

GAZIFÈRE INC.  
ACCOUNTING FOR RATE REGULATED OPERATIONS  
CURRENT AND FUTURE CHANGES  
2013 RATE CASE

1. In this application Gazifère Inc. (“Gazifère”) is requesting the Régie de l’énergie (“Régie”) approval to utilize US Generally Accepted Accounting Principles (“USGAAP”) as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2013 in a manner appropriate for a rate regulated entity.

Background

2. In February 2008, the Canadian Accounting Standards Board (AcSB) determined that Canadian enterprises would be required to convert away from existing Canadian generally accepted accounting principles (“CGAAP”) (now known as Part V – Pre-changeover accounting standards). Therefore for the period beginning on or after January 1, 2011, Gazifère would either adopt Part I – International Financial Reporting Standards (“IFRS”), Part II – Accounting Standards for Private Enterprises (“ASPE”), or another appropriate basis of financial reporting.
3. During 2009, Enbridge Inc. (“Enbridge”), the ultimate parent company of Gazifère, began its IFRS conversion project. However given the continuing uncertainty with respect to the application of IFRS to rate regulated operations, Enbridge decided to abandon its IFRS conversion. In September 2010, the Accounting Standards Board (AcSB) provided a 1-year deferral for rate-regulated entities to adopt IFRS, requiring adoption for periods beginning on or after January 1, 2012. In the interim period, AcSB permitted rate regulated entities to continue using the pre-changeover CGAAP.
4. During this deferral period, Enbridge considered various options for next steps and after a detailed analysis determined that USGAAP would be the most suitable basis of financial reporting since it provided specific guidance for entities subject to rate regulation. Enbridge has adopted US GAAP as at January 1, 2012.

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5. In 2009, Gazifère had determined that ASPE would become its basis of financial reporting. However, given Enbridge's decision to adopt US GAAP, Gazifère reconsidered its decision and evaluated the conversion to US GAAP as an option. During the deferral period, Gazifère continued to follow the pre-changeover CGAAP.
6. Based on Gazifère's assessment of the options available, it was determined that US GAAP would be the most advantageous, both for Gazifère and its ratepayers. The reason for this decision are outlined in the evidence below. However, as Gazifère will adopt US GAAP as at January 1, 2013, it availed a further deferral provided by the AcSB in March 2012, which allowed rate regulated entities to continue using pre-changeover CGAAP until January 1, 2013.

Eligibility to report financial information using USGAAP

7. Gazifère is not a public company and its financial statements are prepared solely for the use of the Régie and Enbridge. Although Gazifère would be expected to follow the guidance issued for Canadian enterprises, it may chose to adopt another basis of financial reporting if it is more relevant and if it is suitable for the needs of its users.
8. Enbridge is a publicly traded company in the US and is therefore eligible to use US GAAP as its basis of financial reporting. Other affililate companies of Gazifère (namely Enbridge Gas Distribution Inc. & Enbridge Pipelines Inc.) received approvals from their respective provincial security authorities to use US GAAP as their basis of financial reporting, since both are public companies in their respective provinces.

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9. It is Gazifère's view that in light of the advantages of adopting USGAAP (highlighted below), USGAAP is a more relevant basis of financial reporting and would be more suitable to the needs of Gazifère's users.

Advantages of adopting USGAAP rather than ASPE for rate regulation purposes

10. Adopting USGAAP would have a number of advantages for Gazifère, including the following:
- a. Adopting USGAAP would provide for the continued alignment of Gazifère's financial reporting and its regulatory basis of accounting.
  - b. Would ensure that Gazifère's financial reporting is consistent with Enbridge and affiliate companies.
  - c. There appear to be other Quebec regulated utilities that are adopting USGAAP or considering adopting USGAAP. It is our understanding that in its decision D-2012-077, the Régie approved Gaz Metro's adoption of USGAAP for regulatory purposes. Therefore, Gazifère's adoption of USGAAP would allow consistency with peer companies facilitating benchmarking and also benefit ratepayers as the basis of their rates would be consistent with those of other ratepayers in the province.
  - d. Impact on future rates from changes to Pension & OPEB accounting under US GAAP (outlined in exhibit GI-16, document 2.2) will either be equal to or lower than the impact of changes under ASPE depending on ASPE policy choice for Pension & OPEBs.
  - e. The Financial Accounting Standards Board issued FAS 71 in 1982 to permit the economic realities of rate regulation. These standards, subsequently re-codified as ASC 980, have proven to be a mature, reliable and an understandable set of accounting standards.