

EXECUTIVE SUMMARY

As required by Undertakings given to the Government in 1992, Union Gas Limited, Union Energy Inc. and Westcoast Energy Inc. applied in October 1997 to the Ontario Energy Board, for prior approval of the transfer, on January 1, 1999, of the assets and services of Union's ancillary businesses to Union Energy, an affiliate providing non regulated gas marketing and energy services. The businesses involved are not regulated by the Board and include appliance sales, rental, financing, insurance and servicing with a combined asset book value of close of \$500 million and revenues of over \$160 million a year. The businesses grew as an adjunct to Union's regulated gas utility delivery business and the operations of the utility delivery business and ancillary businesses are integrated.

The Board finds [12KM7-0:1] that separation of Union's ancillary businesses from the regulated utility is in line with the Board's direction for deregulation of Ontario gas utilities and consistent with government policy for electricity restructuring. The Board also recognizes the right of Westcoast to reorganize and sell its non utility assets, provided utility ratepayers are saved harmless from the consequences. Accordingly, the Board grants prior approval for the sale of the ancillary businesses, subject to the Applicant's meeting certain conditions, and a detailed review of the cost of service impacts in the next rates case.

The Board also grants prior approval for certain related transactions, including the provision of certain administrative services between Union and Union Energy for a two year period and Union accepting Union Energy preference shares as part of the proceeds of the sale.

Several of the intervenors in the proceeding, while agreeing in principle with deregulation and separation of competitive and monopoly businesses, were concerned with the effects of the transfer of the water heater rental business on competition and the availability of viable alternatives for Union's water heater rental customers. The Board recognizes these concerns, but finds that it would be unreasonable to impose restrictions on Union Energy which were more onerous than if the sale were to an arms length competitive service provider. The provisions of the federal Competition Act and Ontario's Consumer Protection Act and Business Practices Act apply to Union Energy. In addition, there is both a Board approved Code of Conduct designed to ensure that Union does not provide preferential treatment of its affiliate relative to other competitors and Standards of Business Practice with which Union must comply as a condition of Board approval of the transaction.

The Board directs Union, Union Energy and Westcoast to file within 60 days a letter indicating if they will proceed with the transaction in compliance with the Board's conditions.