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**BY E-MAIL AND WEB POSTING**

March 15, 2011

**TO: All Licensed Electricity Distributors  
All Participants in the IFRS Transition Consultation (EB-2008-0408)  
All Other Interested Parties**

**RE: Use of Modified IFRS as a Basis for Filing Cost of Service Applications for  
2012 Rates**

The *Report of the Board on the Transition to International Financial Reporting Standards* of July, 2009 (EB-2008-0408) as amended on November 8, 2010 (“the IFRS Report”), required those electricity distributors scheduled to file cost of service applications for 2012 rates to do so using Canadian Generally Accepted Accounting Principles (“CGAAP”). The IFRS Report also provided distributors with the option to file test and bridge year information in modified IFRS if they sought to have rates set on the basis of modified IFRS.

Since issuance of the IFRS Report, Board staff has been working with the IFRS IRM Working Group and, as a result of that work, the Board believes that it is desirable to revise the IFRS Report in relation to the accounting basis for the filing of cost of service applications for 2012 rates.

The Board is therefore, by this letter, giving notice of a further amendment to paragraph 9.1.2 of Appendix B to the IFRS Report, as previously amended on November 8, 2010, to provide for the filing of certain information using modified IFRS rather than CGAAP. Paragraph 9.1.2, as revised effective today, is set out below.

The Board believes that distributors whose rates are being rebased for 2012 should make all reasonable efforts to file test year forecasts for their cost of service applications using modified IFRS. Since utilities must transition to IFRS in 2012 for financial reporting purposes, the filing of a cost of service application using the same accounting system as is required to be used in a distributor’s financial statements is expected to minimize future complexities.

In the IFRS Report, the Board noted that distributors might not have sufficient information to make a filing in modified IFRS in the year they adopt IFRS for financial reporting. However, the Board understands that distributors are better prepared to file a cost of service application for 2012 rates using modified IFRS than was expected to be the case when the Board issued the IFRS Report in 2009. While distributors may not have actual results recorded using modified IFRS, most have undertaken an analysis of the impacts for their own information, as well as for their 2010 financial disclosures (MD&A and/or notes to financial statements). In addition, in July 2010, the Board released a study on the useful lives of assets (*Asset Depreciation Study for the Ontario Energy Board* by Kinectrics Inc.) that should assist distributors to better estimate depreciation costs under IFRS rules.

A distributor for whom preparing a modified IFRS-based application will impose an unreasonable burden may file under CGAAP, but must provide an explanation of this choice as part of its rate application filing. Before filing under CGAAP, a distributor should assess the relative merits of preparing a rate application for 2012 based on modified IFRS versus the need to address the complexities of maintaining additional records in both accounting systems for the length of the IRM period before their next cost of service application.

Some distributors whose rates are being rebased for 2012 may currently be well advanced in preparing their applications based on CGAAP. The Board has considered whether to extend the timelines for the filing of cost of service applications for 2012 rates, but has decided not to do so to ensure that the Board's ability to implement distribution rates by the applied-for dates is not compromised.

The Board acknowledges that distributors seeking new rates effective January 1, 2012 are expected to file their cost of service applications in the near future (by April 29, 2011). For those distributors, the Board will, when approving an effective date for 2012 rates, consider any reasonable delay in filing caused by additional work to file on the basis of modified IFRS.

Paragraph 9.1.2, as revised, is as follows:

9.1.2 Electricity distributors filing cost of service applications for rates for 2012 should make all reasonable efforts to provide the forecasts for the 2012 test year (and any other subsequent test years) in modified IFRS accounting format. In addition, the electricity distributor must provide the required actual years, the bridge year and the forecasts for the test year(s) in CGAAP-based format. Further, the electricity distributor must identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting. A distributor for whom the filing of the forecasts for the 2012 test year in modified IFRS is an unreasonable burden and that files under CGAAP must include in its rate application an explanation of the reason for filing under CGAAP and a plan for the transition to modified IFRS accounting as a basis for setting its rates.

Enquiries concerning this change to the IFRS Report should be directed to the Board's Market Operations Hotline at (416) 440-7604 or by e-mail at [market.operations@ontarioenergyboard.ca](mailto:market.operations@ontarioenergyboard.ca).

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary