed by Union, was appropriate, but found it preferable to phase-in the increase over a two-year period.

Northern Cross Energy Limited intervened in the proceeding due to its concerns about both the accessibility of independently operated storage pools and to establish whether or not Union's reliance on an M16 rate is an undue deterrent to the development of such pools. The Board directed Union to review this matter and submit relevant evidence as part of its 2005 rates application.

Coral Energy Canada Inc. also intervened in the proceeding to seek the Board's approval for a rate to govern the supply of gas by Union to the Brighton Beach gas fired electricity generation facility located at Windsor Ontario. The Board noted that the public interest in this matter carries a measure of urgency, since the development of new generation assets has been identified as a high priority for government in an environment that has been characterized as being short of electricity supply. The Board considered that the important public interest issues invoked by this intervention warranted a more expansive opportunity for presentation and examination of these issues and, accordingly, in its Decision, outlined its plans for an expedited consideration of these matters.

Regarding Demand Supply Management (DSM), the Board approved the budget and target volume for fiscal 2004, as outlined in the Settlement Agreement.

This executive summary does not form part of the Decision and is not to be relied on for the purpose of applying or interpreting the Decision.