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BY E-MAIL AND WEB POSTING

July 8, 2010

All Licensed Electricity Distributors

Re: Depreciation Study for Use by Electricity Distributors, Consultant Final Report EB-2010-0178 – Transition to International Financial Reporting Standards

As stated in its Report on Transition to International Financial Reporting Standards (IFRS) of July 2009 ("Board Report") (EB-2008-0408), the Board has commissioned a depreciation study to assist electricity distributors in Ontario in their transition to IFRS. The study was undertaken by Kinectrics Inc. and their report is posted on the [Board's website](#) ("Kinectrics Report").

The Board Report said the following concerning the usefulness of a generic depreciation study for distributors and concerning how it would be used.

"While utilities remain solely responsible for complying with financial reporting requirements, the Board notes that a generic depreciation study could assist utilities with IFRS compliance in addition to providing considerable regulatory benefits. The study should provide a good starting point for the determination of service lives for distribution assets that may be both acceptable to the Board and useful for financial reporting purposes. Distributors will remain responsible for review and updates of the service lives for their particular assets for financial reporting and regulatory requirements."

Accordingly, effective on transition to IFRS, the Board will no longer prescribe service lives for Property, Plant and Equipment recorded in the accounts of the distributors. So as not to depend on a rate-ruling from the regulator to define the service life (rate rulings have no status under IFRS standards as currently written), distributors are to have identified asset service lives that meet the International Accounting Standards Board (IASB) requirements. These requirements are stated in International Accounting Standard 16 (IAS 16), *Property, Plant and Equipment*, in particular in paragraphs 50, 51, 56 and 57 which are reproduced for convenience in Schedule A to this letter. The OEB in its Report of July 2009 adopted these IFRS accounting standards.

The Board's objective in providing the Kinectrics Report is to assist the distributors in their transition from Canadian Generally Accepted Accounting Principles applicable in a regulatory environment to these international standards.

The Kinectrics Report provides information that the Board expects distributors will consider as they develop asset service lives suitable in their particular circumstances. The Board expects distributors to reflect their consideration of the information contained in the Kinectrics Report when they present an IFRS-based rates application to the Board.

Given that the Kinectrics Report was prepared to support transition to IFRS and in recognition of the responsibility of distributors under IFRS to identify asset service lives, the Board does not intend to commission further work in this area. When appearing before the Board in future cost of service proceedings after the initial IFRS cost of service proceeding, distributors will be expected to provide update information to the Board regarding the useful lives of their assets along with justification for any changes.

Distributors are reminded that, as set out in the Board Report of July 2009, they are expected to identify the combined impacts arising from all the areas associated with the transition to IFRS when they apply to the Board in the first cost of service application after adopting IFRS. The Board Report also states the expectation that distributors will demonstrate that they have taken appropriate management action to mitigate any adverse impacts.

Questions regarding the use of the Kinectrics Report can be directed to: Bill Cowan, Senior Manager, Special Projects, Applications and Regulatory Audit at (416) 440-7648, bill.cowan@oeb.gov.on.ca or to the Board's Market Operations hotline at market.operations@oeb.gov.on.ca.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

c. Participants in EB-2008-0408

Schedule A

Excerpt from *International Accounting Standard # 16* Property, Plant and Equipment

50. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

51. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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56. The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

57. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.