



uniongas

A Spectra Energy Company

April 15, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2008-0411: St. Clair Transmission Line –
Reply of Union Gas Limited (“Union”), re: Draft Accounting Orders**

We are writing to provide Union’s Reply to the submissions of CME, FRPO and Board Staff regarding the corrected draft Accounting Orders filed by Union on March 22, 2010.

The main concern of CME, FRPO and Board Staff appears to be whether the accounting treatment reflected in the Accounting Orders could preclude the Board from treating the sale of the St. Clair Line differently for earnings sharing purposes. As requested by Board Staff in their submissions, Union confirms that it agrees that the Accounting Orders do not preclude the Board from treating the sale of the St. Clair Line differently for earnings sharing purposes.

In order to reduce possible confusion, Union would like to clarify its position with respect to the concept of “regulatory accounting” which was referred to in CME’s submissions. CME stated in its submissions:

Union asserted that, according to the rules pertaining to the Uniform System of Accounts (“USofA”), all of the entries in the deferral accounts the Board has established must be made in accordance with corporate financial statements accounting, and that “regulatory accounting” cannot be reflected in the deferral account debit and credit transactions.

In its correspondence with CME’s counsel, Union did not use the term “regulatory accounting” in the manner suggested in CME’s submissions. It appears that CME may believe that there is another set of accounting entries that are for “regulatory accounting” in addition to the accounting entries that are completed in accordance with the Uniform System of Accounts for Class A Gas Utilities (“USofA”). That is not the case. There is only one set of accounts, and it is prepared in accordance with the USofA. The USofA rules are applied by Union for its “corporate financial statements accounting”.

In its correspondence with CME's counsel, Union tried to explain the distinction between:

- 1) the accounting rules that Union is required to follow under the USofA; and
- 2) regulatory reporting and filing for ratemaking purposes (this is what CME refers to as "regulatory accounting").

It is the USofA rules that determine what goes into Union's accounts and what goes into the financial statements. Union's accounts must reflect the transaction that actually takes place – e.g. the books of account cannot recognize a \$13.2 million cash receipt for the St. Clair Line if only \$5.2 million is received from the purchaser. The draft Accounting Orders submitted by Union follow the requirements of the USofA.

When it comes to ratemaking however, the Board can require a utility to treat a transaction differently for ratemaking purposes than what actually happened. When Union used the term "regulatory reporting and filing for ratemaking purposes", it was referring to making whatever adjustments or filings that may be required to comply with Board orders that affect rates. There is no separate set of books to do this. If the Board makes an order that affects rates, for example by disallowing an expense for ratemaking purposes, Union adjusts the calculation of the rates to reflect the Board's order, but the disallowed expense still stays in Union's accounts because the expense was actually incurred.

Board Staff's submissions accepted that the draft Accounting Orders reflect the proper accounting treatment for the creation of the deferral accounts as ordered by the Board. Union requests that the Board approve the corrected Accounting Orders as filed on March 22, 2010.

Yours truly,

[Original signed by]

Chris Ripley,
Manager, Regulatory Applications

CR/la

c.c.: S. Wong – Blakes
EB-2008-0411 Intervenors