



uniongas

A Spectra Energy Company

Union's Transition to IFRS

OEB Stakeholder Conference

May 4, 2009

Union's Approach

We expect that we will need to maintain three sets of records:

1. Compliance with IFRS for external reporting in Canada;
2. Reporting to the OEB for rate setting purposes; and
3. US GAAP for the preparation of consolidated statements by our parent.

Principles

IFRS should be adopted for rate making purposes

Subject to the resulting impact on rate payers and shareholders

- ❑ Utility specific exceptions may be required
 - Exceptions should be short term solutions (ie. deferral accounts)
 - Consistency across utilities on the applicability of the exceptions is not required
- ❑ In some situations modifications to the standards may be required

Key Accounting Changes

Accounting for the effects of rate regulation

Employee future benefit costs

Gas in inventory

Property, plant and equipment

- Opening balance on transition
- Capitalization of costs
- Depreciation, gains and losses on retirement
- Asset retirement obligations

Regulatory Assets and Liabilities

Accounting - Regulatory assets and liabilities meet the criteria to be recognized as assets and liabilities in accordance with the IFRS framework and other existing IFRS standards.

Ratemaking - Continue to use deferral and variance accounts for rate making.

Employee Future Benefit Costs

Accounting - Write-off unamortized actuarial losses, unamortized past service cost and the unamortized transitional obligation through retained earnings on transition will reduce future expenses.

Ratemaking – Where immediate recovery of the transition impact is not appropriate a deferral mechanism (regulatory asset) will be required to continue to recover the amortization costs in rates.

Gas in Inventory

Accounting - Inventory will be recorded at the lower of cost or net realizable value.

Ratemaking - Currently inventory is valued at WACOG with purchase variances deferral, subject to quarterly revaluations. Proposing to adopt IFRS for ratemaking changing the deferral to variances recorded on the sale of gas rather than the purchase.

PP&E – Opening Balance

Accounting – Proposing to use rate base as deemed cost on transition.

Ratemaking - No change required.

PP&E – Capitalization of Costs

Accounting – Changes to capitalization policy under IFRS are expected to reduce the costs currently capitalized and increase expenses.

Ratemaking – Where immediate recovery of the increased operating costs is not manageable a mechanism (regulatory asset) is required to continue recovery of costs in rates over a period of time.

PP&E – Depreciation

Accounting – Change to individual asset depreciation at the component level. Gains and losses on retirement of assets will be recognized in income.

Ratemaking – Propose to continue to use group method depreciation, recognizing the impact of gains and losses through accumulated depreciation and future depreciation rates.

PP&E – Asset Retirement Costs

Accounting – non legal asset removal costs currently recovered in rates will not be recorded under IFRS. Changes are expected to increase book value of plant and decrease depreciation expense.

Ratemaking – propose to continue to use group method depreciation, recognizing asset removal costs as part of the depreciation expense recovered in rates. The amounts will be tracked through accumulated depreciation and reduce rate base.

Impact

Union expects to provided impacts of the accounting changes on ratepayers as well as proposals for any adjustments for ratemaking for review and approval in a rate application.

Union's cost to convert to IFRS including systems cost is estimated to be \$5 million.

Ongoing administrative costs to maintain regulatory reporting separate from financial reporting are expected to be incurred but have not been determined at this time.



Rate Application – IFRS Impact

Year	Filed		Accounting Standard
2009	2010	Actual	Current Canadian GAAP
2010	2011	Actual	Current Canadian GAAP IFRS Comparable Modified IFRS proposal for ratemaking
2011	2012	Actual	Current Canadian GAAP
2012	2013	Actual	Modified IFRS

Rate Application – Rebasing

Year		Accounting Standard
2011	Historic	Current Canadian GAAP Restated under modified IFRS
2012	Bridge	Modified IFRS
2013	Test	Modified IFRS



Reporting and Record Keeping Requirements

Year	Filed		Accounting Standard
2009	2010	Actual	Current Canadian GAAP
2010	2011	Actual	Current Canadian GAAP
2011	2012	Actual	Current Canadian GAAP
2012	2013	Actual	Modified IFRS
2013	2014	Actual	Modified IFRS