SCHOOL ENERGY COALITION

CROSS-EXAMINATION MATERIALS

ENBRIDGE 2012 RATES

PANEL 3

EB-2011-0277

20. It was anticipated that the International Accounting Standards Board's (**IASB**) exposure draft would have provided direction regarding rate-regulated accounting under IFRS effective prior to the January 1, 2011 transition date to IFRS to assist rate-regulated issuers with their IFRS transition. However, due to divergent views on rate-regulated accounting at the IASB, a rate-regulated accounting standard has not been finalized. There continues to be significant uncertainty as to when, and if, rate-regulated accounting under IFRS will be clarified.

21. Rate-regulated accounting is well established in the United States and EI already complies with ASC 980 *Regulated Operations*, the US GAAP standard on rate regulated accounting. EI has reconciled its financial statements to US GAAP for many years.

22. NI 52-107 permits SEC issuers to file US GAAP financial statements in satisfaction of requirements under the securities legislation of the Jurisdictions and the Passport Jurisdictions and does not require any reconciliation of US GAAP financial statements to Canadian GAAP.

23. As an SEC Issuer, EI may rely on subsection 3.7 of NI 52-107 to prepare and file US GAAP financial statements and intends to do so for the financial years commencing on or after January 1, 2012.

24. The financial statements of the Affiliates are consolidated into the financial statements of EI. As the Affiliates are not SEC issuers, they cannot rely on subsection 3.7 of NI 52-107 to file US GAAP financial statements.

25. The Affiliates will certify their interim and annual US GAAP financial statements by filing the appropriate certificates in accordance with National Instrument 52-109 *Certification of Disclosure*.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted for the financial years commencing January 1, 2012 until the financial year ending December 31, 2014 in respect of each Affiliate provided that:

(a) EI, directly or indirectly, remains the holder of all of the equity securities in respect of the Affiliate;

(b) the Affiliate does not issue any "exchange traded securities" as that term is defined in NI 21-101, and any securities convertible into equity securities of the Affiliate are held directly or indirectly by EI; and

The impact of this is likely lessened, however, as it appears that Union Gas will also be converting to USGAAP which means the two significant natural gas distribution companies in Ontario will be filing in USGAAP. In addition, some of the electric distribution companies in Ontario are considering filing in USGAAP.

- Potential uncertainty with regards to longevity of the solution.

  As previously indicated, EGD has been granted OSC relief for the 2012 to 2014 fiscal periods. While the Company expects that it will continue to utilize USGAAP after 2014, a final determination on this front has not yet been made.

- Training and education

  EGD is aware that USGAAP represents a new basis of accounting for its staff; therefore it will have to ensure that there is proper training in place. The OEB would also be impacted as the OEB would need to ensure its staff has a necessary level of knowledge pertaining to USGAAP.

c) i) EGD has recorded IFRS transition costs in the IFRSTCDA which were cleared previously. The company will be submitting a report provided by KPMG on the reasonableness of its IFRS and USGAAP conversion costs in total, as agreed to in the EB-2011-0008 Settlement Agreement (2010 Earnings Sharing). Any additional conversion costs above those already collected in relation to the IFRS conversion preparatory work will be brought forward in EGD's 2011 Earnings Sharing application in the spring of 2012.

ii) See response to part i)

iii) If at any time in the future EGD is required to convert to IFRS, it will bring forward a summary of potential implications and a plan to deal with such implications in a future proceeding.

d) As EGD has never had to transition away from using Canadian GAAP in the past it does not have a precedent for OEB approval of such a transition deferral account.

e) EGD will bring forward a proposal in its 2013 rate proceeding seeking a review and approval of amounts recorded in the TIACDA and the timing of the disposition of such amounts

f) EGD does not plan to record any carrying charges in relation to the amounts recorded in the TIACDA in 2012.

Witnesses: K. Culbert
J. Jozsa
B. Yuzwa

BOARD STAFF INTERROGATORY #14

INTERROGATORY

Ref: Ex. C /Tab 1/ Sch 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.

Witnesses: K. Culbert
J. Jozsa
B. Yuzwa

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.

RESPONSE

a) Based on the conversion work completed to-date, employee benefits is the only significant item impacting earnings in 2012. This is the reason why the evidence only specifically mentioned employee benefits.

b) EGD only expects to record the impacts relating to OPEB in the 2012 TIACDA. EGD will record the retained earnings adjustment relating to the write-off of the OPEB regulatory offset account (adjusted for the removal of the unamortized transitional amount) upon discontinuing CGAAP and the difference between the cash and accrual basis of accounting. The regulatory offset was approximately $83 million as at December 31, 2010 including the impact of the $16M unamortized transitional amount which is not allowed in USGAAP. In addition, the difference between the cash vs accrual method for 2012 is estimated to be approximately $3 million. There will be no impact on 2012 rates as EGD will provide evidence as part of the complete USGAAP application in the 2013 rates application and seek disposition treatment in that application.

c) Confirmed.

Witnesses: K. Culbert
J. Jozsa
B. Yuzwa

d) i) The charge to retained earnings recorded in the TIACDA will be calculated as of January 1, 2010. EGD will be publicly filing its comparative financial statements for 2011 and 2010 in USGAAP.

ii) The amounts will be recorded upon approval of the establishment of the TIACDA.

e) EGD has a draft analysis of the differences between CGAAP and USGAAP and the related impacts on Earnings and Retained Earnings (filed as Attachment A to this interrogatory). It is EGD's opinion that the recognition of OPEB's is the only issue which will require a different treatment under USGAAP versus CGAAP. This different treatment would have been required even under IFRS. EGD's external auditors are in the process of reviewing the analysis and the positions taken by EGD. EGD's opinion, as indicated in responses to other Board Staff interrogatories, is that under either of USGAAP or IFRS, the Company is required to use an accrual basis of accounting for OPEB's as of 2012. EGD is seeking approval of the 2012 deferral account to provide it with the ability to retain the OPEB regulatory offset on its balance sheet. Without approval of the deferral account, EGD will not be able to record the impacts of the different treatment of OPEB's until such time as EGD can bring forward its completed analysis, which would immediately impact the capital structure of the business and potentially have a risk impact. EGD will file its completed and final analysis within its 2013 rate application.

f) See response to part e).

g) EGD has engaged its external auditors PWC to audit the comparative financial statements prepared in accordance with USGAAP. PWC expects to have completed the majority of their audit procedures in this regard no later than the first quarter of 2012.

Witnesses: K. Culbert
J. Jozsa
B. Yuzwa

Significant CGAAP / USGAAP differences for EGD - DRAFT

Based on EGD's preliminary analysis of CGAAP vs. US GAAP differences, EGD has determined that the only significant difference between CGAAP and US GAAP is with respect to OPEB costs.

Under CGAAP the company accounts for OPEB costs on an accrual basis, but recognizes a regulatory offset for the difference between the cost on an accrual basis and the cash basis allowed for regulatory ratemaking purposes, having the net effect of recognition of OPEB cost on cash basis. However, per US GAAP a regulatory offset is not permitted for plans that are funded in rates on a pay-as-you-go basis, as EGD's OPEB plan is. For such plans, US GAAP requires that the costs be recognized on an accrual basis without a regulatory offset. Additionally, US GAAP guidance precludes the company from continuing to recognize the transitional obligation, which would be amortized as part of accrual OPEB expense. As a result of these differences under US GAAP, EGD is required to write-off the regulatory offset to retained earnings at Dec. 31, 2010, which amounts to approximately $83M gross of tax, including $16M of unamortized transitional obligation.

Please refer to Appendix 1 for a reconciliation of adjustments made to CGAAP balances in the conversion to US GAAP. Adjustments other than for Pension & OPEB do not impact the regulated operations of the company.

Significant CGAAP / IFRS differences for EGD

EGD has identified the following significant areas of difference between CGAAP and IFRS. In general, the primary reason for the significant differences is the fact that there is no specified guidance prescribed for rate regulated entities ("rate regulated accounting") and accordingly rate regulated entities must follow the definition of assets and liabilities per the conceptual framework of IFRS.

Regulatory Deferrals

Under CGAAP, EGD recognizes various regulatory deferrals (assets and liabilities) that account for the variance between the Company's financial accounting and regulatory accounting balances. Since IFRS does not prescribe rate regulated accounting and regulated assets and liabilities do not meet the IFRS criteria of assets and liabilities, the Company would no longer be able to recognize any of the regulatory balances recognized under CGAAP. Amounts currently recognized as regulatory deferrals would instead flow through the income statement, causing volatility in earnings. This would be undesirable for the Company and the ratepayers as it could result in unpredictable income statement impacts year-over-year and could also cause frequent and unpredictable changes in the amounts billed to customers. Under CGAAP, the Company accumulates variances in regulatory deferral accounts and recovers from or refunds to the ratepayers in rates once approved by OEB. For a majority of deferrals, this results in smoothing of the impacts to ratepayers.

Capital Assets

Under CGAAP, the Company capitalizes to its Property, Plant & Equipment (PP&E) costs as approved by the OEB for inclusion in the Company's regulatory asset base as such is allowed under CGAAP due to recognition of rate-regulated accounting. However, IFRS does not prescribe rate regulated accounting. Per IFRS IAS 16, only directly attributable costs can be capitalized, which would result in the Company having to recognize as O&M, costs that would have been normally capitalized to PP&E under CGAAP. The impact of this change (additional O&M) is estimated to be approximately $40 million per year. This additional O&M would result in additional revenue requirements and therefore a rate increase for the ratepayers.

Decommissioning Liabilities

The Company does not currently recognize a decommissioning liability under CGAAP, as there is no material legal obligation for the Company. Under IFRS, IAS 37 requires the Company to recognize constructive obligations in addition to legal obligations. A Constructive Obligation is defined as one that would result from a reasonable expectation of a third party based on a Company's current publicly disclosed policies or a specific public statement made by the Company. The Company is of the view that it would need to incur these costs when it would have to decommission its system, presumably when natural gas distribution is no longer required in the Company's franchise area. As a result, under IFRS the Company would be required to recognize a liability with an offsetting PP&E asset. The liability would be accreted annually at the weighted-average rate for the Company (used to discount the liability) and the asset would be depreciated over the life of the liability. The Company would seek to recover both the depreciation and the annual accretion through future rates (approximately $0.5M), resulting in higher rates for the ratepayers.

OPEB

Under CGAAP the Company accounts for the OPEB costs on an accrual basis in accordance with CGAAP guidance, however a regulatory offset is recognized for the difference between the cost on an accrual basis and the cash basis allowed for regulatory ratemaking purposes. Under IFRS, IAS 19 requires OPEB costs to be recognized in earnings based on the accrual basis with no regulatory offset since there is no prescribed rate regulated accounting.

Appendix 1 – DRAFT REPRESENTATION

Enbridge Gas Distribution Inc.
Canadian GAAP to US GAAP Reconciliation - Balance Sheet
December 31, 2010

		US GAAP Adjustments			
	Reported C-GAAP	Push Down Accounting (1)	Pension/OPEB (Net of Tax)	Deferred Financing Costs (2)	Reported US GAAP
(millions of Canadian dollars)					
Assets					
Current assets					
Accounts receivable and other	802				802
Gas inventories	400				400
	1,202	-	-	-	1,202
Property, plant and equipment, net	4,458	646			5,104
Investment in affiliate company	825				825
Deferred amounts and other assets	487	(4)	(229)	20	274
Intangible assets	167				167
	7,139	642	(229)	20	7,572
Liabilities and shareholders' equity					
Current liabilities					
Bank overdtaft	18				18
Short-term borrowings	332				332
Accounts payable and other	836		3		839
Current maturities of long-term debt	150				150
Deferred income taxes	5				5
	1,341	-	3	-	1,344
Long-term debt	2,267			20	2,287
Other long-term liabilities	1,058		(153)		905
Deferred income taxes	171	162	(26)		307
Loans from affiliate company	375				375
	5,212	162	(176)	20	5,218
Shareholders' equity					
Share capital					
Preferred shares	100				100
Common shares	1,071				1,071
Additional paid-in capital	202	929			1,131
Retained earnings	572	(449)	(56)		67
Accumulated other comprehensive loss	(18)		3		(15)
Total equity	1,927	480	(53)	-	2,354
Total Liabilities and Shareholder's Equity	7,139	642	(229)	20	7,572

(1) The push-down accounting adjustments are not part of the regulated opeartions of EGD and therefore have no impact on regulated earnings.

(2) This entry is a balance sheet reclass and therefore has no impact on net assets or earnings.

FINANCIAL STATEMENT EFFECTS

As a result of rate regulation, the following regulatory assets and liabilities have been recognized:

December 31,	2010	2009	Consolidated Statements of Financial Position Location**	Estimated Recovery/ Settlement Period (years)	Earnings Impact[1] 2010	Earnings Impact[1] 2009
(millions of Canadian dollars)						
Regulatory Assets/(Liabilities)						
Enbridge Gas Distribution						
Future income taxes [2]	**164**	174	DA/OLTL	*	**(7)**	-
OPEB [3]	**68**	62	DA	*	**1**	4
Unaccounted for gas variance [4]	**18**	10	AR	1	**5**	6
Settlement recoverable [5]	**15**	20	AR/DA	2	**(3)**	-
Shared Savings Mechanism [6]	**11**	14	AR	*	**-**	-
Average use true-up variance [7]	**4**	3	AR	*	**1**	4
Deferred rate hearing costs [8]	**3**	6	AR/DA	2	**(2)**	-
Future removal and site restoration reserves [9]	**(753)**	(692)	OLTL	*	**-**	-
Pension plans [10]	**(222)**	(205)	OLTL	*	**6**	(6)
Purchased gas variance [11]	**(144)**	(227)	AP	1	**-**	-
Earnings sharing deferral [12]	**(38)**	(25)	AP	1	**-**	-
Transactional services deferral [13]	**(14)**	(14)	AP	1	**-**	-
Other regulatory assets and liabilities	**10**	10	***	*	**-**	(3)
	(878)	(864)			**1**	5
St. Lawrence						
Other regulatory assets and liabilities	**3**	(2)	***	*	**3**	(1)
	3	(2)			**3**	(1)
	(875)	(866)			**4**	4

* Refer to the footnote for details.
** AR – Accounts Receivable and Other
AP – Accounts Payable and Other
DA – Deferred Amounts and Other Assets
OLTL – Other Long-Term Liabilities
*** Dependent on the nature of the item.

1. The increase/(decrease) in the Company's after-tax reported earnings as a result of the rate regulation recognition of the item, excluding any additional earnings sharing impact. This includes the impact from recovery or refund, during the current year, of items outstanding at the end of the prior year.

2. The future income taxes balance represents the regulatory offset to future income tax liabilities to the extent that it is expected to be included in regulator-approved future rates and recovered from future customers. The recovery period depends on future temporary differences. In the absence of rate regulation, this regulatory balance and the related earnings impact would not be recorded.

3. The OPEB balance represents the regulatory offset to the OPEB liability to the extent that the amounts are to be collected from customers in future rates. The settlement period for this balance is not determinable. Enbridge Gas Distribution continues to record and recover OPEB expenditures through rates on a cash basis. In the absence of rate regulation, this regulatory balance would not be recorded and OPEB expense would be charged to earnings based on the accrual basis of accounting.

4. Unaccounted for gas variance represents the difference between the total natural gas distributed by Enbridge Gas Distribution and the amount of natural gas billed or billable to customers for their recorded consumption, to the extent it is different from the approved amount built into rates. Enbridge Gas Distribution has deferred unaccounted for gas variance and has historically been granted OEB approval for recovery or required refund of this amount in the subsequent year. In the absence of rate regulation, this variance would be included in earnings in the year incurred.

5. Settlement recoverable deferral represents amounts paid towards the settlement of a class action lawsuit related to late payment penalties. Pursuant to an OEB decision in February 2008, these amounts are being recovered from customers over a five-year period, which commenced in 2008. In the absence of rate regulation, these costs would be expensed as incurred.

6. Shared Savings Mechanism (SSM) deferral represents the benefit derived by Enbridge Gas Distribution as a result of its energy efficiency programs. Enbridge Gas Distribution has historically been granted OEB approval to recover the SSM amount through rates after a detailed review by the OEB. The process of review and subsequent recovery may extend over a few years. There would be no change in the treatment of this item in the absence of rate regulation.

7. Average use true-up variance represents the net revenue impact to be recovered from or refunded to customers, associated with any variance between forecast average use and actual normalized average use for general service customers. The amount will be recovered

remuneration. These benefits are partially inflation indexed after a member's retirement. Contributions by the Company are made in accordance with independent actuarial valuations and are invested primarily in publicly-traded equity and fixed income securities. The effective dates of the most recent actuarial valuation and the next required actuarial valuation are as follows:

Effective Date of Most Recently Filed Actuarial Valuation	Effective Date of Next Required Actuarial Valuation
December 31, 2009	December 31, 2012

The defined benefit pension plans' costs have been determined based on management's best estimates and assumptions of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages.

Defined Contribution Plans

Contributions are generally based on the employee's age, years of service and remuneration. For defined contribution plans, benefit costs equal amounts required to be contributed by the Company.

Post-employment Benefits Other than Pensions

OPEB primarily include supplemental health, dental, health spending account and life insurance coverage for qualifying retired employees.

DEFINED BENEFIT PLANS

The following tables detail the changes in the benefit obligation, the fair value of plan assets and the recorded asset or liability for the Company's defined benefit pension plans and OPEB plan using the accrual method.

	Pension Benefits		OPEB	
December 31,	**2010**	2009	**2010**	2009
(millions of Canadian dollars)				
Change in Accrued Benefit Obligation				
Benefit obligation at beginning of year	**588**	579	**81**	83
Service cost	**12**	13	**1**	1
Interest cost	**39**	39	**5**	6
Actuarial loss/(gain)[1]	**79**	(12)	**5**	(6)
Benefits paid	**(31)**	(31)	**(3)**	(3)
Net transfer in/(out)	**15**	-	**(2)**	-
Benefit obligation at end of year	**702**	588	**87**	81
Change in Plan Assets				
Fair value of plan assets at beginning of year	**695**	700	**-**	-
Transfer to the defined contribution component	**(2)**	(1)	**-**	-
Actual return on plan assets[1]	**78**	26	**-**	-
Employer's contributions	**4**	1	**7**	3
Benefits paid	**(31)**	(31)	**(3)**	(3)
Net transfer in	**15**	-	**-**	-
Fair value of plan assets at end of year	**759**	695	**4**	-
Funded Status				
Benefit obligation	**(702)**	(588)	**(87)**	(81)
Fair value of plan assets	**759**	695	**4**	-
Overfunded/(Underfunded) status at end of year	**57**	107	**(83)**	(81)
Contribution after measurement date	**-**	-	**-**	1
Unamortized prior service cost	**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 *(Note 6)*	**222**	205	**-**	-
Other Long-Term Liabilities *(Note 10)*	**(3)**	(3)	**(71)**	(70)

1 *Includes revaluing plan assets and liabilities for December 31, 2010.*

The weighted average assumptions made in the measurement of the projected benefit obligations of the pension plans and OPEB are as follows:

	Pension Benefits		OPEB	
Year ended December 31,	**2010**	2009	**2010**	2009
Discount rate	**5.70%**	6.60%	**5.70%**	6.60%
Average rate of salary increases	**3.50%**	3.50%	**5.00%**	5.00%

Net Benefit Costs Recognized

	Pension Benefits		OPEB	
Year ended December 31,	**2010**	2009	**2010**	2009
(millions of Canadian dollars)				
Benefits earned during the year	**12**	13	**1**	1
Interest cost on projected benefit obligations	**39**	39	**5**	6
Actual return on plan assets	**(78)**	(26)	**-**	-
Actuarial loss/(gain)	**79**	(12)	**5**	(6)
Differences between costs arising in the year and costs recognized in the year:				
Return on plan assets	**29**	(22)	**-**	-
Prior service costs	**1**	1	**-**	-
Transitional (asset)/obligation	**(24)**	(25)	**3**	3
Actuarial (loss)/gain	**(64)**	25	**(5)**	6
Net defined benefit costs on an accrual basis	**(6)**	(7)	**9**	10
Defined contribution benefit costs	**2**	1	**-**	-
(Credits)/costs on an accrual basis	**(4)**	(6)	**9**	10

Costs related to the period on an accrual basis are presented above and are initially expensed. However, there is a partially offsetting adjustment due to the regulatory mechanism in place. As a result, the net expense is comprised of plan contributions and actual OPEB benefit costs paid, which is consistent with the recovery of such costs in rates. Such costs totaled $4 million for pension benefits and $7 million for OPEB for the year ended December 31, 2010 (2009 - $1 million and $3 million, respectively).

The weighted average assumptions made in the measurement of the cost of the pension plans and OPEB are as follows:

	Pension Benefits		OPEB	
Year ended December 31,	**2010**	2009	**2010**	2009
Discount rate	**6.60%**	6.70%	**6.60%**	6.70%
Average rate of return on pension plan assets	**7.14%**	7.25%	**-**	-
Average rate of salary increases	**3.50%**	5.00%	**5.00%**	5.00%

MEDICAL COST TRENDS

The assumed rates for the next year used to measure the expected cost of benefits are as follows:

	Medical Cost Trend Rate Assumption for Next Fiscal Year	Ultimate Medical Cost Trend Rate Assumption	Year in which Ultimate Medical Cost Trend Rate Assumption is Achieved
Drugs	9.13%	4.50%	2029
Other Medical and Dental	4.50%	4.50%	2029

A 1% increase in the assumed medical and dental care trend rate would result in an increase of $12 million in the accumulated post-employment benefit obligations and an increase of $1 million in benefit and interest costs. A 1% decrease in the assumed medical and dental care trend rate would result in a decrease of $10 million in the accumulated post-employment benefit obligations and a decrease of $1 million in benefit and interest costs.