

IFRS Consultation – EB-2008-0408

List of Issues

A. Scope

This consultation examines the effects of the adoption of IFRS on regulatory accounting and rate making, to identify necessary changes to the Board's filing and reporting requirements and rate setting methodologies. It includes changes in Canadian GAAP related to the implementation of IFRS. This consultation will not include a discussion of changes to filing requirements and rate setting methodologies that are not driven by the adoption of IFRS.

This consultation will not include a discussion of the financial risk profile of utilities, and how the adoption of IFRS may affect that risk profile.

B. Principles

- 1.1 In considering the issues listed below, what principles should the Board use to guide the determination of the preferred alternative? Examples of key questions:
- How much difference between IFRS and regulatory accounting is sustainable in the long term?
 - To what degree should avoidance of harm to ratepayers prevail over other considerations?
 - To what degree should avoidance of harm to utilities prevail over other considerations?

C. Major points of departure between existing regulatory accounting rate making and IFRS

2. Regulatory Assets and Liabilities

- 2.1 Should the Board continue to use deferral and variance accounts in the event that they are not recognized under IFRS?
- 2.2 Should the Board approve definitions for deferral and variance accounts if the Board retains their use for regulatory purposes?

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 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 (e.g. historical acquisition cost, fair value)?
- 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)?
- 3.4 What changes to existing regulatory or rate making treatments should the Board require for other PP&E related items as a result of the adoption of IFRS?
- Borrowing costs applied to PP&E (as opposed to deemed interest or AFUDC)
 - Customer contributions received for PP&E
 - Asset reclassifications from PPE to intangible assets (e.g., computer software and land rights).
 - Asset retirement obligations
 - Gains and losses on disposition of assets
 - Treatment of asset impairment

4. Depreciation

- 4.1 Should the Board set parameters for 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 set the parameters for 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 Issues

- 5.1 What changes to existing regulatory accounting and rate treatments should the Board require for other items?
- Inventory valuation (based on lower of cost and net realizable value)
 - Payments in lieu of corporate income taxes
 - Pensions and employee future benefit costs

D. External Uncertainties

6. Decisions of Accounting Standard-Setting Bodies

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)
- Other developments from accounting standard-setting bodies

E. Impacts

7. Rate Impact

7.1 Compared to rates established under current regulatory accounting, what are the direction and estimated magnitude of rate impacts created by establishing rates on the basis of various IFRS accounting options?

7.2 Should a mechanism be developed to phase-in or otherwise mitigate the rate impacts, if any, of adopting IFRS (e.g. one-time transition charge or other provision)?

7.3 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? threshold amounts?)?

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

F. Filing and Reporting Requirements

9. Filing Guidelines for Rate Applications

- 9.1 What are the filing requirements for rate applications for entities regulated by the Board during and after the transition to IFRS?
- 9.2 What financial filings should the Board require for use in cost of service rate applications for historical and test years subsequent to 2009?
- 9.3 Should the Board prescribe any specific rate making measures in its incentive regulation mechanisms to take account of the adoption of IFRS?
- 9.4 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 What changes are required to financial reporting requirements for entities regulated by the Board during and after the transition to IFRS?
- 10.2 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?
- 10.3 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)?
- 10.4 Should the RRR include requirements for reconciliations between IFRS and regulatory accounting information?
- 10.5 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?
- 10.6 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?