Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

BY E-MAIL ONLY

March 7, 2012

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

Dear Ms. Walli:

Re: Board Staff Submission
Union Gas Limited - Closure of St. Clair Line Related Deferral Accounts
Board File Number EB-2012-0048

Please find attached the Board staff submission with respect to the above noted proceeding.

Yours truly,

Original signed by

Lawrie Gluck
Case Manager

Attachments

C: Chris Ripley (Union)
Crawford Smith (Torys LLP)
All Intervenors of Record

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Union Gas Limited

Closure of St. Clair Line Related Deferral Accounts

Board File No. EB-2012-0048

March 7, 2012

Introduction

Union Gas Limited ("Union") filed an application dated January 30, 2012 with the Ontario Energy Board (the "Board") under section 36 of the *Ontario Energy Board Act, 1998*, S.O. c.15, Schedule B, for an order of the Board approving closure of Deferral Account 179-121 – Cumulative Under-Recovery – St. Clair Transmission Line and Deferral Account 179-122 – Impact of Removing St. Clair Transmission Line from Rates (together the "St. Clair Line Deferral Accounts") (the "Application"). The Board has assigned file number EB-2012-0048 to the Application.

Union noted that, with the cancellation of the Dawn Gateway Pipeline project and the related cancellation of the sale of the St. Clair Transmission Line (the "St. Clair Line") to Dawn Gateway LP ("DGLP"), Union will not be disposing of the balances in the St. Clair Line Deferral Accounts. Union indicated that the entries in the St. Clair Line Deferral Accounts have been reversed, the balances are now zero, and Union has requested that the noted deferral accounts be closed.

The Board issued the Notice of Application and Procedural Order No. 1 on February 7, 2012. In the Notice of Application and Procedural Order No. 1, the Board adopted the intervenors from EB-2008-0411, EB-2010-0039, EB-2011-0038 and EB-2011-0025 as intervenors in this proceeding. The Board also set out the timeline for interrogatories and submissions.

Board staff has no concerns with Union's proposal for closing Account No. 179-121 - Cumulative Under-Recovery – St. Clair Transmission Line. Board staff makes the following submissions in regards to Account No. 179-122 – Impact of Removing the St. Clair Transmission Line from Rates.

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

Background

Union requested, pursuant to the EB-2010-0039 Decision and Order, the Board's approval to close Account 179-122 in order to return the St. Clair Line to rate base for 2012.[1]

[1] See EB-2011-0048, Application and Evidence, January 30, 2012.

In response to Board Staff interrogatories, Union noted the following:

a) The costs associated with the St. Clair Line are included in Union's 2007 Board approved cost allocation study, which underpins Union's delivery rates during the 2008 to 2012 Incentive Regulation ("IR") term. Union's delivery rates were not adjusted during IR to reflect the removal of the St. Clair Line from rate base. In lieu of adjusting rates, two deferral accounts were established. Deferral account 179-121 recorded the cost of removal for the St. Clair Line to be equal to the amount of cumulative under-recovery of the St. Clair Line from 2003 to February 28, 2010. Deferral account 179-122 recorded the impact of removing the St. Clair Line from rates effective March 1, 2010.[2]

b) The revenue requirement impact of the removal of the St. Clair Line from rate base has been excluded from earnings as well as the earnings sharing calculation as demonstrated through the accumulated balance in Deferral Account No. 179-122.[3]

c) Union plans to return the St. Clair Line to rate base at its approximate net book value of $5.2 million.[4] Union noted that actual net book value of the St. Clair at December 31, 2009 (when it was taken out of rate base) was $5,182,879.48.[5]

Submission

Board staff notes that Union's rates were not adjusted to reflect the removal of the St. Clair Line from rate base during the IR term.

Board staff is of the view that the Board's intention in establishing the St. Clair Line Deferral Accounts was to protect ratepayers from harm arising from Union's proposed sale of the St. Clair Line.

Board staff submits that the principle that the Board should be seeking to achieve in its Decision is to create a "status quo" situation where ratepayers are in the same position as they would have been had the St. Clair Line never been removed from rate

[2] See EB-2011-0048, Interrogatory Responses, Ex. A1.4 (c).
[3] See EB-2011-0048, Interrogatory Responses, Ex. A1.2 (e) iii.
[4] See EB-2011-0048, Interrogatory Responses, Ex. A1.3 (e).
[5] See EB-2011-0048, Interrogatory Responses, Ex. A3.2 (b).

base (and the St. Clair Line Deferral Accounts had never been established). The creation of a status quo situation ensures that ratepayers are protected from any harm arising from Union's decision to not go forward with the sale of the St. Clair Line.

To achieve a status quo situation, the Board should direct Union to incorporate the St. Clair Line back into rate base in its rebasing proceeding (EB-2011-0210) at the net book value of the line calculated as if the asset was never transferred to "Assets Held for Sale" and had continued to depreciate normally during the period that it was removed from rate base.

Board staff notes that Union excluded the revenue requirement impact of the removal of the St. Clair Line from rate base from the earnings sharing calculation. Board staff notes that creating a comprehensive status quo situation would include recalculating earnings sharing to include the St. Clair Line related amounts. However, Board staff is of the view that there are neither precedents nor a principled basis upon which the Board could order Union to recalculate the earnings sharing amounts (and revise the ratepayers' share of earnings). In addition, Board staff notes that the earnings sharing recalculation is likely to be immaterial. Union noted that for 2010 earnings, it removed revenue of $0.326 million and costs of $0.342 million from utility earnings.[6] Board staff notes that the 2011 earnings sharing filing has not yet been received by the Board.[7] However, the 2011 earnings sharing impact of including the St. Clair Line related amounts could be more substantive (than in 2010) as the throughput on and revenues earned from the St. Clair Line increased significantly during 2011.[8]

Board staff is of the view that returning the St. Clair Line to rate base at the net book value calculated to reflect the depreciation expense that would have occurred had the St. Clair Line continued to be included in rate base (during the period that the asset was classified as Held for Sale) would create the best estimate of a status quo situation.

Board staff submits that the Board should direct Union to file a revised net book value of the St. Clair Line (reflecting the depreciation that would have been recorded to the

[6] See EB-2011-0038, Application and Evidence, Ex. A, Tab 2, p. 5.
[7] See EB-2011-0048, Interrogatory Responses, Ex. A4.5.
[8] See EB-2011-0048, Interrogatory Responses, Ex. A1.5 (a) and Ex. A3.3, Attachment 1.

asset had it continued to be included in rate base) for inclusion in rate base in its rebasing proceeding.

All of which is respectfully submitted.