



# **ONTARIO ENERGY BOARD**

## **BOARD STAFF SUBMISSION**

### **UNION GAS LIMITED**

**Request for Deferral Account: CGAAP – IFRS Conversion Costs (Deferral  
Account No. 179-120)**

**Board File No. EB-2009-0354**

**November 5, 2009**

**Union - Request for Deferral Account: CGAAP – IFRS Conversion Costs  
(Deferral Account No. 179-120)**

Union Gas Limited (“Union”) filed an application on September 24, 2009 requesting the Board’s approval of an accounting order to establish a deferral account to record the one time administrative costs Union will incur to convert accounting practices from Canadian Generally Accepted Accounting Principles (“CGAAP”) to International Financial Reporting Standards (“IFRS”).

The Report of the Board: Transition to Financial Reporting Standards was issued on July 28, 2009. The Board stated on page 27 that it “will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS.”

Union describes the purpose of the proposed IFRS conversion costs deferral account (“IFRSCCDA”) as follows:

“To record, as a debit (credit) in Deferral Account No. 179-120 the difference between the actual incremental one-time administrative costs incurred to convert accounting policies and processes from their current compliance with Canadian Generally Accepted Accounting Principles (CGAAP) to their future compliance with International Financial Reporting Standards (IFRS) and the costs included in rates as approved by the Board.”

Board staff agree that the above noted statement is adequate in describing the purpose of the IFRSCCDA. The Board may wish to provide additional direction regarding the costs that are eligible for recording in the IFRSCCDA.

Board staff notes that on October 1, 2009, Enbridge Gas Distribution Inc. (“Enbridge”) filed an application with the Board for approval to establish three new deferral accounts. The application included a request for a deferral account to record the incremental one-time administrative costs of transitioning the Company’s financial reporting requirements and statements from current compliance with CGAAP to future compliance with IFRS.

The Board on October 29, 2009 issued a document titled, “Ontario Energy Board Accounting Procedures Handbook - Frequently Asked Questions (October 2009).” The above noted Frequently Asked Questions (“FAQs”) includes accounting guidance on

the IFRSCCDA as it relates to the electricity distributors. Board staff submits that the incremental IFRS transition costs that qualify for recording in the IFRSCCDA for the natural gas distributors should be on the same basis as those permitted for electricity distributors. This ensures equitable and consistent regulatory treatment for the natural gas distributors and the electricity distributors, as the nature of the changes due to the transition to IFRS and the associated incremental costs incurred in relation to the transition are the same.

In order to achieve consistency, Board staff submits that the criteria for recording IFRS incremental transition costs in the electricity distributors' deferral account (1508, Other Regulatory Assets, "Sub-account Deferred IFRS Transition Costs", in the electricity Uniform System of Accounts) as described in FAQ #3 (Q.3 and A.3), should be applied to the IFRSCCDA.

FAQ #3 (see Appendix A – A.3) states the following related to IFRSCCDA-eligible costs.

"The costs authorized for recording in the [IFRSCCDA] shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in these accounts may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.

These accounts are exclusively for necessary, incremental transition costs and shall not include ongoing IFRS compliance costs or impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income. The incremental costs in these accounts shall not include costs related to system upgrades, or replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures."

Board staff submits that the Board, in its Decision, should include the criteria described above in relation to the costs to be recorded in the IFRSCCDA.

Board staff notes that the consideration of prudence with respect to costs included in the account balance will be a matter for consideration at a future date when the

applicant seeks disposition of the account. Therefore, the criteria of materiality, causation and prudence outlined in the FAQs will be considered at that time and need not be addressed in this proceeding.

All of which is respectfully submitted.

**APPENDIX A**  
**TO BOARD STAFF SUBMISSION**  
**EB-2009-0354**  
**DATED: NOVEMBER 5, 2009**

## Ontario Energy Board Accounting Procedures Handbook Frequently Asked Questions October 2009

### INDEX

#### **New accounts approved for incremental costs incurred in relation to transition to International Financial Reporting Standards (IFRS):**

- Q.1 New approved sub-account of account 1508 for eligible incremental IFRS costs where a distributor does not have an amount already approved for recovery in distribution rates
- Q.2 New approved sub-account of account 1508 for eligible incremental IFRS costs where the distributor has an amount already approved for recovery in distribution rates
- Q.3 Determination of which costs qualify as one-time administrative incremental costs incurred in relation to transition to IFRS

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#### **Q.3 Which incremental IFRS transition costs qualify for recording in the sub-accounts referred to in the answers to questions 1 and 2 above?**

- A.3 The costs authorized for recording in the deferral or variance account referenced in the answers to questions 1 and 2 above shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in these accounts may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.

These accounts are exclusively for necessary, incremental transition costs and shall not include ongoing IFRS compliance costs or impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income. The incremental costs in these accounts shall not include costs related to system upgrades, or replacements or changes where

IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.

The costs recorded in these accounts will be subject to a prudence review before disposition. The criteria of materiality, causation and prudence will be considered at the time of proposed disposition. Only costs that are clearly driven by the necessity of transitioning to IFRS and are genuinely incremental to costs that would have been otherwise incurred will be considered for approval for recovery in rates.

The transition to IFRS is effective for fiscal year-ends beginning on or after January 1, 2011. Accordingly, incremental transition costs incurred after the beginning of the year of adoption are expected to be minimal.