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## **BY E-MAIL AND WEB POSTING**

December 15, 2010

### **To All participants in the IFRS IRM Working Group**

As stated in its Report on the Transition to International Financial Reporting Standards (“IFRS”) EB-2008-0408, the Board has created a working group to address the issues arising from the implementation of IFRS in an Incentive Regulation Mechanism (“IRM”) environment. The Board identified your organization as a participant in the Working Group.

#### **Description of Working Group Activity**

Board staff will lead the IFRS IRM Working Group. Board staff is seeking input from the working group to draft a set of recommendations for the Board’s consideration. Subsequent to the completion of the working group process, all stakeholders will have the opportunity to comment on the staff recommendations. Following the comment process, the Board expects to issue a Report and determine how to implement the policy in the Report.

The steps and timing for the activities of the working group are set out in the following table:

| <b>Activity</b>  | <b>Timing</b>                          |
|--|--|
| Discussion and finalization of issues to be addressed in the recommendations | January 5, 2011<br>(one session)       |
| Board staff distributes first draft of proposed recommendations              | Mid January, 2011                      |
| Discussion and revision of recommendations                                   | February, 2011 (2 or 3 sessions)       |
| Board staff distributes revised recommendations                              | Early March, 2011                      |
| Final review of recommendations  | Mid-march, 2011 (by e-mail or session) |
| Board staff provides recommendations to the Board                            | Late March, 2011                       |

The Board's policy determination on the recommendations will follow the receipt of comments on the recommendations from all interested stakeholders.

### **First meeting of the Working Group**

The Working Group will convene on January 5, 2011 at 9:30 a.m. in the Board's North Hearing Room (2300 Yonge Street, 25<sup>th</sup> floor) to discuss and finalize the issues that will be addressed in the recommendations. A draft list of issues to be discussed is attached as Appendix 1 to this letter. Please consider what additions or changes need to be made to the draft issues. If possible, please provide your suggestions to Bill Cowan at [bill.cowan@oeb.gov.on.ca](mailto:bill.cowan@oeb.gov.on.ca) by December 31, 2010, and copy the Working Group. A list of e-mail addresses for the Working Group members is attached as Appendix 2 to this letter.

Yours truly,

*Original Signed By*

John Pickernell  
Assistant Board Secretary

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## **Appendix 1**

### **Draft – Proposed Issues**

#### **Version of GAAP to Use in a Particular Year in an IRM Rates Application**

1. Does the Board policy<sup>1</sup> provide sufficient guidance as to when to begin to use modified IFRS in a rates application for a rebasing year that precedes an IRM rate-setting period? If not, what additional guidance is required?
2. What, if any, additional guidance does the Board need to provide as to when to begin to use modified IFRS in support of an IRM application (e.g., earnings sharing calculation) in a multi-year IRM regime?

#### **Version of GAAP to Use in an Earnings Sharing Calculation**

3. Should the Board continue to use the same basis of GAAP as was used in approving the underlying rates in determining earnings sharing amounts, where applicable<sup>2</sup>?
4. When an earnings sharing calculation involves a period after the year of adoption of IFRS, will the Board accept an earnings sharing calculation using audited modified IFRS values with an unaudited reconciliation to C-GAAP in the case where base rates were approved using C-GAAP<sup>3</sup>?

#### **Matters Giving Rise to Potential Regulatory Deferral/Variance Accounts**

5. Should the Board grant a generic deferral account for any one-time difference arising out of the conversion to IFRS during the year prior to official adoption of IFRS (the comparative financial statement year opening balances issue)?
6. Should the Board grant a generic deferral or variance account for any one-time difference arising out of the conversion to IFRS at the date of adoption of IFRS?
7. Should the Board grant a generic deferral account for the financial impact of changes after adoption of IFRS resulting from new IFRS standards or changes in existing IFRS standards arising during an IRM regime?
8. Should the Board grant a generic variance account to capture any differences arising after adoption of IFRS in depreciation expense caused by changes in estimated useful life of in-service Property, Plant and Equipment in either an IRM or Cost of Service regime?<sup>4</sup>
9. Given the optional one year delay in adopting IFRS, are there changes in accounting policy within C-GAAP that the Board requires utilities to adopt for regulatory accounting purposes prior to transition to IFRS, e.g., adjusting service lives for

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<sup>1</sup> Report of the Board – Transition to IFRS, July 28, 2009, and amendment to Appendix 2, November 8, 2010

<sup>2</sup> See Board Report, issue 9.2.2

<sup>3</sup> Ibid

<sup>4</sup> See Board Report, page 22

PP&E, adjusting overhead capitalization policy relating to the cost of self-constructed assets?

### **Other Matters**

10. Are there special implications associated with IFRS-related corporations tax or PILs impact during an IRM period for which additional IFRS transition related guidance is required from the Board? <sup>5</sup>
11. Should the Board specify that it will not accept rate applications or RRR reports prepared using any form of GAAP other than IFRS?
12. Should the Board accept entity specific selection of interest rates or continue to prescribe accounting interest rates?

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<sup>5</sup> See Board Report, page 23

**Appendix 2 - E-Mail Addresses**  
**IFRS IRM Working Group Participants**

| <b>Entity</b>                               | <b>Representative and E-Mail Address</b>  |
|---|---|
| Ontario Energy Board                        | <a href="mailto:boardsec@oeb.gov.on.ca">boardsec@oeb.gov.on.ca</a><br>Participants: Bill Cowan and Jennifer Lea<br><a href="mailto:bill.cowan@oeb.gov.on.ca">bill.cowan@oeb.gov.on.ca</a><br><a href="mailto:jennifer.lea@oeb.gov.on.ca">jennifer.lea@oeb.gov.on.ca</a>                 |
| Brantford Power Inc                         | Participant: Glenda Maldonado<br><a href="mailto:gmaldonado@brantford.ca">gmaldonado@brantford.ca</a>   |
| Canadian Manufacturers and Exporters (CME)  | Participant: Peter C.P. Thompson<br><a href="mailto:pthompson@blg.com">pthompson@blg.com</a>  |
| Cornerstone Hydro Electric Concepts (GHEC)  | Participant: David S. Proctor<br><a href="mailto:david.proctor@sympatico.ca">david.proctor@sympatico.ca</a>   |
| Electricity Distributors Association        | Participant: Dev Pasumarty<br><a href="mailto:dpasumarty@eda-on.ca">dpasumarty@eda-on.ca</a>  |
| Enbridge Gas Distribution Inc               | Participant: Barry Yuzwa<br><a href="mailto:barry.yuzwa@enbridge.com">barry.yuzwa@enbridge.com</a><br>cc John Joza; Kevin Culbert<br><a href="mailto:john.jozsa@enbridge.com">john.jozsa@enbridge.com</a><br><a href="mailto:kevin.culbert@enbridge.com">kevin.culbert@enbridge.com</a> |
| Enersource Hydro Mississauga                | Participant: James Macumber<br><a href="mailto:jmacumber@enersource.com">jmacumber@enersource.com</a>   |
| Hydro One Networks Inc                      | Participant : Frank D'Andrea<br><a href="mailto:frank.dandrea@HydroOne.com">frank.dandrea@HydroOne.com</a><br>cc Anne-Marie Reilly<br><a href="mailto:regulatory@hydroone.com">regulatory@hydroone.com</a>  |
| Ontario Power Generation                    | Participant: Randy Pugh<br><a href="mailto:randy.pugh@opg.com">randy.pugh@opg.com</a>   |
| Powerstream Inc                             | Participant: Tom Barrett<br><a href="mailto:tom.barrett@powerstream.ca">tom.barrett@powerstream.ca</a>  |
| School Energy Coalition                     | Participant: Jay Shepherd<br><a href="mailto:jay.shepherd@canadianenergylawyers.com">jay.shepherd@canadianenergylawyers.com</a>   |
| Union Gas                                   | Participant: Pat Elliott<br><a href="mailto:pelliott@uniongas.com">pelliott@uniongas.com</a>  |
| Veridian Connections Inc                    | Participant: Laurie McLorg<br><a href="mailto:lmclorg@veridian.on.ca">lmclorg@veridian.on.ca</a>  |
| Vulnerable Energy Consumer Coalition (VECC) | Participant: James Whitman<br><a href="mailto:jwightman@ecoanalysis.ca">jwightman@ecoanalysis.ca</a><br>cc Michael Buonaguro<br><a href="mailto:mbuonaguro@piac.ca">mbuonaguro@piac.ca</a>  |
| Waterloo North Hydro Inc                    | Participant : Chris Amos<br><a href="mailto:camos@wnhydro.com">camos@wnhydro.com</a>  |