

Toronto Hydro-Electric System Limited
14 Carlton St. Telephone: 416.542.2513
Toronto, Ontario Facsimile: 416.542.2776
M5B 1K5 cmclorg@torontohydro.com



August 20, 2008

e-filing via OEB web portal – paper copies to follow by regular mail

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge St, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Consultation for the Transition of Regulatory Accounting to International
Financial Reporting Standards
OEB File #: EB-2008-0104**

Pursuant to the Board's letter on this matter dated July 24, 2008, attached is an electronic, searchable copy in PDF format of a presentation to be made by Toronto Hydro at the Board's first stakeholder meeting on August 22. The requested two paper copies of this presentation have been sent to you by regular mail.

THESL does not object to the posting of the attached presentation to the Board's website.

Yours truly,

[original signed by]

Colin J. McLorg, Manager
Regulatory Affairs

:car
/attach.



Consultation for the Transition of Regulatory Accounting to International Financial Reporting Standards (IFRS)

EB-2008-0104

**Presented by: Céline Arsenault Smith
Corporate Controller & IFRS
Project Lead**

Date: August 22, 2008



Agenda



- Project Plan
- Operational Procedures for the Review and Adoption of IFRS
- Developments at CICA and at the IASB
- Key IFRS / Canadian GAAP Differences
- The Need for IFRS Training
- Potential Impacts on the Rate-Setting Process
- Future Use of Deferral and Variance Accounts
- Uniform System of Accounts & Accounting Procedures Handbook
- Conclusion – Q&A



Project Plan



toronto hydro
corporation

Work Done to Date



- Commenced conversion project at the end of 2007
- Established a formal governance structure
 - Steering Committee consisting of senior levels of management (Finance, IT, Treasury, Operations, etc)
 - Regular progress reports are provided to senior executive management and to the audit committee of the Board of Directors
 - KPMG, our external advisor, has been engaged to assist in the IFRS conversion
- Review potential funding for initiatives as costs not covered by current rates
 - Costing currently being assessed
 - Potential use of deferral account for future recovery

Work Done to Date...continued



- Toronto Hydro's project consists of 3 Phases:
 - Awareness and assessment
 - Design
 - Implementation
- Toronto Hydro has completed the awareness and initial assessment phase, which involved a high level review of the major differences between Cdn GAAP and IFRS

Work Done to Date...continued



- Currently working on the detailed assessment which involves detailed systematic gap analyses of accounting and disclosure differences between Cdn GAAP and IFRS, including an analysis of the available accounting choices to be made to address these differences and options available under IFRS 1
- In parallel, a detailed assessment of the impact of IFRS conversion on Toronto Hydro's systems, processes and controls as well as other business, regulatory and tax impacts will be conducted
- Proceeding into the Design Phase, which involves establishing issue-specific working groups to focus on generating options and making recommendations in the identified risk areas



Operational Procedures



Operational Procedures for the Review and Adoption of IFRS



- The conversion to IFRS will have a significant impact on Toronto Hydro, as it relates to Operations, Systems, and People, particularly in the area of:
 - Accounting Policies
 - Component Accounting
 - Customer Contributions
 - Contracts
 - Business processes
 - Enterprise Reporting System



Developments at the CICA and at the IASB



Developments at the CICA and at the IASB

(accounting for rate regulated operations)

Toronto Hydro
Corporation

- Under IFRS – there is no specific guidance on accounting for rate regulated operations
- In January 2008, an IASB member noted that this was a specialized area of accounting that would require some time to deal with the topic
- No decision has been made as to whether this would be added to IFRIC's agenda
- An education session on the aspects of regulatory accounting is expected to be held at the IFRIC meeting in September 2008, and a final decision as to whether to place the issue of regulatory accounting on the IFRIC agenda is likely to be made in November 2008
- If IFRIC place it on their agenda, it is likely that a final interpretation will be issued only by the end of 2009
- IFRIC is also currently addressing the accounting for customer contributions
- IASB is expected to issue an ED setting out the proposed amendments to IFRS 1, which would allow the use of the carrying amount of PP&E at transition date



Key IFRS / Canadian GAAP Differences



Differences impacting Toronto Hydro



- Areas of Greatest Impact and Great Challenges
 - Rate Regulated Accounting
 - Accounting for Property, Plant & Equipment
 - Payments in lieu of Corporate Taxes
 - Employee Future Benefits
 - Initial Adoption of IFRS under IFRS 1, *First-Time Adoption of IFRS*
 - Reporting requirements (interim and annual) and restatements
 - Enhanced disclosure requirements
 - Rate-base determination

Differences impacting Toronto Hydro...continued



- IFRS Accounting Policy Choices Available
 - Presentation of Income Statement based on nature or function
 - Subsequent measurement of tangible and intangible assets based on either cost model or revaluation model
 - Recognition of actuarial gains and losses on POEB through Comprehensive Income

Differences impacting Toronto Hydro...continued



- IFRS 1 Options Available
 - Fair value or revaluation as deemed cost
 - Recognize all cumulative actuarial gains and losses in equity
 - Calculate the ARO required on January 1, 2010 using IFRS methodology
 - (Re) designate any financial asset as available-for-sale and any financial asset or liability at fair value through profit or loss
 - Prospectively apply the requirements for the capitalization of borrowing costs



IFRS Training



The Need for IFRS Training



- Established a formal organization-wide Engagement & Communication Plan
- Established a formal IFRS Training Plan
- Conducted detailed training sessions by topic area, as applicable to Toronto Hydro, including high-level awareness training
 - Training has been raised as a key success factor in prior IFRS conversions
 - Focus – start training employees early in the conversion, at all levels
 - Involved non traditional finance staff (operations, regulatory and IT)



Impacts on Rate-Setting Process



toronto hydro
corporation

Potential Impacts on the Rate-Setting Process



- Toronto Hydro derives its regulated income from an allowable return on rate-base
- The rate-base is mainly derived from the NBV of fixed assets
- IFRS reduces allowable cost for capitalization thus reducing future income if no changes are applied
- Changes to regulatory assets and liabilities accounting are likely to create significant confusion in the regulatory process, as this will introduce volatility in earnings due to timing differences
- Costs related to the conversion of IFRS are expected to be material and are not included in the current revenue requirement



Deferral and Variance Accounts



Future Use of Deferral and Variance Accounts



- Rate regulated accounting uncertainty
- Most of Toronto Hydro's liabilities may remain, however the assets may be eliminated
 - Volatility in balance
 - Confusion
 - Differences with rate base
- Will the OEB provide a deferral account to capture the material incremental costs associated with the conversion to IFRS



Revisions to Uniform Systems of Accounts and AP Handbook



Revisions to the USoA and AP Handbook

- Will the OEB keep the USoA and the AP Handbook?
 - Will require two (or more) sets of books
 - Less volatility
 - Change certain areas of the USoA and the AP Handbook for certain areas of IFRS
 - Modifying the rate model for IFRS
- Will the OEB convert to IFRS?
 - Should increase ROE to keep utilities whole
 - Changes to the accounts, account definitions, and policies and interpretations, to mirror IFRS
 - One set of books
 - More volatility
 - Modifying the rate model for IFRS

Key Messages



- IFRS conversion will impact the financial position of all utilities
 - Could lower rate base
 - Introduce significant volatility in earnings
 - Widen the gap between Regulatory accounting and IFRS accounting
- IFRS conversion is a major initiative for all utilities
 - Planning and training of employees is critical
 - Toronto Hydro is on track with its conversion initiatives
 - Significant costs for utilities
- Requires OEB to provide some input and guidance from these consultation groups

Questions & Answers



Q & A

Disclaimer



Certain information included in this presentation or incorporated by reference herein constitutes "forward-looking information". Forward-looking information means disclosure regarding possible events, conditions or results that is based on assumptions about future economic conditions and courses of action or attributable to third parties. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "anticipate", "believe", "estimate", "predict", "potential", "continue", "plan" and similar expressions or the negative of these terms or other comparable terminology. Although the Corporation believes that it has a reasonable basis for the forward-looking information included in this presentation or incorporated by reference herein, such information is subject to a number of risks, uncertainties and assumptions, including those discussed in the "Risk Factors" section and elsewhere in this presentation that may cause actual events, conditions or results to differ materially from those contemplated by the forward-looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the ratings assigned to the Corporation or its debt securities by rating agencies. Except to the extent required by applicable securities laws and regulations, the Corporation does not undertake any obligation to update publicly or to revise any of the forward-looking information included in this presentation or incorporated by reference herein after the date thereof, whether as a result of new information, future events or circumstances or otherwise.