



Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2023, 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 adhere to 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, 2023, 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

Tracy Sletto
Chief Executive Officer

Barbara van Noord
Acting Chief Financial Officer

Calgary, Canada
August 15, 2023



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 2023, and the statement of operations and net financial position, statement of change in net debt and statement of cash flows for the year then ended, 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 2023, and the results of its operations, changes in its net debt, and its cash flows for the year then ended 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.

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.

The original version was signed by

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

Edmonton, Canada
15 August 2023

CANADA ENERGY REGULATOR

Statement of Financial Position As at March 31

(in thousands of dollars)

	2023	2022
Liabilities		
Accounts payable and accrued liabilities (Note 5)	13,640	10,028
Due to the Consolidated Revenue Fund (Note 8)	269	414
Vacation pay and compensatory leave	6,241	6,499
Deferred revenue (Note 6)	547	15
Employee future benefits (Note 7)	6,835	6,273
Total liabilities	27,532	23,229
Financial assets		
Due from the Consolidated Revenue Fund	14,187	10,043
Accounts receivable and advances (Note 8)	52,536	61,489
Total financial assets	66,723	71,532
Financial assets held on behalf of Government (Note 8)	(52,267)	(61,075)
Total net financial assets	14,456	10,457
Net debt	13,076	12,772
Non-financial assets		
Prepaid expenses	658	1,267
Tangible capital assets (Note 9)	9,030	11,811
Total non-financial assets	9,688	13,078
Net financial position	(3,388)	306

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 J. Doyle
Chairperson of Board of Directors
Calgary, Canada
August 15, 2023

George Vegh
Chairperson, Corporate Performance
Committee, Board of Directors

CANADA ENERGY REGULATOR

Statement of Operations and Net Financial Position For the Year Ended March 31, 2023

(in thousands of dollars)

	2023 Planned Results (Note 2a)	2023	2022
Expenses			
Energy Adjudication	22,407	28,333	21,116
Safety and Environment Oversight	28,221	30,379	29,602
Energy Information	8,267	9,333	10,170
Engagement	11,067	10,077	10,480
Internal Services	48,139	52,910	53,526
Total expenses	118,101	131,032	124,894
Revenues			
Regulatory revenue	118,035	129,229	123,880
Miscellaneous revenue	-	192	133
Revenues earned on behalf of Government	(118,035)	(129,421)	(124,013)
Total revenues	-	-	-
Net cost of operations before government funding and transfers	118,101	131,032	124,894
Government funding and transfers			
Net cash provided by Government	88,884	107,881	116,017
Change in due to/from the Consolidated Revenue Fund	10,625	4,289	(7,079)
Services provided without charge from other government departments (Note 11)	15,220	15,168	15,377
Net cost of operations after government funding and transfers	3,372	3,694	579
Net financial position - Beginning of year	(2,608)	306	885
Net financial position - End of year	(5,980)	(3,388)	306

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 Year Ended March 31, 2023
(in thousands of dollars)

	2023 Planned Results (Note 2a)	2023	2022
Net cost of operations after government funding and transfers	3,372	3,694	579
Change due to tangible capital assets (Note 9)			
Acquisition of tangible capital assets	945	1,085	3,020
Amortization of tangible capital assets	(4,317)	(3,855)	(4,174)
Net (loss) on disposal of tangible capital assets		(11)	
Total change due to tangible capital assets	(3,372)	(2,781)	(1,154)
Change in prepaid expenses	-	(609)	212
Net increase (decrease) in net debt	-	304	(363)
Net debt – Beginning of year	13,135	12,772	13,135
Net debt – End of year	13,135	13,076	12,772

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

CANADA ENERGY REGULATOR

Statement of Cash Flows For the Year Ended March 31, 2023 (in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Operating activities		
Net cost of operations before government funding and transfers	131,032	124,894
Items not affecting cash:		
Amortization of tangible capital assets (Note 9)	(3,855)	(4,174)
Gain (Loss) on disposal of tangible capital assets	(11)	-
Services provided without charge by other government departments (Note 11)	(15,168)	(15,377)
Variations in Statement of Financial Position:		
Change in accounts receivable and advances (Note 8)	(145)	(65)
Change in prepaid expenses	(609)	212
Change in accounts payable and accrued liabilities	(3,246)	8,588
Change in deferred revenue (Note 6)	(532)	(15)
Change in vacation pay and compensatory leave	258	418
Change in employee future benefits	(562)	(55)
Cash used in operating activities	<u>107,162</u>	<u>114,426</u>
Capital investing activities		
Acquisitions of tangible capital assets	719	1,591
Cash used in capital investing activities	<u>719</u>	<u>1,591</u>
Net cash provided by Government	<u>107,881</u>	<u>116,017</u>

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

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

1. Authority and objectives

The Canadian Energy Regulator (CER or the Regulator), operating as the Canada Energy Regulator, was established by Government of Canada (the “Government”) under the *Canadian Energy Regulator Act* on August 28, 2019.

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 works for the people of Canada to keep energy moving safely through our country’s pipelines and powerlines. The Regulator’s mandate includes:

- making transparent decisions, orders and recommendations with respect to pipelines, powerlines, offshore renewable energy projects and abandoned pipelines;
- overseeing the construction, operation and abandonment of pipelines, interprovincial powerlines and international powerlines and overseeing work and activities authorized under Part 5 of the CER Act as well as abandoned facilities;
- making orders with respect to traffic, tolls and tariffs and overseeing matters relating to traffic, tolls and tariffs;
- making decisions and orders and giving directions under Part 8 of the CER Act with respect to oil and gas interests, production and conservation;
- advising and reporting on energy matters;
- providing alternative dispute resolution processes;
- exercising powers and performing duties and functions that are conferred on the Regulator under any other Act of Parliament; and
- exercising its powers and performing its duties and functions in a manner that respects the Government’s commitments with respect to the rights of the Indigenous Peoples of Canada.

The CER’s mandate should also be understood in the context of the CER’s Departmental Results Framework, including its core responsibilities of Energy Adjudication, Safety and Environment Oversight, Energy Information and Engagement. Internal Services support 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 powerlines, 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.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

1. Authority and objectives – continued

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 powerlines, 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 powerlines.

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 the Canada Energy Regulator's legislated mandate.

Internal Services: Internal Services are the services that are provided within a department so that it can meet its corporate obligations and deliver its programs including management and oversight services, communications services, legal services, human resources management services, financial management services, information management services, information technology services, real property management services, materiel management services and acquisition management services.

The CER regulates pipelines, powerlines, 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's 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.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

1. Authority and objectives – continued

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 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.

A summary of significant accounting policies is as follows:

a) Parliamentary authorities

The CER is financed by the Government 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 2022-23 *Departmental Plan*. The planned results amounts in the "Government funding and transfers" section of the Statement of Operations and Net Financial Position and in the Statement of Change in Net Debt were prepared for internal management purposes and have not been previously published.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

2. Basis of preparation– continued

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 (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 the Commissioners (adjudicators) and employees during the preceding fiscal year (April 1 to March 31).
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. Revenues are then recognized in the period in which the related expenses are incurred. Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned. 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. The Chief Executive Officer is expected to maintain accounting control and 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 and are therefore presented in reduction of the CER's gross revenues.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

2. Basis of preparation– continued

e) Expenses

Expenses are recorded on an 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 year-end. They are the result of contracts, agreements and legislation in force at year-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 year-end.

g) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan (the “Plan”), a multiemployer pension plan administered by the Government. The CER’s 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, as the Plan’s sponsor.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

2. Basis of preparation– continued

g) Employee future benefits-continued

- Health and dental benefits: The Government sponsors employee health and dental benefit plans in which the CER participates. Eligible 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.
- 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 year-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.
- Sick leave benefits: Employees are eligible to accumulate sick leave benefits until the termination 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 pertains to non-respendable revenues earned on behalf of Government are considered to be held on behalf of the Government and are therefore presented in the Statement of Financial Position as a reduction of the CER's gross financial assets.

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.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

2. Basis of preparation– continued

j) Asset retirement obligations

Asset retirement obligations (ARO) are the Government's best estimate of costs related to obligations associated with the retirement of tangible capital assets. A liability for an asset retirement obligation is recognized when all of the following criteria are satisfied: there is a legal obligation that requires the Government to incur retirement costs in relation to a tangible capital asset, the past event or transaction giving rise to the retirement liability has occurred, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made.

These costs are normally capitalized and amortized over the asset's estimated useful life. If the related asset is fully amortized, then the asset retirement obligation would increase the asset's costs basis and be amortized over the remaining useful life. The liability reflects the present value of estimated future cash flows required to retire the assets where amounts can be reasonably estimated and is expected to be settled as the related sites, facilities or assets are removed from service.

The estimated future cash flows are adjusted for inflation using a rate that is derived on the basis of Consensus forecasts and Bank of Canada historical and target inflation rates. The discount rate uses the same inflation assumptions. The discount rate is a weighted average rate reflecting the Government's cost of borrowing on initial recognition and on subsequent changes to expected cash flows, which is most closely associated with the period to settlement of the obligation.

At this point in time CER has no significant AROs to record.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

k) 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 and accessories	3-7 years
Informatics software	
Commercial software	2-5 years
In-house developed software	2-5 years
Machinery and equipment	3-10 years
Furniture	5-10 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Write-offs of tangible capital assets are recognized whenever significant events and changes in circumstances and use suggest that the asset can no longer contribute to program or service delivery. A write-off is recognized when the asset is destroyed, stolen, lost or obsolete.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

2. Basis of preparation– continued

l) 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 recoverable operating costs, useful life of tangible capital assets, and sick leave benefit obligations.

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 8d.

m) 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 without charge are recorded in these financial statements at the carrying amount.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

3. 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.

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.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

4. 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. Items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position in the year 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

	2023	2022
	(in thousands of dollars)	
Authorities provided:		
Vote 1 – Program expenditures	106,529	101,282
Statutory amounts – contributions to employee benefit plans	11,614	11,003
<i>Less:</i>		
Appropriations lapsed	(5,726)	(2,916)
Current year authorities used	112,417	109,369

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

4. Parliamentary authorities - continued

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

	2023	2022
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	131,032	124,894
Adjustments for items affecting net cost of operations but not affecting authorities:		
Services provided without charge by other government departments (Note 11)	(15,168)	(15,377)
Amortization of tangible capital assets (Note 9)	(3,854)	(4,174)
Bad debt	(1)	(1)
Refund of prior years' expenditures	306	151
Adjustment for salary over accrual	(282)	282
Reallocation of capital assets expenses	760	-
Change in vacation pay and compensatory leave	533	418
Change in employee future benefits	(562)	(56)
	(18,268)	(18,757)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Salary overpayments	(64)	-
Acquisitions of tangible capital assets (Note 9)	325	3,020
Gain (loss) on disposal of tangible capital assets	(11)	-
Accountable advance	7	-
Change in prepaid expenses	(604)	212
Net loss on disposal of tangible capital assets	-	-
	(347)	3,232
Current year authorities used	112,417	109,369

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

5. Accounts payable and accrued liabilities

	2023	2022
	<u>(in thousands of dollars)</u>	
Accounts payable to other government departments and agencies (Note 11b)	1,758	355
Accounts payable to external parties	4,098	2,724
Accrued salaries and wages	7,784	6,949
Total accounts payable and accrued liabilities	<u>13,640</u>	<u>10,028</u>

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

6. Deferred revenue

	2023	2022
	(in thousands of dollars)	
Deferred revenue- specified purposes		
Pipeline abandonment fund		
Beginning of year	-	-
Funds received	532	-
Revenue recognized	-	-
Deferred revenue- specified purposes, end of year	532	-
Other deferred revenue		
Beginning of year	15	-
Amounts received	-	15
Revenue recognized	-	-
Other deferred revenue, end of year	15	15
Total deferred revenue, end of year	547	15

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

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. 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 employer’s expense represents approximately 1.02 times the employee contributions and, for Group 2 members, approximately 1.00 times the employee contributions. The employer’s expense amount for the year ended March 31, 2023 is \$7,587,181 (2022 - \$7,433,858).

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. 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 Year Ended March 31, 2023

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 March 31:

	2023	2022
	(in thousands of dollars)	
Severance benefit, beginning	1,178	1,285
Expense	30	26
Benefits paid	(75)	(133)
Severance benefit, ending	1,133	1,178

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, 2023.

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

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 3.05 percent, which is based on an average yield of government borrowings over the expected average remaining service life of employees of 14.52 years; and a long term general rate of salary increase of 4.8 percent. (In the period ended March 31, 2022 a discount rate of 2.38 percent was used, which was based on an average yield of government borrowings over the expected average remaining service life of employees of 13.98 years; and a long term general rate of salary increase of 1.5 percent.)

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

	2023	2022
	(in thousands of dollars)	
Sick leave benefit, beginning	4,776	4,500
Service cost	924	917
Interest cost	108	69
Benefit payments	(729)	(715)
Amortization of actuarial (gains) losses	(20)	5
Sick leave benefit, ending	5,059	4,776

e) Summary information

The table below summarizes the employee future benefits liability:

	2023	2022
	(in thousands of dollars)	
Sick leave benefits	5,059	4,776
Severance benefits	1,133	1,178
Maternity benefits	643	319
Employee future benefits	6,835	6,273

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

8. Accounts receivable and advances

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

	2023	2022
	(in thousands of dollars)	
Receivables – External parties		
Outstanding current provisional billings	23,904	34,124
Accrued billing adjustments	28,392	26,954
Receivables – other government departments and agencies	147	254
Employee advances	94	158
	52,537	61,490
Allowance for doubtful accounts	(1)	(1)
Accounts receivable and advances	52,536	61,489
Financial assets held on behalf of Government	(52,267)	(61,075)
Due to the Consolidated Revenue Fund	269	414

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

9. Tangible capital assets

(in thousands of dollars)

Capital asset class	Opening balance	Acquisitions	Adjustments and transfers	Disposals	Closing balance
Informatics hardware	3,872	81	853	(970)	3,836
Informatics software	13,980	173	-	(810)	13,343
Machinery and equipment	3,220	-	-	(17)	3,203
Furniture	2,938	71	-	-	3,009
Vehicles	25	-	-	-	25
Leasehold improvements	16,717	-	-	-	16,717
Assets under development	1,905	760	(853)	-	1,812
Total	42,657	1,085	-	(1,797)	41,945

Capital asset class	Accumulated amortization				Net book value	
	Opening balance	Amortization	Disposals	Closing balance	2023	2022
Informatics hardware	2,529	558	(964)	2,123	1,713	1,343
Informatics software	11,507	931	(810)	11,628	1,715	2,473
Machinery and equipment	2,308	304	(12)	2,600	603	912
Furniture	2,142	293	-	2,435	574	796
Vehicles	25	-	-	25	-	-
Leasehold improvements	12,335	1,769	-	14,104	2,613	4,382
Assets under development	-	-	-	-	1,812	1,905
Total	30,846	3,855	(1,786)	32,915	9,030	11,811

Canada Energy Regulator
Notes to the financial statements
For the Year Ended March 31, 2023

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)	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>thereafter</u>	<u>Total</u>
Goods and Services contracts	4,990	262	100	179	5,531

b) Claims and litigation

The CER 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, 2023, the CER estimated the total claimed amount for which the outcome is not determinable to be approximately \$10,000 (2022 - \$10,000). As at March 31, 2023, no provision for such claims has been made in these financial statements (2022 – no provision).

c) Other contingencies

Upon the completion of its office lease term, should the PSPC assess that the CER has made significant leasehold improvements, the cost of which could be significant; the PSPC at its sole discretion could recover, from the CER, the costs of such removals, repairs or restoration.

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. During the year the CER received services which were obtained without charge from other government departments as discussed below.

During the year, 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 Year Ended March 31, 2023

11. Related party transactions - continued

a) Common services provided without charge by other government departments

	2023	2022
	(in thousands of dollars)	
Accommodation	7,691	7,687
Employer's contribution to health and dental insurance plans	6,826	6,866
Audit services	464	390
Other professional and special services	187	434
Total	15,168	15,377

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economical 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 an 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 expired on August 31, 2023 and was subsequently renewed to August 31, 2028.

b) Other transactions with related parties

	2023	2022
	(in thousands of dollars)	
Expenses – other government departments and agencies	14,786	12,843
Revenues – other government departments and agencies	1	-
Accounts payable (Note 5)	1,758	355
Accounts receivable (Note 8)	147	254

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 Year Ended March 31, 2023

12. Segmented information

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

	2023						
	Energy Adjudication	Safety and Environment Oversight	(in thousands of dollars)			Total	2022 Total
			Energy Information	Engagement	Internal Services		
Transfer payments	1,264					1,264	952
Operating expenses							
Salaries and employee benefits	22,932	25,259	6,886	8,160	33,737	96,974	91,899
Accommodation	1,851	2,157	546	660	4,742	9,956	8,829
Professional services	1,033	994	1,581	550	11,103	15,261	16,483
Travel	262	937	31	317	360	1,907	562
Amortization	911	1,003	274	324	1,342	3,854	4,174
Communication	73	4	-	40	608	725	889
Utilities and supplies	6	17	14	12	971	1,020	1,014
Other	1	8	1	14	47	71	92
Total Expenses	28,333	30,379	9,333	10,077	52,910	131,032	124,894
Revenues							
Regulatory revenue	27,943	29,961	9,205	9,938	52,182	129,229	123,880
Miscellaneous revenue	42	45	14	15	76	192	133
Revenue earned on behalf of Government	(27,985)	(30,006)	(9,219)	(9,953)	(52,258)	(129,421)	(124,013)
Total Revenues	-	-	-	-	-	-	-
Net Cost of Operations before government funding and transfers	28,333	30,379	9,333	10,077	52,910	131,032	124,894

13. Comparative information

Certain comparative figures have been reclassified to conform to the current year's presentation.

Canada Energy Regulator
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2023

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 year 2022 are from Schedule A of the CER fiscal year 2022-23 financial statements. 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 methodology used by management to determine actual costs is reviewed on a periodic basis and adjusted for significant events.

	2022	2021
	<i>(calendar 2022)</i>	<i>(calendar 2021)</i>
	(in thousands of dollars)	
January - March expenses - 1/4 from the previous fiscal	31,223	28,920
April – December expenses - 3/4 from the current fiscal	98,275	93,670
Total calculated expenses for cost recovery purposes	129,498	122,590
Less: Non-recoverable costs related to the regulation of Frontier Lands and review of Arctic safety and offshore drilling	(1,852)	(834)
Recoverable operating costs	127,646	121,756

Canada Energy Regulator
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2023

The allocation of recoverable operating costs to the commodities for 2022 is based on actual time spent by Commissioners (adjudicators) and employees during the 2020-21 fiscal year (2019-20 for 2021):

	2022 <i>(calendar 2022)</i>	(in thousands of dollars)		2021 <i>(calendar 2021)</i>
Gas	43.9%	56,068	53.1%	64,644
Oil	51.0%	65,105	42.3%	51,496
Electricity	5.1%	6,458	4.6%	5,600
	100%	127,631	100%	121,740
Commodity		15		16
Recoverable operating costs		127,646		121,756
Billing Adjustment				
	2022 <i>(calendar 2022)</i>	2021 <i>(calendar 2021)</i>	2020 <i>(calendar 2020)</i>	
Recoverable operating costs	127,646	121,756	115,434	
Deduct: provisional billing	(109,124)	(119,300)	(87,713)	
Billing adjustment	18,522	2,456	27,721	

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 \$18,522,000 for the current calendar year and \$2,456,000 for the prior calendar year will be applied to the provisional billings of calendar 2024 and calendar 2023 respectively.

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of Canada Energy Regulator for the Year ended March 31, 2023 (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 year ended March 31, 2023.

2. Assessment results during the year ending March 31, 2023

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.