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June 2, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0408 – Reply Submissions of the London Property Management Association and the Building Owners and Managers Association of the Greater Toronto Area in the Consultation on Transition to International Financial Reporting Standards and Consequent Amendments to Regulatory Instruments

A. INTRODUCTION

These reply submissions are provided on behalf of the London Property Management Association ("LPMA") and the Building Owners and Managers Association of the Greater Toronto Area ("BOMA") related to the Staff Proposal related to the transition to International Financial Reports Standards ("IFRS") and the consequent amendments to regulatory instruments required for rate making.

BOMA & LPMA have reviewed the submissions of other parties and are providing reply submissions on two topics dealt with by Enbridge Gas Distribution Inc. ("egd") and Union Gas ("UNION").

B. FINANCIAL IMPACTS – EGD SUBMISSION

At paragraph 21 (c) of its May 25, 2009 submission dealing with Issue # 3 – Property, Plant and Equipment, EGD states that the reclassification of even a model amount of currently capitalized spending can have a substantial impact on a utility's earnings. EGD then provides an example in Appendix A of their submission showing the impact of this change in capitalization could exceed $10 million per year in the near future and over the course of ten years the cumulative reduction in earnings could be around $100 million.

While EGD perceives this course of events as negative, BOMA & LPMA submit that there are other impacts that need to be looked at. The lower rate base under IFRS would mean less borrowing requirements going forward. This could be a significant benefit in times of tight capital availability.

More importantly, however, is what the impact on ratepayers will be over the short, median and long term horizons of the change in capitalization. While the Appendix provided by EGD is useful, it would be much more useful if the impact on the revenue requirement was determined and added to the calculations.

The example provided by EGD would see an immediate increase in the revenue requirement of $50 million per year as the result of expensing this amount each year rather than capitalizing it. Partially offsetting this increase would be a reduction in the depreciation expense and a reduction in the debt cost as a result of lower levels of debt (similar to the lower levels of equity), the reduction in the before tax return on equity and changes due to income taxes (more expenses initially, offset over the years by cumulatively less CCA deductions).

Throughout the consultative the level of impact on ratepayers and on the distributors of the change to the IFRS capitalization requirements was the point conjecture and speculation, without any figures to back up any analysis. BOMA & LPMA submit that EGD's Appendix A is a good starting point to exactly that type of analysis.

BOMA & LPMA recommend that the Board expand upon Appendix A, adding lines dealing with the closing debt, cost of debt (perhaps using a rate of 7.5%), and the impact on income taxes of the different CCA deductions in the existing capitalization model and in the IFRS-based capitalization model. The impact on the revenue requirement on a year by year basis could then be shown, including lines showing the change between the two models for OM&A costs, debt costs, before tax return on equity, depreciation, income taxes etc. The cumulative change in the revenue requirement could also be shown.

BOMA & LPMA would further recommend that the Board extend this analysis out for the full 50 year average asset life.

Finally, it is recommended the such a model be provided in a "live" spreadsheet and sent to interested parties so that they could determine the impacts of changing some of the key parameters such as the depreciation rate, return on equity, cost of debt, tax rates, etc. BOMA & LPMA believe that such a model would be very useful in reviewing the impact of capitalization, which is one of the key differences that the Board will have to deal with in moving to a modified IFRS regulatory reporting approach.

C. REPORTING REQUIREMENTS

There is a substantial difference in the proposals of Union and EGD with respect to the reporting requirements under the IRM term and for the rebasing cost of service filings.

In its submission dated May 25, 2009 at page 13, Union states that it proposes to use actual results form 2010 prepared under both CGAAP and IFRS to identify the financial differences and any resulting revenue requirement impacts that arise from the adoption of IFRS requirements. Union also indicates that under their current IFRS implementation work plan, it will not be able to report under current regulatory accounting beyond 2010. As a result regulatory reporting for 2011 and 2012 (remaining IRM years) and for the 2013 rebasing year would be filed using modified IFRS only.

EGD, on the other hand, indicates that they would report 2010 results using the current regulatory accounting rules and then report both 2011 and 2012 using both the current regulatory accounting rules and modified IFRS. The 2013 rebasing year would be filed using modified IFRS only.

EGD states that it would not start reporting under modified IFRS until 2011 because full IFRS reporting for external purposes begins in 2011. The implication is that the full IFRS and modified IFRS results would not be available for 2010 until the same time (i.e. when external reporting for 2011 is done, comparables for 2010 will be included). Union, on the other hand, expects to file a rate application in the second quarter of 2011 using the current rules and modified IFRS, even though the full IFRS and the modified IFRS reporting requirements may not be fully determined until the end of 2011.

BOMA & LPMA submit that the EGD proposal is more acceptable. Providing 2010 results based on a modified IFRS approach that will not be finalized when the 2010 results are available for filing does not make sense to BOMA & LPMA and may only result in more questions about how the modified IFRS results were calculated. Reporting for 2011 and 2012 using both the current and modified IFRS approaches, however, does make sense. The current IRM for Union and EGD include the calculation of earnings sharing under the existing regulatory accounting framework. It would not be possible to evaluate the impact on this reporting requirement if the reporting was based on modified IFRS results. In addition, it may be useful for the Board to have two consecutive years for both Union and EGD reporting under the current regulatory accounting rules and the modified IFRS rules. This should enable the Board and intervenors to see how much variability there is between the two reporting standards and how much cumulative impact there may be as, for example, the capitalization impact highlighted by EGD.

Please contact me if the Board requires any further information related to these comments.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates