K2.2

Deferral Account – 2012 TIACDA, Examination in Chief

Q: What is the intent of Enbridge's request

- as a result of the mandatory transition off Canadian Generally Accepted Principles (CGAAP) effective January 1, 2012
- not looking to recover any amounts in 2012; just the establishment of a deferral account
- full evidence in 2013 case
- in accordance with the comments in the Addendum to the Board's report on IFRS
- company is bringing this significant issue to the Board in a timely basis

Q: What is the purpose of the proposed TIACDA?

- Record accounting impacts as a result of Enbridge's mandatory transition off CGAAP on January 1, 2012
- Enbridge's analysis has resulted in only one significant impact being identified and this impact relates to Other Post-Employment Benefits, which are otherwise known their acronym, OPEB.

Q: Please explain what OPEBs are?

- Liability relating to future payments associated with retired employees and future retired employees
- Unlike pensions, there is no stand alone plan assets set aside for the future payments
- Payments relate primarily to:
    - Health and dental plans
    - Life insurance coverage
    - Health spending accounts

Q: How are OPEBs treated for accounting purposes?

- the cash contributions that the employer was required to pay to meet its current year OPEB liabilities was the amount that could be expensed on the income statement (ie cash method of accounting).
- Accrual method was adopted in Canada in 2000 although rate regulated utilities were able to continue the cash method until the end of 2008
- Accrual accounting recognizes a current year accounting charge for OPEB in relation to services rendered in the year by employees even though the payments will not occur until the future.

Q: How is the OPEB accrual expense calculated?

- actuaries calculate the OPEB liability and current year expense based on several assumptions
- Some assumptions include discount rate, mortality rates, medical and drug cost estimates
- Current year accrual expense does not equal the cash payment the company makes in a particular year
- The expense under the accrual method, calculated in accordance with CGAAP, takes into account items such as:
    - ***Current Service cost*** -Accounts for present value of the benefits accrued by current employees during the current year
    - ***Interest cost*** - Accounts for the cost of increase in present value of existing OPEB liability due to passage of time
    - ***Actuarial gain/loss*** - Accounts for the change in the OPEB liability as a result of changes in actuarial assumptions (ie discount rates, mortality rates, etc.)
    - ***Unamortized transitional obligation*** - Accounts for recognition of actuarial gains/losses incurred as a result of changes in accounting standards that are permitted to be amortized over a defined time period pursuant to CGAAP

Q: How has EGD dealt with OPEBs?

- Consistent with the recovery of OPEB in rates on a cash basis, the company recorded OPEB expense on a cash basis
- The cash basis of accounting was utilized for most Canadian companies until the end of 1999, when the accrual method was required.
- However, rate regulated entities in Canada were not required to transition and had the option to retain the cash method of accounting until the end of 2008, when the option was removed by the Canadian accounting standard setters
- While not reflected in the financial statements, the company disclosed the OPEB liability and expense if the accrual method was to be utilized

Q: What did EGD do at the end of 2008 when the accounting change occurred?

- Starting in 2009, Enbridge and other rate regulated entities in Canada who were still utilizing the cash method of accounting for OPEB, had to convert to the accrual method which included the recording of an OPEB liability on its balance sheet
- However, Enbridge and other rate regulated entities were able to record an OPEB regulatory offset account on its balance sheet which effectively resulted in the continuation of the cash method of accounting until the end of 2011
- This OPEB regulatory offset account was not a prescribed OEB deferral/variance account but rather an amount which qualified to be set up as an asset in CGAAP

- This OPEB regulatory offset account represented the cumulative historical difference in the CGAAP accounting treatment of OPEB vs the cash method

Q: What is the effect of EGD's transition away from CGAAP?

- With the elimination of CGAAP for rate regulated entities at the end of 2011, Enbridge will no longer be able to retain the OPEB regulatory offset (either in USGAAP or IFRS) on the balance sheet
- Enbridge must retrospectively restate its results in USGAAP and Enbridge will release publically its 2010 and 2011 financial statements in accordance with USGAAP
- Therefore, the accounting expense on the Income Statement must reflect the accrual expense calculated in accordance with USGAAP
- Enbridge's 2012 rates reflect OPEB expense calculated on the cash basis whereas OPEB expense must be calculated on the accrual method in accordance with USGAAP on its financial statements
- to be in accordance with USGAAP, Enbridge will also have to adjust its OPEB liability on the balance sheet and remove the OPEB regulatory offset account on the balance sheet through a charge to Retained Earnings

Q: What does EGD propose to record in the TIACDA?

- Enbridge is requesting the following be charged to the TIACDA in 2012:

    - The difference between the cash amount to be paid out by Enbridge and the OPEB expense calculated in accordance with the accrual basis of accounting for each of the 2011 and 2012 fiscal years. This amount is estimated to be approximately $3 million in each of the two years.
    - the charge to Retained Earnings in Enbridge's 2010 USGAAP financial statements resulting from the removal of the regulatory offset account and the setting of the OPEB liability in accordance with USGAAP. This amount is estimated to be approximately $84 million

- full application in 2013 with plan for recoverability