



# Ontario Energy Board – IFRS Stakeholder Conference

Week of May 4, 2009 –

Presented by:

*Enbridge Gas Distribution Inc.*

# IFRS – A Paradigm Shift – Key Facts

- **Likely the most significant change in financial reporting in decades**
- **Adoption for external reporting is mandatory**
- **Not the result of actions of regulated entities or their customers**
- **Intended to facilitate financial comparisons in today's global economy**
- **Operational dynamics of businesses are not affected; just the manner of accounting for them stands modified**
- **Thus for a given set of business activities, financial outcomes under IFRS will be different from those under Canadian GAAP (CGAAP)**
- **Total spend (capital and operating) does not change as a result of IFRS (other than IFRS transition and continuing compliance costs); just the attribution of the spend to capital and operating expenses will change**
- **Adoption requires incurrence of incremental costs**

# IFRS – A Paradigm Shift – Key Facts

- **Adoption for regulatory rate-making is not mandatory**
- **However, practicality considerations may well lead in that direction**
- **OEB has jurisdiction to determine and require adoption of any regulatory rate-making impacts based on inputs received**
- **Decisions of OEB, primarily will likely deal with timing of recovery of required costs**
- **Despite the impacts of any such potential changes in rate-making, adoption of IFRS will not change the service which Utility customers receive**
- **Changes could influence the market perception of the financial risk profiles of Utilities – post IFRS implementation**

# IFRS – Scope of Proceedings

- **Does the Board Staff Proposal consider a broad enough spectrum of relevant issues?**
- **Do other Utility and Stakeholder comments provide a complete coverage of issues at hand?**
- **How will the Board address aspects relating to modified financial risk profiles of Utilities from IFRS adoption? – given this has been excluded from the scope of current proceedings**
- **How will the Board ensure such broader aspects have been duly factored into its decision-making?**

# IFRS – Extent of Convergence for Rate-Making

- **Board Staff proposal deals with mechanics of potential adoption for rate-making for the Board’s consideration**
- **Attempts to find an appropriately balanced adoption solution**
- **Significant process and system changes will be required to comply with external reporting requirements**
- **Potential end state outcomes for regulatory rate-making:**
  - **Full convergence**
  - **Partial convergence**
  - **Status quo**
- **Full convergence will likely curtail ongoing maintenance costs, but would likely result in undesirable impacts on rates – thus not a realistic option**
- **Partial convergence and status quo will likely diminish undesirable impacts on rates but will likely require additional process and system changes, resulting in incremental costs not only on conversion, but also for ongoing maintenance**

# IFRS – Initial Comments on Board Staff Proposal

- Largely deals with mechanics of a potential approach to adopting IFRS in the rate-making world
- Resolution of certain external uncertainties may require a review of these proposals
- Board's decision needs to be based on a broader view of financial impacts to Utilities

# IFRS Board Staff Proposal

## Section A:

- **Scope**

## EGD Comments:

- **As indicated earlier, ignoring the financial risk profile and results of Utilities may portray an incomplete picture of IFRS and may translate into sub-optimal rate-making decisions.**

# IFRS Board Staff Proposal

## Section B:

- **Principles**

## EGD Comments:

- **Any standardization requirement should have room for some flexibility**
- **Ensure no unintended consequences on Utilities with differing circumstances**



# IFRS Board Staff Proposal

## Section C:

- Major points of departure

## EGD Comments:

- Agree with continued use of deferral and variance accounts
- Require better clarity on ARO treatment in the context of negative salvage recovery in current depreciation rates
- Need to enable Utilities to recover depreciation costs acceptable under IFRS, where an outdated depreciation study is embedded in base rates
- Require specific approval of a *regulatory future income tax deferral account* to enable recognition on a basis consistent with other deferral / variance accounts under IFRS

# IFRS Board Staff Proposal

## Section D:

- **External Uncertainties**

## EGD Comments:

- **Need to recognize that these outcomes may require reconsideration of current proposals**

# IFRS Board Staff Proposal

## Section E:

- **Impacts**

## EGD Comments:

- **IFRS conversion is a compliance requirement**
- **Full cost recovery of incurred costs for conversion and on-going costs should occur**
- **Overall financial impacts of the transition to Utilities need to be considered**

# IFRS Board Staff Proposal

## Section F:

- **Filing and Reporting Requirements**

## EGD Comments:

- **Multiple reporting requirements extremely onerous. Propose providing comparatives between CGAAP and pure IFRS for Year 2010 based on Actuals**
- **Consider semi-annual RRR reporting for 1-2 years while Utilities deal with IFRS changes**

# Filing & Reporting Requirements

Year	CGAAP/ Current Regulatory	Modified IFRS for Regulatory	IFRS (External)
2009	√ ^		
2010	√ ^	√	√ ^
2011 and 2012	√ ^	√	√ ^
2013 and onwards		√ ^	√ ^

√ Proposed by Board Staff

^ EGD recommended