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VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Consultation on Transition to International Financial Reporting Standards
Board File Number: EB-2008-0408

Reply Submissions of the Vulnerable Energy Consumers Coalition (VECC)

As Counsel to the Vulnerable Energy Consumers Coalition (VECC), I am writing, per the Board letter of May 14th, 2009, to provide VECC's reply submissions on the issues associated with the transition to International Financial Reporting Standards (IFRS). Having reviewed the submission of other parties there are two topics VECC would like to address.

1. **Alignment of IFRS and Regulatory Accounting**

In its May 25th submissions VECC disagreed with Board Staff's proposed principle 1.4 on the grounds that it placed primary emphasis on aligning regulatory accounting practices with IFRS as opposed to ensuring they were consistent with sound rate making principles. In its submission VECC stated that the distinction was important and expressed the concern "that adopting the principle as espoused by Board Staff will result in decisions defaulting too quickly to IFRS without a fulsome consideration of regulatory principles and the appreciation that regulatory principles take precedence".

VECC has reviewed the various submissions filed on May 25th and notes that its concerns were justified. The PWU, in section VII of its submissions, concludes that "there is no evidence to suggest that applying IFRS rules on overhead capitalization for regulatory purposes would not result in just and reasonable rates, with the possible exception of training costs". It also identified a number of Staff Proposals "that are consistent with sound rate making principles" – again citing the view that there is no evidence to the contrary.

However, as noted in VECC's submissions, the Staff Proposals were not supported by an evaluation of their alignment with regulatory principles and VECC notes that no such assessment was provided by the PWU. VECC submits that there is little to no evidence to support the PWU's claims that Staff Proposals are consistent with sound rate making principles. VECC also submits that PWU's claim that there is no evidence to the contrary is disingenuous as the topic has not been properly canvassed. VECC submits that these types of inappropriate conclusions will continue to arise if the principles used in guiding the adaptation of regulatory accounting to IFRS are not properly grounded in sound rate making principles.

In its submissions Hydro One takes the position (page 3) that "the Board should adopt IFRS as the basis for regulatory accounting". In its submission the Company put forward a number of reasons that were primarily focused on implementation and the implications of non-conformity with IFRS as opposed to whether the results would reflect sound rate making principles. VECC also notes that Hydro One's discussion of the merits of the individual proposals raised in Board Staff's Paper again focuses on implementation issues and is virtually silent on the question of whether the proposals will result in just and reasonable rates.

While VECC has acknowledged in its submissions that implementation issues are an important consideration, they are only one factor in determining whether IFRS (full or modified) should be adopted for purpose of regulatory accounting. VECC submits that adoption of the principle 1.4 (as proposed by Board Staff) will lead to an evaluation of alternatives that over-emphasizes the need for conformance with IFRS (as is the case with Hydro One) and reduced emphasis on the critical principle – just and reasonable rates.

2. Implementation During IRM

A number of submissions (Enbridge Gas Distribution, pages 8-10; EDA, page 3; and CLD, page 5) raised the need for distributors to be "held harmless" due to the implementation of IFRS while a distributor's rates are set using IRM. VECC notes that the proposed solution varied (e.g., adjustments based on 2011 impacts, deferral accounts to track actual impacts, rate riders based on forecast impacts). However, VECC notes that in all three cases no details were provided as to precisely how the approach would work.

For example, the CLD proposes a “funding adder for the IRM year based on the difference between the forecasted revenue requirement under existing CGAAP regulatory accounting and the forecasted revenue requirement under modified IFRS”. One of the key problems with this approach is that under a price cap-based IRM there is no forecast of requirement produced for the “test year”. In VECC’s view it is premature for the Board to decide what approach should be used to address this issue and reiterates its earlier submission that the Board should establish a process (e.g., Staff-lead industry working group) to work through this issue and identify what is needed in order to address these differences at the time of rebasing.

Thank you for the opportunity to comment.

Yours truly,

Original signed

Michael Buonaguro
Counsel for VECC