EDA
The Voice Of Ontario's Electricity Distributors

October 29, 2008

Mr. Bill Cowan
Chief Regulatory Auditor
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
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Toronto, ON M4P 1E4

Via e-mail to IFRSproject@oeb.gov.on.ca

Dear Mr. Cowan:

Re: Draft IFRS Transition Project Work Plan

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario. The EDA's comments on the draft IFRS transition project work plan are provided in the succeeding paragraphs.

The EDA believes that the transition to IFRS will have a significant impact on LDCs' operations; systems and people of the LDCs, particularly in the areas of rate setting, accounting policies and component accounting. The transition will require education and process change not only on the part of LDCs, but also for their investors, lenders and advisors.

LDCs preparing financial statements under IFRS in 2011 will need to start collecting data under IFRS for comparative purposes in 2010. Significant changes will be required at the detail level. The technological systems that LDCs currently use to record and analyze financial transactions will need to be modified. The systems must also be capable of capturing new information for required disclosures, including, among others, fair values of Property, Plant and Equipment (PPE); financial instruments; and employee benefits.

An issue that is of particular significance to all the LDCs is the application of the components approach as required under IFRS. To apply the components approach appropriately, an in-depth analysis is required to identify the significant components that make up the respective capital asset pools. These components of capital assets under IFRS will have a useful life for amortization purposes that is separate from the broader asset group. The application of the components approach in the distribution industry may represent a very challenging task that requires a significant amount of resources and technical knowledge beyond that usually provided by the accounting group alone.

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In view of the above, transitioning to IFRS will require a great deal of advanced planning; time and effort on the part of LDCs. There are a number of critical tasks that need to be completed prior to 2011 either to satisfy financial reporting and regulatory requirements or to ensure that when January 1, 2011 arrives, everything is in place to ensure a smooth transition. However, LDCs can do their project planning with some degree of certainty only when the Board's decisions are available on key issues related to regulatory accounting listed below:

- **Regulatory Assets and Liabilities:**

    - Whether deferral and variance accounts will be continued in regulatory accounting? If so, whether the Board's definition of deferral and variance accounts will conform to the definitions of 'asset' and 'liability' as recognized by the IASB.

- **Accounting for Property, Plant and Equipment ("PP&E"):**

    - Whether the Board will accept the fair value accounting as required by IFRS or will the Board require historic cost/NBV to be used at the date of initial adoption of IFRS?
    - After IFRS adoption, whether the Board will accept revaluation of PP&E on an ongoing basis, at balance sheet date each year, as permitted by the IFRS or will the Board require Historic Cost/Net Book Values to continue to be used for regulatory purposes on an ongoing basis?

- **Application of Depreciation Accounting Under IFRS:**

    - Whether the Board will accept the depreciation expenses as accounted under IFRS or will the Board require the utilities to implement a different depreciation accounting?
    - Will the Board provide guidance to LDCs in the form of conducting an industry wide depreciation study so that there is some standardization across the industry? Will the Board accept the individual LDCs to depart from the industry wide study, if necessary, in order to determine the asset service lives based on the condition of individual LDC's own assets and circumstances? Or will the Board require each LDC to conduct a separate depreciation study based on the condition of its own assets and circumstances?

- **Capitalization of Indirect Overheads:**

    - The overhead expenses that can be directly attributed to the construction project are permitted to be capitalized under IFRS as part of the cost of the project. However, indirect overheads are not permitted to be capitalized. What would be acceptable to the Board with respect to determining which items of overhead are "indirect overheads" to a project? Will the indirect overheads that are expensed be added to the revenue requirement? How will they be accounted for?

- Will the Board permit the allowance for funds used during construction ("AFUDC") to be capitalized?

The EDA requests that the Board decisions on key accounting issues listed above be made available as soon as possible. The EDA recommends release of a Board staff discussion paper with detailed proposals on the key accounting issues by January 31, 2009 so as to speed up the consultation process leading to Board decisions latest by March 31, 2009.

Any delay in the Board's decisions on key accounting issues will cause undue strain to LDCs in implementing IFRS. In the absence of Board's direction on key accounting issues, LDCs will be compelled to make their own assumptions in their IFRS project planning processes in order to meet the IFRS implementation deadline. Thereafter, should the Board's direction require LDCs to change the decisions made based on earlier assumptions, the situation may lead to potential cost and time overruns for implementation of the project. Therefore, it is imperative that the Board's direction is made available to LDCs at the earliest.

Rate Applications for cost of service review for years after 2010

The draft plan states that "the Board will be asked to affirm that applications involving cost of service review for years after 2010 will be in accordance with IFRS". The EDA is of the opinion that it may be premature to file the 2011 cost of service applications in accordance with IFRS. Financial statements for the years 2006 - 2009 (actuals) would have been prepared under Canadian GAAP and the financials for the bridge year 2010 would have been forecast under Canadian GAAP. And if 2011 financials are to be forecast in accordance with IFRS, there will be lack of comparability with any other year. Further, at the time of preparing the 2011 application for submission (during 2010), LDCs would be only half way through the 2010 parallel year when both Canadian GAAP & IFRS would be in use and issues may not yet be identified and the financial results would not yet be audited.

Additional Audit Assurance

In anticipation of differences between financial reporting under IFRS and the regulatory reporting to meet regulatory accounting requirements, LDCs are concerned about the additional burden of providing extra audit assurance on the reported regulatory accounting values.

Amendments to Regulatory Instruments

As regards the amendments to regulatory instruments arising from the adoption of IFRS, the EDA concurs with Board staff with respect to the scope; consultation plan; and the time line outlined in the project work plan.

Deferral and Variance Account

EDA submits that the approved project plan should also include a date by which the Board will provide a decision on establishing a deferral and variance account (IFRS Deferral Account) to record the IFRS transition costs that are incremental to the existing revenue requirement. The

EDA’s submission of October 15, 2008 to the Board in this connection is relevant. It would be ideal if the decision is provided by December 2008 so that LDCs can complete appropriate year end accounting in time.

Yours truly,

“Original Signed”

Richard Zebrowski
Vice President, Policy and Corporate Affairs

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