

IFRS Consultation

Board Staff Draft List of Issues

The issues below require consideration of the appropriate means to minimize possible impacts of the introduction of IFRS on utility revenue requirements and rates, while recognizing possible impacts on utility reported earnings and financial position, and their capital raising activities.

1. General Issues:

1.1 What are the filing requirements for rate applications and financial reporting for entities regulated by the Board during and after the transition to International Financial Reporting Standards?

1.2 What different or additional information, if any, will the Board require for regulatory purposes from that provided under IFRS?

1.3 Should the Board require all rate-regulated entities to report information to the Board using IFRS beginning January 1, 2011, regardless of whether they are otherwise required to use IFRS?

2. Regulatory Assets and Liabilities

2.1 Should the Board continue to use deferral and variance accounts?

2.2 If so, should the Board approve definitions for deferral and variance accounts to enhance their usage for regulatory purposes and clarify the basis for assessing whether the proposed accounts meet the definition criteria of an asset or liability under IFRS?

3. Property, Plant and Equipment

3.1 For the purpose of first-time adoption of IFRS, should the Board require historic cost (NBV) or the IFRS adoption requirements (fair market value or retrospective restatement) to be used as the basis for setting opening rate base values and reporting to the Board?

3.2 After adoption, what should be the basis for reporting PP&E for regulatory purposes?

3.3 Should the Board require PP&E to conform to IFRS capitalization requirements (e.g. capitalize less indirect overhead and administration cost than permitted under current Canadian GAAP)?

4. Depreciation

4.1 Should the Board prescribe certain elements of depreciation accounting for regulatory purposes (e.g. depreciation methods, the level at which sub-componentization should be applied to specified asset classes)?

4.2 Should the Board require electricity distributors to establish their own depreciation rates rather than continue to use depreciation rates historically provided by the Board (co-ordination of depreciation studies may be possible)?

5. Other Key Rate-Making and Accounting Issues

5.1 When IFRS is adopted, should the Board require regulatory accounting and rate treatments for specific items to differ from the treatment required under IFRS (as compared to current Canadian GAAP)? These items include:

- Borrowing costs applied to PP&E (as opposed to deemed interest or AFUDC)
- Customer contributions received for PP&E
- Inventory valuation (based on lower of cost and net realizable value)
- Asset reclassifications from PPE to intangible assets (e.g., computer software and land rights).
- Asset retirement obligations
- Gains and losses on disposition of assets

6. External Uncertainties

6.1 What are the potential implications on the Board's decisions of the questions now before accounting standard-setting bodies? These uncertainties include:

- Potential exemption from the requirement for retrospective or fair value restatement of PP&E (International Accounting Standards Board)
- Recognition of regulatory assets and liabilities, e.g., deferral and variance accounts (International Accounting Standards Board)
- Whether accounting standards will require municipal and provincial government-owned distributors (government business enterprises) to adopt IFRS (Public Sector Accounting Board – Canada)

7. Rate Impact

7.1 Should a mechanism be developed to phase-in or otherwise mitigate the rate impacts, if any, of adopting IFRS?

7.2 Should rate increase thresholds be set?

8. Utility and Shareholder Impact

8.1 Should the costs (e.g. new systems, special audits, consulting) to transition to IFRS be recovered from ratepayers? On what basis?

8.2 Should incremental on-going compliance costs be recovered from ratepayers? On what basis (z-factor treatment? thresholds amounts?)?

8.3 How can the Board encourage minimization of IFRS implementation costs?

9. Filing Guidelines for Rate Applications

9.1 What financial reporting standard should the Board require for use in cost of service rate applications for historical and test years subsequent to 2009?

9.2 Should rate applications under an incentive regulation mechanism be required to include a reconciliation of reported annual performance to the same financial reporting standard as that upon which the incentive framework was approved?

10. Electricity Distributor and Gas Utility Reporting and Record-Keeping Requirements (RRR)

10.1 Should the Board require all rate-regulated entities to continue to report information to the OEB using Canadian GAAP until December 31, 2010 (regardless of early adoption by the utility)?

10.2 Should the RRR include requirements for reconciliations between IFRS and regulatory accounting information?

10.3 Should the RRR include a requirement for supplementary audit assurance regarding regulatory accounting values where they differ from IFRS reported values and that are not otherwise audited?

10.4 Should the periodic reporting to the Board by utilities under incentive regulation include a reconciliation of reported annual performance to the same basis of accounting as that upon which the incentive framework was approved?