



uniongas
A Spectra Energy Company

February 8, 2012

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

Re: EB-2011-0210– Union Gas Limited – Preliminary Issue – Conversion to US GAAP

Dear Ms. Walli:

Please find enclosed two copies of the Reply Submission of Union Gas Limited for the above noted proceeding.

Should you have any questions, please contact me at 519-436-5476.

Yours truly,

[original signed by]

Chris Ripley
Manager, Regulatory Applications

cc: EB-2011-0210 Intervenors
Crawford Smith (Torys)

ONTARIO ENERGY BOARD

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 36(1) of the *Ontario Energy
Board Act, 1998*, for an order or orders approving or fixing just
and reasonable rates and other charges for the sale, distribution,
transmission and storage of gas as of January 1, 2013.

**REPLY SUBMISSION OF UNION GAS LIMITED
(on adoption of US GAAP)**

Introduction

1. On November 10, 2011, Union Gas Limited ("Union") filed an application with the Ontario Energy Board ("Board") under section 36 of the *Ontario Energy Board Act, 1998*, for an order of the Board approving or fixing rates for the distribution, transmission and storage of natural gas effective January 1, 2013. The Board assigned file number EB-2011-0210 to the application and issued a Notice of Application on December 1, 2011. Union's application was issued on the basis of US GAAP.

2. On January 11, 2012, the Board issued procedural Order No. 1, in which the Board ordered that it would determine as a preliminary issue Union's request for the adoption of US GAAP for regulatory purposes. Subsequently, submissions were received from Board staff, LPMA, CCC, SEC, CME and APPrO.

3. This is Union's reply submission.

US GAAP Should be Adopted for Regulatory Purposes

4. In its EB-2008-0408 Addendum Report, the Board indicated that a utility adopting US GAAP or an alternate accounting standard other than MIFRS, had to:

- 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 as standard from the appropriate Canadian securities regulatory (if applicable); and
- set out the benefits and potential disadvantages to the utility and its rate payers of using the alternate accounting standard for rate regulation.¹

5. In Union's submission, it has met all of the Board's requirements and should be permitted to adopt US GAAP for regulatory purposes as requested in its application. With the exception of APPrO, intervenors and Board staff have unconditionally endorsed Union's adoption of US GAAP for regulatory purposes.

6. *Benefits of US GAAP.* Exhibit J1.1 details the benefits to ratepayers of Union adopting US GAAP for regulatory purposes. The primary benefits are administrative simplicity, transparency and a reduced revenue requirement.

7. With respect to the reduction in revenue requirement, Union has quantified the decrease in 2013 test year revenue requirement at \$63.6 million. US GAAP will also provide more rate stability to ratepayers as it is substantially the same as CGAAP currently used by Union. As noted by Union in EB-2011-0025, the only difference between US GAAP and CGAAP relates to employee future benefits.

8. The adoption of US GAAP is also consistent with the basis of accounting that Union is already using for external financial reporting. As a result, Union will incur no additional costs if it is permitted to use US GAAP for regulatory purposes.

9. *Disadvantages to adopting US GAAP.* Union is not aware of any disadvantages of using US GAAP as opposed to MIFRS. In particular, given that Enbridge Gas Distribution has now asked the Board to approve the use of US GAAP for regulatory purposes, there are no benchmarking related concerns.

¹ EB-2008-0408 Addendum to Report of Board: implementing international financial reporting standards in an incentive rate mechanism environment, p. 19.

10. For its part, APPrO offers conditional support for Union's application to adopt US GAAP for regulatory purposes. APPrO's support is said to be conditional on demonstrating that if the proposed adoption of US GAAP results in lower rates for R100, T1 and the newly proposed rate class T2 (as compared to the rates that would result from Union adopting MIFRS).

11. In Union's submission, there is no proper basis for the condition imposed by APPrO. In considering the adoption of US GAAP, the Board should have regard to the benefits to ratepayers as a whole as opposed to the benefits or disadvantages to any particular rate class. In any event, as outlined above, Union's revenue requirement for the 2013 test year would be \$63.6 million greater under MIFRS. Reasonably, this would translate into higher rates for R100, T1 and the proposed T2 rate class.

The Requested US GAAP Deferral Account

12. Although not at issue in this proceeding, in its submission, CME again takes the position that the transition to US GAAP deferral account requested by Union in EB-2011-0025 should be denied. For the reasons previously outlined by Union in that proceeding, CME's position is without merit.

13. In addition, as demonstrated by its submission, CME fundamentally misunderstands the nature of the issue faced by Union with respect to previously unrecorded pension expense. Contrary to paragraph 12 of CME's submission, Union has not requested the deferral account because it "wishes to change the pace of the already approved recovery of unamortized losses". On transition to US GAAP Union is required to report for unamortized pension losses as though it had adopted the US standard as of 1989, not in 2000 (when Union adopted CICA 3461). In the result, 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 (i.e. through 2017). Due to the earlier start date under US GAAP (i.e. 1989) these unrecognized actuarial losses would have been fully

amortized. The purposes of the deferral account is to track these unrecognized actuarial losses for future disposition.

Conclusion

14. For all of the above reasons, Union respectfully requests an order approving its adoption of US GAAP for regulatory purposes as reflected in the application.

February 8, 2012

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AND TO: All Intervenors