BOARD STAFF INTERROGATORIES
Enbridge 2012 Rates
Enbridge Gas Distribution Inc. (“EGD”)
EB-2011-0277

ISSUE 1 – CALCULATIONS IN ACCORDANCE WITH SETTLEMENT AGREEMENT

1. Ref: Ex. B /Tab 1/ Sch 2 /

Please confirm that there have been no departures from the terms of the EB-2007-0615 settlement for the calculation of the 2012 revenue requirement, assignment of the revenue requirement to the rate classes, and the derivation of the 2012 rates. If there were departures, please identify and describe the nature of any departures.

ISSUE 2 - CUSTOMER ADDITIONS

2. Ref: Ex. B /Tab 1/ Sch 4 /

Please provide a table of new customer additions, comparing Board-approved with actual, for each of the past 5 years. Please also include the 2012 forecast.

ISSUE 3 – GAS VOLUME BUDGET

3. Ref: Ex. B /Tab 1/ Sch 5/

(a) Please provide a table of historic and forecast gas volumes, in a similar format to the example shown below, broken down by general service and contract that shows the Board-approved versus the actual volumes for the 5-year period 2007 through 2011. Please also include the 2012 Budget. Additionally, please include the average number of customers.

Example

	Year 1		Year 2		Year 3, etc.	
	Board-approved	Actual	Board-approved	Actual	Board-approved	Actual
General Service						
Contract						
Total Volume						
No. Customers (avg.)						

(b) Please also provide a table in a format similar to part a. above showing weather-normalized volumes.

ISSUE 10 – Z FACTOR – PENSION FUNDING

4. Ref: Ex. B /Tab 2/ Sch 5

Please report the pension plan's annual investment returns for the last 5 years and compare them to the annual investment returns of a group of peers of comparable size and scale operating in Canada.

5. Ref: Ex. B /Tab 2/ Sch 5

(a) Does EGD directly manage the plan or is it managed by another entity?

(b) Please name the corporate entity managing the plan.

(c) Does the plan include only the employees and retirees of EGD or are there other members (such as employees of affiliated companies) included in the plan? If so, please provide details as to the numbers of any such employees and the identity of the affiliates.

6. Ref: Ex. B /Tab 2/ Sch 5

Under EGD's Z factor proposal, does the shareholder assume any of the financial responsibility, or is the request that 100% of the underfunding be recovered from the ratepayer?

7. Ref: Ex. B /Tab 2/ Sch 5

Paragraph 12 notes that EGD would need to make contributions to the RPP and SERP plans in 2012 in the amount of $16.6 million.

(a) Please comment on whether it is typical practice in the Canadian pension plan industry that when a plan is in a deficit position, its members' contributions are adjusted to account for the shortfall.

(b) What is the role of the corporation or plan sponsor overseeing the pension fund when a plan is in a deficit position and requires additional funding? Does the plan sponsor typically contribute to the funding shortfall? If so, what percentage of the shortfall is typically funded by the plan sponsor?

8. Ref: Ex. B /Tab 2/ Sch 5 /Appendix B Mercer Report dated October 3, 2011

Please indicate whether EGD's external auditor has reviewed the Mercer Report. If so, does the report reflect the auditor's comments? If not, when will the external auditor's review take place?

9. Ref: Ex. B /Tab 2/ Sch 5 /Appendix B Mercer Report page 5 of 32

On page 5 of the evidence (page 2 of the actual Mercer report), paragraph 3 states:

> "We have also conducted an actuarial valuation for management information purposes as at December 31, 2010 that was not filed with FSCO or CRA. This valuation is the basis for the projections contained herein."

Please indicate whether the above-referenced "actuarial valuation for management purposes" has been reviewed by EGD's external auditor.

ISSUE 15 – TRANSITION IMPACT OF ACCOUNTING CHANGES DEFERRAL ACCOUNT ("TICDA")

10. Ref: Ex. C /Tab 1/ Sch 5

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

11. Ref: Ex. C /Tab 1/ Sch 5

Please specify which accounting presentations will be filed in association with EGD's formal earnings sharing filings for 2011 and 2012?

12. Ref: Ex. C /Tab 1/ Sch 5

Please file a copy of the application made by EGD to the relevant Canadian securities regulator requesting authorization to use USGAAP.

13. Ref: Ex. C / Tab 1 / Schedule 5 / Page 1 & 2

- Addendum to the Report of the Board – Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment
- OSC Decision regarding Exemptive Relief for Enbridge Inc, EGD and Enbridge Pipelines dated February 25, 2011

Preamble:

The Board, under its International Financial Reporting Standards ("IFRS") initiative, has issued a number of documents including guidance for rate regulated utilities that are transitioning to IFRS. On June 13, 2011, the Board issued an Addendum to the Report of the Board ("Addendum") setting out additional regulatory policy regarding Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment.

On page 19 of the Addendum, 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)

EGD requests approval to establish a deferral account to recognize and record the financial impacts which will occur in 2012 in relation to its required transition away from current Canadian General Accepted Accounting Principles (“CGAAP”). EGD also indicates that it is requesting the deferral account pending the explanations as required by the Board in the Addendum in its 2013 rate application.

Board staff notes that the Ontario Securities Commission (“OSC”) has posted a decision relevant to EGD on its website. The Decision issued on February 25, 2011 grants exemptive relief to EGD to prepare its financial statements in accordance with United States General Accepted Accounting Principles (“US GAAP”) commencing January 1, 2012 until December 31, 2014.

In view of the OSC Decision, this and following sets of Board staff interrogatories assumes that EGD will transition to US GAAP instead of IFRS for financial reporting purposes.

Questions/Requests:

a) Starting from January 1, 2012, Canadian public companies with activities subject to rate-regulation are required to adopt IFRS for public financial reporting purposes unless they can demonstrate qualification to adopt US GAAP. EGD indicated that it will transition away from current CGAAP in 2012 but has not identified the accounting standard.

   i) Please confirm that EGD will transition to US GAAP instead of IFRS for financial reporting purposes as EGD has already obtained exemptive relief from the OSC.
   ii) Please file a copy of the OSC Decision dated February 25 2011.
   iii) The OSC granted EGD limited exemptive relief for a period of 2012 to 2014. Please provide EGD's plan to address this limitation.

b) EGD is requesting approval of a Transition Impact of Accounting Changes Deferral Account ("TIACDA") in its 2012 IRM rate application, indicating an intention to use US GAAP for both financial reporting and regulatory purposes. The Board has outlined a number of requirements in the Addendum regarding the use of an accounting standard other than MIFRS for rate regulation purposes.

   i) 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 rate regulation purposes.

c) How does EGD plan to address the following matters:

   i) the IFRS transition costs that were recorded in EGD's deferral account 2010 IFRSTCDA and cleared in EB-2011-0008;
   ii) the transition costs to US GAAP; and
   iii) the transition costs to IFRS that may be incurred in subsequent years, if conversion from US GAAP to IFRS occurs.

d) Please provide any regulatory precedent for the creation and disposition of the TIACDA account or similar deferral account.

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

f) Please indicate whether EGD proposes to record carrying charges in relation to the amounts recorded in TIACDA, and if so, why this is appropriate and what rate of interest will be used.

14. Ref: Ex. C / Tab 1 / Schedule 5 / Page 1 & 2

Preamble:

EGD is requesting approval to establish a 2012 TIACDA in its 2012 IRM rate application to recognize and record the financial impacts which will occur in 2012 in relation to EGD's transition to US GAAP.

Unlike IFRS (IFRS 1), US GAAP does not have a standard that provides exemption from full retrospective adoption. Without such a standard, transitioning to US GAAP requires full retrospective application of all applicable standards. In other words, the financial statements are prepared as if EGD had always been applying US GAAP.

Questions/Requests:

a) EGD requested a general deferral account for all financial impacts, but only specifically mentioned employee benefits. Please provide the reasons for this and list any other financial impacts resulting from transitioning to US GAAP.

b) Please provide a summary of all financial impacts expected by EGD to be recorded into TIACDA and any consequential impacts on 2012 rates. Please include the quantum of the impacts and the reasons underpinning the changes.

c) 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.

d) 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 in those comparative financial statements would be to the opening retained earnings balance at January 1, 2011.

i) In light of this, please clarify the date at which the requested charge to retained earnings in the TIACDA is being calculated.

ii) Please provide the time period in which the financial impacts will be recorded in the TIACDA.

e) Please confirm whether EGD has completed its analysis of differences between Canadian GAAP and US GAAP and has identified the financial differences resulting in adjustments to retained earnings as at January 1, 2011. If the analysis is completed, please file it.

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 EGD's external auditors and/or other professional consultants with the transition to US GAAP. To the extent that written communications discussing the transition to US GAAP exist, please provide copies of such communications. If the external auditors have not completed audit procedures related to the opening balance sheet, please indicate the expected timeframe for this step.

15. Ref: Ex. C / Tab 1 / Schedule 5 / Page 1 & 2
- SEC Letter – February 23, 1995 (attached)

Preamble:

Conversion to US GAAP for employee future benefits generally requires full retrospective application of all relevant 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 EGD will adopt the various standards under US GAAP for Pension and Other Post Employment Benefits (OPEB) as of the respective effective dates of the relevant standards. If EGD has elected a different effective date based on the letter issued by the SEC, please provide the effective date chosen and the reasons that EGD believes the exemption is applicable.

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

16. Ref: Ex. C / Tab 1 / Schedule 5 / Page 1 & 2 & Ex. B/Tab 2 /Sch 5 / Page 1
- OEB - Uniform System of Accounts prescribed for Class "A" Gas utilities paragraph 725

Preamble:

EDG states that it uses the cash basis for employee benefits where actual cash contributions are treated as costs for both financial reporting purposes under CGAAP and for rate making purposes. EGD also states that the cash basis accounting of the employee future benefit costs is enabled by special provisions related to accounting for rate regulated entities which have existed in various forms. The cash basis approach for rate making purposes stems from the Board's Uniform System of Accounts ("USoA") prescribed for Class "A" Gas utilities paragraph 725.

USoA paragraph 725 defines the account Employee Future Benefit as:

> "This account shall include amounts paid or contributed by the company towards all employee benefits. This account shall also include expenses to provide pension benefits in respect of employee past or current services."

EGD indicates that it will switch to an accrual basis of accounting commencing in 2012 as it transitions from CGAAP.

Questions/Requests:

a) USoA paragraph 725 does not specifically require the gas utility to use the cash approach for employee future benefits. Please explain the reasons that EGD considers USoA paragraph 725 as the basis of the regulatory treatment of employee future benefits.

b) Please provide a list of any Board Decision(s) and the relevant excerpt(s) from such Decision(s) showing that the cash basis approach of employee benefits has been approved by the Board.

c) Please explain in detail under CGAAP whether EGD accounts for employee future benefits using only the cash basis or whether it accounts for employee future benefits using the accrual basis but achieves the effect of using the cash basis by also recording an offsetting regulatory asset or liability.

d) Please provide the relevant provisions under CGAAP to show that rate regulated entities can use the cash basis to account for employee future benefit costs for financial reporting purposes.

e) Given EGD is transitioning to US GAAP in 2012, please explain whether the cash basis of accounting for employee future benefits is allowed under US GAAP. Please provide the relevant provisions under US GAAP. Please explain pension and other post employment benefits separately.

f) Please explain the statement given at evidence reference C/1/5 paragraph 3 that "there will be a direct impact to earnings in the amount of the difference between a cash basis of accounting which EGD currently follows and an accrual basis of accounting required by EGD as of 2012".

    i) Please explain the reasons that there will be a direct impact to earnings, the cause of the impact, and the estimated quantum of the impact.
    ii) Please clarify whether this impact will be recorded in the TIACDA.

h) Historically EGD has used the cash basis for its employee future benefits for rate making purpose. Please clarify whether EGD is proposing the accrual basis approach for the employee future benefits for rate making purpose after it transitions to US GAAP and, if so,

i) Please explain the costs and benefits to EGD and the ratepayers under the cash basis vs. the accrual basis for rate making purposes.

ii) Please provide the estimated impacts to revenue requirements/rates and provide the quantum of the impacts under both the cash basis and the accrual basis. Please include an explanation of the reasons for the impacts.

17. Ref: Ex. C / Tab 1 / Schedule 5 / Page 1 & 2

- EGD, 2010 Audited Financial Statements

EGD has requested a deferral account TIACDA to record the accounting differences in 2012 due to its transition away from CGAAP. At paragraph 3 of the evidence, EGD explained the differences in relation to post employment benefits as follows:

> Under CGAAP, EGD recorded post employment benefits on the balance sheet representing the funded status plus the unamortized transitional assets less unamortized net actuarial gains with a corresponding regulatory offset, in the expectation that such costs would be allowed recovery or inclusion in future rates. In the absence of CGAAP, EGD cannot record a regulatory offset resulting in the entire balance being written off to retained earnings. Without the ability to record a regulatory offset as was permitted within CGAAP, there will be a direct impact to earnings in the amount of the difference between a cash basis of accounting which EGD currently follows and an accrual basis of accounting required by EGD as of 2012.

The following exhibit is reproduced from EGD's 2010 Audited Financial Statements (prepared under Canadian GAAP) Note 17 Post Employment Benefits for its defined benefit plans:

($million)	**Pension**		**Other**	
	2010	2009	**2010**	2009
Overfunded/(Underfunded) status at end of year	**57**	107	**(83)**	(81)
Contribution after measurement date	**-**	-	**-**	1
Unamortized past service costs	**4**	5	**-**	-
Unamortized transitional (asset)/obligation	**(70)**	(94)	**16**	19
Unamortized net actuarial loss/(gain)	**228**	184	**(4)**	(9)

Net amount recognized in the Consolidated Statement of Financial Position at end of year	**219**	202	**(71)**	(70)
Presented as follows:				
Deferred Amounts and Other Assets	**222**	205	**-**	-
Other Long –Term Liabilities	**(3)**	(3)	**(71)**	(70)

Questions/Requests:

a) Please provide a copy of EGD's 2010 Audited Financial Statements (AFS).

b) Please confirm that the "post employment benefits" referred by EGD includes Pension and Other Post Employment Benefits (OPEB).

c) To the extent that Pension and OPEB guidance under US GAAP provides accounting policy alternatives, will the accounting policy choices made by EGD under US GAAP be consistent with the corresponding accounting policies under CGAAP?

d) For each accounting policy choice that is not consistent (such as, but not limited to, actuarial valuation method, recognition of actuarial gains/losses, and expected return on plan assets), please list the accounting policy choice made under CGAAP and US GAAP and explain why the choice was made.

e) EGD states that "Under CGAAP, EGD recorded post employment benefits on the balance sheet representing the funded status plus the unamortized transitional assets less unamortized net actuarial gains with corresponding regulatory offset". Please clarify why unamortized past service costs are not included.

f) Please clarify the statement by EGD "In the absence of CGAAP, EGD cannot record a regulatory offset resulting in the entire balance being written off to retained earnings."

i) In relation to the "regulatory offset" referred to by EGD, please clarify whether EGD is referring to any specific deferral/variance account approved by the Board. If so, please provide the account number and the relevant references to and excerpts from Board Decisions. If not, please explain how the recording of the "regulatory offset" would impact the rates.
ii) Please explain why EGD cannot record a "regulatory offset" under US GAAP.
iii) Please clarify what comprises "the entire balance" that will be written off to retained earnings. Please provide the nature, and estimated quantum, of the components of the balance.

g) Please clarify whether the Unamortized past service costs, Unamortized transitional (asset)/obligation and Unamortized net actuarial loss/ (gain) for Pension and OPEB in Note 17 of EGD's 2010 AFSs will be written off to the opening retained earnings.

h) Please explain whether there is an ongoing difference between net pension benefit costs and net OPEB expenses in the use of CGAAP and US GAAP. Please outline the different accounting treatments and the reasons for these differences.

RETURN ON EQUITY

18. Ref: Ex. E /Tab 3/ Sch 1

Please provide the calculation details underpinning the ROE for 2012.

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

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Last Modified Date:12 Oct 2011