Ontario

EB-2008-0411

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited pursuant to section 43(1) of the Act, for an Order or Orders granting leave to sell 11.7 kilometers of natural gas pipeline running between the St. Clair Valve Site and Bickford Compressor Site in the Township of St. Clair, all in the Province of Ontario.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Cynthia Chaplin
Member

Cathy Spoel
Member

DECISION AND ORDER

Introduction

[1] The following Decision and Order addresses certain deferral accounts that the Board established in its March 2, 2010 Decision in the EB-2008-0411 proceeding.

[2] 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.

[3] On March 2, 2010, the Board issued its Decision setting the deemed sale price of the St. Clair Line for regulatory purposes at $13.7 million and 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:

a) 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.

b) 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, OM&A consequences and return on capital) 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.

[4] Union filed the Draft Accounting Orders for the above noted deferral accounts on March 15, 2010 and filed a correction to this evidence on March 22, 2010. The Board received submissions from Board Staff, Canadian Manufacturers and Exporters ("CME"), and the Federation of Rental-housing Providers of Ontario ("FRPO"). The Board also received a reply submission from Union.

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

[5] Union described the Cumulative Under-Recovery of the St. Clair Line Deferral Account (Deferral Account No. 179-121) as follows:

> 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 the 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.

[6] Board staff submitted that Union has established the deferral account in accordance with the Uniform System of Accounts for Class A Gas Utilities ("USofA") and that the Draft Accounting Order should be approved as filed.

[7] Board staff noted that Union has accounted for the sale of the St. Clair Line and related assets as a reduction to regulated earnings. Board staff submitted 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 stated that the treatment of the sale of the St. Clair Line for accounting purposes should not restrict the Board in its treatment of the transaction for ratemaking purposes.

[8] 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].

[9] Board staff submitted that the Board should state in its Decision and 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.

[10] CME submitted that it will rely on the Board to apply its specialized expertise to determine what amount should be recorded in the deferral account as the sale price of the St. Clair Line. CME stated that if the Board determines that it is appropriate for Union to record the sale of the St. Clair Line at an amount of $5.2 million (the NBV of the St. Clair Line), the Board should make it clear that the Accounting Order will have no effect on a subsequent determination of the appropriate treatment of the sale for ratemaking purposes. CME noted that this provision is important because the treatment of the sale has earnings sharing implications. Similar to the Board staff position, CME submitted that, for ratemaking purposes, there is actually a gain of about $1.6 million on the sale of the St. Clair Line and not a loss as presented in the deferral account. FRPO supported CME in its submissions.

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[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

[11] Union stated, in its reply submission, that the Draft Accounting Order filed by Union follows the requirements of the USofA. As a result, Union's books of accounts must reflect the transaction that actually occurs. In this case, the accounts must recognize a sale price of $5.2 million as this is the amount Union will receive from the purchaser. The accounts cannot recognize a $13.17 million "cash receipt" for the St. Clair Line, as the purchaser is not actually paying such an amount.

[12] Union requested that the Board approve the corrected Draft Accounting Order as filed on March 22, 2010. Union submitted that the Accounting Order does not preclude the Board from treating the sale of the St. Clair Line differently for earnings sharing purposes.

Board Findings

[13] The Board finds that the deferral account has been established in accordance with the USofA. The Board approves the Draft Accounting Order for the Cumulative Under-Recovery of the St. Clair Line Deferral Account (Deferral Account No. 179-121) as filed on March 22, 2010 and set out in Appendix "A".

[14] The Board notes that the accounting treatment of the sale of the St. Clair Line does not preclude the Board from treating the sale differently for ratemaking purposes including the earnings sharing mechanism. The Board further notes that Union agreed with this approach.

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

[15] Union described 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.

[16] Board staff noted that the Board's Decision stated the following in regards to the removal of the St. Clair Line and related assets from rate base:

> 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.

[17] Board staff stated 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 submitted that the account must capture and 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.

[18] CME and FRPO supported the Draft Accounting Order proposed by Union in its March 22, 2010 filing. Both parties have reserved their rights to seek adjustments to Union's 2011 and 2012 rates to reflect the removal of the St. Clair Line from rates.

[19] Union did not reply to these comments and requested that the Board approve the Draft Accounting Order as filed on March 22, 2010.

Board Findings

[20] The Board finds that the account should record 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 until such date that the Board adjusts Union's rates to remove the St. Clair Line. This is consistent with the Board's determination that the net gain on the sale should be determined as of March 1, 2010 and is appropriately flexible to allow the Board to adjust Union's rates to remove the St. Clair Line at an appropriate date.

[21] For the above reasons, the account description shall be revised 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 until the Board adjusts

Union's rates to reflect the asset sale as ordered by the Board in EB-2008-0411.

These changes are reflected in Appendix "B".

THEREFORE THE BOARD ORDERS THAT:

1) Union shall establish the Cumulative Under-Recovery of the St. Clair Line Deferral Account (Deferral Account No. 179-121) in accordance with Appendix "A".

2) Union shall establish the Impact of Removing the St. Clair Line from Rates Deferral Account (Deferral Account No. 179-122) in accordance with Appendix "B".

DATED at Toronto, May 11, 2010

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

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

Board File No. EB-2008-0411

Dated: May 11, 2010

UNION GAS LIMITED

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. 323 Other Interest Expense
Credit	-	Account No. 179-121 Other Deferred Charges - Cumulative Under-recovery – St. Clair Transmission Line

To record, as a 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.

Appendix B

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

Board File No. EB-2008-0411

Dated: May 11, 2010

UNION GAS LIMITED

Accounting Entries for
Impact of Removing St. Clair Transmission Line from Rates
Deferral Account No. 179-122

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

Debit	-	Account No. 300 Operating Revenues
Credit	-	Account No. 179-122 Other Deferred Charges – St. Clair Transmission Line

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 until the Board adjusts Union's rates to reflect the asset sale as ordered by the Board in EB-2008-0411.

Debit	-	Account No. 323 Other Interest Expense
Credit	-	Account No. 179-122 Other Deferred Charges – St. Clair Transmission Line

To record, as a credit in Deferral Account No. 179-122, interest on the balance in Deferral Account No. 179-122. 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.