

GAZIFÈRE INC.
ACCOUNTING FOR RATE REGULATED OPERATIONS
CURRENT AND FUTURE CHANGES
2017 RATE CASE

2016 RATE CASE (Phase IV)

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, 2017 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 November 2013, 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, 2015. In the interim period, AcSB permitted rate regulated entities to continue using the pre-changeover CGAAP.
4. During the 2015 year Gazifere has continued to utilize CGAAP for accounting and rate making purposes.
5. 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 USGAAP as at January 1, 2012.

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6. In 2009, Gazifère had determined that ASPE would become its basis of financial reporting. However, given Enbridge's decision to adopt USGAAP, Gazifère reconsidered its decision and evaluated the conversion to USGAAP as an option. During the deferral period, Gazifère continued to follow the pre-changeover CGAAP.
7. Based on Gazifère's assessment of the options available, it was determined that USGAAP would be the most advantageous, both for Gazifère and its ratepayers. The reason for this decision are outlined in the evidence below.

Eligibility to report financial information using USGAAP

8. 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.
9. Enbridge is a publicly traded company in the US and is therefore eligible to use USGAAP as its basis of financial reporting. Other affiliate companies of Gazifère (namely Enbridge Gas Distribution Inc. & Enbridge Pipelines Inc.) received approvals from their respective provincial security authorities to use USGAAP as their basis of financial reporting, since both are public companies in their respective provinces.
10. 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

11. Adopting USGAAP would have a number of advantages for Gazifère, including the following:

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- 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. Impact on future rates from changes to Pension & OPEB accounting under US will either be equal to or lower than the impact of changes under ASPE depending on ASPE policy choice for Pension & OPEBs.
- d. 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.