October 29, 2008

Mr. Bill Cowan
Chief Regulatory Auditor
Ontario Energy Board
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Via email: IFRSproject@oeb.gov.on.ca

Dear Mr. Cowan:

**Re: EB-2008-0104 IFRS Transition Consultation**

Thank your for the opportunity to comment on the International Financial Reporting Standards (IFRS) transition work plan.

PowerStream is a local electricity distribution company (LDC) providing service to more than 240,000 residential and commercial customers within the municipalities of Aurora, Markham, Richmond Hill and Vaughan.

PowerStream is currently in the initial assessment phase of the IFRS transition project which is identifying gaps between IFRS and Canadian GAAP. To date, we have completed preliminary assessments on several of the high impact sections. Our comments focus primarily on those key areas noted from our assessments thus far

PowerStream is looking to the Ontario Energy Board (OEB) for guidance on the transition from Canadian GAAP to IFRS. In particular, we are looking for guidance specific to the Property, Plant and Equipment (PP&E) area that will be significantly impacted on transition by the reporting differences between the Board's reporting requirements to those accepted under IFRS.

A specific example is the reporting requirement for overhead allocations. Under IFRS reporting only directly attributable overhead costs will be accepted compared to the current regulatory reporting practice that accepts direct and some indirect overhead costs. From a practical perspective, this will translate to PowerStream's comprehensive review of all overhead costs that were historically allocated to PP&E and developing a process to reallocate and report the direct and indirect overhead costs for IFRS and OEB financial statements. The significant differences in reporting between the OEB and IFRS financial statements will reside at the transaction level, and in all likelihood this will translate into the use of additional resources to track those differences. The reconciliation of the two set of statements will be a challenge in the future as those noted

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differences continue to increase. Therefore, the increase in costs to manage the two distinct reporting requirements and the associated rate implications must also be considered in the transition plan.

Please find attached further written comments from PowerStream addressing the OEB staff's IFRS transition work plan.

**Section 1.1 Entities to which IFRS Reporting Applies**

**1.1.2 Should the Board require all such entities to report information to the Board using IFRS beginning January 1, 2011?**

- Decisions on the applicability of IFRS to public sector entities fall within the mandate of the Public Sector Accounting Board (PSAB). According to PSAB, PowerStream falls within the definition of a publicly accountable enterprise and therefore we will be required to file financial statements under IFRS by year 2011 with 2010 IFRS comparative figures.

- OEB should align with the Canadian accounting standards board and require that financial statements be filed under Canadian GAAP for periods ending on or before December 31, 2010 and that IFRS be adopted as of January 1, 2011.

**Section 1.2 Regulatory Assets and Liabilities**

**1.2.1 Should the Board continue deferral and variance accounts to achieve regulatory objectives?**

- The current definitions for regulatory assets and liabilities do not comply with the definitions of assets and liabilities provided by IFRS. Therefore, the recognition of the regulatory assets and liabilities under IFRS may not be allowed impacting the income statement and creating reconciliation issues between IFRS and OEB.

- The OEB should provide guidance on the treatment of regulatory assets and liabilities in the rate reporting statements.

- The work plan should address the impact to the incentive rate mechanism process for entities upon adoption of IFRS.

**1.2.2 If so, should Board staff propose definitions for deferral and variance accounts? This could aid the Board in their usage for regulatory purposes and enhance the ability of proposed accounts to meet the definition criteria of an asset/liability under IFRS. These definitions could be an aid for OEB regulators. They could also include a description of the information that must be included in a Board decision for an approved deferral or variance account considered necessary to meet the recognition criteria of an asset or obligation for financial reporting purposes.**

- If the Board decides to continue with the use of deferral and variance accounts, PowerStream would support the Board staff's decision to expand and generalize the definitions of these accounts to ensure these meet the definition criteria of an asset/liability under IFRS.

**Section 1.3 Accounting for Property, Plant and Equipment ("PP&E") on Initial Adoption of IFRS**

**1.3.1 Should the Board require historic cost / NBV to be used at the date of adoption for regulatory purposes?**

- PowerStream is looking for guidance from the Board on the two options offered under IFRS, historical and revaluation, to assist us in identifying the option that best meets our needs. Under the historic cost method, PowerStream will continue to report costs at the original cost of purchase less depreciation. Under the revaluation method, the PP&E assets will be revalued on an annual basis at their fair market value.

- What is the Board's position if the recent IASB Exposure Draft issued on September 25, 2008 is not approved? This exposure draft states that the LDCs may be permitted to value these assets at the cost established under Canadian GAAP as the opening balance, if it is impracticable to restate past costs or determine fair value, on the date of transition. Further guidance is required from the OEB if this exemption is not approved.

- The Board should also provide a consistent framework for use by all LDCs in the determination of fair value. Further guidance is required on the calculation of fair value and the application of the appropriate valuation method. These should be consistent with those methods recommended under IFRS.

- The OEB should provide further guidance on the treatment of indirect costs for regulatory reporting as these will not be capitalized under IFRS. The increase in costs to manage the two distinct reporting requirements and the associated rate implications should be appropriately addressed in the transition plan.

**Section 1.4 Accounting for PP&E on an Ongoing Basis**

**1.4.1 Should the Board require historic cost / NBV values to continue to be used for regulatory purposes on an on going basis?**

- PowerStream suggests the Board align the valuation of PP&E from a regulatory perspective with IFRS and therefore guidance is required to determine the appropriate method to apply under IFRS, cost vs. revaluation, in order to minimize the cost and the level of divergence between the two sets of books.

- IFRS will affect the allocation of overheads and interest to capital work in progress, thereby reducing the stated value of assets and increasing expenses.

The Board should provide guidance on the treatment of these differences in the rate setting process.

- Under IFRS, the determination of residual values will be required and assessed on an annual basis. The Board should provide guidance on the calculation of the residual value and align with IFRS.

**Section 1.5 Application of Depreciation Accounting under IFRS**

**1.5.1 Should the Board provide further guidance on depreciation policies and principles? (e.g., the level of sub-componentization to be applied to specified asset classes to ensure that depreciation expenses represent a reasonable matching of recoverable costs in rates and the benefits derived by ratepayers from the consumption of the service value of the assets**

- The Board should align with the components approach under IFRS that would reduce the reconciliation differences between the sets of books. In addition, the Board should recommend the lowest level of componentization (i.e. should a transformer be separated into components or is it one asset?) but allow each utility to set their level of componentization as it applies to their organization.

- The depreciation policy should be revised based on the components approach whereby each component may assume a different useful life. Additional guidance is required with respect to the starting point to determine the useful life of assets. It is possible that certain assets, such as transformers, could potentially have a different useful life under IFRS reporting as compared to regulatory reporting. For example, the OEB useful life for a transformer asset is 25 years, whereas our asset assessment program has determined the useful life to be 50 years, thereby creating recording and reporting differences.

- The Board should provide guidance on the issue of group depreciation that may not be permitted under IFRS, because in the absence of group depreciation the value of PP&E may be reduced as each asset is replaced or retired. The Board might consider aligning with IFRS on the issue of group depreciation as it may prove difficult to reconcile the differences on an ongoing basis and further increase costs in maintaining the sets of books.

**Other Issues to Consider**

- The application of divergent practices within the PP&E area will lead to significant reporting differences between IFRS and regulatory reporting, both from the perspective of a single entity and a lack of comparability amongst LDCs within the industry. The Board should provide the industry with further guidance to closely align the IFRS and USofA and minimize the reconciliation challenges.

- It may be likely that our auditor will ask for a comprehensive reconciliation between the IFRS statements and our regulatory statements. The detailed reconciliation of those differences resides at the transaction level. The resources

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required to track the transactional details for two sets of books in order to provide the support documentation in facilitating the reconciliation process may prove to be cost prohibitive. The reconciliation process itself may become less successful over time. Examples include the treatment of capital contribution and Allowance for Funds Used during Construction (AFUDC). The recovery of those costs from a rate setting perspective requires further consideration by the Board.

- In order to have the system and processes in place to meet the IFRS requirements by 2011, we require further guidance from the Board on key areas such as PP&E by the first quarter of 2009. This would provide sufficient time for us to configure / change our systems and develop business processes to accommodate the adoption of appropriate accounting policy choices under IFRS in our goal to meet the required transition date.

PowerStream would like to thank the Board for the opportunity to provide responses to the draft IFRS transition work plan. We hope our responses will be helpful to the Board in the final development of the transition work plan.

Yours truly,

Lucy Lombardi

Lucy J. Lombardi
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