

# TRANSITION OF REGULATORY ACCOUNTING TO IFRS CONSULTATION



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***ENBRIDGE GAS DISTRIBUTION***

# Agenda



- 1. Plan for review & adoption of IFRS**
- 2. EGD IFRS status & outlook**
- 3. Developments at CICA & IASB**
- 4. Key IFRS vs. CDN GAAP differences**
- 5. IFRS resourcing & training**
- 6. Potential regulatory impacts**
- 7. Future use of deferral & variance accounts**
- 8. Revisions to Uniform System of Accounts & Accounting Procedures Handbook**

# Plan for review & adoption of IFRS



- **Project Team**

- **Established IFRS Core Team & committees across Enbridge enterprise:**
  - Financial reporting & system specialists across BUs and corporate office
  - Committees/ contacts for specific areas: eg. PP&E, inventory, rate regulated accounting, etc.
  - Weekly team meetings/ calls & committee meetings as required

- **Plan**

1. Research & document key IFRS vs. CDN GAAP differences and key impacts
2. Identification of key mini-projects for implementation
3. Assessments and implementation of financial reporting impacts & system changes
4. Assessments & integration of changes to other business processes (*eg. budgets & planning, internal reporting, tax, rate setting & recovery, etc.*)
5. Training
6. Implementation to F/S, disclosures, controls, policies & procedures, etc.
7. Testing of new processes and systems

# EGD IFRS Status & Outlook



- **2008**
  - Identification & documentation of IFRS vs CDN GAAP differences
  - Key projects identification and assessments
  - System impact assessments & planning
  - Review impacts to other business processes
  
- **2009**
  - Completion of significant projects
  - Obtain acceptance of position papers from external auditors
  - Continue & complete work on system changes
  - Complete review of impacts on other business processes
  - High level financial disclosures
  - Start roll out of training across organization
  
- **2010**
  - Preparation of detailed F/S disclosures
  - Complete training on IFRS changes across organization
  - Complete IFRS implementation: F/S, disclosures, systems, procedures & policies, controls
  
- **2011**
  - Jan 1, 2011 – Reporting using IFRS - F/S, disclosures, systems, procedures & policies, controls

*Ongoing:* monitoring IFRS developments and changes

## Awaiting following potential decisions from IASB:

- **Potential exemption from restating PP&E on adoption:**
  - Strongly supported by Enbridge
  - Restatement is a significant challenge (if not an impossibility) for a 160 year-old entity
  - Back-up plan: work with 1994 acquisition\* values as FV and apply IFRS guidance from thereon.
- **Ability to recognize regulatory assets and liabilities**
  - Strongly supported by Enbridge
  - Better represent economic realities of the business
  - Prevent volatility in earnings that will otherwise result from changes in gas prices and other factors
  - Back-up plan is to significantly elaborate MD&A disclosures with enhanced focus on non-GAAP measures reported, within the bounds of securities regulation

\* Note: Enbridge Inc. acquired EGD (formerly Consumers Gas Co.) in 1994 in an arms-length transaction

# Key IFRS vs. CDN GAAP differences



- **Key Areas Impacted:\***

- I. **Regulatory Assets & Liabilities**

- II. **Property, Plant & Equipment**

- III. **Inventory**

- *\* This is not intended to be an exhaustive list, but attempts to highlight the significant areas impacting Enbridge*

# Regulatory Assets & Liabilities



- **IFRS Guidance:**
  - All assets and liabilities are required to meet asset and liability definitions under IFRS in order to be recognized
  - No special recognition provisions for regulatory assets or liabilities under IFRS
- **Impacts:**
  - Some or all regulatory assets & liabilities would not be recognized under IFRS
  - **Significant volatility in earnings:**
    - Eg. EGD gas price variance payable/ receivable not recognizable in F/S would result in following inclusion in after-tax earnings:
      - \$8.8M (2007)
      - \$99.3M (2006)
  - Regulatory assets and liabilities that no longer qualify for recognition would be derecognized through retained earnings
- **Developments:**
  - Awaiting developments/ decisions from IASB on regulatory assets and liabilities

## Major PP&E impacts:

- Valuation upon adoption
- CGU (Cash Generating Unit) identification
- Componentization
- Recognition & De-recognition
- Decommissioning costs
- Impairments
- Overhead Capitalization



# Valuation Upon Adoption of IFRS



- **IFRS Guidance:**
  - PPE measured at cost, with first time adoption exemption (IFRS 1) for alternative valuations as follows:
    - Fair value at date of transition to IFRS
    - Revaluation under a previous GAAP before transition to IFRS
    - Deemed cost previously established using fair value at particular event date
- **Impacts:**
  - EGD required to determine most feasible option for valuation
  - EGD's current cost is essentially its rate base, which is not fully consistent with IFRS definition of cost
  - Fair value alternatives pose challenges – eg. Recreation of records for depreciation, overhead, etc.
- **Developments:**
  - Awaiting decision from IASB that may allow rate regulated entities to use rate base as historical cost on transition to IFRS without further adjustments

- **IFRS Guidance:**
  - Inventories to be measured at the lower of cost and net realizable value (NRV).
  - Storage costs, unless necessary in production process, should be excluded from costs of inventory.
- **Impacts:**
  - **Biggest impact for EGD: gas inventory, which is valued today at regulatory reference price**
  - **Volatility in earnings expected given differences in valuations between regulatory and IFRS valuation**

## Resources:

- **Project held by personnel with prior financial reporting responsibilities**
- **Participation of specialists from various operating groups**
- **Engaged Deloitte & Touche as consultants**

## Training:

- **Project personnel:**
  - **External courses and seminars**
  - **Research activities**
  - **Consultation with Deloitte & Touche**
- **Other personnel:**
  - **In-house IFRS update sessions**

# Potential Regulatory Impacts



## Regulatory Reporting Impacts:

- Largely dependent on resolution on regulatory assets & liabilities and PP&E
- Potential scenario: multiple sets of books
- Requirement to determine relationship between IFRS balance sheet and rate-base calculations

## Higher costs and resources required:

- Establishing & maintaining multiple sets of books
- Impact on cost of capital (financial covenants, coverage ratios)

# Future use of Deferral & Variance accounts



- **Regulatory Assets & Liabilities**
  - **Critical deferral & variance accounts need to continue to be tracked for rate-setting purposes, irrespective of IFRS treatment**
  - **Require to assess feasibility of achieving congruence between rate-setting and IFRS treatment of non-critical accounts**
  - **Potential outcome: multiple sets of books**

# Uniform System of Accounts & Accounting Procedures Handbook



## Will OEB allow/ propose changes to US of A & Accounting Procedures Handbook?

### – Sample areas affected:

- Regulatory Assets & Liabilities
  - not permitted under IFRS (unless exemption received)
- PP&E changes:
  - Componentization (potential additional accounts)
  - Capitalization policy (being different under IFRS)
  - Impairments
- Inventory:
  - Valuation at lower of cost and NRV, and corresponding valuation adjustments

***Questions  
&  
Comments?***