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Ontario

BY EMAIL

October 18 2011

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

Dear Ms. Walli:

Re: Union Gas Limited
2012 Rates
Board File No. EB-2011-0025 – Board Staff Interrogatories

Please see attached Board Staff Interrogatories for the above noted proceeding. Please forward the attached interrogatories to Union Gas Limited and all intervenors in this proceeding.

Yours truly,

Original Signed By

Lawrie Gluck
Case Manager

Enclosure

Board Staff Interrogatories
Union Gas Limited ("Union")
2012 Rates
(EB-2011-0025)

Z-Factor Adjustments
Cross Bore Safety Program

Board Staff Interrogatory No.1

Ref: Ex. A / Tab 1 / Pages 4 – 13
Working Papers – Schedule 13

Questions / Requests:

a) Please provide a detailed breakdown of the Cross Bore Safety Program costs presented in Table 2 on Page 5 of Exhibit A.

b) Please explain on what basis the Cross Bore Safety Program costs have been allocated? Please provide rationale for the cost allocation methodology utilized.

c) Please confirm that any variance between the Cross Bore Safety Program costs included in 2012 rates and the amount actually spent in 2012 will be captured in the proposed Cross Bore Safety Program Deferral Account.

Y-Factor Adjustments
Incremental DSM Costs

Board Staff Interrogatory No.2

Ref: Ex. A / Tab 1 / Page 15
Working Papers – Schedule 16

Questions / Requests:

a) Please provide a detailed breakdown of the DSM Budget for the record of this proceeding.

b) Please provide rationale for allocating the Low-Income DSM program costs to all rate classes in proportion to the amount of rate base each rate class is allocated in Union's Board approved cost study.

c) Please explain why an inflation factor (2.87%) has been applied to the 2012 DSM Program Budget? Please confirm that this is in accordance with the DSM Guidelines for Natural Gas Distributors.

Preamble: Board staff notes that the DSM Budget has not yet been approved in the EB-2011-0327 proceeding.

d) Please confirm that if a different amount is approved for DSM activities in the EB-2011-0327 proceeding that this variance will be captured in the DSMVA for eventual refund/recovery to/from ratepayers.

Average Use

Board Staff Interrogatory No.3

Ref: Ex. A / Tab 1 / Page 16
Working Papers – Schedule 10

Questions / Requests:

a) Please provide detailed calculations supporting the average use changes for each general service class.

b) Please provide the historical average use numbers by rate class for the years 2004 to 2009, as well as the estimated average use for 2010.

Deferral & Variance Accounts
Transition to US GAAP – Pensions

Board Staff Interrogatory No.4

Ref: Ex. A / Tab 1 / Page 18

Questions / Requests:

a) What basis of accounting is being used for the calculation of the proposed 2012 rates?

b) What is Union's intention for its earnings sharing filing for 2011 and 2012? What accounting presentations will be filed in association with the ESM and Deferral Account Disposition application?

Board Staff Interrogatory No.5

Ref: Ex. A / Tab 1 / Page 18
Addendum to the Report of the Board – Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment

Preamble:

On page 19 of the Addendum to the Report of the Board regarding Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment, the Board states that:

> The Board must consider the general public interest in ensuring efficiency and consistency in utility regulation in Ontario, and **will require utilities to explain the use of an accounting standard other than MIFRS for regulatory purposes**.
>
> A utility, in its first cost of service application following the adoption of the new accounting standard, **must demonstrate the eligibility of the utility under the relevant securities legislation to report financial information using that standard**, include a copy of the authorization to use the standard from the appropriate Canadian securities regulator (if applicable) showing any conditions or limitations, **and set out the benefits and potential disadvantages** to the utility and its ratepayers of using the alternate accounting standard for rate regulation.
>
> The Board cautions utilities that the adoption of USGAAP as a short term solution may be counter-productive. If a utility is required to transition to IFRS for financial reporting purposes a few years after adopting USGAAP, certain transitional issues may not have been avoided, but delayed, and additional costs may be incurred if the utility changes its accounting standard twice. **The Board will carefully scrutinize the costs incurred to accomplish two successive transitions if the utility seeks to recover these costs from ratepayers**.
>
> In addition, the Board emphasizes to utilities that it retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among utilities. (Emphasis Added)

Union stated that it is transitioning its accounting and reporting standards to US General Accepted Accounting Principles ("US GAAP") beginning January 1, 2012. Union explained that the benefit of transitioning to US GAAP is that US GAAP is familiar to Union as it is currently required to report using this standard to its parent company (Spectra Energy Corp).

Questions/Requests:

a) Union is requesting a deferral account for pensions in relation to the transitioning to US GAAP in its 2012 IRM rate application, which indicates that it is Union's intention to use US GAAP for ratemaking purposes. Given the Board has outlined a number of requirements in the Addendum to the Report of the Board regarding the use of an accounting standard other than MIFRS (US GAAP in this case) for rate making purpose, these requirements need to be addressed before the Board can consider a deferral account to hold the differences resulting from the transitioning to US GAAP:

i) Please file a copy of the Application made by Union to the relevant Canadian securities regulator requesting authorization to use US GAAP.

ii) Please provide a copy of the authorization for Union to use US GAAP from the appropriate Canadian securities regulator showing any conditions or limitations.

iii) What is the expiry date for the authorization to use US GAAP?

iv) What are Union's plans with respect to financial and regulatory accounting upon the expiry of the authorization to use US GAAP?

v) Please provide a detailed explanation of the benefits and potential disadvantages to the utility and especially to its ratepayers of using US GAAP instead of MIFRS for ratemaking purpose. Please include a discussion and details of the rate impact of the switch to US GAAP.

b) Given Union is transitioning to US GAAP instead of IFRS, please provide Union's detailed plan to address the following:

i) the IFRS transition costs in deferral account 179-120, which Union requested for disposition in its Deferral Account and ESM rate application EB-2011-0038;

ii) the transition costs to US GAAP;

iii) the plan for transition to IFRS upon the expiry of the authorization from a Canadian Securities regulator to use US GAAP;

iv) the transition costs to IFRS that may incur in subsequent years, if conversion from US GAAP to IFRS occurs.

c) Please indicate whether Union proposes to record carrying charges in relation to the amounts recorded in the applied for deferral account, and if so, why this would be appropriate and what rate of interest will be used.

d) What events does Union view as being necessarily precedent for the disposition of the US GAAP – Pensions Account? Please discuss the accounting standards, the accounting rule-making authorities, and the decisions of securities and energy regulators, that are relevant to both the Canadian and US situations.

e) Please indicate when Union will request the disposition of the account balance and the period over which Union proposes to recover the balance recorded in the deferral account from ratepayers.

Board Staff Interrogatory No.6

Ref: Ex. A / Tab 1 / Page 18

Preamble:

Union stated that it is transitioning its accounting and reporting standards to US GAAP beginning January 1, 2012. Union requested a deferral account in this rate application in relation to the pension impact of transitioning to US GAAP.

Transitioning to US GAAP requires full retrospective application of all applicable standards. In other words, the financial statements are prepared as if Union had always been applying US GAAP.

Questions/Requests:

a) Please confirm that the financial statements as at and for the year ended December 31, 2012 will contain comparative figures for 2011 that are also in accordance with US GAAP.

b) Assuming the financial statements as at and for the year ended December 31, 2012 will contain comparative figures for 2011 that are also in accordance with US GAAP, the adjustment to retained earnings would be the opening retained earnings balance at January 1, 2011. Accordingly, please clarify the date at which the charge to retained earnings for which Union is requesting a deferral account is being calculated.

c) Union has limited its request for a deferral account for the transition to US GAAP to amounts relating to pensions. Given that Union is required to report to its parent company under US GAAP, please confirm that Union has completed its analysis of differences between Canadian GAAP and US GAAP and that no further differences resulting in adjustments to retained earnings were identified. Please provide the completed analysis.

d) Please clarify whether the pension referred to by Union in the rate application also includes the Other Post Employment Benefits (OPEB).

e) Please provide a summary of the nature of all accounting differences identified resulting from the transitioning to US GAAP and the resulting impacts on revenue requirement, if any, expected by Union. Please show where the impacts are occurring, the quantum of the impacts, and the reasons underpinning the changes.

f) Please provide a copy of the opening balance sheet at the transition date (January 1, 2011) prepared in accordance with US GAAP and a reconciliation by line item to the balance sheet as at the same date prepared in accordance with Canadian GAAP.

g) Please describe the nature and extent of involvement of the external auditors and/or other professional consultants with the transition to US GAAP. To the extent that written reports, communications or other documentation, either internal or external, discussing the transition to US GAAP exist, please provide copies of all such reports, communications or other documentation. If the external auditors have not completed audit procedures related to the opening balance sheet, please indicate the expected timeframe for the completion of such procedures.

Board Staff Interrogatory No.7

Ref: Ex. A / Tab 1 / Page 18
Security Exchange Commission (“SEC”) Letter – February 23, 1995 (Attached as Appendix A)

Preamble:

Conversion to US GAAP generally requires full retrospective application of all standards, reflecting the effective date of each individual standard and any related amendments. However, the SEC issued a letter dated February 23, 1995 permitting foreign issuers that cannot implement SFAS 87 as of the effective date specified in the standard due to unavailability of actuarial data to adopt the standard as of a later date.

Questions/Requests:

a) Please confirm whether Union will adopt the guidance under US GAAP for pension and OPEB as of the effective dates of the relevant standards. If Union has elected a different effective date based on the letter issued by the SEC, please provide the reasons why Union believes the exemption is applicable and the effective date chosen.

b) Please provide the portion of the transitional assets/liabilities resulting from the retrospective application of US GAAP which remain unamortized at the date of transition.

c) Please confirm that the amount to be recorded in the deferral account requested represents the difference between the transitional amounts under Canadian GAAP and US GAAP as identified in b). If not, please provide the amount and the reasons why the amount is different.

Board Staff Interrogatory No.8

Ref: Ex. A / Tab 1 / Page 18
Union – 2010 Audited Financial Statements

Preamble:

Paragraph 2 of Note 13 Employee Future Benefits of Union's 2010 Audited Financial Statements (AFSs) stated that "Accrued benefit obligations are determined using the projected benefit method pro-rated on services. The Company uses a measurement date of September 30."

Paragraph 4 of Note 13 Employee Future Benefits of Union's 2010 AFSs stated that "The transitional obligation associated with the change in accounting for Employee Future Benefits at January 1, 2000 is being amortized on a straight line basis over the expected average remaining service life (EARSL) of employees active at January 1, 2000. The average remaining service period of the active employees covered by the retirement plan is 10 years. The average remaining service period of the active employees eligible for post retirement benefits other than pensions is 18 years."

The following exhibit is reproduced from Union's 2010 Audited Financial Statements (prepared under Canadian GAAP) Note 13 Employee Future Benefits:

	Years Ended December 31			
($million)	**Pension**		**Other**	
	2010	2009	**2010**	2009
Funded Status				
Net funded status	**(152)**	(142)	**(69)**	(60)
Unamortized net actuarial loss	**258**	238	**17**	11
Unamortized net past service costs	**12**	7	**-**	-
Unamortized transitional obligation	**6**	7	**8**	9

Contribution remitted after measurement date	**10**	11	**-**	1
Accrued benefit asset (liability), end of year	**134**	121	**(44)**	(39)

Union requested a deferral account in relation to transition to US GAAP for pension on the following basis:

> On transition to US GAAP, a charge to retained earnings will result due to amounts that would have been previously recognized through pension expense had Union been reporting in US GAAP historically. The charge to retained earnings is made up of two components: a change in measurement date from September 30 to December 31, and a write off of unrecognized actuarial losses that was established upon the implementation of CICA 3461. At the time of transition to CICA 3461, unrecognized actuarial losses were established and amortized over the expected remaining service life of the plan employees at that time. These unrecognized actuarial losses would have been fully amortized under US GAAP.

Questions/Requests:

a) Please provide a copy of Union’s 2010 AFSs and a copy of Union’s AFSs in which the unrecognized actuarial losses at the time of transition to CICA 3461 were established.

b) Has Union made accounting policy choices under US GAAP for Pension and OPEB that are different than the corresponding accounting policy choices under Canadian GAAP? If so, please list the accounting policy choices made under Canadian GAAP and accounting policy choices made under US GAAP for the identified areas (such as actuarial valuation method, recognition of actuarial gains/losses; expected return on plan assets, etc.).

c) Please quantify the amount to be charged to retained earnings which Union has requested in this rate application be recorded in the deferral account.

d) Please break down the amount in c) into the two components claimed by Union to be the causes as follows:

   i) An amount resulting from “a change in measurement date from September 30 to December 31”;

   ii) An amount resulting from “a write off of unrecognized actuarial losses” that was established upon the implementation of CICA 3461.

e) For the component related to the differences of measurement dates to be charged into retained earnings and requested to be included in the deferral account, please explain the following:

   i) the fiscal year that Union changes its measurement date from September 30 to December 31 and the transition option chosen;

   ii) for each fiscal year in which a December 31 measurement date is used for US GAAP, indicate the type of actuarial report received.

f) For the component related to “a write off of unrecognized actuarial losses” upon the implementation of CICA 3461, please confirm whether this component corresponds to the unamortized transitional obligation in the exhibit reproduced above from Union’s 2010 AFSs. If the component is related to the unamortized transitional obligation presented on Union’s 2010 AFSs but the amounts are not exactly equal to the amounts as at Dec 31, 2010, please provide a breakdown of the amounts for pension and OPEB as of the dates that Union will include the amounts into the deferral account requested in this rate application and an explanation of the difference.

g) Please provide a continuity schedule for unrecognized actuarial losses arising from the implementation of CICA 3461 from the time it started to 2010 year end as follows:

	Year started (for example, Year 2000) to the end of 2010			
	Opening balance as at the Year started	Accumulated Amortization recorded from the Year started to 2010	Adjustments, if any, from the Year started to 2010	Closing balance, as at December 31, 2010
Pension				
OPEB				

Note: Union should ensure that the opening balance and closing balance in the continuity schedule agree with the balances presented in its AFSs of respective years.

h) Please confirm that the amortization portion of unrecognized actuarial losses upon transition to CICA 3461 was included in Union’s rates in the past. If so, how much was included? As of December 31, 2010, how much of these unrecognized actuarial losses upon transition to CICA 3461 were not included in the rates and hence not recovered from the rate payers?

Board Staff Interrogatory No.9

Ref: Ex. A / Tab 1 / Page 18

Preamble:

Union stated that:

> The US GAAP standard for reporting on pensions is *ASC 715 Compensation – Retirement Benefits* and results in a different pension expense than Canadian GAAP standard (CICA 3461 *Employee Future Benefits*) currently used by Union.

Questions/Requests:

a) Union indicated that there will be an ongoing difference of pension expense between the use of CGAAP and US GAAP. Please outline the different accounting treatments and the reasons for these differences by breaking down the following components of the pension expense under CGAAP and US GAAP:

	Accounting Treatment under CGAAP and adopted by Union	**Accounting Treatment under US GAAP and will be adopted by Union**	**Different? (Y/N)**	**The reasons why it is different**	**Estimate the quantification of the differences ($)**
Current Service Costs					
Interest Costs					
Expected Return on Assets					
Amortization of Past Service Costs					
Amortization of Actuarial gains/losses					
Amortization of Transitional Obligation					
Total Pension Expense					

The components of the pension expense list above could change depending on Union’s accounting policy choices. As a result, please revise the components as needed in responding to this question.

b) Please evaluate the impacts on Union’s rates due to the differences identified above.

Appendix A

US Securities and Exchange Commission (“SEC”) Letter

Union 2012 IRM

EB-2011-0025

Appendix A

LETTER FROM THE U.S. SECURITIES AND EXCHANGE COMMISSION

The following public letter from the U.S. Securities and Exchange Commission, dated February 23, 1995, re: Foreign Private Issuers Application of U.S. FASB Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*, is included to aid in understanding **Question 154** of the Transitional Provisions.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
CORPORATION FINANCE

February 23, 1995

Re: Foreign Private Issuers
Application of SFAS 87

Dear

In conversations and correspondence, you advised the staff that some foreign issuers have concluded that it is not reasonably feasible to obtain the actuarial information necessary to implement SFAS 87 "Employers' Accounting for Pensions" as of the effective date specified in the standard. SFAS 87 is required to be implemented for foreign plans for fiscal years beginning after December 15, 1988. The transition obligation/asset determined at the effective date would be amortized, generally, over the longer of 15 years or the remaining service period of employees expected to receive benefits.

The staff would not object if a foreign issuer that cannot implement SFAS 87 as of the effective date specified in the standard due to the unavailability of actuarial data adopts the standard as of a later date. However, the standard must be adopted as of a date no later than the beginning of the first period for which US GAAP reconciled data is required in a Commission filing.

A foreign issuer adopting SFAS 87 later than the effective date specified in the standard should allocate a portion of the transition obligation/asset directly in equity on the adoption date. The staff would accept an allocation of the obligation/asset charged directly to equity based on the ratio of: (a) the years elapsed between the effective date in the standard and the adoption date, to (b) the remaining service period of employees expected to receive benefits as estimated at the adoption date. This process is using the service period at adoption date as a surrogate for the service period at the effective date specified in SFAS 87. The alternative amortization periods presented in paragraph 77 of SFAS 87 would also be available. An allocation method that produced a result materially different from the aforementioned ratio may be challenged by the staff.

February 23, 1995
Page 2

Companies must amortize the transition obligation/asset to periods following the adoption date. If the adoption date is later than the effective date, the staff believes the amortization period selected should result in the extinguishment of the obligation/asset at the same date is if SFAS 87 were adopted on the effective date. The period of amortization should be consistent with the determination of the estimated service period in the preceding paragraph.

The methodology outlined in this letter is intended to preserve comparability among reporting companies under SFAS 87, and result in the elimination of the transition obligation/asset of all reporting companies at approximately the same time. It would be applicable to foreign issuers that reconcile to US GAAP as well as those that use US GAAP in the primary financial statements. Disclosures required in the audited financial statements by foreign issuers following this implementation method should include:

- date that SFAS 87 was adopted;
- a statement that it was not feasible to apply SFAS 87 on the effective date(s) specified in the standard; and
- the amortization period for the transition obligation/asset, and the amount that was recorded directly to equity in the opening balance sheet under US GAAP.

The disclosure of this information would be applicable for financial statements filed under Item 17 as well as Item 18 of Form 20-F, and should be presented for periods that include the initial year that US GAAP balances are provided.

This letter can be shared with The International Task Force of the AICPA SEC Regulations Committee. Please call me at (202) 942-2960 with any questions.

Sincerely,

Wayne E. Carnall
Deputy Chief Accountant

Go To Document ID: efb - Appendix A - Letter from the U.S. Securities and Exchange Commission
Last Modified Date:12 Oct 2011