

August 29, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Upper Canada Transmission, Inc. - US GAAP accounting standard

Upper Canada Transmission, Inc. ("NextBridge"), the general partner of NextBridge Infrastructure LP, seeks Ontario Energy Board ("Board") approval to use United States Generally Accepted Accounting Principles ("US GAAP") as its accounting standard for rate setting, regulatory accounting, and regulatory reporting immediately in order to prepare financial statements to be filed with the Board by April 30, 2015 pursuant to the Electricity Reporting and Record-keeping Requirements ("RRR").

NextBridge is a licensed electricity transmitter pursuant to Licence ET-2011-0222 (the Licence) issued by the Board effective November 25, 2011. Section 17.1 of the Licence states that the Licence may be amended by the Board in accordance with section 74 of the *Ontario Energy Board Act, 1998* (OEB Act) or section 38 of the *Electricity Act*.

NextBridge applies to the Board under section 74 of the OEB Act for an amendment adding a condition to the Licence that permits NextBridge to use US GAAP as its accounting standard for the purposes of rate setting, regulatory accounting, and regulatory reporting. In this regard, NextBridge relies on the following provisions of the OEB Act:

- (1) subsection 70(1), which states that a licence under Part V of the OEB Act may prescribe the conditions under which a person may engage in an activity set out in section 57 and such other conditions as are appropriate having regard to the objectives of the Board and the purposes of the *Electricity Act, 1998*; and
- (2) subsection 70(2), which gives examples of conditions that may be included in a licence, one of which, as set out in paragraph (f), is a condition requiring the licensee to

maintain specified accounting records or to prepare accounting records according to specified principles.

Further information regarding NextBridge's request for approval to use US GAAP, and the grounds for that request, was provided in a letter sent to the Board by NextBridge on August 14, 2014. A copy of the August 14, 2014 letter is attached hereto.

For the reasons given in the attached letter, NextBridge respectfully requests that the Board consider this matter at its earliest convenience.

If the Board has any questions about this application for an amendment to the Licence, please do not hesitate to contact me.

Yours truly,

(Original Signed)

Tania Persad
Regulatory Lead for NextBridge

Attachment

c.c. Jennifer Lea, Ontario Energy Board



August 14, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Upper Canada Transmission, Inc. (NextBridge) - US GAAP accounting standard

Upper Canada Transmission, Inc. (NextBridge), the general partner of NextBridge Infrastructure LP, seeks Board approval to use United States Generally Accepted Accounting Principles (US GAAP) as its accounting standard for rate setting, regulatory accounting and regulatory reporting immediately in order to prepare financial statements to be filed with the Board by April 30, 2015 pursuant to the Electricity Reporting and Record-keeping Requirements (RRR).

NextBridge respectfully requests that the Board consider this matter at its earliest convenience, so that NextBridge has guidance and certainty about the accounting standard to be used in planning and interim audit work for the preparation of its first set of audited financial statements (**which must be commenced in early Fall 2014**) and its leave to construct application, which is to be filed by late January 2015.

NextBridge proposes that the Board proceed to consider the granting of approval without a hearing as no third parties will be affected by the Board's decision at this time because NextBridge is still in the development phase and does not currently own and operate any transmission system or other Board-regulated assets in Ontario. Should the Board deem it appropriate to do so, the Board will have an opportunity to re-consider accounting standards applied by NextBridge as part of NextBridge's first rate application.

As explained below, NextBridge's use of US GAAP will be administratively simpler and will eventually benefit ratepayers and NextBridge as the transmitter. NextBridge's annual revenue requirement will likely be lower under US GAAP than under modified International Financial Reporting Standards (MIFRS) because, among other things, US GAAP allows for more administrative costs to be capitalized and allows for some different depreciation treatment. Additionally, NextBridge will avoid the costs of maintaining two sets of audited financial statements (one for internal purposes and one for regulatory reporting purposes).



Statutory Basis for Approval

Because it is in the development phase of the East-West Tie Line project, NextBridge has not yet made a rates application to the Board. Nevertheless, in its decision designating NextBridge to undertake development work for the East-West Tie Line, the Board exercised jurisdiction under the licensing and rate making provisions of the *Ontario Energy Board Act, 1998* (OEB Act) and, in particular, under section 78 of that statute. In the designation decision (EB-2011-0140 Phase 2 Decision and Order, page 3), the Board relied broadly on its jurisdiction under sections 70, 74 and 78 of the OEB Act and it relied more specifically on subsection (3.0.5) of section 78.

The same rate making jurisdiction - primarily under section 78 of the OEB Act – upon which the Board's designation decision was founded also serves as the statutory foundation for the approval sought by NextBridge. Subsection (6) of section 78 provides that an order under section 78 may include conditions, classifications or practices, including rules respecting the calculation of rates, applicable to, among other things, the transmission, distribution or retailing of electricity. Pursuant to subsection 78(6), NextBridge seeks approval of a condition, classification or practice allowing NextBridge to use US GAAP as its accounting standard for regulatory purposes. NextBridge seeks this approval on a final basis, but, in the event that the Board decides that the approval should extend only until a Board decision in respect of NextBridge's first rates application, the Board is authorized to grant the approval on an interim basis under subsection 21(7) of the OEB Act.

Background

NextBridge is a private corporation under the laws of New Brunswick. As explained below, the legislation applicable to New Brunswick corporations permits them to adopt a generally accepted accounting standard of their choice. At this time, two of NextBridge's three partners (NextEra Energy UCT Holding, Inc. (NextEra) and Enbridge Transmission Holdings, Inc. (Enbridge)) report under US GAAP. Together, NextEra and Enbridge currently own 75% of NextBridge and NextBridge Infrastructure LP. In order to provide financial reports to NextEra and Enbridge, NextBridge must prepare financial statements in US GAAP in any event.

NextBridge would have to expend additional time, effort and expense to keep financial records in accordance with MIFRS as well. While that cost will be modest in the immediate term (before NextBridge starts operations), the associated costs and complications will increase over time with the maturity of NextBridge's assets and operations.

In accordance with the Board's designation decision in the EB-2011-0140 proceeding, NextBridge is actively preparing its Leave to Construct Application for approval to construct the East-West Tie line, targeted to be filed by late January 2015.

On April 17, 2014, NextBridge (UCT in this quote) made its RRR filing with the Board in which it stated:

In its Phase 2 Decision at page 42, the Board stated, "A consequence of this designation decision is that, if it meets its obligations, UCT will be able to recover the costs of project development (up to the budgeted amount) from transmission ratepayers, even if the final assessment of need indicates that the line is no longer required." At or about the time that UCT files its leave to construct application, UCT intends to apply to the Board for an



order approving UCT's recovery of its development costs in rates. UCT proposes to obtain an audit of its financial statements in February 2015 covering the period from August 7, 2013 to the date that the EWT Project leave to construct application is filed (approximately 18 months). UCT anticipates it would be prepared to file these audited financial statements with the Board by April 30, 2015 in order to support UCT's request for recovery of its development costs.

NextBridge therefore intends, in order to support its leave to construct application and request for disposition of the amounts in the Development Cost Deferral Account (DCDA), to file audited financial statements in the next RRR reporting period, by April 30, 2015. NextBridge is advised by external auditors that NextBridge would have to engage an auditor before the last quarter of 2014 to provide the auditor with adequate information and time to conduct the proposed audit before the proposed filing date.

NextBridge Meets the Board's Requirements for Use of US GAAP

In the Addendum to the Board's Report on Implementing IFRS in an Incentive Rate Mechanism Environment (EB-2008-0408 Addendum Report, June 13, 2011), the Board indicated (at page 19) that a utility who wishes to adopt US GAAP or an alternate accounting standard other than MIFRS must, within its first cost of service application following the adoption of the new accounting standard:

- 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 that 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 alternative accounting standard for rate regulation.

i) Timing of Request

While NextBridge is aware that its current request is typically made as part of a cost of service application, that timing is not appropriate in NextBridge's circumstances. As a newly licenced transmitter who has not yet begun construction of its first transmission project, NextBridge will not have a cost of service rate application for some years. It is not at all likely that NextBridge will have any rate application until after its leave to construct application for the East-West Tie Line has been completed and approved. In order to prepare the leave to construct application and audited financial statements in accordance with the timing explained above, NextBridge requires certainty as to the applicable accounting standard to be used. That is why this request is being made now, rather than within a cost of service rate application.

Beyond the question of timing, NextBridge meets each of the applicable requirements from the Board's Report.

ii) Eligibility to Use US GAAP

NextBridge is not a reporting issuer, and therefore is not subject to securities regulation. However, as a New Brunswick private company, NextBridge is subject to the requirements of

the *Business Corporations Act (New Brunswick)*. Under that statute, a corporation is required to prepare financial statements and in so doing is permitted to use any generally accepted accounting principles. Accordingly, NextBridge is permitted to use US GAAP as the applicable accounting standard in preparing its financial statements.

To confirm the foregoing, Daryle Moffatt (Project Controls Manager for NextBridge), spoke with a Director at the New Brunswick government services office in charge of the *Business Corporations Act*, who indicated that New Brunswick aims to be business-friendly and allows businesses to pick their GAAP. He stated that New Brunswick (as seen in its corporations legislation) does not want to be specific in forcing an entity to pick a GAAP that does not fit its needs. Mr. Moffatt also spoke with the executive director of the New Brunswick Institute of Chartered Accountants, who confirmed the above advice, and stated that there is nothing to preclude a New Brunswick business from using US GAAP.

Given that NextBridge is not subject to securities legislation or the oversight of securities regulators, there is no authorization to be obtained from securities regulators to use US GAAP.

iii) Pros and Cons of Using US GAAP

There are benefits to NextBridge and ratepayers in using US GAAP for rate setting, regulatory accounting and regulatory reporting purposes, including the following:

1. An important benefit to the use of US GAAP is the cost benefit to ratepayers. Utilizing MIFRS typically results in a larger cost of service due to increased operating costs as opposed to US GAAP where those costs would be treated as capital and recovered over a longer period of time through depreciation. Essentially, US GAAP allows for some administration costs to be capitalized and recovered over time, rather than being expensed and recovered immediately. Additionally, depreciation costs may be higher under MIFRS because US GAAP allows the use of “group depreciation methods”. The applicable standards are noted here:
 - IAS 16, “Property, Plant and Equipment”, prohibits the capitalization of certain overhead and indirect costs that qualify under US GAAP. The use of US GAAP would help to avoid future rate increases by keeping the operating cost consistent.
 - IAS 16 disallows group depreciation methods which are acceptable under US GAAP. The use of US GAAP results in depreciation rates and annual depreciation expenses that more closely reflect the average service life of all in-service assets. This will avoid future rate fluctuations that would accompany the use of item depreciation which does not take into consideration the dispersion of expected asset service lives within a group. Additionally, if NextBridge were to use MIFRS it would require a variance account to track premature asset retirement losses which under US GAAP is included in the group depreciation method.



2. NextBridge's administrative costs will increase if required to maintain two different accounting frameworks (internal reporting in US GAAP and external reporting in MIFRS for Board submissions and rate filings);
3. Maintaining financial reporting results in US GAAP allows for comparison and benchmarking with North American utilities and other Canadian entities (such as Hydro One) that are retaining or adopting US GAAP; and
4. NextBridge's use of US GAAP will provide for a consistent accounting framework to be used for both external and internal financial reporting (partnership financials). Among other things, this will preserve the link between audited financial statements and financial information and documentation utilized in rate applications and for regulatory purposes.

One potential disadvantage to the use of US GAAP is that it will not facilitate direct comparison with other local transmission companies that are under MIFRS. However, once appropriate normalization adjustments have been made, benchmarking can still take place with entities reporting under MIFRS if required.

Finally, as implied by point 3 above, the Board has approved the use of US GAAP by certain Ontario utilities, such as Hydro One, Enbridge Gas Distribution, Union Gas and Toronto Hydro.

Conclusions

For the foregoing reasons, NextBridge submits that its adoption of US GAAP for rate setting, regulatory accounting and regulatory reporting purposes is in the best interests of NextBridge at this time and also its ratepayers in the future. Accordingly, NextBridge seeks the Board's approval to adopt US GAAP for its rate setting, regulatory accounting and regulatory reporting purposes. As indicated above, NextBridge respectfully requests that the Board consider this matter at its earliest convenience, particularly because NextBridge needs guidance and certainty for the purposes of preparing its first set of audited financial statements, which must be commenced in early Fall of 2014.

If the Board has any questions or concerns, please do not hesitate to contact me at (416) 495-5891 or tania.persad@enbridge.com.

Yours truly,

[original signed]

Tania Persad
Regulatory Lead for NextBridge