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BY E-MAIL ONLY

April 1, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Board Staff Submission
Union Gas Limited – Deferral Accounts
Board File No. EB-2008-0411

Please find attached the Board staff submission with respect to the above noted proceeding. Please forward the attached to Union Gas Limited and to all other registered parties to this proceeding.

Yours truly,

Original signed by

Neil Mckay
Case Manager

Attachments

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

UNION GAS LIMITED

Draft Accounting Orders

Board File No. EB-2008-0411

April 1, 2010

Introduction

On December 23, 2008, Union Gas Limited ("Union") filed an application with the Ontario Energy Board (the "OEB") under section 43(1) of the *Ontario Energy Board Act, 1998* seeking an order from the Board granting leave to sell 11.7 kilometers of 24 inch diameter steel natural gas pipeline running between the St. Clair Valve Site and the Bickford Compressor Site in the Township of St. Clair. The Board issued its Decision and Order granting leave to sell the St. Clair Line on November 27, 2009.

On March 2, 2010, the Board issued its Decision setting the deemed sale price of the St. Clair Line and also determining the appropriate ratepayer allocation of the deemed net gain on the sale. The Board also found it appropriate to establish the following deferral accounts:

1) A deferral account to record the amount of $6.402 million, which represents the ratepayers' share of the deemed net gain on disposition of the utility asset as compensation for harm as a result of the transaction. The amount recorded in the deferral account will attract interest carrying charges based on the Board's approved methodology until the time of disposition.

2) A deferral account which will capture the effect of removing the St. Clair Line (and related St. Clair River Crossing) from rates (including all rate base and OM&A consequences, including return) beginning March 1, 2010. The amounts recorded in the deferral account will attract interest carrying charges based on the Board's approved methodology until the time of disposition.

Union filed the Draft Accounting Orders for the above noted deferral accounts on March 15, 2010 and filed an update to this evidence on March 22, 2010.

Cumulative Under-Recovery of the St. Clair Line (Deferral Account No. 179-121)

Board staff have reviewed the Draft Accounting Order for Deferral Account No.179-121 and note that Union has established the account in accordance with the Uniform System of Accounts for Class A Gas Utilities ("USofA"). Board staff submits that the Draft Accounting Order be approved as filed.

Board staff notes that Union has accounted for the sale of the St. Clair Line and related assets as a reduction to regulated earnings. Board staff understands that for accounting purposes this is the appropriate treatment as Union will be receiving a payment of only $5.2 million (which is equal to the Net Book Value of the St. Clair Line) from DGLP and the Board has ordered that Union allocate ratepayers $6.4 million of the proceeds from the sale. However, Board staff submits that the treatment of the sale of the St. Clair Line for ratemaking purposes will need to be addressed in a different manner.

The Board has determined that the deemed sale price of the St. Clair Line for ratemaking purposes is $13.17 million (which results in a deemed net gain on the sale of the St. Clair Line of $7.97 million[1]) and has ordered that Union's ratepayers be allocated $6.4 million of the deemed gain from the sale. Therefore, for ratemaking purposes, there is a residual gain on the sale of the St. Clair Line of $1.57 million[2]. Board staff notes that the Board has already determined, in this proceeding, that the treatment of the sale of the St. Clair Line as it relates to the earnings sharing calculation will be decided at the time of disposition of the deferral account.

For purposes of clarity, Board staff suggests that the Board state in the Order that the accounting treatment of the sale of the St. Clair Line does not preclude the Board from treating the sale differently for earnings sharing purposes. Board staff requests that Union, in its reply submission, confirm that it agrees with the above statement.

Impact of Removing the St. Clair Line from Rates (Deferral Account No. 179-122)

Union describes the purpose of Deferral Account No. 179-122 as follows:

> To record, as a credit in Deferral Account No. 179-122, the impact of removing the St. Clair Transmission Line (and related St. Clair River Crossing) from rates (including all rate base and OM&A consequences) effective March 1, 2010 through December 31, 2010 as ordered by the Board in EB-2008-0411.

The Board's Decision stated the following in regards to the removal of the St. Clair Line and related assets from rate base:

[1] $13.17 million (deemed sale price) - $5.2 million (net book value) = $7.97 million
[2] $7.97 million (deemed net gain) - $6.4 million (ratepayer allocation) = $1.57 million

> The Board finds that the net book value and associated expenses should be removed from rate base and rates as of March 1, 2010, so as to coincide with the deemed transaction date. The Board directs that the reduction in the revenue requirement going forward from that date will be captured in a deferral account for later disposition to ratepayers. The underlying rates will also be adjusted in due course.

Board staff notes that the Board has not made a determination regarding when the rate adjustment, which will reflect the removal of the asset from rate base, will occur. Therefore, Board staff submits that the account must be established to record the impact of removing the St. Clair Line and related asset from rates for an indefinite period until the Board adjusts Union's rates to reflect the asset sale.

All of which is respectfully submitted.