

700 University Avenue, Toronto, Ontario M5G 1X6

Tel: 416-592-4463 Fax: 416-592-8519  
[andrew.barrett@opg.com](mailto:andrew.barrett@opg.com)

May 5, 2009

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.'s Participation in the  
IFRS Consultation (EB-2008-0408)**

This letter is a follow-up to a meeting between OPG and OEB staff in March 2009. At that meeting, Board Staff recommended that OPG write a letter to the Board setting out its circumstances with respect to the IFRS Consultation.

OPG had originally understood that the IFRS Consultation would be focused on LDCs as indicated in the Board's letter of December 23, 2008:

This consultation will focus on regulatory instruments applicable to gas and electricity distributors. Proposed amendments to the regulatory instruments will be issued for comment from participants in this consultation. Subsequent to the completion of the consultation, the Board may consider the need for amendments to regulatory instruments applicable to electricity transmitters and Ontario Power Generation Inc.

In response to this letter, OPG wrote to the Board on February 9, 2009 stating that it intended on "participating in [the IFRS] consultation to understand the concerns of intervenors, the implementation issues faced by LDCs, and the views of the Board with respect to these LDC issues. This will assist OPG in implementing IFRS and in developing its regulatory accounting and ratemaking proposals for consideration at its next rates application, currently expected to occur in conjunction with the implementation of IFRS on January 1, 2011."

OPG now understands that there is some consideration of applying to it the IFRS rules developed for LDCs in the interests of standardization.

This raises two concerns: first, that the timing of OPG's own IFRS Implementation Project leaves it unable to fully participate in this consultation and second, that any consultation that involves 80+ LDCs and potentially one regulated generator will leave OPG at a significant disadvantage where its requirements and circumstances are different than those of distributors.

### **OPG's IFRS Implementation Project**

OPG began its IFRS Implementation Project in the fall of 2007. Since that time, OPG and its expert consultants have been diligently working on a number of complex IFRS issues.

As noted at the August 21, 2008 IFRS planning meeting, OPG is targeting substantial completion of its IFRS conversion project by the end of 2009. During 2009, OPG will be completing its analysis of issues, identifying data requirements and systems impacts from conversion, and beginning to implement a training plan for affected staff. Our analysis of options for IFRS implementation is still a work in progress, making it difficult for OPG to fully participate in this process.

OPG intends to have its IFRS implementation decisions largely finalized by August. This will allow us to begin developing the evidence for an application to set new rates effective January 1, 2011.

OPG understands that the timing of the IFRS Consultation is driven by the need of LDCs to make investments in their systems. However, this timing does not align very well with OPG's project.

### **Differences between LDCs and OPG**

There are a number of important differences between LDCs and OPG, including the nature and extent of asset retirement obligations, the applicability of contributions in aid-of-construction, the obligation to serve, the nature and extent of environmental, and security and safety obligations, among others.

The accounting for asset retirement obligations is perhaps the most significant difference in terms of size, complexity and the issues faced by OPG. In particular, the choices/exemptions available with IFRS 1 will determine the required accounting on transition to IFRS. The historic capitalization of balances must be considered, in addition to exemptions for business combinations, fair value for specific assets, and any other IFRS 1 exemptions available to avoid a full retrospective application of IFRS, and the use of discount rates.

In many instances, ratemaking requirements also differ. For example, ratemaking requirements for LDCs include social issues (low income, conservation, etc.), customer class issues, and the need for greater standardization to facilitate cohort comparisons.

Differences in circumstances and ratemaking requirements may lead to different IFRS implementation for OPG for financial reporting purposes, which should in turn be considered for regulatory accounting purposes.

OPG is concerned that generic IFRS implementation policies and approaches established to meet the needs of LDCs may create an artificial and unnecessary barrier to approving an approach that best reflects the circumstances of OPG.

Ms. Kirsten Walli  
May 5, 2009  
Page 3

Therefore, OPG requests that the IFRS guidelines developed for LDCs not be automatically applied to OPG, in particular with respect to the ARO issue. Instead, IFRS implementation for OPG should be considered as part of its next rates case, where OPG's analysis and unique circumstances can be directly considered.

Yours truly,

A handwritten signature in black ink, appearing to be 'ABA' with a long, sweeping underline.

Andrew Barrett

cc Jennifer Lea, Board Staff  
EB-2008-0408 Participants