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April 27, 2012

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2011-0354
Enbridge Gas Distribution Inc. – 2013 Rates Cost of Service
Preliminary Issue --- Energy Probe Submissions

Pursuant to Procedural Order No. 1, issued by the Board on March 29, 2012, please find attached the Submissions of Energy Probe Research Foundation (Energy Probe) in respect of the Preliminary Issue in the EB-2011-0354 proceeding for consideration by the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Norm Ryckman, Enbridge Gas Distribution Inc. (By email)
Tania Persad, Enbridge Gas Distribution Inc. (By email)
Fred D. Cass, Aird & Berlis LLP (By email)
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IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2013.

SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
ON THE PRELIMINARY ISSUE

Introduction

In Procedural Order No. 1 the Board noted that it had worked with a full range of stakeholders over the last several years to consider the implications of the anticipated global adoption of International Financial Reporting Standards ("IFRS"). The Board issued the *Report of the Board, Transition to IFRS* in July 2009 and in June 2011 issued the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* ("Addendum Report").

The Addendum Report recognized the need to provide some flexibility to accommodate unique circumstances in terms of permitting rate applications or Reporting and Record Keeping Requirements reporting using US Generally Accepted Accounting Principles ("USGAAP") as an alternative to IFRS.

The Board also noted the application of Enbridge Gas Distribution Inc. ("EGD") was filed on the basis of USGAAP.

The Addendum Report noted that the Board must consider the general public interest in ensuring efficiency and consistency in utility regulation in Ontario, and that it would require utilities to explain the use of an accounting standard other than Modified IFRS ("MIFRS") for regulatory purposes. These requirements are as follows:

The Board requires a utility that adopts USGAAP or an alternate accounting standard other than IFRS, in its first cost of service application following the adoption of the new accounting standard, to:

- * 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); 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 determined that it would consider EGD's application for the adoption of USGAAP for regulatory purposes (the "Preliminary Issue") in advance of further procedural steps.

The Board allowed an initial round of interrogatories by registered intervenors and Board staff to seek additional information specifically related to the Preliminary Issue and EGD's evidence on the Preliminary Issue. EGD filed responses to the interrogatories on April 18, 2012.

These are the submissions of the Energy Probe Research Foundation ("Energy Probe") with respect to EGD's request to use USGAAP for regulatory purposes.

Energy Probe supports the EGD request and submits that the Board should approve the request for a number of reasons, each of which is discussed below.

Reduction in Revenue Requirement

As indicated in the material filed by EGD at Exhibit I, Issue USGAAP, Schedule 1.5, and particularly at Attachment B, the reduction in the revenue deficiency will be significant if USGAAP is used in place of MIFRS to calculate the revenue requirement. As shown in this attachment, the reduction in the revenue deficiency in 2013 is \$54.0 million based on the use of USGAAP in place of MIFRS. Energy Probes notes that based on the revenue at existing rates less the gas costs shown in the attachment this \$54.0 million would represent an increase in revenues of approximately 5.9%. This would be in addition to the \$80.3 million gross revenue sufficiency shown under USGAAP that increases revenues (excluding the cost of gas) by 8.8%.

Energy Probe notes that the reduction in the revenue requirement based on the use of USGAAP would extend beyond 2013 if 2013 is used to set base rates under an IRM mechanism going forward. Even if rates are based on a cost of service mechanism in

2014, those rates would be lower based on the use of USGAAP relative to MIFRS for the same reasons as they will be in 2013.

Energy Probe submits that the reduction in the 2013 revenue requirement and the reductions in subsequent years are significant and result in substantial savings for ratepayers during a time of economic distress for residential, commercial, institutional and industrial ratepayers alike.

Stakeholder Benefits of Using USGAAP

In addition to the benefits that accrue to ratepayers of lower distribution rates noted in the above section, there are benefits to other stakeholders.

First, distribution customers of EGD will benefit from lower costs if EGD is not required to maintain two sets of books. Maintaining account records based on USGAAP and MIFRS would entail additional resources to do so. This incremental cost is ultimately paid for by ratepayers. Energy Probe notes that EGD has indicated that it will not require two sets of books for the regulated entity as a result of the switch to USGAAP (Exhibit I, Issue USGAAP, Schedule 1.5, part (c)). Energy Probe supports the use of one set of books in order to avoid additional, and in the view of Energy Probe, unnecessary costs which would be recovered from ratepayers.

Second, the Province of Ontario will benefit from lower gas distribution rates in a time of expected slow economic growth and support provincial economic growth priorities.

Third, the external financial community should benefit from the alignment of the accounting frameworks used for external financial reporting and for rate making purposes. This should provide greater clarity and transparency to the financial community which would benefit to all parties.

Comparability with Union Gas and Others

Energy Probe notes that the Board has already approved the use of USGAAP for Union Gas (and for Hydro One Networks). Energy Probe submits that the Board should ensure that EGD's accounting is directly comparable to that of Union. This will ensure that comparisons between the two distributors can be made quickly and easily, without the need for adjustments to one or the other to make various costs comparable.

Energy Probe notes that in the EB-2011-0210 Decision on Preliminary Issue & Procedural Order No. 2 for Union Gas dated March 1, 2012, the Board noted that if it

became apparent that comparisons and benchmarking exercises were compromised by Union's use of USGAAP, Union may be obliged to provide information, data and statistics in a form and format which conclusively corrects that deficiency. The Board also indicated that Union must develop a plan to address the possibility that authorization it relies on to continue under USGAAP, which was time limited, may lapse or otherwise become ineffective. The Board went on to indicate that if such an event occurred during a period when Union is subject to an Incentive Ratemaking Mechanism, Union would be obliged to develop a plan for presentation to the Board to address any issues arising from the termination of the authorization.

In the response provided at Exhibit I, Issue USGAAP, Schedule 7.3, EGD indicated that it would look to provide whatever information the Board might require in the future as a result of the use of USGAAP. Energy Probe submits that the Board should impose conditions on EGD with respect to the use of USGAAP as it did for Union.

Energy Probe also notes that the use of USGAAP by EGD will allow comparisons to not only Union Gas but also to other major utilities in both Ontario and across North America (Exhibit I, Issue USGAAP, Schedule 1.2, part (a)).

Disadvantages of USGAAP vs. MIFRS

EGD has indicated that it is not aware of any disadvantages of using USGAAP as opposed MIFRS (Exhibit I, Issue USGAAP, Schedule 1.2, part (b)). Energy Probe agrees.

Summary

Energy Probe submits that given the benefits to all stakeholders and the lack of any evidence of negative impacts of moving to USGAAP instead of MIFRS, the Board should approve the use of USGAAP for rate setting purposes.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

April 27, 2012

Randy Aiken

Consultant to Energy Probe