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Ontario

BY EMAIL

February 22, 2012

Ms. 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
Closure of Deferral Account No. 179-121 and 179-122 (St. Clair Line Related Deferral Accounts)
Board File No. EB-2012-0048 – 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")
Closure of St. Clair Line Related Deferral Accounts
(EB-2012-0048)

Deferral Account No. 179-121 – Cumulative Under-Recovery – St. Clair Transmission Line

Board Staff Interrogatory No. 1

Ref: EB-2012-0048, Application and Evidence

Questions / Requests:

a) Please provide the date on which the balance in Account No. 179-121 was reversed.

b) Please provide the final balance recorded in Account No. 179-121 prior to Union reversing the balance in the account.

c) Please provide the reversing journal entries.

d) Please explain and demonstrate if / how the impact of the Cumulative Under-Recovery of the St. Clair Transmission Line up to March 31, 2012 has been reflected in Union's earnings sharing calculations over the same period. If this impact has not been incorporated into Union's earnings sharing calculations during that period, please explain.

e) The reversing journal entries may impact Union's earnings sharing covering the period from the date on which the journal entries are reversed to the start of Union's next rebasing test year, January 1, 2013. Please explain if / how Union proposes to treat the impact of the reversing journal entries on Union's earnings sharing over this period.

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

Board Staff Interrogatory No. 2

Ref: EB-2010-0048, Application and Evidence
EB-2010-0039, Oral Hearing Transcripts, Vol. 1, pp. 126-128 and 136-137

Preamble:

The following exchange occurred at the Oral Hearing in EB-2010-0039 regarding how the St. Clair Line was removed from rate base during IRM:

MS. SEBALJ: And you have been asked, I think, a couple of times today about the meaning of removal of the asset in the context of IRM. So I won't take you back to that, but is it not correct to say that Union continues to receive an ROE on this asset?

MS. ELLIOTT: Not from regulated ratepayers. At this point, we're accruing payables back to the ratepayer for all of the amounts of what's in the ratepayer rates, and we've removed the asset from cost-of-service and all of the related costs. So it is true that there is a return on the asset, but it is all captured on the shareholder side, if you will.

MS. SEBALJ: Fair enough. So what I was going to suggest to you was that the asset has only notionally been removed, but what I am hearing is that Union has done its absolute best to make that notional removal from rate base -- which can't actually occur until rebasing -- as actual as it possibly can be, in terms of costs and revenues.

MS. ELLIOTT: That's true. We have reflected the accounting and the classification as if it has been removed from rate base.

MR. SOMMERVILLE: Is that accomplished through 179-122?

MS. ELLIOTT: 179-122 only captures the revenue to be refunded back to the ratepayer. The removal from rate base is a separate accounting. We have to -- it is still in property, plant and equipment. Because we transferred it to available for sale, that account does not get included in the rate-base calculation.

MR. SOMMERVILLE: Thank you.

MS. SEBALJ: At part (b) of the answer to the Board's IR 1.7, you indicate that reclassifying the asset as held for sale reduced the utility rate base by 0.2 million in 2009 and by 5.2 million in 2010. Either it's in rate base or out of rate base, so I assume this step-wise removal is an accounting exercise, that it wasn't done in two steps?

MS. ELLIOTT: The rate-base calculation is an average of monthly averages. So for 2009, it was in property, plant and equipment from January through to November. It was removed in December. So, if you will, it's only one month which works to be 1/24th of the rate base, but because it was done in December, you get the whole value removed in 2010.

MS. HARE: I have just a few clarifying questions, starting with Ms. Elliott. I was a bit confused with the answer that you gave to Ms. Sebalj, in terms of not earning an ROE on that piece of pipe. The rate base, you are under PBR, so the rate base was set for the base year, and there have not been any adjustments to that rate base, either up or down; correct?

MS. ELLIOTT: We actually do our earnings-sharing calculation on actual rate base, not the 2007 approved rate base. So when we're calculating our utility ROE, we're doing it on an actual rate base.

MS. HARE: So you have taken it out?

MS. ELLIOTT: We have taken this out of actual rate --

Questions / Requests:

a) Please provide the date on which the balance in Account No. 179-122 was reversed.

b) Please provide the final balance recorded in Account No. 179-122 prior to Union reversing the balance in the account. Please provide an annual breakdown of the amounts recorded in the account for 2010, 2011, and any amount recorded in 2012.

c) Please provide the reversing journal entries.

d) Please clarify the answers provided above regarding the removal of the St. Clair Line from rate base. Please explain more fully how the St. Clair Line was removed from rate base during IRM. Please include all accounting entries that operated to remove the St. Clair Line from rate base.

e) Revenue Requirement Impact

   i) Please quantify the revenue requirement impact (all rate base and OM&A consequences) of removing the St. Clair Line from rate base for the period December 2009 to March 31, 2012.

   ii) Please reconcile the amount in part e) i) above to the balance in Account No. 179-122 as at the date the journal entries are reversed, as stated in part b) above. Please explain any discrepancies.

   iii) Please explain and demonstrate if / how the revenue requirement impact (all rate base and OM&A consequences) of the removal of the St. Clair Line from rate base for the period December 2009 to March 31, 2012 has been reflected in Union's earnings sharing calculations during that period. If this impact has not been incorporated into Union's earnings sharing calculations during that period, please explain.

f) The reversing journal entries may impact Union's earnings sharing covering the period from the date on which the journal entries are reversed to the start of Union's next rebasing test year, January 1, 2013. Please explain if / how Union proposes to treat the impact of the reversing journal entries on Union's earnings sharing over this period.

Board Staff Interrogatory No. 3

Ref: EB-2012-0048, Application and Evidence
EB-2010-0039, Oral Hearing Transcripts, Vol. 1, p. 131

Preamble:

In EB-2010-0039, Ms. Sebalj asked the following:

And if you're returning the asset to rate base, how do you propose to deal with the foregone depreciation since December 2009?

Ms. Elliott replied:

I think at this point in time we would return it to rate base at its historic costs, so it is $5.2 million on the books. We would just return the 5.2 to rate base and start the depreciation clock again.

Questions / Requests:

a) What year was the St. Clair Line first included in rate base?

b) What was the gross book value of the St. Clair Line at the time of inclusion in rate base?

c) Please provide the amounts recorded to depreciation expense and accumulated depreciation for the St. Clair Line from the time it was included in rate base to December 2009 (when the asset was removed from rate base). Please list the amounts by year.

d) Assuming the St. Clair Line related deferral accounts were never created and the St. Clair Line was never removed from rate base, what would the deprecation expense and accumulated depreciation have been for the period December 2009 to March 31, 2012? Please list the amounts by year. Please provide the net book value of the St. Clair Line at March 31, 2012 assuming it was never removed from rate base.

e) Please confirm that Union intends to return the St. Clair Line's historic net book value of $5.2 million to rate base if closure of the St. Clair Line related deferral accounts is approved. If this is not the case, please explain.

Board Staff Interrogatory No. 4

Ref: EB-2012-0048, Application and Evidence

Questions / Requests:

a) Please confirm that Union is seeking to have the St. Clair Line returned to rate base as part of its April 2012 QRAM proceeding.

b) Please explain the process (and accounting methodology) for returning the St. Clair Line to rate base.

c) Please confirm whether there are any rate impacts related to the return of the St. Clair Line to rate base as proposed by Union. If so, please explain and describe these rate impacts in detail.

Board Staff Interrogatory No. 5

Ref: EB-2012-0048, Application and Evidence
EB-2010-0039, Decision and Order, May 25, 2011

Preamble:

The Board noted in the EB-2010-0039 Decision and Order that:

> Nothing in this Decision shall be construed so as to prevent or inhibit parties from asserting that some remedy or consideration arising from the underutilization of the assets may be considered by the Board in subsequent cost of service rate proceedings. Neither should this decision be construed so as to be predictive, in any manner or degree as to how the Board may view or consider such assertions.

Questions / Requests:

a) Please provide a table highlighting the utilization of the St. Clair Line from 2003 – 2012.

b) Please provide Union's view on the need for any potential remedy / adjustment to reflect the underutilization of the St. Clair Line if it is approved to be returned to rate base.