



uniongas

A Spectra Energy Company

December 23, 2009

Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Re: EB-2008-0411 - Calculation of Under-Recovery

Dear Ms. Walli:

On December 23, 2008 Union Gas Limited ("Union") filed an application with the Ontario Energy Board ("Board") seeking leave to sell the St. Clair Line to the Dawn Gateway Pipeline Limited Partnership ("DGLP").

The Board issued its Decision and Order on November 27, 2009 granting Union leave to sell the St. Clair Line to DGLP subject to conditions including Union filing the calculation of the cumulative under-recovery from 2003 to the current time and its estimate as of the closing date of the transaction.

On December 23, 2009 DGLP filed an application with the Board for approval of a regulatory framework for the proposed new Dawn Gateway Pipeline as well as leave to construct a pipeline from Bickford to Dawn to be incorporated into the Dawn Gateway Pipeline.

Given DGLP's decision to proceed with the project, Union is filing herewith its calculation of the cumulative under-recovery from 2003 to the end of December 2009 (i.e. the current time) and its estimate as of March 1, 2010 which is the projected closing date of the transaction should the project proceed. Union is also requesting approval of a draft accounting order relating to the establishment of the deferral account to record the cumulative under-recovery which is referenced in paragraph 1(b) of the November 27, 2009 Order.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2008-0411 Intervenors

1 **Introduction**

2 On December 23, 2008 Union Gas Limited (“Union”) filed an application with the Ontario
3 Energy Board (“Board”) seeking an Order of the Board granting leave to sell the St. Clair Line to
4 the Dawn Gateway Pipeline Limited Partnership (“DGLP”).

5
6 On November 27, 2009 the Board issued its Order granting Union leave to sell the St. Clair Line
7 to DGLP subject to the following conditions:

- 8 1. a) The sale price for ratemaking purposes shall be the fair market value which is defined
9 as the replacement cost of the line.
- 10 b) The ratepayers will receive a credit for ratemaking purposes equal to the amount of the
11 cumulative under-recovery from 2003 until the time of the transaction which shall be
12 placed in a deferral account for disposition in a rates proceeding.
- 13 c) Union shall file with the Board, with a copy to all intervenors, its calculation of the
14 cumulative under-recovery from 2003 to the current time and its estimate as of the
15 closing date of the transaction. Union at its discretion may file its estimate of the
16 replacement cost of the line.

17
18 In accordance with the Board’s Order, Union is filing its calculation of the cumulative under-
19 recovery from 2003 to the end of December 2009 (i.e. the current time) and its estimate as of
20 March 1, 2010 which is the projected closing date of the transaction should the project proceed.
21 Union is also requesting approval of a draft accounting order relating to the establishment of the

deferral account to record the cumulative under-recovery which is referenced in paragraph 1(b) of the Order.

1. Deferral Account

In the Board's EB-2008-0411 decision dated November 27, 2009, at paragraph 123, the Board stated:

"The Board will approve the transaction conditional on the ratepayers being allocated a portion of the deemed net gain equivalent to the cumulative under-recovery as of the date of the transaction. The Board directs Union to file necessary evidence to substantiate the cumulative under-recovery of the assets since 2003. Given the Board expects the net gain, calculated as the difference between replacement costs and net book value, will be well in excess of this cumulative under-recovery, it will not be necessary for Union to file evidence on the replacement cost, unless it chooses to do so. The Board will then fix the amount to be allocated to ratepayers to compensate for the harm arising from the transaction. This amount will vary depending upon the timing of the actual transaction. The determination of the relevant amount will be made as part of this proceeding so as to provide certainty to the parties. A deferral account will be established to capture the amount of the allocation as of the date of the transaction."

In accordance with the Board's Order, Union requests that the Board approve the establishment of a deferral account by Union if the sale of the St. Clair Line to DGLP proceeds. If the sale does not proceed, Union will not require a deferral account as there would be no refund of the cumulative under-recovery to customers.

Union also requests that the Board approve the draft accounting order attached as Appendix A, to be effective on the date of the sale of the St. Clair Line to DGLP, establishing a deferral account to record the cumulative under-recovery of the St. Clair Line from 2003 until the time of sale. Union expects to propose the disposition of the deferral account balance in Union's 2009 non-commodity deferral account disposition proceeding in 2010, should the St. Clair Line sale transaction have occurred by that time.

2. Estimated Closing Date of the St. Clair Line Sale

As indicated by DGLP in its December 23, 2009 application, there is a limited time span in which the project would likely proceed, and DGLP is asking for leave to construct the Bickford Dawn Pipeline and for approval of an alternate regulatory framework by Friday February 26, 2010.

Assuming that the Board grants leave to construct the Bickford Dawn Pipeline and authorizes a regulatory framework that is satisfactory to DGLP by February 26, 2010, Union expects to proceed with the sale of the St. Clair Line to DGLP immediately thereafter. Accordingly, for the purposes of calculating the cumulative under-recovery of the St. Clair Line, Union has assumed that the sale will occur on March 1, 2010.

3. Cumulative Under-Recovery of the St. Clair Line

Union has calculated the cumulative under-recovery of the St. Clair Line as the difference between estimated net revenue and the estimated actual cost of service. For the period January 1,

2003 to March 1, 2010, Union estimates the cumulative under-recovery of the St. Clair Line will be \$3.951 million. The calculation of the cumulative under-recovery can be found at Appendix B. The amount of the cumulative under-recovery will form part of Union's 2009 regulated earnings for the purpose of calculating any earnings sharing under the incentive regulation framework.

Estimated net revenue for the St. Clair Line is the actual and forecast revenue associated with firm and interruptible C1 transportation, net of unaccounted for gas and compressor fuel. This approach is consistent with the methodology used to determine net revenue in response to Undertaking No. J1.1 in this proceeding. For the period January 1, 2003 to March 1, 2010, net revenue of the St. Clair Line is estimated to be \$3.542 million. This amount can be found at Appendix B, Line 1, column (i).

The estimated actual cost of service of the St. Clair Line is the sum of a) return and taxes, b) depreciation expense and c) operating expenses. For the period January 1, 2003 to March 1, 2010, the estimated actual cost of service of the St. Clair Line is \$7.493 million. This amount can be found at Appendix B, Line 11, column (i).

Return and taxes were calculated using Union's Board-approved capital structure, rates of return and actual or forecast tax rates. This approach is consistent with Union's response to Undertaking No. J1.2 in this proceeding. For the period January 1, 2003 to March 1, 2010,

1 return and taxes on the St. Clair Line are estimated to be \$5.232 million. This amount can be
2 found at Appendix B, Line 5, column (i).

3
4 Depreciation expense was calculated using the net depreciated value of the St. Clair Line as
5 provided in response to FRPO Interrogatory #6 in this proceeding. The calculation is also
6 consistent with the approach used in response to Undertaking No. J1.1. For the period January 1,
7 2003 to March 1, 2010, depreciation expense is estimated to be \$1.985 million. This amount can
8 be found at Appendix B, Line 6, column (i).

9
10 Union has calculated the operating expenses consistent with the methodology used in
11 Undertaking No. J1.1, with one exception. The cost of the NEB-regulated St. Clair River
12 Crossing toll has been removed. Union believes that any cumulative under-recovery amount
13 payable to customers should be limited to the revenues and costs directly attributable to the St.
14 Clair Line itself, and should exclude the cost of any upstream pipeline (including the St. Clair
15 River Crossing). This approach appears to be consistent with the Board's decision, where they
16 agreed with intervenors that nothing material has changed (para. 27) and that "the St. Clair Line
17 is not integral to the St. Clair River Crossing" (para. 47). Accordingly, for the period January 1,
18 2003 to March 1, 2010, operating expenses are estimated to be \$0.276 million. This amount can
19 be found at Appendix B, Line 10, column (i).

20
21 As noted above, Union estimates the cumulative under-recovery of the St. Clair Line from
22 January 1, 2003 to March 1, 2010 will be \$3.951 million. The cumulative under-recovery is

1 calculated as the difference between estimated net revenue of \$3.542 million and an estimated
2 actual cost of service of \$7.493 million. The cumulative under-recovery amount can be found at
3 Appendix B, Line 12, column (i). As indicated above, the cumulative under-recovery will form
4 part of Union's 2009 regulated earnings for the purposes of determining any earnings sharing.

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**Accounting Entries for
Cumulative Under-recovery – St. Clair Transmission Line
Deferral Account No. 179-121**

Account numbers are from the Uniform System of Accounts for Gas Utilities, Class A prescribed under the Ontario Energy Board Act.

Debit	-	Account No. 105 Accumulated Depreciation – Utility Plant
Credit	-	Account No. 179-121 Cumulative Under-recovery – St. Clair Transmission Line

To record, as a credit in Deferral Account No. 179-121, the cost of removal for the St. Clair Transmission Line ordered by the Board in EB-2008-0411 to be equal to the amount of cumulative under-recovery of Union's St. Clair Pipeline, from 2003 until the time of the sale of the asset, to be refunded to ratepayers.

Debit	-	Account No. 171 Extraordinary Plant Losses
Credit	-	Account No. 105 Accumulated Depreciation – Utility Plant

To record, as a debit to Account No. 171, the loss on the sale of the St. Clair transmission line and related assets. The loss represents the cost of disposition ordered by the Board in EB-2008-0411 that could not have been provided for previously in the accumulated provision for depreciation.

Debit	-	Account No. 333 Other Income Deductions
Credit	-	Account No. 171 Extraordinary Plant Losses

To record, as a debit to Account No. 333, the write-off to operations for the loss on the sale of the St. Clair transmission line and related assets.

Debit	-	Account No. 179-121 Other Deferred Charges - Deferred Customer Rebates/Charges
Credit	-	Account No. 323 Other Interest Expense

To record, as a debit (credit) in Deferral Account No. 179-121, interest on the balance in Deferral Account No. 179-121. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.

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Estimated Cumulative Under-recovery of the St. Clair Line - January 1, 2003 to March 1, 2010

Line No.	Particulars (\$000's)		2003 (a)	2004 (b)	2005 (c)	2006 (d)	2007 (e)	2008 (f)	2009 (g)	2010 (1) (h)	Total (i)
1	Net Revenue	(2)	400	836	642	297	120	510	707	30	3,542
2	Net Depreciated Value (St. Clair Line)	(3)	6,961	6,710	6,433	6,155	5,877	5,738	5,461	5,414	
3	Working Capital - Linepack	(4)	64	64	64	64	64	64	64	64	
4	Total Rate Base (line 2 + line 3)		7,025	6,774	6,497	6,219	5,941	5,802	5,524	5,478	
5	Return and Taxes	(5)	886	824	794	759	657	622	595	94	5,232
6	Depreciation Expense		275	277	278	278	278	276	278	46	1,985
	<u>Operating Expenses</u>										
7	St. Clair River Crossing - Toll	(6)	342	342	342	342	342	342	342	57	2,451
8	Less: St. Clair River Crossing - Toll		(342)	(342)	(342)	(342)	(342)	(342)	(342)	(57)	(2,451)
9	Operating and Maintenance	(7)	35	36	37	39	40	40	41	7	276
10	Total Operating Expenses (line 7 + line 8 + line 9)		35	36	37	39	40	40	41	7	276
11	Estimated Actual Cost of Service (line 5 + line 6 + line 10)		1,196	1,138	1,109	1,075	974	939	914	148	7,493
12	Estimated Annual Under-recovery of the St. Clair Line (line 1 - line 11)		(796)	(302)	(467)	(778)	(854)	(429)	(208)	(118)	(3,951)
13	Estimated Cumulative Under-recovery of the St. Clair Line		(796)	(1,098)	(1,565)	(2,343)	(3,197)	(3,626)	(3,834)	(3,951)	

Notes:

- (1) The estimates for 2010 are pro rated for 2 months, as per the proposed closing date of the sale of the St. Clair Line.
- (2) Revenue associated with firm and interruptible transport, net of unaccounted for gas and excluding compressor fuel.
- (3) EB-2008-0411, FRPO, Interrogatory #6.
- (4) St.Clair Valve Site to Bickford Compressor Station Linepack of 6,758 GJ, valued at \$9.439/GJ (as per EB-2005-0520).
- (5) Return on Rate Base calculated as per Board Approved Capital Structure and Rate of Return.
2003 Return on Rate Base as per RP-1999-0017, Exhibit B, Tab 2, Appendix H, Schedule 7.
2004 to 2006 Return on Rate Base as per EB-2005-0520, Exhibit 6, Tab 1, Schedule 1.
2007 to 2010 Return on Rate Base as per EB-2009-0101, Exhibit A, Appendix A, Schedule 4.
- (6) Cost Based on the September 16, 1996 agreement between St. Clair Pipelines (1996) Ltd. And Union.
- (7) Estimated Operating and Maintenance Expenses based on EB-2005-0520, Exhibit G3, Tab 3, Schedule 1, Updated for EB-2005-0520 Board Decision.