



INDEPENDENT AUDITOR'S REPORT

To the Chairperson of the Board of Directors of the Canadian Energy Regulator

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Energy Regulator (the CER), which comprise the statement of financial position as at 31 March 2020, and the statement of operations and net financial position, statement of change in net debt and statement of cash flows for the period from establishment on 28 August 2019 to 31 March 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the CER as at 31 March 2020, and the results of its operations, changes in its net debt, and its cash flows for the period from establishment on 28 August 2019 to 31 March 2020 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the CER in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Establishment of the Canadian Energy Regulator and Resulting Calculation of Recoverable Costs

We draw attention to Note 3 and Schedule A to the financial statements, which describe the establishment of the Canadian Energy Regulator as a result of the restructuring of the National Energy Board on 28 August 2019, and the impacts this restructuring transaction had on the calculation of recoverable costs for the 2019 calendar year in accordance with the Cost Recovery Regulations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the CER's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the CER or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the CER's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CER's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CER's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CER to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Energy Regulator coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Section 87 of the Canadian Energy Regulator Act, the National Energy Board Cost Recovery Regulations, and the Transitional Regulations for the Purpose of the National Energy Board Cost Recovery Regulations.

In our opinion, the transactions of the Canadian Energy Regulator that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Energy Regulator's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Energy Regulator to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Original signed by,

David Irving, CPA, CA
Principal
for the Auditor General of Canada

Edmonton, Canada
20 November 2020



Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the period from August 28, 2019 to March 31, 2020 and all information contained in these financial statements rests with the management of the Canada Energy Regulator (CER). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian Public Sector Accounting Standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the CER's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the CER's *Departmental Result Report* is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the CER and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The CER will be subject to periodic Core Control Audits performed by the Office of the Comptroller General and will use the results of such audits to comply with the Treasury Board Policy on Financial Management.

In the interim, the CER has undertaken a risk-based assessment of the system of ICFR for the year ended March 31, 2020, in accordance with the Treasury Board Policy on Financial Management, and the results are summarized in the annex.

The Auditor General of Canada, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the financial statements of the CER which does not include an audit opinion on the annual assessment of the effectiveness of the department's internal controls over financial reporting.

The original version was signed by

The original version was signed by

Gitane De Silva
Chief Executive Officer

Mark Power, CPA, CGA, CIA, MBA
Chief Financial Officer

Calgary, Canada
November 20, 2020

CANADA ENERGY REGULATOR

Statement of Financial Position

As at March 31

(in thousands of dollars)

	<u>2020</u>
Liabilities	
Accounts payable and accrued liabilities (Note 6)	14,432
Due to the Consolidated Revenue Fund (Note 8)	1,287
Vacation pay and compensatory leave	5,441
Employee future benefits (Note 7)	6,062
Total liabilities	<u>27,222</u>
Financial assets	
Due from the Consolidated Revenue Fund	14,432
Accounts receivable and advances (Note 8)	47,988
Total financial assets	<u>62,420</u>
Financial assets held on behalf of Government (Note 8)	(46,701)
Total net financial assets	<u>15,719</u>
Net debt	11,503
Non-financial assets	
Prepaid expenses	917
Tangible capital assets (Note 9)	14,377
Total non-financial assets	<u>15,294</u>
Net financial position	<u><u>3,791</u></u>

Contractual obligations and contingent liabilities (Note 10)

The accompanying notes and Schedule A form an integral part of these financial statements.

The original version was signed by

The original version was signed by

Cassie Doyle
Chairperson of Board of Director
Calgary, Canada
November 20, 2020

Alain Jolicoeur
Chairperson, Corporate Performance
Committee, Board of Director

CANADA ENERGY REGULATOR

**Statement of Operations and Net Financial Position
For the Period Ended March 31**

(in thousands of dollars)

	Planned Results (Note 2a)	Period from August 28, 2019 to March 31, 2020
Expenses		
Energy Adjudication	15,899	14,987
Safety and Environment Oversight	15,528	17,965
Energy Information	6,558	6,224
Engagement	3,554	5,741
Internal Services	22,499	25,195
Total expenses	64,038	70,112
Revenues		
Regulatory revenue	66,406	68,850
Miscellaneous revenue	71	37
Revenues earned on behalf of Government	(66,477)	(68,887)
Total revenues	-	-
Net cost of operations before government funding and transfers	64,038	70,112
Government funding and transfers		
Net cash provided by Government	-	48,043
Change in due from the Consolidated Revenue Fund	-	13,145
Services provided without charge from other government departments (Note 11)	-	8,818
Restructuring gain (Note 3)	-	3,897
Net cost of (recovery from) operations	-	(3,791)
Net financial position – Beginning of period	-	-
Net financial position – End of period	-	3,791

Segmented information (Note 12)

The accompanying notes and Schedule A form an integral part of these financial statements.

CANADA ENERGY REGULATOR

Statement of Change in Net Debt
For the Period Ended March 31
(in thousands of dollars)

	Planned Results (Note 2a)	Period from August 28, 2019 to March 31, 2020
Net cost of (recovery from) operations	-	(3,791)
Change due to tangible capital assets (Note 9)		
Acquisition of tangible capital assets	-	983
Amortization of tangible capital assets	-	(2,346)
Net book value of tangible capital assets transferred from the National Energy Board (Note 3)	-	15,740
Total change due to tangible capital assets	-	14,377
Change in prepaid expenses	-	917
Net decrease in net debt	-	11,503
Net debt - Beginning of period	-	-
Net debt - End of period	-	11,503

The accompanying notes and Schedule A form an integral part of these financial statements.

CANADA ENERGY REGULATOR

Statement of Cash Flows For the Period Ended March 31 (in thousands of dollars)

	Period from August 28, 2019 to March 31, 2020
Operating activities	
Net cost of operations before government funding and transfers	70,112
Items not affecting cash:	
Amortization of tangible capital assets (Note 9)	(2,346)
Services provided without charge by other government departments (Note 11)	(8,818)
Variations in Statement of Financial Position:	
Change in accounts receivable and advances	1,287
Change in prepaid expenses	917
Change in accounts payable and accrued liabilities	(14,367)
Change in vacation pay and compensatory leave	(5,441)
Change in employee future benefits	(6,062)
Transfer of assets and liabilities from another government department (Note 3)	11,843
Cash used in operating activities	47,125
Capital investing activities	
Acquisitions of tangible capital assets	918
Cash used in capital investing activities	918
Net cash provided by Government of Canada	48,043

The accompanying notes and Schedule A form an integral part of these financial statements.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

1. Authority and objectives

On August 28, 2019, the Canadian Energy Regulator (CER or the Regulator), operating as the Canada Energy Regulator, was established under the *Canadian Energy Regulator Act*. The CER replaced the National Energy Board (NEB) following coming into force of Bill C-69, an Act to enact the *Impact Assessment Act* and the *Canadian Energy Regulator Act* (CER Act), to amend the *Navigation Protection Act* and to make consequential amendments to other acts.

The National Energy Board was dissolved and all assets, liabilities, unexpended appropriations were transferred to the CER. Therefore, the financial statements of the Canada Energy Regulator have been prepared for the period from August 28, 2019 to March 31, 2020. As such, these financial statements include all activities of the Canada Energy Regulator for the period from August 28, 2019 to March 31, 2020, subsequent to the transfer of net assets from the NEB. Activities undertaken prior to August 28, 2019 are not reflected in the balances presented in these financial statements. The net impact of the transfer is recognized as a restructuring gain in the Statement of Operations and Net Financial Position (see Note 3 for further details).

The CER is named in Schedule II of the *Financial Administration Act* and is accountable to Parliament through the Minister of Natural Resources. The CER has four core responsibilities: Energy Adjudication; Safety and Environment Oversight; Energy Information; and Engagement. The Internal Services supports all other core responsibilities within the CER.

Core Responsibility 1: Energy Adjudication

Making decisions or recommendations to the Governor in Council on applications, which include impact assessments, using processes that are fair, transparent, timely and accessible. These applications pertain to pipelines and related facilities, international power lines, offshore renewable energy, tolls and tariffs, compensation disputes resolution, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

Core Responsibility 2: Safety and Environment Oversight

Setting and enforcing regulatory expectations for regulated companies over the full lifecycle - construction, operation and abandonment - of energy-related activities. These activities pertain to pipelines and related facilities, international power lines, offshore renewable energy, tolls and tariffs, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

Core Responsibility 3: Energy Information

Collecting, monitoring, analyzing and publishing information on energy markets and supply, sources of energy, and the safety and security of pipelines and international power lines.

Core Responsibility 4: Engagement

Engaging nationally and regionally with Indigenous Peoples and other stakeholders through open dialogue, asking questions, sharing perspectives, and collaboration. These activities pertain to all decisions and actions related to our legislated mandate.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

1. Authority and objectives - continued

Internal Services: Internal Services are those groups of related activities and resources that the federal government considers to be services in support of Programs and/or required to meet corporate obligations of an organization. Internal Services includes services such as communications, human resources, legal and finance.

The CER regulates pipelines, power lines, energy development and energy trade. The CER contributes to the safety of Canadians, the protection of the environment and efficient energy infrastructure and markets, while respecting the rights and interests of those affected by the CER decisions and recommendations. It is guided by the principles of natural justice and procedural fairness.

The CER is a court of record and has certain powers of a superior court with respect to the attendance, swearing and examination of witnesses; the production and inspection of documents; the enforcement of its orders; the entry on and inspection of property; and other matters necessary or proper for the due exercise of its jurisdiction. Aside from rare exceptions, the CER's regulatory decisions and the accompanying Reasons for Decision are issued as public documents.

In accordance with Section 87(1) of the CER Act, the Regulator may, for the purposes of recovering all or a portion of such costs as the CER determines to be attributable to its responsibilities under this or any other Act of Parliament, make regulations to impose fees, levies or charges. The Transitional Regulations for the Purpose of the National Energy Board Cost Recovery Regulations (Transitional Regulations) specify that the Regulator is to apply the National Energy Board Cost Recovery Regulations (Cost Recovery Regulations) as if it was the National Energy Board. The Transitional Regulations provide for the calculation and allocation of recoverable costs. Cost recovery calculations performed on a calendar year basis are included in Schedule A of these financial statements. The CER is funded through parliamentary appropriations. The Government of Canada recovers substantially all of the appropriation from the regulated industry. The revenues are deposited directly into the Consolidated Revenue Fund. This process is regulated by the Cost Recovery Regulations.

2. Basis of preparation

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

The CER's initial net assets were received from the National Energy Board on August 28, 2019 (see Note 3). Since the CER did not exist prior to this date, there is no comparative information presented within these financial statements.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

2. Basis of preparation- continued

Summary of significant accounting policies are as follows:

a) Parliamentary authorities

The CER is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to the CER do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 5 provides a high-level reconciliation between the bases of reporting. The planned results amounts in the “Expenses” and “Revenues” sections of the Statement of Operations and Net Financial Position are the amounts reported in the 2019–20 *Departmental Plan*. They have been pro-rated based on the number of months CER was established during the fiscal year of 2019-20. The planned results are not presented in the “Government funding and transfers” section of the Statement of Operations and Net Financial Position nor in the Statement of Change in Net Debt because these amounts were not included in the 2019-20 Departmental Plan.

b) Net cash provided by Government

The CER operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CER is deposited to the CRF and all cash disbursements made by the CER are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

c) Amounts due to or from the CRF

Amounts due to or from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the CER is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- Pursuant to the *Interpretation Act*, the National Energy Board Cost Recovery Regulations remain in effect for the CER until new cost recovery regulations are made under the *Canadian Energy Regulator Act*. The CER has the authority to charge those companies it regulates for the costs attributable to the CER’s operations in carrying out its responsibilities. Revenues from regulatory levies are recognized in the accounts when they are invoiced and, in accordance with the Regulations, are based on the estimated cost of operations for the calendar year, with a billing adjustment to actual costs once the costs are known. Revenues are recognized both when estimated invoices are billed and when adjustments for true costs are calculated. Actual costs are defined as the sum of one-quarter of year 1 audited fiscal costs

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

2. Basis of preparation – continued

d) Revenues - continued

(January to March) and three-quarters of year 2 audited fiscal costs (April to December). The recoverable costs for a given calendar year are allocated to the oil, gas and electricity commodities proportionately on the basis of the actual time spent by Board members and employees during the preceding fiscal year (April 1 to March 31).

- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- Revenues that are non-respendable are not available to discharge the CER's liabilities. While the CER is expected to maintain accounting control, the CER has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the CER's gross revenues.

e) Expenses

Expenses are recorded on the accrual basis.

- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal and audit services are recorded as operating expenses at their carrying value of the providing entity. Services received without charge are recoverable costs under the Cost Recovery Regulations.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program.
- Expenditures of the CER that are not listed in the Cost Recovery Regulations as being recoverable are those expenditures related to the regulation of, exploration for, and the development of oil and gas on frontier lands and offshore areas and are disclosed in Schedule A.

f) Liabilities

Liabilities are financial obligations of the CER to outside organizations and individuals as a result of events and transactions that occurred on or before period end. They are the result of contracts, agreements and legislation in force at period end that require the CER to repay borrowings or to pay for goods and services acquired or provided prior to year-end.

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within six months of period-end.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

2. Basis of preparation - continued

g) Employee benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan (Plan), a multiemployer pension plan administered by the Government of Canada. The CER contributions to the Plan are charged to expenses in the period incurred and represent the CER's total obligation to the Plan. The CER's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ii. Health and dental benefits: The Government of Canada sponsors employee benefit plans (health and dental) in which the CER participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The CER's contributions to the plans, which are provided without charge by the Treasury Board Secretariat, are recorded at carrying value of the providing entity. They represent the CER's total obligation to the plans. Current legislation does not require the CER to make contributions for any future unfunded liabilities of the plans.
- iii. Severance benefits: The accumulation of severance benefits for employees ceased in the 2012–13 fiscal year. The accrued benefit obligation is determined using employees' salaries at period-end and the number of weeks earned but unpaid for employees who have elected to defer the receipt of their full or partial severance benefits payment.
- iv. Sick leave benefits: Employees are eligible to accumulate sick leave benefits until the end of employment, according to their labour contracts and conditions of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. A liability is recorded for unused sick leave credits expected to be used in future years in excess of future allotments, based on an actuarial valuation using an accrued benefit method.

h) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain. In addition, a distinction is made between financial assets that are available to discharge the CER's liabilities versus the ones that are not. Accounts receivable that pertain to non-responsible revenues earned on behalf of Government are considered to be held on behalf of the Government of Canada and are therefore presented in the Statement of Financial Position as a reduction of the CER's gross financial assets.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

2. Basis of preparation - continued

i) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. If the future event occurring or not occurring is unlikely, the contingency is not accrued nor disclosed in the notes to the financial statements.

j) Tangible capital assets

All tangible capital assets and leasehold improvements are recorded at their acquisition cost. Tangible capital assets under development are recorded as assets under development and amortized when they become available for use. Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Informatics hardware:	
PCs and accessories	3-5 years
Computer servers & accessories	3-7 years
Informatics software	
Commercial software	2-5 years
In-house developed software	2-5 years
Machinery and equipment	5-10 years
Furniture	5-10 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

k) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. At the time of preparation of these financial statements, management believes the estimates and assumptions to be reasonable. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the period they become known.

The most significant items where estimates are used are sick leave benefit obligations and the determination of the proration of planned results on the statement of operations and net financial position.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

2. Basis of preparation - continued

k) Measurement uncertainty- continued

The liability for sick leave benefits is actuarially determined and actual experiences could differ from the assumptions used in the calculations. The significant actuarial assumptions used in measuring the benefit obligation are disclosed in Note 7d.

l) Related party transactions

Related parties include key management personnel having authority and responsibility for planning, directing and controlling the activities of the CER as well as their close family members. Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount. Certain services received on a without charge basis are recorded in these financial statements at the exchange amount. Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.

3. Restructuring

On August 28, 2019, the *Canadian Energy Regulator Act* (CER Act) came into force. The transitional provisions associated with the CER Act repealed the *National Energy Board Act*, the predecessor to the CER Act.

As a result, the following assets and liabilities have been transferred at carrying values without adjustment from the National Energy Board (NEB) to the Canada Energy Regulator (CER) on August 28, 2019, for which no compensation was provided by the CER for this transaction.

Assets (in thousands of dollars)

Due from the Consolidated Revenue Fund	12,438
Accounts receivable and advances	46,214
Financial assets held on behalf of Government	(45,424)
Prepaid expenses	751
Tangible capital assets	15,740
Total Assets	29,719

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

3. Restructuring - continued

Liabilities (in thousands of dollars)

Accounts payable and accrued liabilities	12,438
Due to the Consolidated Revenue Fund	790
Vacation pay and compensatory leave	4,454
Employee future benefits	8,140
<u>Total Liabilities</u>	<u>25,822</u>

Both the NEB and the CER are entities under common control of the Government of Canada; as such, the CER accounted for this transaction as a restructuring transaction per the recommendations of the Public Sector Accounting Handbook. A gain on the restructuring transaction of \$3,897,000 was recorded in the Statement of Operations and Net Financial Position as a result of this transaction.

NEB's liability for vacation pay and compensatory leave balances of \$4,454,000 and employee future benefits of \$8,140,000 did not impact the consolidated revenue fund. This is offset by the asset of prepaid expenses of \$751,000, which impacted the consolidated revenue fund. The net balance of \$11,843,000 is reflected as a transfer of assets in the statement of cash flows.

In addition to the above, the CER has assumed responsibilities for the NEB's claims and litigations. On the date of coming into force, NEB's unexpended appropriations (voted and statutory) were deemed over to CER in the amount of \$58,527,292. NEB's authority was capped at their total expenditures against the Vote up to the date of coming into force of the CER Act.

Between August 28, 2019 and March 31, 2020, the CER incurred restructuring costs of \$288,158 related to legal, accounting and professional fees which were recorded in internal services. In addition, between April 1, 2019 and August 27, 2019, the NEB incurred restructuring costs of \$2,470,034, of which \$2,249,661 related to termination benefits for NEB board members who would not be retained as either a commissioner or board member of CER, as well as \$220,373 of legal, accounting and professional fees which were recorded in salary and employee benefits and professional services respectively and recognized as part of the restructuring gain.

4. Financial Management Risk

Consistent with Section 32 of the *Financial Administration Act*, the CER's policy to manage liquidity risk is that no contract or other arrangement providing for a payment shall be entered into with respect to any program for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

4. Financial Management Risk - continued

During the year, the CER's risk exposure consisted of liquidity risk and credit risk. Liquidity risk is the risk that the CER will encounter difficulty in meeting its obligations associated with financial liabilities. The CER's objective for managing liquidity risk is to manage operations and cash expenditures within the appropriation authorized by Parliament or allotment limits approved by the Treasury Board. Management believes that this risk is low.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The CER provides services to other government departments and agencies and to external parties in the normal course of business. Accounts receivable are due on demand. The CER is not exposed to significant credit risk and has incurred very minimal credit losses in the past. The maximum exposure the CER has to credit risk is equal to the carrying value of its accounts receivable.

5. Parliamentary authorities

The CER receives most of its funding through annual parliamentary authorities. The majority of these expenditures are subsequently recovered from the companies regulated by the CER and the funds are deposited in the Consolidated Revenue Fund of the Government of Canada. Items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position in the period may be funded through parliamentary authorities in prior, current or future years. Accordingly, the CER has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Authorities provided and used

**Period from August 28,
2019 to March 31, 2020**
(in thousands of dollars)

Authorities provided:

Vote 1 – Program expenditures	13,369
Transfer unexpended appropriation from the NEB (Voted \$53,190)	53,191
Spending of proceeds from disposal of surplus assets	1
Statutory amounts – contributions to employee benefit plans (including unexpended appropriation transferred from the NEB \$5,336)	6,585

Less:

Available for use in subsequent years	(1)
Appropriations lapsed	(11,947)
Current year authorities used	61,198

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

5. Parliamentary authorities - continued

(b) Reconciliation of net cost of operations before government funding and transfers to current period authorities used

	Period from August 28, 2019 to March 31, 2020 (in thousands of dollars)
Net cost of operations before government funding and transfers	70,112
Adjustments for items affecting net cost of operations but not affecting authorities:	
Services provided without charge by other government departments (Note 11)	(8,818)
Amortization of tangible capital assets (Note 9)	(2,346)
Change in vacation pay and compensatory leave	(987)
Change in employee future benefits	(171)
	(12,322)
Adjustments for items not affecting net cost of operations but affecting authorities:	
Acquisitions of tangible capital assets (Note 9)	983
Accountable advance	(2)
Change in prepaid expenses	177
Transition cost (Note 3)	2,250
	3,408
Current year authorities used	61,198

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

6. Accounts payable and accrued liabilities

	March 31, 2020
	(in thousands of dollars)
Accounts payable to other government departments and agencies (Note 11b)	1,429
Accounts payable to external parties	4,713
Accrued salaries and wages	8,290
Total accounts payable and accrued liabilities	14,432

7. Employee future benefits

a) Pension benefits:

All eligible CER employees contribute to the public service pension plan (the “Plan”), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the CER contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups. Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013.

Each group has a distinct contribution rate. For Group 1 members, the employers expense represents approximately 1.01 times the employee contributions and, for Group 2 members, approximately 1.00 times the employee contributions. The employers expense amount for the period ended March 31, 2020 is \$4,562,259.

b) Health and dental benefits:

The CER contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan which are sponsored by the Government of Canada. The CER’s responsibility with regard to these plans is limited to its contributions (Note 11a).

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

7. Employee future benefits – continued

c) Severance benefits:

The CER provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. However, since 2012–13 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. These severance benefits are not pre-funded and benefits will be paid from future parliamentary authorities.

Information about severance benefits is presented in the following table as at 31 March:

	Period ended March 31, 2020
	<u>(in thousands of dollars)</u>
Severance benefit, beginning of period	-
Liability transferred from the National Energy Board	3,871
Expense for the period	26
Benefits paid during the period	(2,460)
Severance benefit, end of period	<u>1,437</u>

d) Sick leave benefits:

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences due to illness or injury. The sick leave benefit obligation is unfunded and will be paid from future parliamentary authorities.

The CER obtains annually an actuarial valuation of the accrued employee sick leave benefit obligation for accounting purposes. The most recent actuarial valuation was completed as of March 31, 2018 by the National Energy Board and the results were extrapolated for CER to March 31, 2020. The next actuarial valuation is expected to take place as at March 31, 2021.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

7. Employee future benefits – continued

d) Sick leave benefits – continued:

Actuarial assumptions are used to determine the sick leave accrued benefit obligation. The assumptions are reviewed at the financial reporting date and are management's best estimate based on an analysis of the historical data up to the reporting date. The key assumptions used are: a discount rate of 1.26 percent, which is based on an average yield of government borrowings over the expected average remaining service life of employees of 13.31 years; and a long term general rate of salary increase of 2.6 percent.

Information about sick leave benefits is presented in the following table:

	March 31, 2020
	(in thousands of dollars)
Sick leave benefit, beginning of period	-
Liability transferred from the National Energy Board	4,268
Service cost	373
Interest cost	31
Benefit payments	(365)
Actuarial losses	102
Sick leave benefit, end of period	4,409

e) Summary information:

The table below summarizes the employee future benefits liability:

	March 31, 2020
	(in thousands of dollars)
Sick leave benefits	4,409
Severance benefits	1,437
Maternity benefits	216
Employee future benefits	6,062

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

8. Accounts receivable and advances

The following table presents details of the CER's accounts receivable and advances balances:

	March 31, 2020 (in thousands of dollars)
Receivables – External parties	
Outstanding current provisional billings	24,600
Outstanding prior year billings	159
Accrued billing adjustments	22,094
Receivables – Other government departments and agencies	1,134
Employee advances	145
	48,132
Allowance for doubtful accounts	(144)
Accounts receivable and Advances	47,988
Financial assets held on behalf of Government	(46,701)
Due to the Consolidated Revenue Fund	1,287

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

9. Tangible capital assets

(in thousands of dollars)

Capital asset class	Transfer from National Energy Board	Acquisitions	Adjustments and transfers	Write-offs & Disposals	Closing balance
Informatics hardware	5,989	-	-	(1,906)	4,083
Informatics software	13,039	-	1,570	(1,192)	13,417
Machinery and equipment	3,077	-	-	(253)	2,824
Furniture	3,183	-	-	(47)	3,136
Vehicles	25	-	-	-	25
Leasehold improvements	15,798	-	-	-	15,798
Assets under development	1,788	983	(1,570)	-	1,201
Total	42,899	983	-	(3,398)	40,484

Capital asset class	Accumulated amortization				Net book value
	Transfer from National Energy Board	Amortization	Write-offs & Disposals	Closing balance	March 31, 2020
Informatics hardware	4,562	389	(1,906)	3,045	1,038
Informatics software	10,658	578	(1,192)	10,044	3,373
Machinery and equipment	2,363	199	(253)	2,309	515
Furniture	1,641	186	(47)	1,780	1,356
Vehicles	14	3	-	17	8
Leasehold improvements	7,921	991	-	8,912	6,886
Assets under development	-	-	-	-	1,201
Total	27,159	2,346	(3,398)	26,107	14,377

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

10. Contractual obligations and contingent liabilities

a) Contractual obligations

The nature of the CER's activities can result in some large multi-year contracts and obligations whereby the CER will be obligated to make future payments when the services/goods are received. The following table outlines, as at March 31, the contractual obligations:

(in thousands of dollars)	2021	2022	2023	2024 and thereafter	Total
Goods and Services contracts	3,197	230	149	259	3,835

b) Claims and litigation

The CER, through the assumption of liabilities from the NEB, is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business. The outcome of all litigation has been identified as undeterminable or unlikely to be lost. As at March 31, 2020, the CER estimated the total claimed amount for which the outcome is not determinable to be approximately \$10,000. As at March 31, 2020, no provision for such claims has been made in these financial statements.

11. Related Party Transactions

The CER is related as a result of common ownership to all government departments, agencies, and Crown Corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual. The CER enters into transactions with these entities in the normal course of business and on normal trade terms. During the period and in addition to the restructuring transaction described in Note 3, the CER received services which were obtained without charge from other government departments as discussed below.

a) Common services provided without charge by other government departments

During the period, the CER received services without charge from certain common services organizations, related to accommodation, legal and audit services and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recognized in the CER's Statement of Operations and Net Financial Position as follows:

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

11. Related Party Transactions - continued

a) Common services provided without charge by other government departments - continued

	Period ended March 31, 2020
	<u>(in thousands of dollars)</u>
Accommodation	4,697
Employer's contribution to health and dental insurance plans	3,846
Audit services	87
Other professional and special services	<u>188</u>
Total	<u>8,818</u>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge.

Based on an agreement between the CER and Public Services and Procurement Canada (PSPC), PSPC incurred fit up costs for new office space related to the NEB office move which took place in 2014–15 which were recognized as leasehold improvements and are being amortized over the remaining term of the lease. The lease will expire on August 31, 2023.

b) Other transactions with related parties

	March 31, 2020
	<u>(in thousands of dollars)</u>
Expenses – other government departments and agencies	12,129
Accounts payable (Note 6)	1,429
Accounts receivable (Note 8)	1,134

Expenses disclosed above exclude common services provided without charge, which are already disclosed in 11(a) above. Expenses are mainly comprised of payments to Treasury Board for employee benefits, including superannuation.

Canada Energy Regulator
Notes to the financial statements
For the Period from August 28, 2019 to March 31, 2020

12. Segmented information

Presentation by segment is based on the CER's Departmental Results Framework. The presentation by segment is based on the same accounting policies as described in the Basis of presentation in Note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expense and by major type of revenues. Revenues are allocated to each main program based on their share of total annual expenditures. The segment results for the period are as follows:

For the period from August 28, 2019 to March 31, 2020
(in thousands of dollars)

	Energy Adjudication	Safety and Environment Oversight	Energy Information	Engagement	Internal Services	Total
Transfer Payments	1,203					1,203
Operating Expenses						
Salaries and employee benefits	11,173	13,963	4,486	4,032	17,290	50,944
Accommodation	1,207	1,223	386	381	2,421	5,618
Professional services	455	1,454	1,030	759	3,478	7,176
Travel	251	615	104	323	471	1,764
Amortization	610	610	188	188	750	2,346
Communication	69	56	19	4	350	498
Utilities and supplies	17	26	7	53	516	619
Other	2	18	4	1	(81)	(56)
Total expenses	14,987	17,965	6,224	5,741	25,195	70,112
Revenues						
Regulatory revenue	14,717	17,642	6,112	5,638	24,741	68,850
Miscellaneous revenue	8	10	3	3	13	37
Revenue earned on behalf of Government	(14,725)	(17,652)	(6,115)	(5,641)	(24,754)	(68,887)
Total revenues	-	-	-	-	-	-
Net Cost of Operations before government funding and transfers	14,987	17,965	6,224	5,741	25,195	70,112

Canada Energy Regulator
Schedule A
Allocation of Recoverable Operating Costs
For the Period Ended March 31, 2020

In accordance with the Cost Recovery Regulations, recoverable operating costs are based on the expenditures for the calendar year. A calendar year is the period from January 1 to December 31. The operating costs for Calendar 2019 include NEB costs carried over from Schedule A of the NEB financial statements for the period ended August 27, 2019, detailed in annual expenditures. The current year recoverable expenses are calculated using one quarter of expenses from the prior fiscal year and three quarters of expenses from the current fiscal year, adjusted for non-recoverable calendar expenditures. The National Energy Board cost recovery receivables at August 27, 2019 were transferred to the Canada Energy Regulator (Note 3). The methodology used by management to determine actual costs is reviewed on a periodic basis and adjusted for significant events.

	2019 <i>(calendar 2019)</i>	2018 <i>(calendar 2018)</i>
	(in thousands of dollars)	
January - March expenses - 1/4 from the previous fiscal	31,096	26,780
April – December expenses - 3/4 from the current fiscal	87,883	93,296
Total calculated expenses for cost recovery purposes	118,979	120,076
Less: non-recoverable costs related to the regulation of Frontier Lands and review of Arctic safety and offshore drilling	(1,500)	(3,140)
Less: non-recoverable costs on NEB dissolution*	(2,250)	
Less: non-recoverable remission payment **	(3,677)	(11,033)
Recoverable operating costs	111,552	105,903

*In accordance with subsection 12(2) of the transitional provisions associated with the CER Act, the National Energy Board had a transitional cost of \$2,249,661 which was paid to those permanent Board Members who were appointed under the NEB Act, but whose mandates terminated on the coming into force of the CER Act. This transitional cost is not cost recoverable.

**Northern Gateway Pipelines Limited Partnership (NGPL) paid a levy of \$14,710,000 to the Federal Government after the project certificates were issued for the Northern Gateway pipeline project in 2014-15. On June 23, 2016, the Federal Court of Appeal quashed these certificates. As a result, NGPL requested the levy be refunded and the Federal Government provided off-cycle funding in 2018-19 to enable NEB to remit the \$14,710,000 to NGPL on behalf of the Federal Government. There is no authority to recover the remission payment from the other pipeline companies, of which ¾ relates to calendar 2018 and ¼ relates to calendar 2019. NEB recorded the payment of \$14,710,000 to NGPL in 2018-19 as an other expense in Internal Services.

Canada Energy Regulator
Schedule A
Allocation of Recoverable Operating Costs
For the Period Ended March 31, 2020

The allocation of recoverable operating costs to the commodities for 2019 is based on actual time spent by Board members, and employees during the 2017-18 fiscal year (2016-17 for 2018):

		2019 <i>(calendar 2019)</i>			2018 <i>(calendar 2018)</i>
(in thousands of dollars)					
Gas	40.3%	44,950	45.1%		47,756
Oil	55.0%	61,346	47.8%		50,615
Electricity	4.7%	5,242	7.1%		7,518
	100%	111,538	100%		105,889
Commodity		14			14
Recoverable operating costs		111,552			105,903

Billing Adjustment

	2019 <i>(calendar 2019)</i>	2018 <i>(calendar 2018)</i>	2017 <i>(calendar 2017)</i>
(in thousands of dollars)			
Recoverable operating costs	111,552	105,903	102,007
Deduct: provisional billing	(104,305)	(95,049)	(90,817)
Billing adjustment	7,247	10,854	11,190

The billing adjustment represents the difference between the provisional billing and the actual recoverable operating costs. In accordance with Section 19 of the Regulations, the billing adjustment of \$7,247,000 for the current calendar year and \$10,854,015 for the prior calendar year will be applied to the provisional billings of calendar 2021 and calendar 2020 respectively.

Canada Energy Regulator
Schedule A
Allocation of Recoverable Operating Costs
For the Period Ended March 31, 2020

Annual expenditures

The table below provides summary annual expenditures incurred by the CER and NEB during the period from April 1, 2019 to March 31, 2020, with prior year NEB comparative for information purposes. The costs incurred by the NEB continue to be recoverable through the CER as described in Note 1.

Year ended March 31, 2020
(in thousands of dollars)

	NEB April 1, 2019– August 27, 2019	CER August 28, 2019 – March 31, 2020	Total 2019-20	NEB 2018-19
Transfer Payments	293	1,203	1,496	4,880
Operating Expenses				
Salaries and employee benefits	35,094	50,944	86,038	74,016
Accommodation	3,834	5,618	9,452	9,440
Professional services	4,553	7,176	11,729	11,337
Travel	997	1,764	2,761	2,766
Amortization	1,654	2,346	4,000	5,055
Communication	402	498	900	998
Utilities and supplies	175	619	794	1,187
Other	63	(56)	7	14,713
Total expenses	47,065	70,112	117,177	124,392

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of Canada Energy Regulator for the Period ended March 31, 2020 (unaudited)

1. Introduction

In support of an effective system of internal control, the Canada Energy Regulator (CER) annually assesses the performance of its financial controls to ensure that:

- Financial arrangements or contracts are entered into only when sufficient funding is available;
- Payments for goods and services are made only when the goods or services are received or the conditions of contracts or other arrangements have been satisfied; and
- Payments have been properly authorized.

The CER will leverage the results of the periodic core control audits performed by the Office of the Comptroller General. Below is a summary of the results of the assessment conducted during the period ended March 31, 2020.

2. Assessment results during the period ending March 31, 2020

For the most part, controls related to payment for goods and services and payment authority were functioning well and form an adequate basis for the department's system of internal control.

3. Assessment plan

The CER will continue to monitor the performance of its system of internal controls, with a focus on the core controls related to financial transactions.