



CONFIDENTIAL

Guelph Hydro Electric Systems Inc.
EB-2011-0123
Exhibit 4, Tab 2, Schedule 5, Appendix B
Page 1 of 138
Decision on Confidentiality
August 19, 2011
Documents attached
became public
August 26, 2011

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ONTARIO ENERGY BOARD
OFFICE OF THE BOARD SECRETARY

June 30, 2011

Kirsten Walli
Board Secretary
Ontario Energy Board,
2300 Yonge St.
Suite 2700, P.O. Box 2319
Toronto, Ontario, M4P 1E4

Dear Ms. Walli,

**Re: OEB File No. EB-2011-0123
Guelph Hydro Electric Distribution System Inc.
Electricity Distribution Rate Application**

In accordance with the OEB's *Practice Direction on Confidential Filings* (the "Practice Direction"), Guelph Hydro has filed two documents in confidence with the Board that were prepared on behalf of Guelph Hydro by third party consultants relating to the company's transition to IFRS. Public disclosure of these reports is not permitted under the terms of confidentiality agreements as they contain proprietary information and methodologies that would be commercially damaging to the consulting firms if released.

The confidentiality request relates to the entire documents.

In accordance with Rule 10.01 of the Rules of Practice and Procedures, Guelph Hydro is requesting that these two studies be held confidential based on the following grounds:

- The providers of the studies are companies engaged in competitive businesses. The public disclosure of the studies could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interest of these companies since it would enable their competitors to manipulate their documents. Guelph Hydro does not have the providers' consent to the public release of this information.

The OEB's Practice Direction recognizes that the above reasons are among the factors that the Board will take into consideration when addressing the confidentiality of filings. They are also addressed in subsection 17(1) of FIPPA, and the Practice Direction notes (at Appendix C of the

Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential.

Accordingly, Guelph Hydro requests that those documents be kept confidential.

A non-confidential summary of each report is attached to this cover letter, to be served on all parties to the proceeding and placed on the public record.

Guelph Hydro is prepared to provide copies of this material to all accepted participants to the proceedings provided that they have executed the OEB's form of Declaration and Undertaking with respect to confidentiality and that they comply with the Practice Direction, subject to Guelph Hydro's right to object to the OEB's acceptance of a Declaration and Undertaking from any person.

Respectfully Submitted,



Cristina Birceanu

Manager of Regulatory Affairs
Guelph Hydro Electric Systems Inc.

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Non- confidential description of the documents requested to be kept in confidentiality:

1. IFRS Conversion Impact Assessment, September 15, 2009 – KPMG

This report represents the final deliverable of an engagement to assist Guelph Hydro identify changes to accounting policies, processes, and training issues as a result of the requirement to transition from CGAAP to IFRS.

In December 2008, KPMG was engaged to assist management with this conversion project. Working in conjunction with key management, KPMG completed a detailed systematic gap analysis of the accounting and reporting differences between CGAAP and IFRS, and has considered the potential high level impact of the differences on Guelph Hydro's IT systems and business processes, and its personnel. Key findings are presented in this report. Also included as an Appendix, is an Accounting and Disclosure matrix that sets out the detailed requirements of IFRS along with a comparison to the current applications of CGAAP.

In preparing this report KPMG completed the following:

- Held a kick off session held with key management personnel to raise awareness of key project issues.
- Completed awareness training in IFRS requirements.
- Completed an initial draft of the Accounting and Disclosure Matrix based on notes to Guelph Hydro's financial statements, audit files, and an understanding of the business, operations and processes.
- Conducted various interviews with key finance and business personnel to gather information and assess Guelph Hydro's current application for CGAAP against the IFRS requirements.
- Conducted a review with GHI management focused on key business processes that would be impacted by IFRS.
- Met with the representatives from Information Technology ("IT") to assess the high level impact of accounting and reporting differences on IT systems and business processes.
- Substantially completed a final draft of the Accounting and Disclosure Matrix and documented Guelph Hydro's current application of CGAAP.

2. Guelph Hydro IFRS System Impact Discovery Analysis, March 26, 2010 – IBM

IBM was engaged to perform a high level system impact assessment based on Guelph Hydro's IFRS requirements and policy decisions, including IFRS1 exemptions and elections.

System assessment workshops were held over a two week period to discuss and determine impact of Guelph Hydro's IFRS policies and their potential effect on the current system and processes.

Workshop topics and schedule were based on Guelph Hydro's accounting gap analysis delivered by KPMG.

The system impacts are based on the Guelph Hydro decisions made during the assessment workshops.

The report summarizes several options with respect to required system modifications to support the implementation of IFRS.

A high level project plan is also documented setting out a timeline and resource requirements for testing and implementing new system modules as well as changes to procedures.

The key system recommendations that emerged from this process were to:

1. Activate and implement an existing module in Guelph Hydro's ERP system to enable more granular accounting of fixed assets; and
2. Purchase and implement a financial reporting tool to enable dual reporting under IFRS and MIFRS.



Guelph Hydro IFRS System Impact Discovery Analysis

System Options for IFRS Adoption



March 26, 2010

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Agenda

- Overview
- Objective
- Summary Options Analysis and System Impact
- High Level Roadmap
- Summary Implementation Analysis
- Summary Options – Pro's and Con's
- Risks, Dependencies and Constraints
- Decision Matrix
- Next Steps
- Section
 - 1 – Option Details
 - 2 – High Level System Change Matrix
 - 3 – Detailed Impact Analysis
 - 4 – Summary of Notes Disclosure Impacts
 - 5 – Guelph Hydro IFRS IT Impact Assessment Decision Log
 - 6 – Assumptions
 - 7 – System Requirements
 - 8 – Phase 3 Timelines
 - 9 – IFRS Assessment Process Overview

Overview

- IBM was engaged to perform a high level system impact assessment based on Guelph Hydro's IFRS requirements and policy decisions, including IFRS1 exemptions and elections.
 - Guelph Hydro requires to be IFRS compliant with its opening balances on January 1, 2010.
 - Parallel (comparative) reporting with CGAAP and IFRS is required only for fiscal year 2010
 - IFRS reporting is required from fiscal year 2011 onward (CGAAP will not be audited beyond fiscal year 2010)
- System assessment workshops were held over a two week period to discuss and determine impact of Guelph Hydro's IFRS policies and their potential effect on the current system and processes.
- Workshop topics and schedule were based on Guelph Hydro's accounting gap analysis delivered by KPMG
 - "GHI Draft CIA Report FINAL.pdf" (September 2009)
- The system impacts are based on the Guelph Hydro decisions made during the assessment workshops.
 - These decisions are documented in Section 5 - Guelph Hydro IFRS IT Impact Assessment Decision Log.

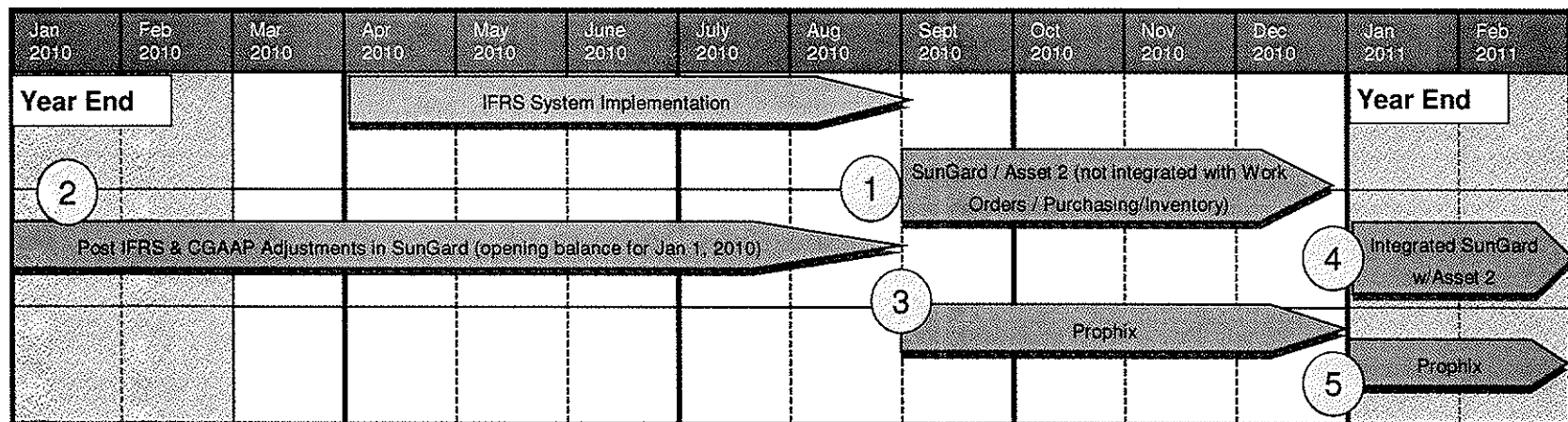
Objective

- What are the system options being considered?
 - Option 1 – Additional Accounts
 - Option 2 – Transitional Reporting Tool
 - Option 3 – Parallel Company Codes
- When reviewing the 3 Options, consider the following items:
 1. Implementation Cost:
 - What are the relative cost implications of implementing either of the options?
 - What is the longer term cost once the system is implemented?
 2. Resources / Work load
 - What are Guelph Hydro resources already committed to accomplish in 2010?
 - What are the priorities in the coming year and beyond?
 - Can the IFRS project get more resources later in the year if needed?
 - What is the impact of increased manual effort on the financial close and reporting cycle during transition?
 3. Schedule
 - Do we have enough time during the year to prepare the required IFRS data and to implement the solution?
 - Are there additional dependencies or opportunities related to the timing of a solution?
 4. Technology / Functionality
 - What are the future benefits in terms of managing the IT solution?
 - How complex is the system during the transition year?
 - Will the system meet short and long term financial reporting needs? Can it be fully leveraged in the future (or will components become redundant after the transition year)?
 - Will CGAAP need to be maintained for regulatory purposes?
 - How much granular data or automated processes are required?

Summary Options Analysis

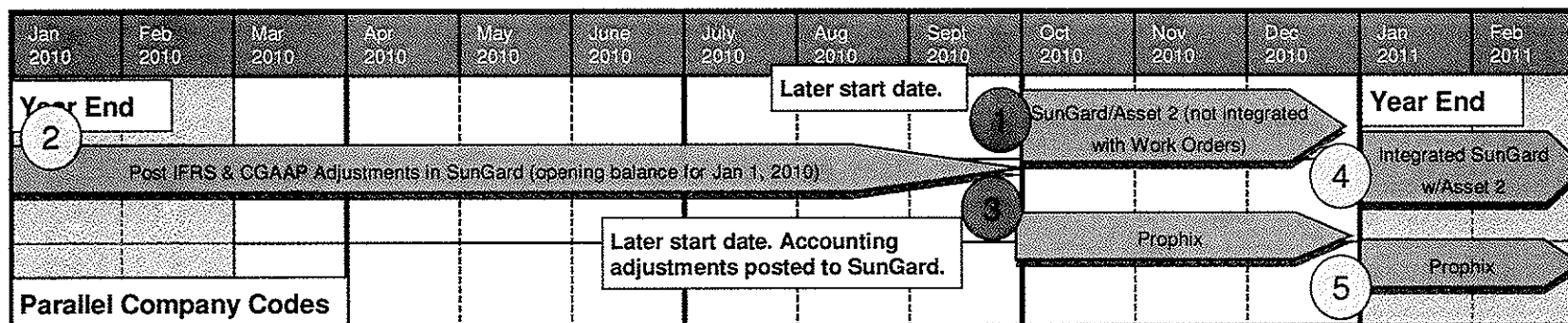
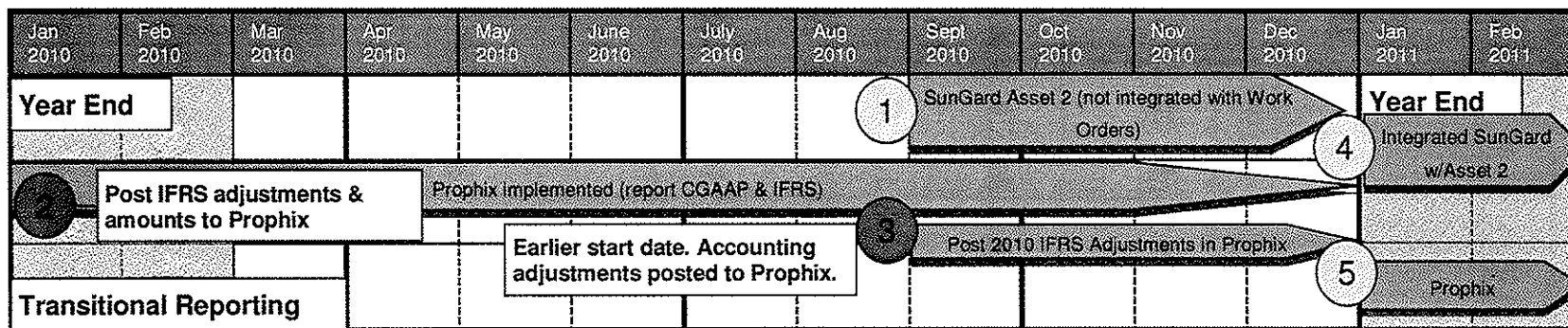
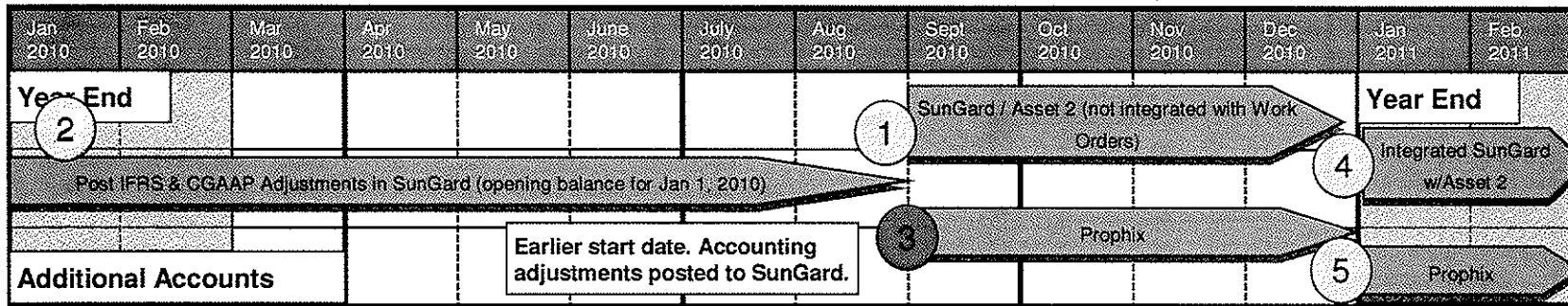
	Description
Option 1 – Additional Accounts Based Approach	<ul style="list-style-type: none"> • New GL accounts will be created with groupings representing CGAAP specific accounts, IFRS specific accounts and common accounts. • Opening Balances at January 1, 2010 will be adjusted to reflect IFRS and CGAAP requirements. • CGAAP delta adjustments would be calculated manually and posted in SunGard to the CGAAP accounts during the transition year. • CGAAP accounts must balance in total and CGAAP postings will roll up to their own retained earnings accounts. • All GL postings must not cross IFRS and CGAAP accounts and validations can be set up to ensure postings do not cross IFRS and core accounts. • CGAAP reporting would consist of CGAAP accounts plus IFRS accounts together
Option 2 – Transitional Reporting Tool	<ul style="list-style-type: none"> • Transaction system will contain CGAAP reporting only for the transition year. • IFRS and CGAAP adjustments will be manually calculated and posted into the reporting tool (e.g. Prophix) during the transition year. • IFRS reports would include CGAAP financial information plus the IFRS adjustments posted in the Prophix tool for the transition year. • SunGard opening balances will be updated January 1, 2011 to reflect IFRS reporting. • Opening Balances upon adoption of IFRS for January 1, 2010 will exist only in consolidation tool.
Option 3 – Parallel Company Codes	<ul style="list-style-type: none"> • Parallel company codes would be set up to handle CGAAP and IFRS adjustments beginning Jan 1, 2010. • Existing company codes would reflect IFRS reporting while additional company codes would contain CGAAP adjustments for the transition year. • CGAAP delta adjustments would be calculated and posted manually to the CGAAP company codes each month during the transition year. • CGAAP reporting would consist of the existing company codes plus the CGAAP company code (adjustments)

Implementation Process Impact – Additional Accounts



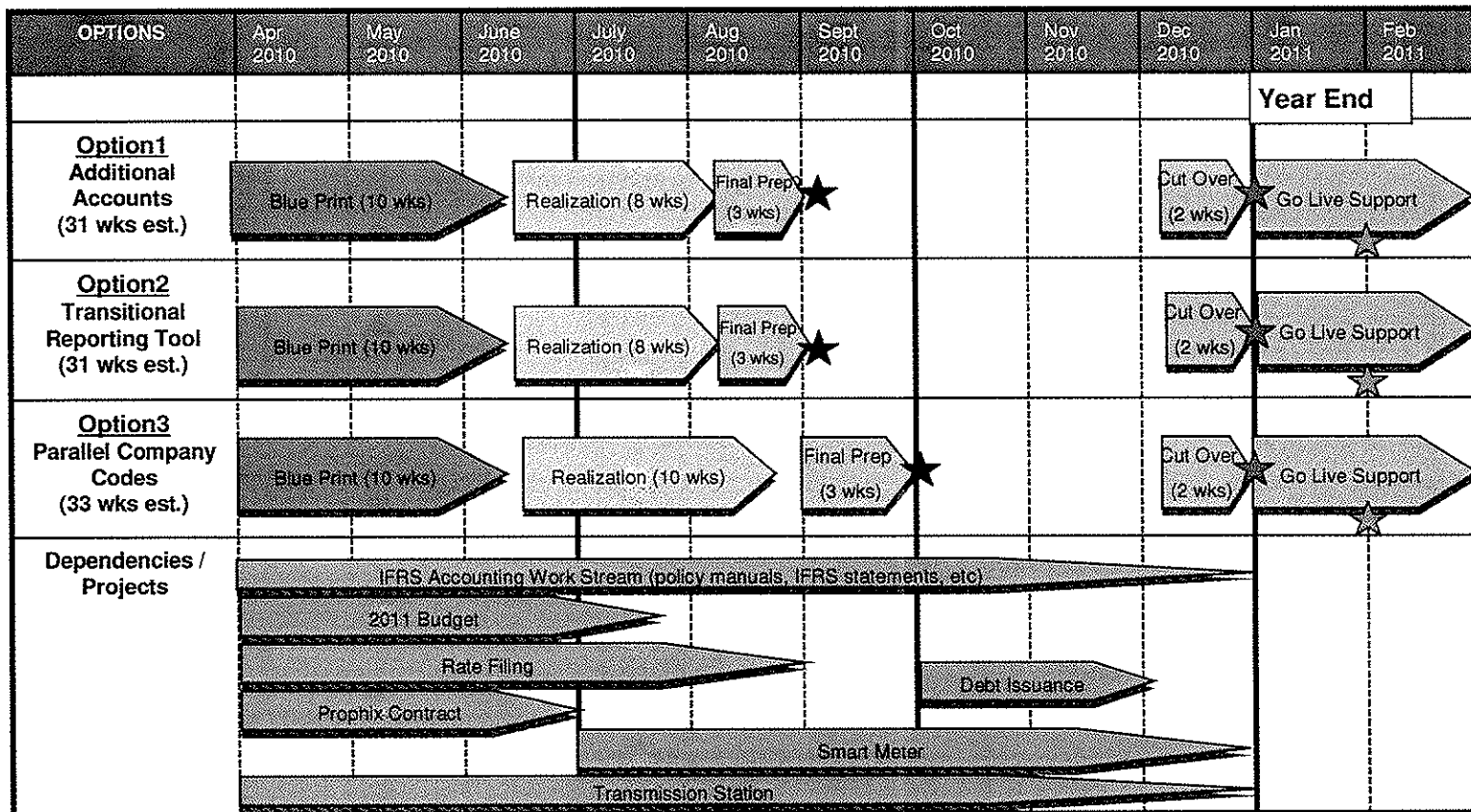
- 1 Implement Asset 2:
 - Load IFRS fixed asset data (no CGAAP) into SunGard Asset 2, but do not integrate with the Work Order or Purchasing/Inventory systems
 - Post IFRS adjustments going forward in 2010 directly into Asset 2 on a monthly basis. IFRS and CGAAP PPE adjustments posted to SunGard for 2010
- 2 Create IFRS Balances (Jan 1, 2010)
 - Post CGAAP & IFRS adjustments, based on Additional Accounts into SunGard to create an opening balance for IFRS as at Jan 1, 2010 (historical) and monthly Financial Statements
 - Burden rates will remain on CGAAP basis, IFRS will be processed manually for 2010
- 3 Implement Prophix:
 - Implement Prophix, pull data from SQL server cube for CGAAP and IFRS reporting (2010)
- 4 Integrate SunGard and Asset 2 (Jan 1, 2011):
 - Feed Asset 2 from the Work Order and Purchasing/Inventory systems to capture fixed asset transactional data for IFRS
 - Burden rates updated for IFRS processing
- 5 Integrate Prophix:
 - Pull data from SQL server cube for IFRS reporting (2011)

Implementation Process Impact – Comparison



High Level Roadmap Estimate

- Option 1 – Additional Accounts (est.): 31 week duration, 39 weeks to Go Live (Last start date – July 26, 2010)
- Option 2 – Transitional Reporting (est.): 31 week duration, 39 weeks to Go Live (Last start date – July 26, 2010)
- Option 3 – Parallel Company Codes (est.): 33 week duration, 39 weeks to Go Live (Last start date – July 12, 2010)



Summary Implementation Analysis

	Option 1 Additional Accounts			Option 2 Transitional Reporting			Option 3 Additional Company Codes		
	Design	Execution	Total	Design	Execution	Total	Design	Execution	Total
Estimated FTE Days									
Guelph Hydro	211 - 232	295 - 325	506 - 557	211 - 232	266 - 310	477 - 542	211 - 232	362 - 398	573 - 630
IBM	143 - 157	0 - 0	143 - 157	143 - 157	0 - 0	143 - 157	143 - 157	0 - 0	143 - 157
SunGard	3 - 3	30 - 33	33 - 36	3 - 3	30 - 33	33 - 36	3 - 3	30 - 33	33 - 36
Prophix	8 - 9	45 - 50	53 - 58	8 - 9	45 - 50	53 - 58	8 - 9	50 - 55	58 - 64
Total FTE	365 - 402	370 - 407	735 - 809	365 - 402	341 - 392	706 - 794	365 - 402	442 - 486	807 - 888
Estimated Time (weeks)	10	21	31	10	21	31	10	23	33
Cost Estimate (\$ 000's)									
Guelph Hydro	\$186 - \$204	\$260 - \$286	\$445 - \$490	\$186 - \$204	\$248 - \$272	\$433 - \$477	\$186 - \$204	\$319 - \$350	\$504 - \$555
IBM	\$280 - \$308	\$0 - \$0	\$280 - \$308	\$280 - \$308	\$0 - \$0	\$280 - \$308	\$280 - \$308	\$0 - \$0	\$280 - \$308
SunGard	\$0 - \$0	\$14 - \$15	\$14 - \$15	\$0 - \$0	\$14 - \$15	\$14 - \$15	\$0 - \$0	\$14 - \$15	\$14 - \$15
Prophix	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0	\$0 - \$0
Total Cost	\$466 - \$512	\$274 - \$301	\$739 - \$813	\$466 - \$512	\$262 - \$287	\$727 - \$800	\$466 - \$512	\$333 - \$365	\$798 - \$878

- No costs have been factored into the estimates for internal or external audit review and participation from KPMG. KPMG has been arranged and contracted separately
- The implementation effort and schedule for these types of projects may vary significantly based upon the scope of the implementation. A 10% contingency has been added to account for potential delays or issues (for example, vacation time, resource allocation, project issues)
- Budgetary numbers provided are based on Time and Materials delivery approach based on estimates provide by Guelph Hydro and IBM
- System configuration (or implementation) will be performed by internal Guelph Hydro resources
- IBM effort estimate based only on activities required during design phase.
- No cost estimate has been provided by SunGard for the design (only for cutover activities for opening balances).
- No cost estimate has been provided by Prophix across any of the phases. Amounts to be confirmed with the vendor during pre-implementation planning.

Summary Options – Pro's and Con's

	Pros	Cons
Option 1 – Additional Accounts	<ul style="list-style-type: none"> • Transaction system will contain IFRS and CGAAP financial information, "One Version of the Truth" • Opening balances upon adoption of IFRS will exist in transaction system (Jan 1, 2010). • Slightly shorter implementation time frame than Parallel Company Codes option. • Company code will continue to represent a legal entity. 	<ul style="list-style-type: none"> • Additional implementation effort for business as reports must be updated and tested to ensure IFRS and Canadian GAAP reporting requirements are met. • On-going maintenance to ensure IFRS and CGAAP accounts remain in balance during transition year. • Challenge to maintain close process timing due to increased manual effort and reconciliation. • Increased complexity of reporting selection criteria/logic • Can be difficult to sustain if a large number of general ledger accounts are required. • New accounts created that will only be required for transition year. • Additional complexity for Reporting group to obtain and create CGAAP and IFRS reports.
Option 2 – Transitional Reporting Tool	<ul style="list-style-type: none"> • Lower complexity during transition year for report creation and reconciliation • Potentially shorter implementation time frame • Fewer new general ledger accounts required. 	<ul style="list-style-type: none"> • IFRS information will only reside in reporting tool and not in the transaction system for the transition year. • Opening balances upon adoption of IFRS will not exist in transaction system.
Option 3 – Parallel Company Codes	<ul style="list-style-type: none"> • Transaction system will contain IFRS and CGAAP financial information, "One Version of the Truth" • Opening balances upon adoption of IFRS will exist in transaction system (Jan 1, 2010). • Adjusting entries are segregated and more easily balanced • Fewer new general ledger accounts required. 	<ul style="list-style-type: none"> • Slightly longer implementation time. • Additional configuration and testing for additional company codes • Extra effort may be required to handle additional intercompany issues. • Additional company codes will be created that do not represent a legal entity. • In order for Guelph Hydro to obtain CGAAP reporting, information from two company codes must be amalgamated, .

Key Risks and Dependencies




- Any changes to the accounting decisions used as the basis for this assessment can impact the project timeline and resourcing.
- Unforeseen impact of other projects on the IFRS environment, such as:
 - IASB Exposure Draft for Rate Regulated Entities
 - Prophix functionality
 - Kinectrics study
 - Third Party Vendor schedule/availability
 - Smart Metering
- There is a significant risk related to the access to key Guelph Hydro individuals for their knowledge of internal systems, data and processes and offline inputs for IFRS-GAAP adjustments. Conflicting priorities for key resources will have to be actively managed throughout the project.
 - IFRS Accounting work stream
 - 2011 Budget
 - Rate filing
 - Smart Metering
 - Debt issuance
 - New transmission station
 - On boarding of new resources

Potential Resource Constraints

Project	Timeframe	Kelly Bonds	Mike Koktan	Kendra Moffat	Dan Amyot	Mike Joaquin	Arlen Molyneaux	Darren Dempsey	IS Resource	Engineer in Training	Student
IFRS - Systems	April – August 2010										
IFRS - Systems	December 2010 – January 2011										
IFRS - Accounting	April – August 2010										
IFRS - Accounting	September – December 2010										

2011 Budget	April – July 2010										
Rate Filing	April – August 2010										
Prophix	April – July 2010										
Smart Meter	July – December 2010										
Debt Issuance	September – November 2010										
Transmission Station	April – December 2010										

– Consideration should also be given to planned vacation time for all resources in relation to ongoing activities and project schedules

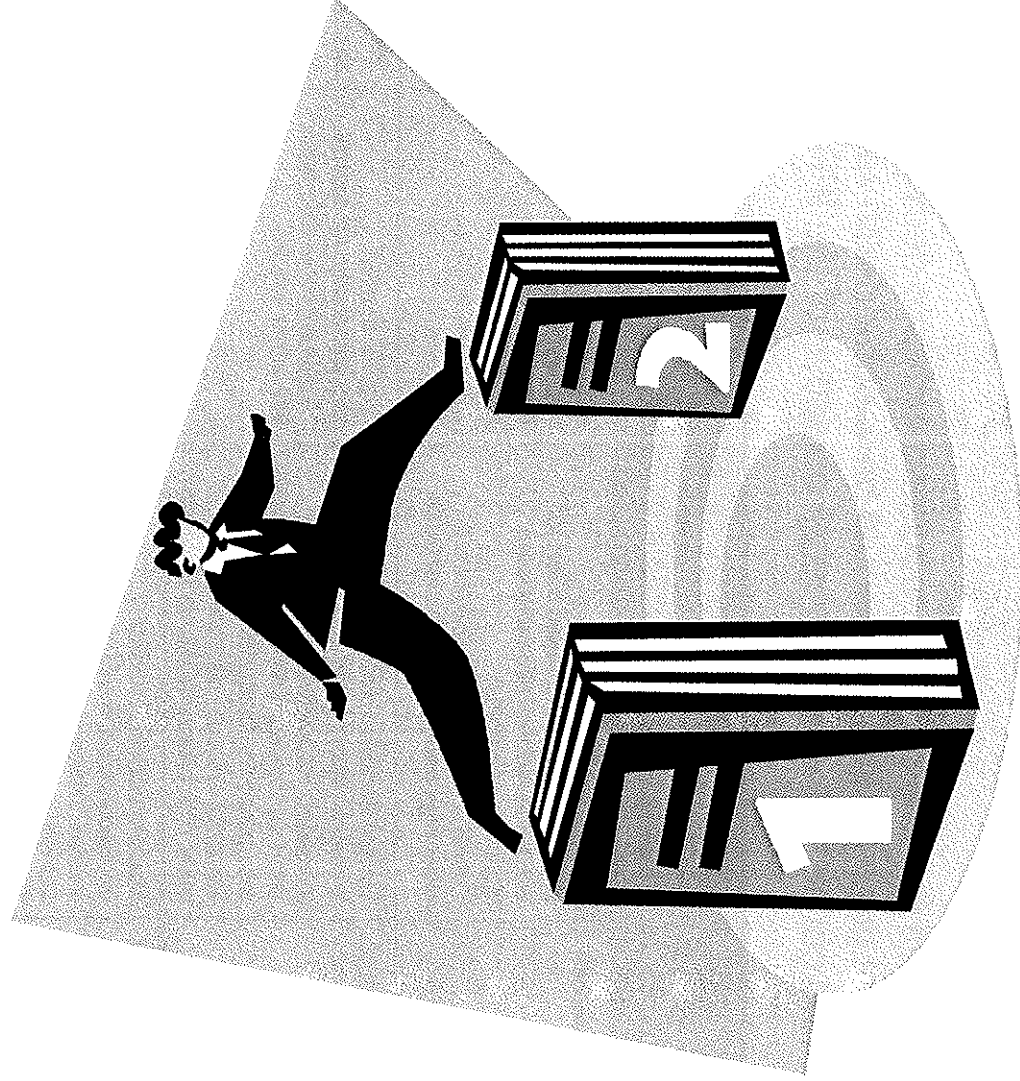
	IFRS Involvement
	Low Impact overlap
	High Impact overlap

Decision Matrix

- This table summarizes the key criteria associated with this decision.
- The criteria have not been ranked, but should be weighted with regard to what is most important and consistent with the overall objective of the IFRS initiative.

	Implementation Cost	Resources / Work Load	Schedule	Technology / Functionality
Option 1 Additional Accounts	Middle implementation cost of the options.	Medium workload during implementation, increased effort for validation/reconciliation and lower workload at cutover. Potential resource constraints with other high priority initiatives for 2010.	Manageable schedule, but slightly longer than transition reporting. Marginal overall difference with other options.	Granular transactional data starting Jan 1, 2010. More difficult reporting and account reconciliation than Parallel Company Codes
Option 2 Transition Reporting	Lowest implementation cost of the options.	Lowest workload during implementation, lower effort for validation/reconciliation, but higher effort during year-end cutover period to set up opening balances. Potential resource constraints with other high priority initiatives for 2010.	Slightly shorter implementation timeframe. Marginal overall difference with other options.	IFRS balances will only reside in reporting system for transition year (2010). Lower reconciliation / processing burden during transition.
Option 3 Parallel Company Codes	Highest implementation cost of the options.	Medium workload during implementation, medium effort for validation/reconciliation and lower workload at cutover. Potential resource constraints with other high priority initiatives for 2010.	Slightly longer schedule, but manageable. Marginal overall difference with other options.	Granular transactional data starting Jan 1, 2010. Past experience with additional Company Codes has not been favourable.

Next Steps

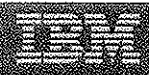


Next Steps (Prior to commencing implementation)

- Guelph Hydro to confirm system option to implement
- Develop option strategy and implementation plan
 - Secure Guelph Hydro resourcing in accordance with the plan
 - Prioritize IFRS project work in relation to other ongoing projects/work
- Guelph Hydro to finalize IFRS accounting choices to be adopted and confirm their decisions with the auditors
 - Accounting choices to be finalized
 - Define Accounting Policies
- Guelph Hydro to complete implementation pre-work and secure vendor and third party resources as required (e.g. SunGard and Prophix teams)
 - Prepare for business requirement gathering and fit-gap analysis

Section 1

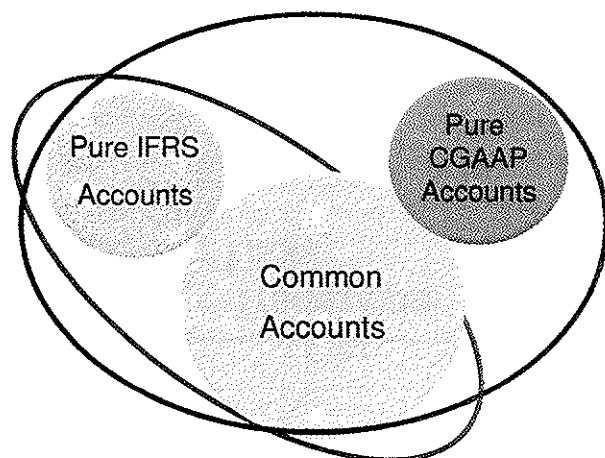
Options Detail



Summary Options Analysis

	Description
Option 1 – Additional Accounts Based Approach	<ul style="list-style-type: none">• New GL accounts will be created with groupings representing CGAAP specific accounts, IFRS specific accounts and common accounts.• Opening Balances at January 1, 2010 will be adjusted to reflect IFRS and CGAAP requirements.• CGAAP delta adjustments would be calculated manually and posted in SunGard to the CGAAP accounts during the transition year.• CGAAP accounts must balance in total and CGAAP postings will roll up to their own retained earnings accounts.• All GL postings must not cross IFRS and CGAAP accounts and validations can be set up to ensure postings do not cross IFRS and core accounts.• CGAAP reporting would consist of CGAAP accounts plus IFRS accounts together
Option 2 – Transitional Reporting Tool	<ul style="list-style-type: none">• Transaction system will contain CGAAP reporting only for the transition year.• IFRS and GAAP adjustments will be manually calculated and posted into the reporting tool (e.g. Prophix) during the transition year.• IFRS reports would include CGAAP financial information plus the IFRS adjustments posted in the Prophix tool for the transition year.• SunGard opening balances will be updated January 1, 2011 to reflect IFRS reporting.• Opening Balances upon adoption of IFRS for January 1, 2010 will exist only in consolidation tool.
Option 3 – Parallel Company Codes	<ul style="list-style-type: none">• Parallel company codes would be set up to handle CGAAP and IFRS adjustments beginning Jan 1, 2010.• Existing company codes would reflect IFRS reporting while additional company codes would contain CGAAP adjustments for the transition year.• CGAAP delta adjustments would be calculated and posted manually to the CGAAP company codes each month during the transition year.• CGAAP reporting would consist of the existing company codes plus the CGAAP company code (adjustments)

Option 1 – Account Based Approach



How it works:

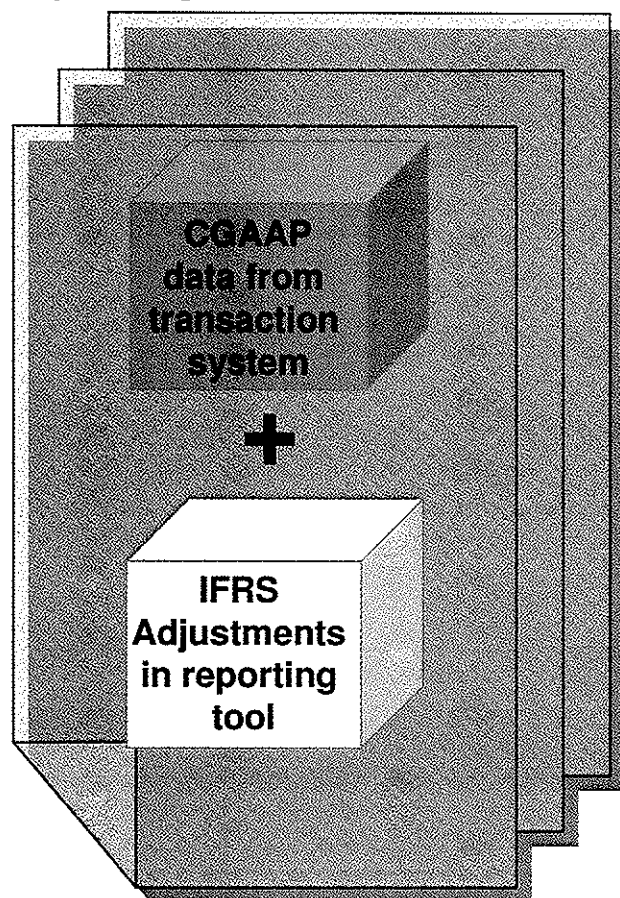
- New GL accounts will be created with groupings representing IFRS specific accounts, CGAAP specific accounts and common accounts in SunGard as of Jan 1, 2010.
- Delta amounts between IFRS and CGAAP will be posted to the CGAAP accounts during the transition year.
- IFRS and CGAAP accounts must balance in total
 - All GL postings must not cross IFRS and CGAAP accounts. Validations can be set up to ensure postings do not cross IFRS and core accounts.
 - Each set of accounts contains its own retained earnings account in order to balance.
 - Clearly discernable account number ranges or unique digits or letters to distinguish among sets of accounts are needed.
- Financial Statements will have to be updated to reflect IFRS and CGAAP reporting requirements.
 - IFRS financial statements - report using common accounts and pure IFRS accounts together.
 - CGAAP statements - report will be created using common accounts, IFRS and CGAAP accounts together.

Account Based Solution is recommended where:

- Relatively few differences exist between IFRS and CGAAP which can be dealt in one General Ledger.
- There is no issue with an increased number of GL accounts.
- Standard reporting is used
- Different fiscal years are not required

Option 2 – Transitional Reporting Tool

Reporting/ Consolidation Tool



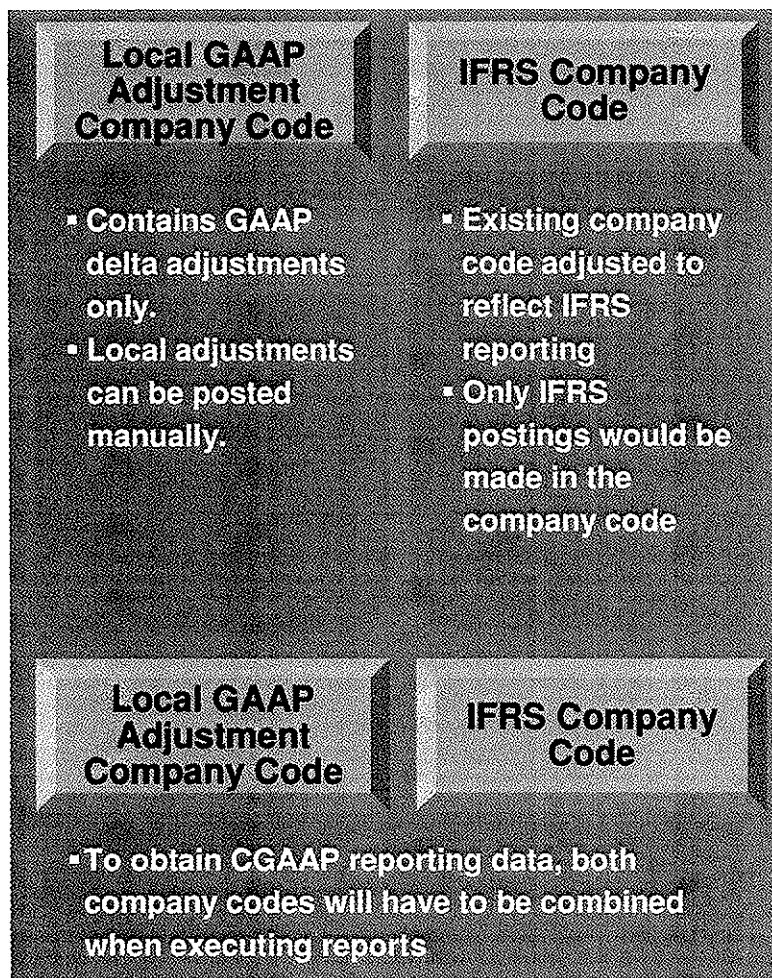
How does it work?

- Transaction system would contain CGAAP reporting only for the transition year
- IFRS GAAP adjustments will be manually posted into the reporting/consolidation tool (e.g. Prophix) during the transition year.
- IFRS reports would include CGAAP financial information plus the IFRS adjustments posted in the Prophix tool for the transition year.
- Opening Balances upon adoption of IFRS for January 1, 2010 will exist only in consolidation tool.
- Transaction system will be updated January 1, 2011 to reflect IFRS reporting.

Where is it recommended?

- Potentially lower cost & faster to implement than additional company codes/accounts
- Can be used as an interim solution, while working towards a long-term solution (i.e. system with parallel ledgers).

Option 3 - Parallel Company Code



How does it work?

- Parallel Companies defined to handle parallel reporting for CGAAP and IFRS
- Existing company codes would reflect IFRS reporting while additional company codes would contain CGAAP adjustments for the transition year.
 - In order to obtain CGAAP financial statements, IFRS company codes and CGAAP adjustment company codes must be combined
- CGAAP delta adjustments would be posted to the CGAAP company codes manually each month during the transition year.
- Involves high volume of manual postings.

Where is it recommended?

- Increased number of GL accounts is an issue.
- Standard reporting is used.
- Larger number of company codes is not problematic.
- Organization working towards the long term solution and an interim approach is needed.
- Cost and implementation time is an issue.



Section 2

High Level Systems Change Matrix

High Level System Change Matrix

Topic	Additional Accounts	Transitional Reporting	Additional Company Codes
General Financial Statements and Reports	High	Medium	Medium
IFRS 1	Medium	Medium	Medium
Property, Plant & Equipment			
Borrowing Costs	Low	Low	Low
Burden	Medium	Medium	Medium
Capital vs. Expense	Medium	Medium	Medium
Depreciation	Low	Low	Low
Componentization	Low	Low	Low
Major/Minor Spare Parts	Low	Low	Low
Impairment	Medium	Medium	Medium
Derecognition/ Dismantlement	Medium	Medium	Medium
Contributed Capital	Medium	Medium	Medium



High Level System Change Matrix

Topic	Additional Accounts	Transitional Reporting	Additional Company Codes
Regulatory Accounting	Low	Low	Low
Revenue	Low	Low	Low
Intangible Assets	Low	Low	Low
Impairments	Medium	Medium	Medium
Provisions, Contingent Assets & Liabilities	Low	Low	Low
Employee Benefits	Low	Low	Low
Leases	Low	Low	Low
Inventory	Low	Low	Low
Investment Property	Low	Low	Low
Related Party Transactions	Low	Low	Low



Section 3

Detailed Impact Analysis

Impact Analysis

Property Plant and Equipment (PP&E)

▪ IFRS Impact:

- IFRS requires different valuation rules for capital asset reporting.
- Guelph Hydro will use deemed cost and the Net Book Value (NBV) will become the new cost under IFRS.
- For PP&E, the areas impacting Guelph Hydro are: Componentization, Impairments, Asset Retirement Obligations (ARO), Major Spare Parts as capital, costs to be expensed (e.g. administration) and additional costs requiring capitalization (e.g. borrowing costs and labour).
- Financial information for PP&E will be disclosed at a more detailed level in the notes to the financial statements for IFRS.
- Assumption that a utility represents one CGU definition which will be applied to Guelph Hydro and therefore CGU and related impairments will not have a system impact.
- Depreciation expense will no longer be a separate line in the financial statements and will need to be allocated across defined functions.
- Assets transferred from Customers will need to be recognized as revenue and not shown as a contra asset in PP&E.
- Impact of IFRS on historical data will have to be assessed by the business. This may result in a requirement to set up additional assets or reclassify existing assets.
- Deemed Disposition methodology will be adopted for assets removed from service.

Impact Analysis

Property Plant and Equipment

▪ System Impact:

- Regardless of which option is selected, assets will have to be tracked for on both an IFRS and CGAAP basis for the parallel year.
- The asset module will be implemented to reflect IFRS valuation. Where possible, configuration of the asset system will need to be set up so that differences between CGAAP can be easily identified and tracked.
- Valuation of assets for CGAAP will continue to be tracked manually outside of the system for OEB reporting (no requirement for parallel reporting in Asset 2)
- Capitalization
 - Differences in capitalization under IFRS for 2010 will be manually calculated offline and posted to the Asset 2 system
 - The burden rate will continue to reflect CGAAP in 2010 and will be updated to reflect IFRS requirements in 2011
 - Reports may be required from Work Orders or Projects to obtain the information to assist in calculation of Burden differences under IFRS and CGAAP
 - IFRS differences manually calculated and posted to the Asset system in 2010 and therefore work order integration with the Asset 2 system will not be activated until the Burden rate reflects IFRS in 2011.
 - Additional accounts may be required to assist with reporting in system.

Impact Analysis

Property Plant and Equipment

▪ System Impact (cont'd):

- Depreciation
 - Additional GL accounts will be required to track depreciation by function for disclosure in the financial statements.
 - Straight line depreciation will be the method set up in the Asset 2 system. Functionality to change the method of depreciation will not be required.
 - Changes in useful lives will be applied on a prospective basis in the system
- Componentization
 - Reports to assist with the componentization of assets will need to be created from GIS.
 - Additional asset classes will have to be created to satisfy the different IFRS capitalization and componentization rules.
 - Classes will be created to ensure that depreciation can be allocated across functions as required in the financial statements
- Borrowing costs that need to be capitalized will be calculated off line and manually posted to the Asset System.
- Impairments
 - Functionality to track impairments and reversal of impairments needs to be set up in the Asset 2 module

Impact Analysis

Property Plant and Equipment

▪ System Impact (cont'd):

- Contributed Capital
 - Assets transferred from customers will be recognized as revenue and will not be set up as a contra asset under IFRS.
 - Additional accounts will be required to track revenue and may be required for the IFRS1 adjustment to move existing contra asset to Deferred Revenue.
 - Reports and process to obtain contributed capital information will need to be developed.
- Asset Retirement Obligations (ARO)
 - Obligations and changes to obligations will be handled through manual journal entries
 - Additional accounts will be required to capture the interest costs.
- Major Spare Parts
 - Major spare parts will be capitalized in the Asset 2 system.
 - If required, Major Spare Parts will be set up as a separate asset class.
- De-recognition
 - Guelph Hydro will assume that assets will be fully depreciated when removed from the system
 - Functionality in Asset 2 will need to be configured to retire fully depreciated assets from the pool.

Impact Analysis

Property Plant and Equipment

▪ System Impact (cont'd):

- Dismantling or Decommissioning Costs
 - A standard rate will be determined to dismantle and asset.
 - Process to record this in the system will need to be defined in the system (if possible automatically through work orders or manually through reports)
- Leased Assets
 - Asset class to track lease assets will be configured in the Asset 2 system to ensure any future lease requirements can be accounted for in accordance with IFRS.

Impact Analysis

Property Plant and Equipment

▪ Business Impact:

- Regardless of the option implemented additional effort will be required to;
 - Componentization of assets and associated NBV will need to be determined to be loaded into the Asset 2 system.
 - Maintain asset values for both IFRS and CGAAP on an ongoing basis..
 - Determine and migrate asset data and values into the new IFRS valuation upon adoption. This will mainly consist of creating new asset records for componentization and transferring the associated asset values to the newly created records.
 - Process and rates to book dismantling costs for assets must be defined.
 - Training to understand IFRS and CGAAP capitalization requirements, components and changes in accounting policies may be required depending on the level of change.
 - The Accounting department will be executing multiple reports to obtain values for the GAAP/IFRS adjustment postings
 - Manual processes will be required to post IFRS adjustments for Asset Accounting in 2010.
 - Additional reconciliation effort may be required due to complexity of additional manual postings for IFRS
 - Additional complexity in preparing external financial statements for parallel year.

Impact Analysis

Intangible Assets

- IFRS Impact:
 - As a result of IFRS, Capital Intangible Assets require separate tracking and reporting for the notes disclosure in the financial statements.
- System Impact:
 - Guelph Hydro requires a mechanism to be able to report the intangible asset records.
 - A separate asset class will need to be created in Asset 2 to ensure this functionality exists.
- Business Impact:
 - Going forward, accounting department must be able to identify whether the asset should be recorded as an intangible asset record.

Impact Analysis

Provisions, Contingent Assets and Liabilities

- **IFRS Impact:**
 - Guelph Hydro may have a requirement to recognize additional provisions under IFRS due to lower thresholds.
 - Continuity schedule for provisions must be tracked and disclosed in the notes to the financial statement.
- **System Impact:**
 - Regardless of the option selected to handle IFRS;
 - Details for additional provisions will be calculated off line and posted manually to the system through journal entries.
 - To accommodate detail required for provision note disclosure, continuity schedule will be created off line manually, no system impact.
 - If required, additional GL may have to be set up to handle additional reporting requirements for IFRS if liabilities arise.
 - Additional reports will not be required from the system
- **Business Impact:**
 - Additional time/effort will be required in the month end for the Financial Reporting team to manually track continuity schedule for provisions required upon adoption of IFRS.

Impact Analysis

Employee Benefits

■ IFRS Impact:

- Accounting for pensions and employee benefits will be impacted upon adoption of IFRS.
- All calculations for employee benefit information will be done offline by the actuaries and manually entered into the system. Information for Key Management Personal will have to be disclosed separately in the notes to the financial statements.
- Additional accruals and detail will be required for IFRS reporting.

■ System Impact:

- Information disclosed relating to the defined benefit pension plan and post retirement benefit plans will be obtained from the actuaries.
 - Assumption that existing reports/information relating to the pensions will continue to be provided to actuaries will be obtained using the existing process and will not require any changes in the system.
- All calculations for employee benefit information will be done offline. Differences resulting from IFRS will be handled through manual journal entries. Additional accounts will be required to track pension amounts and to track Post Employment Benefits for Key Management employees for note disclosure.

Impact Analysis

Employee Benefits

System Impact (cont'd):

- Additional accounts to record compensated absences (i.e. sick pay) will need to be set up in the system
 - Assumption that existing reports from the Payroll system will provide the actuaries adequate information to perform required calculations therefore no system impact.
- If the additional account option is selected, additional GL accounts to handle CGAAP and IFRS will have to be created.
- **Business Impact:**
 - During the transition year actuarial calculations and journal entries will have to be made for both IFRS and CGAAP for all options.
 - Users will have to be trained in how to execute reports to obtain IFRS vs. CGAAP information.

Impact Analysis

Revenue

- IFRS Impact:
 - Assumption in assessment is that Guelph Hydro will not have differences in accounting for revenue under IFRS with the exception of assets transferred from customers

- System Impact:
 - Assumption in the assessment is that Guelph Hydro will continue using the existing revenue process and manually post any adjustments as required at year end. Billing systems will not need to be modified.
 - Any requirement to track additional information will be handled manually but there may be a requirement for additional general ledger accounts to track revenue of assets transferred from customers.

Impact Analysis

Inventory

■ IFRS Impact:

- Inventory must be tracked and disclosed for IFRS reporting.
- Under IFRS, insurance spares will follow the deprecation period of the asset it is related to while cyclical spares are to be depreciated when they are put into use.
 - Guelph Hydro's major spare parts will be treated as insurance spares and under IFRS must be capitalized and depreciated consistent with the asset they are related to.

■ System Impact:

- Major spare parts will continue to be posted to the inventory account and manually reclassified to fixed assets and depreciated.
- Inventory consumed/expensed to be disclosed in the notes to the financial statement will need to be manually calculated from the system. A process must be defined but no system requirement at this point.

Impact Analysis

Taxes

- **IFRS Impact:**
 - Calculation of deferred, capital and income taxes may be impacted by changes implemented upon adoption of IFRS.
- **System Impact:**
 - Tax will continue to obtain the original cost of assets from the existing manually prepared spreadsheets.
 - During the blueprinting phase, requirements from tax must be taken into account, particularly during the assessment of componentization of assets.
- **Business Impact:**
 - Potential increase in manual effort to obtain detail required for tax calculations and reporting.

Impact Analysis

IFRS1 (cont'd)

▪ System Impacts:

- Opening balances for January 1, 2010 will have to be broken out into more detail as required for disclosure under IFRS
- Additional GL accounts that may have to be set up to record Unrecognized gains and losses for Pension plan on transition date and to track Key Management Post Employment Benefits, Contra amount for assets transferred from customers if treated as a deferred revenue, Depreciation expense by function, Absence accrual, etc.
- Opening balances will have to be converted to IFRS through manual postings January 1, period one in the SunGard system.
 - If either the company code or account option is selected, both IFRS and CGAAP financial in SunGard as of January 1, 2010
 - Existing Balances will have to be reclassified to facilitate IFRS and CGAAP reporting.
 - IFRS opening balances will be posted in SunGard as of January 2010
 - CGAAP adjustments will have to be posted manually to either additional company codes or GL accounts;

Impact Analysis

IFRS1 (cont'd)

▪ System Impacts:

- If the Transitional reporting option is selected, IFRS data will be booked in SunGard as of January 1, 2011
 - SunGard will continue to represent Canadian GAAP during 2010
 - IFRS opening balances as of January 1, 2010 will be posted into Prophix (not SunGard)
 - Monthly IFRS adjustments will be posted to Prophix manually each month during the transition year in 2010.
 - IFRS opening balance will be posted to SunGard balances as of January 1, 2011
- For capital assets, IFRS adjustments will be posted manually to the asset subledger on transition date once implemented.
 - Borrowing costs policy will be adopted prospectively therefore no IFRS1 impact.
 - Decommissioning liabilities may require additional accounts to be set up

▪ Business Impact:

- Users will have to be trained in how to execute reports to obtain IFRS vs. CGAAP opening balance information in Prophix and potentially the General Ledger.
- Capital asset subledger will reflect IFRS upon transition. Accounting will need to manually track adjustments required to ensure IFRS and CGAAP information is maintained.

Impact Analysis

Consolidation

▪ IFRS Impact:

- For the 2010 transition year, consolidated financial statements will have to be prepared for both CGAAP and IFRS.
- IFRS differences noted in diagnostic have not been identified so existing consolidation process will continue.

▪ System Impact:

- Regardless of the option and implementation strategy selected to handle IFRS;
 - Prophix will need to be configured to contain the consolidated financial information for both IFRS and CGAAP. Hierarchies for both IFRS and CGAAP reporting requirements will need to be created in the system.
 - Reports will need to be created to handle both IFRS and CGAAP reporting requirements.
 - A process to enter both Canadian and IFRS eliminations will need to be configured.
- If additional accounts option is selected:
 - If possible, validations may have to be configured and maintained to ensure that each set of accounts (IFRS and non IFRS) remains in balance.

Impact Analysis

Consolidation (cont'd)

▪ Business Impact:

- Regardless of the options selected to handle IFRS;
 - Consolidation will have to be executed and validated for both IFRS and CGAAP for transition year.
 - Training will be required for the Financial Reporting team on new IFRS/GAAP hierarchies and reporting changes.
 - Additional time/effort will be required in the month end for the Financial Reporting team to manually post all IFRS entries.
 - Additional reconciliation time may be required due to complexity of additional manual postings for IFRS.

Impact Analysis

Intercompany

▪ IFRS Impact:

- IFRS will not have an impact on inter-company transactions
- Existing process to handle intercompany transactions will not change.

▪ System Impact

- Consolidation will now be entered into Prophix.
- Inter-company transactions will continue to be manually calculated but will be posted to Prophix where the consolidation will be performed.
- There will not be any changes required to the SunGard system.

▪ Business Impact

- Consolidation will have to be executed and validated for both IFRS and Canadian GAAP for during the transition year.
- Training may be required for Financial Reporting team on new IFRS/GAAP hierarchies and reporting changes in Prophix.

Impact Analysis

Related Party Disclosure

- **IFRS Impact:**
 - Additional information must be disclosed with respect to related party transactions (e.g. details of revenue, expenses, transactions with key management personnel, etc.) upon adoption of IFRS.
- **System Impact:**
 - Guelph Hydro is currently able to obtain additional quantitative information from the system with the exception of Post-Employment benefit amounts for Key management. Additional GL account may be required to track this information separately.
 - No additional reports will be required from the system.
- **Business Impact:**
 - Additional time/effort will be required in the month end for the Financial Reporting team to obtain additional related party disclosure requirements for IFRS.
 - Details to disclose Post-Employment benefits for key management would have to be obtained from the actuaries.

Impact Analysis

Regulatory

■ IFRS Impact:

- IFRS impact on Rate Regulated accounting is dependant on the outcome of the Exposure draft that has been proposed.
 - Differences exist between the proposed standard and current Canadian accounting treatment
 - Capitalization of assets will be harmonized with IFRS.

■ System Impact:

- Currently all Regulatory reporting is done manually outside the system
- No additional reports will be required from the system.

■ Business Impact:

- Additional time/effort will be required to obtain information for Regulatory reporting as system will be on an IFRS basis.
- When assessing the options, consideration should be made to assess if the implemented solution could later be leveraged to hold regulatory reporting.

Impact Analysis

Reporting and Financial Statement Note Disclosure

▪ IFRS Impact:

- For the 2010 transition year, consolidated financial statements will have to be prepared for both CGAAP and IFRS .
- Disclosure requirements under IFRS are more extensive and Financial information is required to be disclosed at a more detailed level than
- Guelph Hydro will require more financial information to comply with additional note disclosure requirements for IFRS.
- Guelph Hydro will be required to prepare reconciliation reports from IFRS to CGAAP to disclose effects of transition in the notes to the financial statements.
- Continuity schedule for provisions must be tracked and disclosed in the notes

▪ System Impact:

- Additional accounts have to be set up in the system to track information at a more detailed level for external reporting
- Parallel set of accounts and corresponding retained earnings accounts will need to be configured for CGAAP and IFRS (in Prophix or SunGard, depending on the implementation option selected).

Impact Analysis

Reporting and Financial Statement Note Disclosure (cont'd)

▪ System Impact:

- New reports will need to be set up for IFRS and CGAAP reporting requirements.
 - Accounts will need to be mapped to the new IFRS financial statements which will be produced in Prophix
- Existing planning process will continue to meet requirements during transition year
 - Upon adoption of IFRS, the planning process will need to be reviewed and possibly updated
- If the account option is selected;
 - Additional accounts will have to be set up to handle reporting for both IFRS and CGAAP
 - Validations will have to be configured and maintained to ensure that each set of accounts (IFRS and CGAAP) remains in balance and to avoid errors.
 - Authorization will have to be modified to restrict posting to CGAAP adjustment accounts.
- If the Parallel Company Codes option is selected,
 - Additional company codes will have to be set up to track CGAAP adjustments.
 - Authorization will have to be modified to restrict posting to CGAAP company codes.

Impact Analysis

Reporting and Financial Statement Note Disclosure (cont'd)

▪ Business Impact:

- Regardless of the option selected to handle IFRS;
 - Additional time/effort will be required in the month end for the Financial Reporting team to manually post all CGAAP adjustments during the transition year.
 - Additional effort to prepare reports upon adoption of IFRS
 - During the transition year, period end will have to be executed for both IFRS and CGAAP.
 - Reconciliation reports between CGAAP and IFRS will have to be created for note disclosure.
 - Additional reconciliation time may be required due to complexity of additional manual postings for IFRS
- If the Parallel Company Codes option is selected:
 - Users outside of the finance organization may need to be trained on how to execute CGAAP reports during the transition year.

High Level Summary of Systems Impacts

Area	System Impacts (SunGard/Asset 2, Prophix)
Fixed Assets	<ul style="list-style-type: none"> ▪ Configure/create asset classes for componentized assets. Implement hierarchy within classes of components. ▪ Create asset master records with applicable useful lives/depreciation method. ▪ Configure functionality to track adjustments required for IFRS (e.g. ARO, Impairments/Reversal of Impairments, borrowing costs, etc.) ▪ Re-configure and re-test activation of integration with the GL ▪ Configure integration with work order system e.g. capitalization of burden ▪ Configure depreciation to be allocated across functions. ▪ Configure/test changes in useful lives/depreciation rates will be booked prospectively. ▪ Configure and test functionality to handle transfers, write ups and write downs ▪ Test functionality to report differences in capitalization ▪ Configure system to handle retirement of fully depreciated assets from asset pools ▪ Configure/test continuity schedule requirements by asset class ▪ Configure system to track transferred assets from customers. ▪ Create additional GL accounts to handle reporting requirements for IFRS e.g. Assets transferred from customers, depreciation accounts, etc. ▪ Create additional reports out of GIS to assist with asset componentization
Work Order	<ul style="list-style-type: none"> ▪ Configure integration of work order system with Fixed assets ▪ Configure process to track Dismantling costs in work order system ▪ Update burden rates for IFRS values ▪ Additional reports may be required from Work Orders or Projects to assist in calculation of Burden differences under IFRS and CGAAP

High Level Summary of Systems Impacts

Area	System Impacts (SunGard/Asset 2, Prophix)
Purchasing and Inventory (PI)	<ul style="list-style-type: none"> ▪ Configure PI module to be integrated with the Asset 2 System to automatically post non-work order assets.
General Ledger	<ul style="list-style-type: none"> ▪ Set up additional General Ledger accounts to handle IFRS reporting in SunGard <ul style="list-style-type: none"> – Divisions and department requirements to be considered in account creation to facilitate management reporting. ▪ Create additional financial statement versions/reports to handle both IFRS and CGAAP reporting in Prophix ▪ Change security roles as required if company code or GL accounts option implemented. ▪ If new accounts option is selected, design and test security or validations required to keep IFRS and CGAAP accounts in balance and set up additional accounts to handle CGAAP adjustments. ▪ If additional company codes implemented, set up additional companies and configuration. ▪ Test/support testing of reports ▪ Prophix reports for GH to prepare consolidated financial statements for IFRS and CGAAP.

Section 4

Summary of Note Disclosure System Impacts

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
1	Reporting Entity	• No impact on system.
2	Basis of Preparation	• No impact on system.
3	Significant Accounting Policies	• No impact on system.
4	Cash and Cash Equivalents	• No system impact as information currently exists at the required level of detail in the General Ledger.
5	Receivables	<ul style="list-style-type: none"> • Financial Information disclosed for Trade Receivables and Allowance for impairment is currently tracked at the required level of detail in the system. No system impact. • Unbilled Revenue will be calculated manually offline and posted to the system. Additional GL accounts may be required to track this information. • Other revenue will also contain Transfers of Assets from Customers which will require additional GL accounts.
6	Inventories	• Inventory consumed/expensed during the year will need to be disclosed in the notes. Process to obtain this information is to be defined but will likely be a manual calculation.
7	Property Plant and Equipment	<ul style="list-style-type: none"> • Asset 2 module will be configured and loaded with IFRS asset values as of January 1, 2010. • Fair Value of assets will not be disclosed and therefore will not need to be tracked in the system.

*The following section was based on workshops reviewing the notes in the Draft Generic Hydro Electricity Distribution Inc. IFRS Mock-up Financial Statements prepared by KPMG

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
7	Property Plant and Equipment (cont'd)	<ul style="list-style-type: none"> ▪ Cost and depreciation information disclosed in the continuity schedules for asset and depreciation balances/additions/disposals and retirements will be obtained from the Asset 2 system once implemented. Business requirements will be defined to ensure disclosure requirements can be met. ▪ Assets will be componentized and set up in appropriate asset classes for disclosure requirements. ▪ Asset classes will need to be componentized in a way that depreciation expense can be allocated across functions or alternatively methodology to allocate the costs to the functions will have to be developed. Additional GL accounts will need to be created to track this information. ▪ Borrowing costs capitalized must be tracked in the asset system for notes disclosure. The borrowing rate used will be obtained offline for disclosure. ▪ Asset 2 system will be configured to track any impairment losses and reversal of impairment losses that will be required for note disclosure. ▪ Optional note to disclose gross carrying amount of fully depreciated property will not be disclosed in the notes to the financial statements.
8	Intangible Assets	<ul style="list-style-type: none"> ▪ A separate asset class in Asset 2 will be created to track any Intangible assets that arise. ▪ Cost and amortization information disclosed in the continuity schedules for asset and amortization balances/additions/disposals will be obtained from the Asset 2 system once implemented.

*The following section was based on workshops reviewing the notes in the Draft Generic Hydro Electricity Distribution Inc. IFRS Mock-up Financial Statements prepared by KPMG

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
9	Provisions	<ul style="list-style-type: none"> Provisions will be calculated off line and posted manually in the system Additional GL accounts may be required to track additional information required (i.e. Long Term/Short Term portions). Continuity schedules will be created manually as required for disclosure in the notes, no system impact.
10	Income Taxes	<ul style="list-style-type: none"> Information to be disclosed in the notes to the financial statements will be created manually outside of the system, no system impact.
11	Consumer Deposits	<ul style="list-style-type: none"> The information currently exists as required for disclosure in the notes to the financial statements. Separate GL accounts for Customer and Construction deposits currently exist, no impact to system.
12	Finance Lease Obligation	<ul style="list-style-type: none"> Not applicable as Guelph Hydro currently does not have any lease obligations If Guelph Hydro were to enter into a lease agreement, the information will be tracked manually and posted to the system as required.
13	Long-term Borrowings	<ul style="list-style-type: none"> Information to be disclosed in the notes to the financial statements will be created manually outside of the system, no system impact.
14	Short-term Credit Facilities	<ul style="list-style-type: none"> Information to be disclosed in the notes to the financial statements will be created manually outside of the system, no system impact.
15	Employee Future Benefits	<ul style="list-style-type: none"> Information disclosed relating to the pension plan and post retirement benefit plans will be obtained from the actuaries. Assumption that existing reports provided to actuaries to calculate pension amounts contain all necessary information for IFRS. Existing process will continue and reports will not require any changes.

*The following section was based on workshops reviewing the notes in the Draft IFRS - Continuity Schedule and Reports. The following section was prepared by KPMG.

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
15	Employee Future Benefits (cont'd)	<ul style="list-style-type: none"> ▪ Accounting adjustments for pensions and post retirement benefits will be manually posted to the system. ▪ Additional general ledger accounts may be required to track additional information for IFRS reporting/disclosure requirement.
16	Pension Plan	<ul style="list-style-type: none"> ▪ Amounts contributed to OMERS currently exists in the system, no system impact ▪ Information to be disclosed on the surplus/deficit of the plan will be obtained outside of the system, no system impact.
17	Regulatory Assets and Liabilities	<ul style="list-style-type: none"> ▪ If the Rate Regulated Activities exposure draft is approved and disclosure requirements in the note are required, the information will be manually created offline, no system impact.
18	Other Income	<ul style="list-style-type: none"> ▪ The information currently exists as required for disclosure in the notes to the financial statements. Separate GL accounts currently exist at the required detail, no impact to system.
19	Employee Benefits	<ul style="list-style-type: none"> ▪ Salary and wage information currently exists in the system, no system impact ▪ Contributions to multi-employer plan and expenses related to defined benefit plan will be obtained from note 15 and 16 above.
20	Finance Income and Expense	<ul style="list-style-type: none"> ▪ Currently the information to be disclosed in the notes to the financial statement exists in the General Ledger. Additional accounts may be required to separate income and expense balances.

*The following section was based on workshops reviewing the notes in the Draft Generic Hydro Electricity Distribution Inc. IFRS Mock-up Financial Statements prepared by KPMG

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
21	Related Party Transactions	<p>Key Management personnel:</p> <ul style="list-style-type: none"> ▪ Key management personnel information disclosed in the notes is currently tracked by Guelph Hydro at the level required for IFRS note disclosure with the exception of Post-Employment benefits. ▪ Details to disclose Post-Employment benefits for key management would have to be obtained from the actuaries. GL may be required to separately track amounts Post-Employment benefit amounts for key management separately. ▪ Information will be obtained manually, no impact to system. <p>Transactions with the Parent/ Subsidiaries of the City:</p> <ul style="list-style-type: none"> ▪ Information to be disclosed in the notes currently exist in the system and will be obtained manually. No system impact.
22	Financial Instruments and Risk Management	<ul style="list-style-type: none"> ▪ Disclosure of financial instrument investments information will continue to be tracked manually offline. No system impact. ▪ Financial information disclosed in credit risk section of note currently exists in the system, and will be obtained manually. No impact to system. ▪ Market risk disclosure, no system impact. ▪ Information for line of credit available disclosed under Liquidity risk will be obtained offline. Information to confirm accounts payable information currently exists, therefore no system impact. ▪ Capital disclosure information currently exists in the required detail in the GL, no system impact.

*The following section was based on workshops reviewing the notes in the Draft Generic Hydro Electricity Distribution Inc. IFRS Mock-up Financial Statements prepared by KPMG

Summary of Note Disclosure System Impacts

Note	Note Description	Impact Analysis
23	Commitments and Contingencies	<ul style="list-style-type: none"> ▪ Commitment and contingency information to be disclosed in the notes will be tracked manually offline. No impact to the system.
24	Explanation of transition to IFRS	<ul style="list-style-type: none"> ▪ Information contained in the note will be obtained through financial statements in Prophix for IFRS and CGAAP and through manual calculations. ▪ A custom reports and reconciliations will not be created to automatically provide the information to be included in the note as it will only be required during the transition year.

- Additional time/effort will be required at year end for the accounting group to prepare the additional IFRS note disclosure (will likely add a few days effort).
- Specific challenge to maintain the close process timing in 2011 due to the increased manual effort to prepare the 2011 explanations of transition to IFRS disclosure required. Further analysis prior to cutover to assess the impact of the increased activity/effort during the already busy normal year end close to determine if additional assistance may be required for the fiscal close and year end audit. This increased effort will only be required for the 2011 reporting period.

*The following section was based on workshops reviewing the notes in the Draft Generic Hydro Electricity Distribution Inc. IFRS Mock-up Financial Statements prepared by KPMG

Section 5

Guelph Hydro IFRS IT Impact Assessment Decision Log

GHI IFRS IT Impact Assessment Decision Log

#	Category	Decision	Decision Maker
1.	Note Disclosures	GHI will not be preparing optional notes to disclose FMV of assets under IFRS, therefore tracking of FMV of assets in the system will not be required.	Mike Koktan
2.	PP&E	ARO's will be tracked for the generating company offline and manually posted to the system. This information will have to be tracked separately.	Kendra Moffat
3.	PP&E	Review of asset lives/depreciation methods will be done off line. Changes to method/lives of an asset will be updated in the system and must be applied on a prospective basis.	Kendra Moffat
4.	PP&E	Overhauls will be tracked as a separate component in the asset class.	Kendra Moffat
5.	PP&E	Impairments will be calculated off line manually posted to the system. These amounts will have to be tracked separately in the system.	Kendra Moffat
6.	PP&E	Additional GL accounts will be required to track revenue from contributed capital.	Kendra Moffat
7.	PP&E	GH will use deemed cost (NBV will become new cost under IFRS)	Kelly Bonds
8.	PP&E	Fixed assets will have to be tracked for both OEB and IFRS. OEB data will be tracked manually offline while IFRS data will be maintained in the system that is to be implemented.	Kendra Moffat
9.	PP&E	IFRS values for Fixed assets will be obtained from the system for 2010.	Kendra Moffat
10.	PP&E	As of Jan 2011, actual depreciation will be posted by the system each month instead of manually posting budget amount P1-11.	Kendra Moffat

GHI IFRS IT Impact Assessment Decision Log

#	Category	Decision	Decision Maker
11.	PP&E	IFRS adjustments related to burden for 2010 will be calculated off line and posted manually to the A2 system. The 2010 burden rates will continue to represent CGAAP where as the 2011 burden rates will reflect IFRS.	Kendra Moffat
12.	PP&E	Borrowing costs to be capitalized will be calculated manually offline and posted manually to the Fixed Asset system (once implemented).	Kendra Moffat
13.	PP&E	GH not require a change in depreciation method for IFRS and will be using straight line depreciation.	Kendra Moffat
14.	PP&E	Scrap or residual values for smaller items will be booked manually to the fixed asset system. Functionality to automate this for larger items should be configured in the FA system	Kendra Moffat
15.	PP&E	Prior periods in the system will be opened to post IFRS adjustments for conversion. TBA	Kendra Moffat
16.	PP&E	IFRS balances will be loaded January 1, period one of the system conversion year.	Kendra Moffat
17.	PP&E	Currently no capital leases will have to be set up upon adoption of IFRS. Asset class for capital leases should be set up.	Kendra Moffat
18.	PP&E	Straight Line Depreciation will be used for all asset classes under IFRS	Mike Koktan and Kendra Moffat
18.	PP&E	Consistent with existing process, major Spare Parts in the inventory general ledger account will be manually re-classed to assets and depreciated.	Mike Koktan and Kendra Moffat
19.	PP&E	A utility represents as one CGU and this will apply to GHI	Matt Betik
21.	PP&E	Reports will need to be created from GIS with details of asset listing for componentization exercise.	Kendra Moffat



GHI IFRS IT Impact Assessment Decision Log

#	Category	Decision	Decision Maker
22.	General Financial Statement Topic	Prophix will be implemented to prepare IFRS the Balance Sheet and Income Statements. Portions of the Statement of Cash Flow and Statement of Changes in Equity will be populated as well.	Mike Koktan
23.	Note Disclosure	Property Plant and equipment information required for note disclosure will be obtained from the asset module to be implemented.	Kendra Moffat
24.	Note Disclosure	Optional note to disclose fully depreciated assets will not be included in GHI's financial statements.	Mike Koktan
25.	General Financial Statement Topic	Depreciation will be allocated across functions in the income statement.	Mike Koktan
26.	Note Disclosure	Transition to IFRS report: Due to the short time when this report will be required, a custom report will not be required. Assume that the information required can be obtained using various financial statement reports and the formatting and input of values for the report will be manually done.	Kendra Moffat
27.	Note Disclosure	Exemption to prospectively capitalize interest on Borrowing costs will be elected and borrowing costs will be capitalized commencing January 2010 for IFRS only (not CGAAP).	Kendra Moffat
28.	Note Disclosure	Exception to apply IFRIC 18, transfer of assets from customers will be elected and applied beginning January 2010 (not retrospectively). Balances in the contra account will be moved to deferred revenue.	Kendra Moffat
29.	Note Disclosure	Decommissioning Liability exemption will be elected and liabilities will be measured at the date of transition, January 2010.	Kendra Moffat
30.	Note Disclosure	Cumulative actuarial gains and losses will be recognized in full at date of transition, exemption will be elected. These adjustments will be handled using GL accounts and manual journals.	Kendra Moffat
31.	Note Disclosure	Exemption to not disclose historical/trend information will be elected and amounts from date of transition will be disclosed – no system impact.	Kendra Moffat
32.	PP&E	Accretion of ARO will be tracked offline and manually posted to the system by journal entry to the system (additional interest account will be required to capture the costs)	Kendra Moffat

GHI IFRS IT Impact Assessment Decision Log

#	Category	Decision	Decision Maker
33.	Employee Benefits	Accrual for sick days will be required upon adoption of IFRS. New GL accounts will be set up to track the costs. Cumulative gains and loses will be recognized in income prospectively. Amounts will be manually posted to the system based on actuarial information.	Kendra Moffat
34.	Employee Benefits	Additional reports may be required for actuarial assessment of sick days.	Kendra Moffat
35.	PP&E	IFRS adjustments required for changes to burden rate for 2010 will be manually tracked and posted to the system. The system will continue to post burden on a CGAAP basis for 2010.	Kendra Moffat
36.	Employee Benefits	Calculations of Pension, Post Retirement Benefits, Future Employee Benefits will be calculated by the actuaries and manually posted into the system. New GL may be required.	Mike Koktan
37.	Employee Benefits	There will not be any changes to the reports/information provided to the actuaries for pension and benefit calculation and therefore no additional effort should be included in the estimates.	Kendra Moffat
38.	General Financial Statement Topic	For consolidations, GHI will obtain the financial statement reports in Prophix and manually eliminate any intercompany values. Prophix will hold the consolidated financial statements for IFRS.	Mike Koktan
39.	Miscellaneous	Assume that budgeting process for 2011 will not require any system changes due to IFRS.	Kelly Bonds
40.	Revenue	There is no impact of Commodity/Income Tax requirements in the system due to IFRS. Amounts would be manually posted to existing accounts.	Mike Koktan
41.	Miscellaneous	Accounts Receivable are currently tracked as required for IFRS. No impact to system.	Kendra Moffat
42.	PP&E	Componentized assets will represent asset classes in system for IFRS.	Mike Koktan
43.	Contingency Assets & Liabilities	If required, commitment and contingency information will continue to be tracked offline	Kendra Moffat
44.	Miscellaneous	Information to be disclosed for Related party transactions is currently available in the system and no changes will be required.	Kendra Moffat
45.	Employee Benefits	Management personnel information will be obtained manually via reporting using information from HR. There is no system impact.	Kendra Moffat

GHI IFRS IT Impact Assessment Decision Log

#	Category	Decision	Decision Maker
46.	PP&E	If intangible assets arise that are required for reporting they will be manually post to the system to a separate asset class. Additional GL accounts will need to be set up.	Kendra Moffat
47.	Provisions	Tracking of movement type of provisions required for note disclosure will be done manually offline.	Kendra Moffat
48.	Revenue	Current revenue information is broken down as required for IFRS, no system changes will be required. Contributed capital will likely be grouped in Other Revenue.	Mike Koktan
49.	PP&E	Calculations and postings for third party compensation for damaged assets will be done manually.	Kendra Moffat
50.	Regulatory Assets/ Liabilities	Existing process to book regulatory assets and liabilities will continue and adjustments to properly classify for IFRS will be posted manually as required.	Mike Koktan
51.	Regulatory Assets/ Liabilities	GHI measure its regulatory assets and liabilities manually and does not need to track anything additional in the system upon adoption of IFRS	Mike Koktan

Section 6 Assumptions

Assumptions – Planning and Resources

- Changes to documented IFRS system assessment decisions may impact the implementation time lines, as stated within this analysis.
- Other projects that are being implemented at the same time as the IFRS implementation could impact the timelines of the IFRS project. Guelph Hydro IFRS Project Manager must ensure overall integration plan is in place and is proactively managed.
- No costs have been factored in for internal or external audit review and participation.
- The budgetary numbers provided are for your planning purposes only and do not constitute a firm estimate or a committed price. The estimated schedules provided are for your planning purposes only and do not constitute committed schedules.
- Budgetary numbers provided are based on Time and Materials delivery approach.
- The implementation effort and schedule for these types of projects may vary significantly based upon the scope of the implementation.
- Certain critical business decisions and policy determination will be made on a timely basis in accordance with the project plan. Unforeseen delays to such decisions may impact the project schedule.
- As the logic in the Chart of Account (COA) for Department and Division is not standardized for all accounts, additional effort may be required from Prophix to map reports logic
- Participation of and access to key Guelph Hydro resources will be provided as required during the implementation and users must be available during testing.
- The estimated effort is based on result of the impact analysis workshops held between March 2nd, 2010 and March 19th, 2010.
- All resources are available as per the staffing plan.
- Guelph Hydro will have identified required IFRS data (e.g. GL Account Names, Asset Classes, etc) prior to, or at the initial stage of, project Blueprinting.

Section 7

Additional Information

System Requirements – Asset 2 Implementation

#	System Requirements/Changes
1.	System needs to be able to handle a change in useful/ residual life for a pooled asset
2.	System should be able to handle any changes in scrap or residual values specifically for larger items
3.	Requirement to have hierarchy within assets (parent child relationship)
4.	Need to validate that asset module will not recalculate the historical values of the asset pools
5.	Roll up/hierarchy of assets is required
6.	Impairments will have to be tracked in the asset system once implemented.
7.	System needs the functionality to track type of adjustments by asset pool
8.	ARO's will have to be tracked by the system by asset class
9.	Changes to useful life/depreciation of an asset will have to be calculated by the system on a prospective basis.
10.	Asset system will provide the information in Note 7 (additions, transfers, disposals/retirements, impairment losses, etc) by asset class/ headings
11.	Depreciation broken down by the categories on page 25 of the Mock Statements (Cost of electricity sold, Distribution expenses, Administration expenses, Billing and collection). Asset classes and depreciation accounts need to be created in order to facilitate this requirement
12.	Guelph Hydro has no material intangible assets currently but need asset class for intangible assets in the future (Silver Spring – smart meters in 2010)
13.	Reports will be required to track Contributed Capital to be posted to revenue.

*The following information was based on system impact workshop discussions and is provided as reference material.

2010 IFRS Adjustments

- Guelph Hydro should define a process and begin to track the following IFRS adjustments for 2010:
 - Contributed Capital/Assets transferred from Customers
 - Differences to capitalization based on IFRS burden rates
 - Borrowing Costs to be capitalized
 - Employee Benefits (Pension and Post Employment Benefits)
 - Compensated Absence accruals (i.e. Sick Pay)
 - IFRS Depreciation Expense allocated across functions
 - Asset Additions and disposals by component
 - Additional provisions if required for IFRS
 - Continuity Schedule for Provisions
 - Inventory consumed/expensed (not capitalized)

Section 8

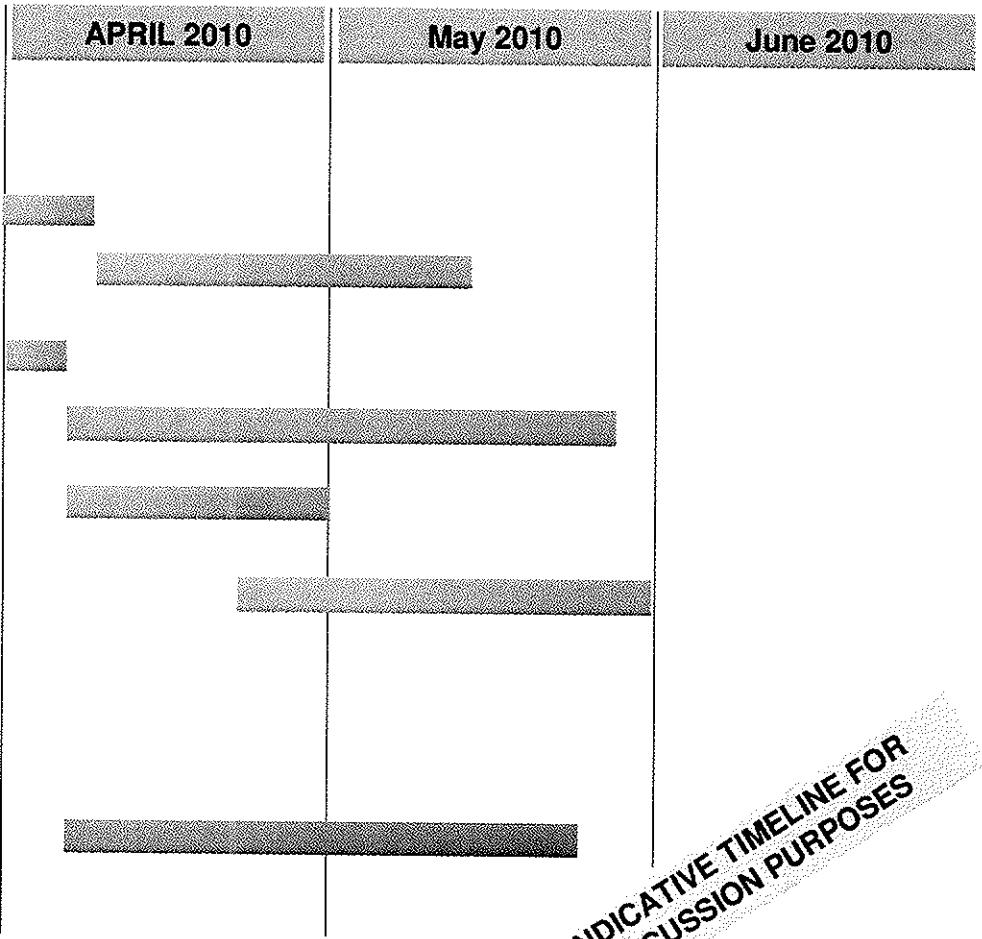
Phase 3 Timeline Slides

Potential Short Term Work Items



- Accounting, Tax and Reporting**
- Accounting Policy Decisions
 - Accounting Policy Manuals
 - Define Asset Components
 - Support Asset Componentization
 - Compile Jan 2010 Opg. Bal. Adjustments
 - Establish Process to Track IFRS Adjustments for 2010 Comparatives

- Business**
- Perform Detailed Asset Componentization



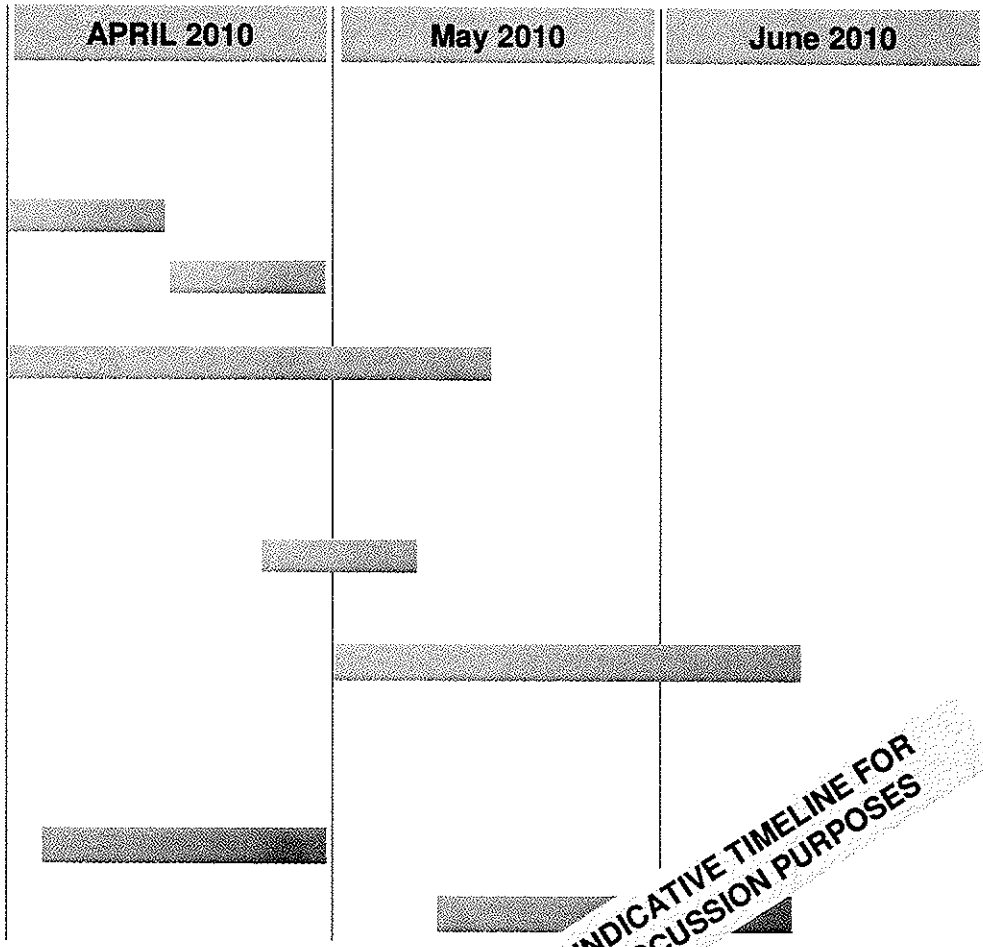
INDICATIVE TIMELINE FOR DISCUSSION PURPOSES

Potential Short Term Work Items (cc



- Systems and Process**
- Fit-Gap Analysis (Asset 2, Prophix)
 - Vendor Proposal to Address Key Gaps
 - Business Process and Requirements Definition (e.g. PP&E, IFRS Reports Mapping, New GL Accounts, Prophix Integration, IFRS based Budgeting)
 - Conceptual solution architecture (during transition and post transition)
 - Solution Blueprint (Sungard, Prophix, Interfaced, Others such as SQL and/or GIS)

- People and Change**
- To-be Solution awareness (Asset 2, Prophix)
 - Accounting IFRS Adj Process Knowledge



INDICATIVE TIMELINE FOR DISCUSSION PURPOSES

Section 9

IFRS Assessment Process Overview

Background

- Materials leveraged as part of this assessment
 - KPMG's IFRS Conversion Impact Assessment Draft – September 15, 2009
 - KPMG's IFRS Implementation for LDCs EDA Finance and Corporate Issues Council Forum – October 8, 2009
 - KPMG's IFRS Generic Hydro Electricity Distribution Inc. Mock Up Financial Statements - December 31, 2010 and December 31, 2011
 - Guelph Hydro's IFRS IT Assessment Decisions Document
 - Guelph Hydro's Accounting Policy Workshops
 - IFRS Policy Workshop Facilitation Spreadsheet
 - IBM IT Assessment workshops conducted with Guelph Hydro:
 - Detailed on the following slides

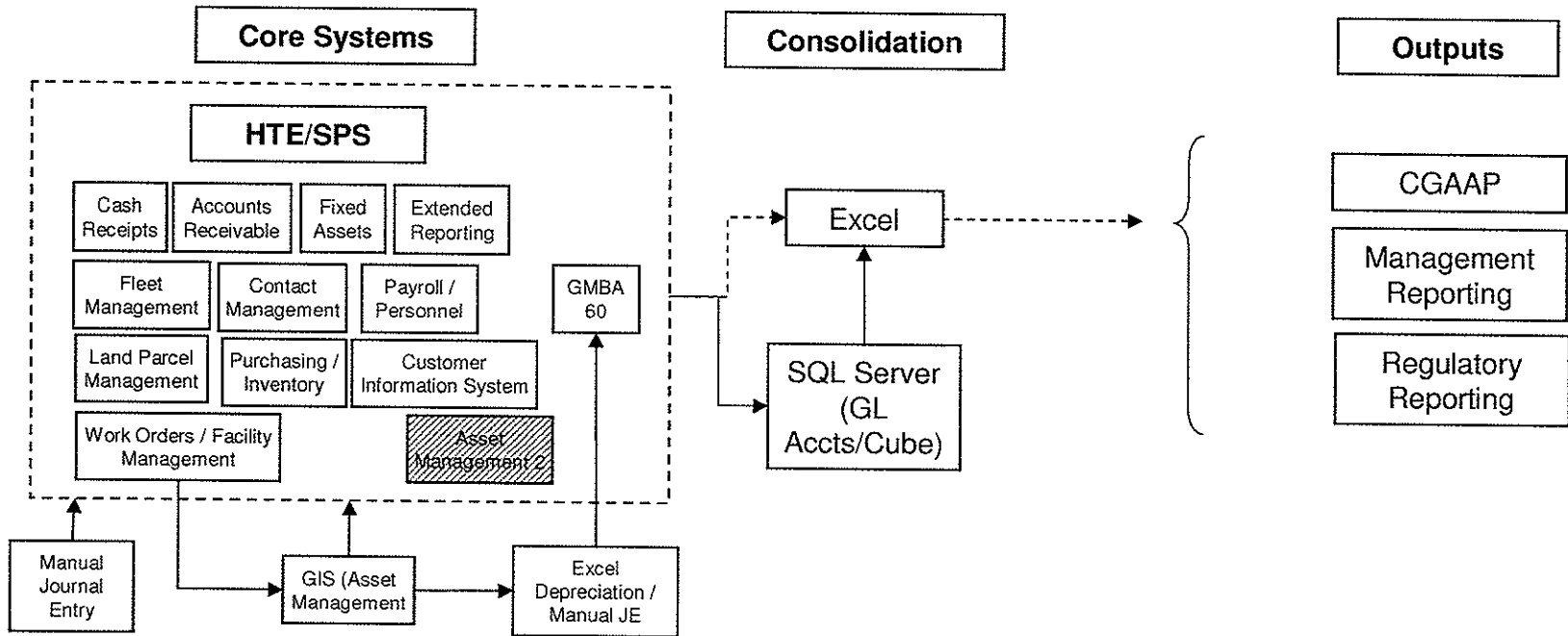
IFRS Diagnostic Workshop Schedule

Meeting Day	Date	Participants
PP&E - Valuation (Borrowing Cost, Burden, Capital vs. Expense, Depreciation)	Tuesday March 2, 2010 10:00 AM – 12:00 PM	Ian Miles, Dan Amyot, Kelly Bonds, Mike Joaquin, Kendra Moffat, Matt Betik, Jacqueline Gama, Grant Rutherford, Amit Bedi
PP&E – Classification (Componentization, Major/ Minor Spare Parts)	Wednesday March 3, 2010 10:00 AM – 12:00 PM	Ian Miles, Dan Amyot, Arlen Molyneaux, Kelly Bonds, Kendra Moffat, Mike Koktan, Matt Betik, Jacqueline Gama, Grant Rutherford, Amit Bedi
PP&E – Adjustments (Impairment, Derecognition/ Dismantlement, Contributed Capital)	Thursday March 4, 2010 10:00 AM – 12:00 PM	Dan Amyot, Kelly Bonds, Mike Koktan, Kendra Moffat, Jacqueline Gama, Grant Rutherford, Amit Bedi
Regulatory Accounting, Revenue	Tuesday March 9, 2010 10:00 AM – 12:00 PM	Dan Amyot, Kelly Bonds, Mike Koktan, Cristine Birceanu, Matt Betik, Siddarth Agarwal, Jacqueline Gama, Grant Rutherford, Amit Bedi
Financial Reporting	Tuesday March 9, 2010 1:00 AM – 4:00 PM	Ian Miles, Dan Amyot, Kelly Bonds, Kendra Moffat, Mike Koktan, Matt Betik, Siddarth Agarwal, Jacqueline Gama, Grant Rutherford, Amit Bedi
IFRS1, Provisions, Contingent Liabilities/ Assets, Employee Benefits, Other Standards)	Thursday March 11, 2010 10:00 AM – 12:00 PM	Kelly Bonds, Kendra Moffat, Dan Amyot, Matt Betik, Jacqueline Gama, Grant Rutherford
Final Wrap Up/ Follow Up	Thursday March 18, 2010 10:00 AM – 12:00 PM	Kelly Bonds, Cristine Birceanu, Mike Koktan, Dan Amyot, Jacqueline Gama, Grant Rutherford, Amit Bedi
Final Wrap Up/ Follow Up	Friday March 19, 2010	Kendra Moffat, Jacqueline Gama

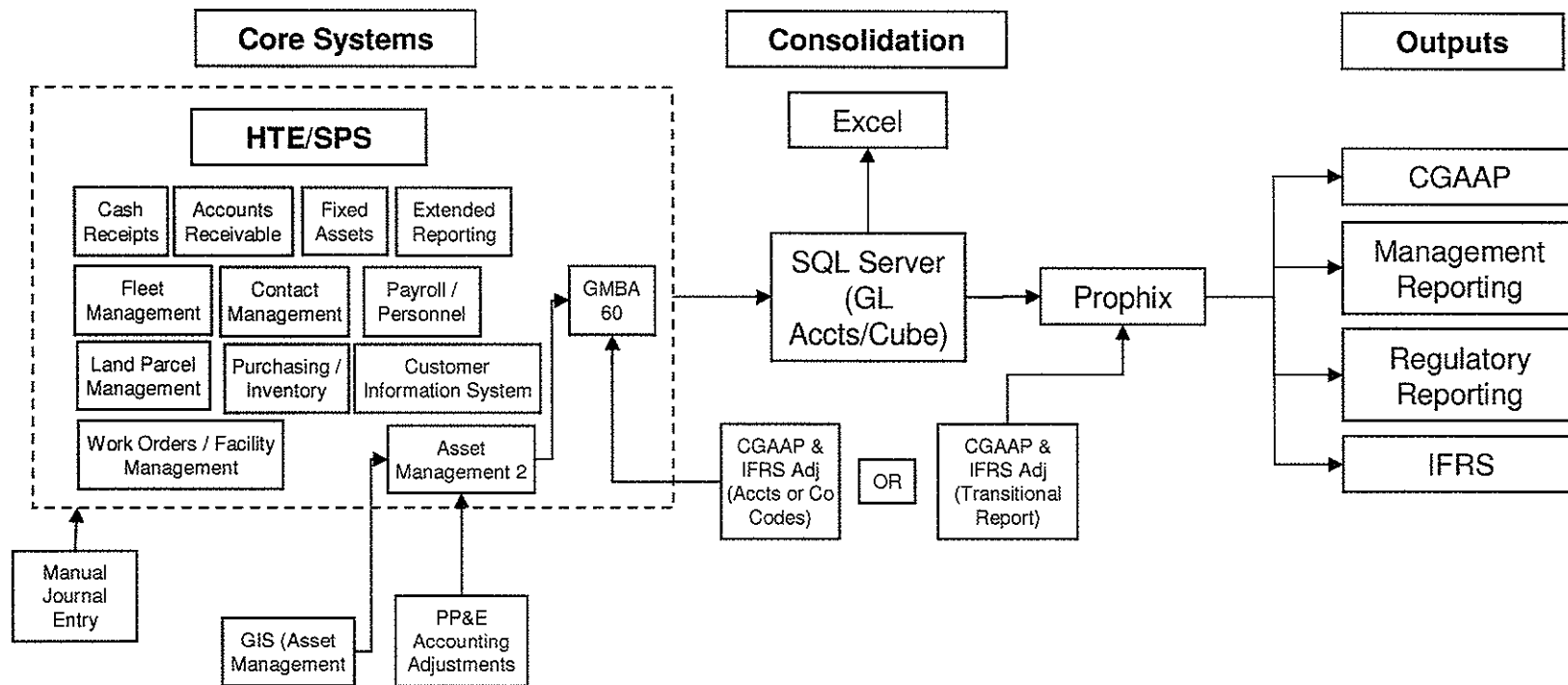
The rationale to implement in system

- SunGard is Guelph Hydro's primary Financial General Ledger, which stores and reports transactions that may be impacted by IFRS. The preferred approach is to ensure appropriate IFRS capabilities in the system, given that:
 - Maintaining audited financial information in one system of record (One Version of the Truth) is good practice
 - IFRS changes implemented on the system will reduce ongoing manual effort, and most of these changes will be used beyond the transition year.
 - Guelph Hydro would be able to produce IFRS and CGAAP Financial Statements from the system (through Prophix), which will provide a better level of control, accuracy and efficiency
- Performing financial adjustments and preparing financial statements manually, using a manual process or spreadsheets has a number of shortcomings
 - Higher risk of errors
 - Higher effort and oversight required to maintain the required audit trails, increasing the overall audit effort or control testing costs
 - Potential impact on employee workload, efficiency and the overall organization
 - Less time available for analyzing financial information
 - Potentially longer cycle time for month-end close effort with IFRS requirements

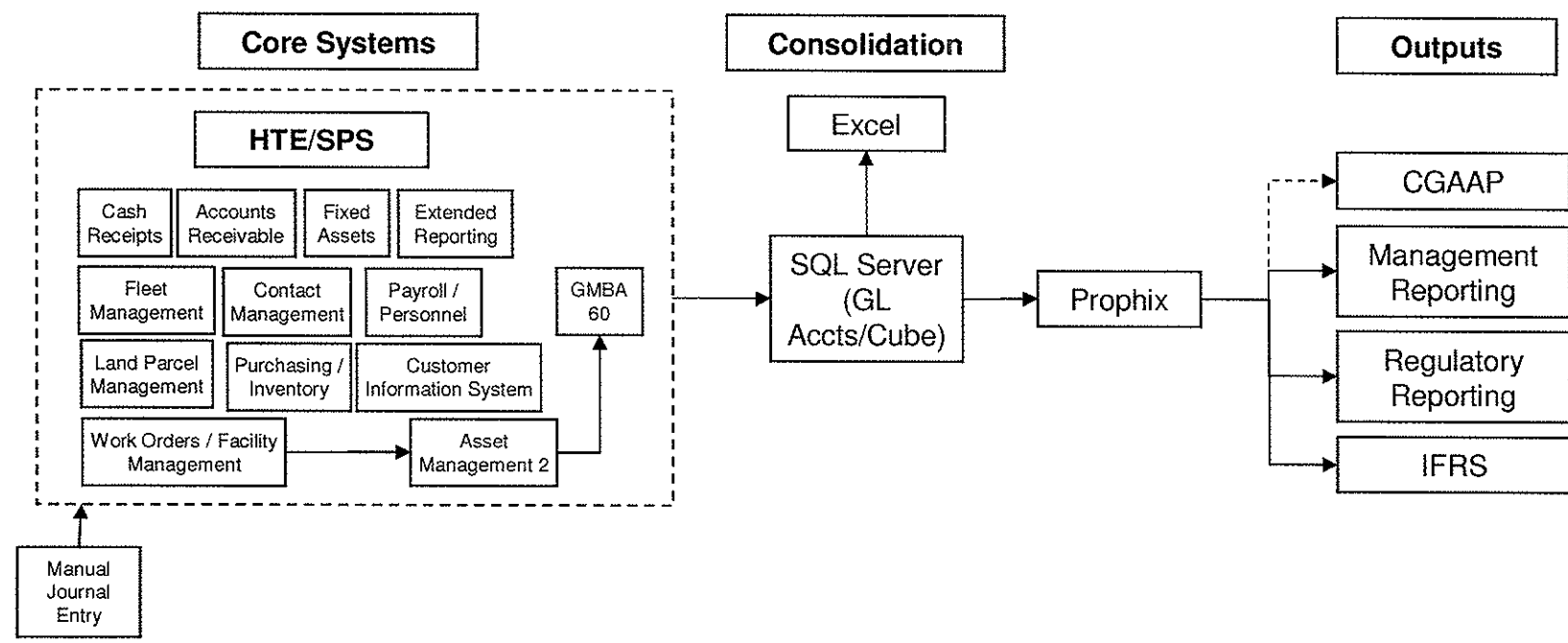
System Overview – Current System



System Overview – Transition System



System Overview – Steady State IFRS Reporting





IFRS Advisory Services

Guelph Hydro Inc.

IFRS Conversion Impact Assessment

September 15, 2009

ADVISORY



Disclaimer

This IFRS conversion impact assessment report is provided to Guelph Hydro Inc. ("GHI") pursuant to our engagement letter, and is subject in all respects to the terms and conditions of that engagement letter, specifically:

- Our services under this engagement are not intended to be an audit, examination, attestation, special report or agreed-upon procedures engagement as those services are defined in the CICA Handbook applicable to such engagements conducted by independent auditors. Accordingly, our services for this engagement will not result in the issuance of a written communication to third parties by KPMG directly reporting on financial data or internal control or expressing a conclusion or any other form of assurance.
- This engagement contemplates providing general advice on the application of IFRS.
- The deliverables presented as part of this engagement are for the internal use of GHI management, the Audit Committee, and Board of Directors. GHI acknowledges and understands that any use of the deliverable by a third party in subsequent phases of GHI's IFRS conversion project, will first require an indemnification to be provided to KPMG by GHI and the third party. We disclaim any responsibility or liability for losses, damages, or costs incurred by anyone as a result of the unauthorized circulation, publication, reproduction, or use of our deliverables contrary to the provisions of this letter. Our deliverables will reflect our observations as of the date of our report.
- There is no guarantee that all accounting and disclosure differences will be identified in our report. Certain accounting and disclosure differences can be identified only by detailed review of transaction contracts and other underlying documentation.
- Actions and decisions taken by GHI based on recommendations and analysis provided by KPMG during the course of this engagement remain the responsibility of GHI's management.
- GAAP and IFRS pronouncements and applied interpretations are subject to revision by the respective authoritative accounting bodies in Canada and by the International Accounting Standards Board ("IASB"). Accounting advice provided by KPMG will be based on our understanding of current pronouncements and interpretations at the time and such advice may therefore change materially in response to subsequent changes or, revisions to, the pronouncements or interpretations.
- Each accounting gap identified in the "Summary of Key Findings" tables will need resolution in the next phase of GHI's project. The section entitled "Considerations for Next Phase" identifies some specific considerations or activities in the next phase, but is not an exhaustive list. Management must use their discretion in identifying all activities that are necessary to determine IFRS consistent accounting policies, resolve business and training issues and design systems, processes and controls that are needed to obtain the data required to prepare IFRS financial statements.



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PRIVATE & CONFIDENTIAL

Mr. Ian Miles
395 Southgate Drive
Guelph, ON N1G 4Y1

September 15, 2009

Dear Mr. Miles,

KPMG LLP has appreciated the opportunity to assist Guelph Hydro Inc. ("GHI") in the conduct of the Detailed Assessment Phase of your IFRS Project. As part of the Detailed Assessment Phase deliverables, we present to you herein the IFRS Conversion Impact Assessment as of August 31, 2009 in accordance with our terms of our engagement letter including its Standard Terms and Conditions.

This report is designed to meet GHI's objective of examining its accounting policies and procedures to determine key differences between IFRS and GHI's current practices in order to formulate and construct an IFRS transition plan. This analysis was done by performing the detailed systematic accounting gap analysis between GHI's application of Canadian Generally Accepted Accounting Principles ("Canadian GAAP" or "CGAAP") and International Financial Reporting Standards ("IFRS"); specifically by:

- addressing accounting policy changes that must be applied retrospectively or prospectively.
- assessing the impact the accounting changes may have on GHI's policies, procedures and information technology and data systems.
- identifying the impacts to systems, processes, business and people.

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IFRS Advisory Services

Guelph Hydro Inc.

IFRS Conversion Impact Assessment

September 15, 2009

ADVISORY



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- addressing accounting policy changes that must be applied retrospectively or prospectively.
- assessing the impact the accounting changes may have on GHI's policies, procedures and information technology and data systems.
- identifying the impacts to systems, processes, business and people.

It has been our privilege to have this opportunity to work with your team and we look forward to continuing to serve GHI through the next phases of your IFRS project. If you have any questions or would like to discuss our final report further; please contact Matthew Betik at (519) 747-8245.

Yours very truly,

Matthew Betik, CA
Associate Partner

Table of Contents

Introduction..... 5

Executive Summary 7

Summary of Key Findings..... 9

 1. *First time adoption of IFRS – IFRS 1* 9

 2. *Property, Plant and Equipment and Borrowing Costs* 15

 3. *Regulatory Accounting* 25

 4. *Revenue*..... 29

 5. *Intangible Assets*..... 31

 6. *Impairments*..... 33

 7. *Provisions, Contingent Liabilities and Contingent Assets*..... 36

 8. *Employee Benefits*..... 38

 9. *General Financial Statement Topics*..... 41

 10. *Miscellaneous Topics*..... 43

Introduction

Beginning with the financial year 2011, GHI is required to prepare its financial statements in accordance with International Financial Reporting Standards ("IFRS). Therefore, management of GHI initiated a project for the conversion from Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS.

In December 2008, KPMG was engaged to assist management with this conversion project.

Working in conjunction with key management, KPMG has completed a detailed systematic gap analysis of the accounting and reporting differences between CGAAP and IFRS, and has considered the potential high level impact of the differences on GHI's IT systems and business processes, and its personnel. Our key findings are presented in this report. We have also included as an Appendix, our completed draft Accounting and Disclosure matrix (downloaded word-processor version for ease of review). This sets out the detailed requirements of IFRS along with a comparison to the current applications of CGAAP by GHI.

This report substantially completes phase 2 of the conversion project.

In preparing this report KPMG has completed the following:

- Held a kick off session held with key management personnel to raise awareness of key project issues.
- Completed awareness training in IFRS requirements provided through the Quick Scan.
- Completed an initial draft of the Accounting and Disclosure Matrix based on notes to your financial statements, our audit files, and our understanding of your business, operations and processes.
- Conducted various interviews with key finance and business personnel to gather information and assess GHI's current application for CGAAP against the IFRS requirements.
- Conducted a review with GHI management focused on key business processes that would be impacted by IFRS.
- Met with the representatives from Information Technology ("IT") to assess the high level impact of accounting and reporting differences on IT systems and business processes.
- Substantially completed a final draft of the Accounting and Disclosure Matrix and documented GHI's current application of CGAAP.

We have not considered accounting for income taxes as part of this engagement as the income tax standards under IFRS are expected to change prior to the conversion date.

Our assessment is based on IFRS standards and regulatory reporting requirements in place as at August 31, 2009. We note, however, that there are several areas of IFRS that are subject to future amendment by the IASB. The anticipated future changes are particularly challenging in that should the revisions to any of the proposed standards be approved during GHI's period of IFRS conversion, this will impact the results and findings of the detailed assessment. Therefore, it is critical that GHI stays abreast of the IFRS developments and establishes processes to manage all future changes.

GHI will prepare their financial report under IFRS for the first time for the year ended December 31, 2011, with comparatives required to be restated. As a consequence, GHI will be required to prepare an opening balance sheet at January 1, 2010, in accordance with IFRS.

In the preparation of this opening balance sheet, GHI must adopt those standards and those accounting policies that will be effective for the first annual IFRS financial statements. Any adjustments arising from the restatement of the opening balance sheet are recognized directly in retained earnings, or if appropriate, another component of equity.

Under IFRS 1, retrospective application of IFRS accounting policies as at January 1, 2010 is required for most balances. However, upon first time adoption there are a number of exceptions to this general rule and certain elections provide GHI with a range of options.

An analysis of the key exceptions and elections under IFRS 1 that are available to GHI are set in the relevant "First time adoption of IFRS – IFRS 1" section. We have not highlighted those options (either elective or mandatory) that are not believed to be applicable to the Company.

The next phase of GHI's IFRS conversion project should take into account the following planning considerations:

- Consider the elective exemptions applicable to GHI in conjunction with the related accounting and reporting topic areas.
- Strategize and decide on which exemptions to apply.
- Be ready to apply mandatory exceptions.
- Decide how GHI will design and implement the parallel system that will run for the 2010 comparative year.
- Prepare the opening balance sheets as at January 1, 2010 and the IFRS 1 disclosures.

The next phases of the conversion project, Design and Implementation, will be challenging. The focus of the design phase should be to build the tools required for the conversion based on management's decisions around accounting policy choices and related disclosures both at the transition date (January 1, 2010) and on an ongoing basis. This will involve the interpretation of accounting policy principles to support accounting policy decisions and the quantification of the impact of such choices and decisions. In addition, this phase involves designing the new business processes and IT systems (as applicable) in order to capture new data, and carry out reporting procedures.

We look forward to working with you through the next phase of this project.

Executive Summary

This report summarizes the key findings from our detailed impact assessment. We have summarized, by topic area, the key accounting and reporting gap differences and the impact that each key difference has on GHI's current accounting policy, IT and processes, other business areas and people. Included in each topic area is also an analysis of the available accounting policy choices and options under IFRS. In addition, we have highlighted specific considerations for the next phase of this project.

There is considerable uncertainty with respect to rate regulated accounting. This standard is under development by the IASB and will address accounting for regulatory assets and liabilities. An exposure draft was issued on July 23, 2009. The exposure draft proposes standards for accounting for regulatory assets and liabilities, addresses transition issues and provides some relief for differences between IFRS and current accounting practices. It is expected that the standard will also address transition issues and differences arising in various other standards such as PP&E. It is not known whether this standard will eliminate all differences, some differences or whether all differences will have to be quantified and presented as a regulatory asset or liability. The exposure draft ("ED") did not receive 100% approval of the IASB board. The new standard is not expected to be approved and issued until June 2010 and it may change considerably prior to being issued in final form. Management will need to continue to monitor the status of this project and build flexibility into the IFRS conversion project plan. In this report, we have identified the existing differences between IFRS and GHI's accounting policies. The ED may impact these differences. We have described the expected impact of the proposals in the ED in the section of this report titled "Regulatory Accounting". GHI will have to monitor the IASB Rate-regulated Activities project and applicable OEB responses, and consider the expected impacts on this conversion project.

In summary, the conversion to IFRS will have a high impact on GHI. The conversion will result in significant accounting policy changes with resulting impacts for IT systems and business processes. This is summarized in the figure below:

Accounting and Reporting

The conversion will result in significant accounting policy changes, most notably with respect to the following standards:

- IFRS 1, First time Adoption
- IAS 16, Property Plant and Equipment (PP&E)
- Regulatory Assets and Regulatory Liabilities
- IAS 23, Borrowing Costs
- IFRIC 18, Transfers of Assets from Customers

The high level accounting and reporting impacts are discussed in the following pages.

Systems and Processes

Our preliminary view is that the current version of the SunGard Public Sector system has limited functionality to deal with all of the requirements of IFRS. We anticipate significant work effort, and possibly system changes, required in building new business processes to record transactions under IFRS.

SunGard has the functionality to deal with the PP&E requirements for increased records and changes to capitalization and depreciation policies where necessary; however the system does not have the capability to automatically effect retrospective changes in fixed values.

The SunGard system does not support dual reporting and the requirement for multiple separate ledgers for CGAAP, OEB and IFRS reporting, though alternatives are available to track IFRS related adjustments and amounts.

Business

The uncertainty of the responses to the IFRS conversion by the OEB, as well as current deliberations of the IASB on regulatory accounting matters, increases the conversion effort and resources required.

The accounting policy changes and resulting impact to financial results will require communication to stakeholders.

People

Changes to accounting policies and the above-noted impacts to business processes will require technical and transactional level process training of employees, not only in the accounting / finance department, but also in the regulatory, and engineering and operations departments.

Summary of Key Findings

1. First time adoption of IFRS – IFRS 1

GHI will prepare its financial report under IFRS for the first time for the year ended December 31, 2011, with comparatives required to be restated. As a consequence, GHI will be required to prepare an opening balance sheet at January 1, 2010 in accordance with IFRS.

In the preparation of this opening balance sheet, GHI must adopt those standards and those accounting policies that will be effective for the first annual IFRS financial statements. Any adjustments arising from the statement of the opening balance sheet is recognized directly in retained earnings, or if appropriate, another component of equity.

Under IFRS 1, retrospective application of IFRS accounting policies as at January 1, 2010 is required for most balances. However, upon first time adoption there are a number of exceptions to this general rule and certain elections provide GHI with a range of options.

An analysis of the key exceptions and elections available to GHI is set out in the following table. We have not highlighted those options (either elective or mandatory) that are not believed to be applicable to GHI.

The next phase of GHI's IFRS conversion project should take into account the following planning considerations:

- Consider the elective exemptions applicable to GHI in conjunction with the related topic areas discussed below.
- Strategize and decide on which exemptions to apply.
- Be ready to apply mandatory exceptions.
- Decide how GHI will design and implement the parallel system that will run for the 2010 comparative year.
- Prepare the opening balance sheet as at January 1, 2010 and IFRS 1 disclosures.

Elective Exemptions

Property, Plant and Equipment

Fair Value or revaluation as "Deemed Cost"

Brief Description of Key Elective Exemption

- Permits the cost of an item of PP&E to be measured based on a deemed cost either:
 - (a) fair value at date of transition
 - (b) a previous CGAAP revaluation (if broadly comparable to fair value or cost, or depreciated cost)
 - (c) event driven valuation (i.e. IPO, privatizations)
- Available on asset by asset basis.
- Arises at transition only, is separate from on-going policy choice.

If Exemption Elected

- The fair value or revaluation amount becomes the deemed cost as at January 1, 2010 and is the starting point for subsequent accounting (depreciation, replacement, etc).
- Corresponding adjustment amount is booked to retained earnings.
- Avoids need to reconstruct historical cost.

If Exemption Not Elected

- Need to reconstruct historical cost and net book value of PP&E using IFRS standards.

Relevant Considerations

- Availability of historical records to reconstruct costs.
- Resource effort to reconstruct cost.
- Any increase in values may offset negative adjustments arising from other conversion adjustments.
- Inherent assessment of impairment losses in determining deemed cost.
- Higher future depreciation charges and/or lower gain on future sale.
- External costs/difficulties of determining fair value.
- Use of the exemption does not eliminate the need to identify components.
- OEB will likely not accept deemed cost as an acceptable basis for the rate application, therefore, two sets of records would be required.
- IT system's capability to record revalued/fair valued amounts as well as maintaining historical tax records, rate setting and CGAAP books.
- Consider the transition requirements in the proposed Rate-regulated Activities Standard (Exposure Draft (ED) issued July 23, 2009)

Property, Plant and Equipment

**Proposed exemption
Net Book Value as
Deemed Cost**

Brief Description of Key Elective Exemption

- The Exposure Draft ("ED") on the new IFRS 1 exemption for rate regulated entities permits the Net Book Value of PP&E (used for general reporting purposes) at January 1, 2010 to be the basis of "deemed cost" if it is impracticable to determine fair value and to reconstruct costs on an asset by asset basis.
- After this ED was released, the IASB commenced a project on Rate regulated Activities. The ED on Rate-regulated Activities proposes IFRS transition relief for PP&E. Companies that are within the scope of the proposed standard may elect to use the carrying amount of PP&E as the deemed cost on transition to IFRS.

If Exemption Elected

- No requirement to restate historical cost or obtain a fair value.

If Exemption Not Elected

- Restate historical costs or obtain fair values.

Relevant Considerations

- Need to demonstrate it is impracticable to determine fair value and reconstruct costs.
- Impracticability is an onerous test.
- Assess whether there are differences between CGAAP net book value and net book value as filed with the regulator.
- Outcome of the Rate-regulated Activities standard.

Property, Plant and Equipment

Borrowing Costs

Brief Description of Key Elective Exemption

- Adopt a policy of capitalizing interest on qualifying projects commencing after January 1, 2010.

If Exemption Elected

- Prospectively capitalize interest for all projects commencing after January 1, 2010.

If Exemption Not Elected

- Retroactively capitalize interest for all qualifying projects i.e.
 - Identify all qualifying projects
 - Determine direct borrowing costs
 - Calculate interest to be capitalized
- Adjust amortization to reflect adjustment to PP&E.

Relevant Considerations

- Availability of historical records to retroactively calculate interest amounts to be capitalized.
- Likely to be an increase in retained earnings – level of retained earnings at January 1, 2010 to be assessed.
- Impact on rate-setting process.
- If any of the deemed costs exemptions are used, then retrospective restatement of amounts previously capitalized may not be required.
- May use this election or the deemed cost exemption but not both.

<p>Property, Plant and Equipment</p> <p>Transfers of Assets from Customers</p>	<p><u>Brief Description of Key Elective Exemption</u></p> <ul style="list-style-type: none"> • Exemption would allow IFRIC 18 to be applied to transfers of assets from customers received on or after January 1, 2010. • Any date before the date of transition (January 1, 2010) can be designated as the date to apply IFRIC 18. <p><u>If Exemption Elected</u></p> <ul style="list-style-type: none"> • No requirement to apply IFRIC 18 to account for assets contributed by customers prior to the date of transition to IFRS. <p><u>If Exemption Not Elected</u></p> <ul style="list-style-type: none"> • Retrospectively apply interpretation to all past customer contributions. <p><u>Relevant Considerations</u></p> <ul style="list-style-type: none"> • Availability of historical records to retrospectively apply IFRIC 18. • Impact on rate setting process.
<p>Property, Plant and Equipment</p> <p>Decommissioning Liabilities</p>	<p><u>Brief Description of Key Elective Exemption</u></p> <ul style="list-style-type: none"> • Allows changes in decommissioning, restoration and similar liabilities to be added to or deducted from the cost of the asset at transition date, and for this adjusted value to be depreciated prospectively. <p><u>If Exemption Elected</u></p> <ul style="list-style-type: none"> • Liability is measured at the date of transition. • Estimate amount that would have been in PP&E when liability first arose, by discounting liability to that date using best estimate of historical non-adjusted discount rate. • Estimate accumulated depreciation that would have been recorded as at transition date. • Adjustments made to retained earnings. <p><u>If Exemption Not Elected</u></p> <ul style="list-style-type: none"> • Retrospectively adjust liability, PP&E and depreciation <u>each period</u> for any changes made (i.e. to estimated timing of payments, estimated amount of payments and discount rates). <p><u>Relevant Considerations</u></p> <ul style="list-style-type: none"> • This exemption will only apply if asset retirement obligations are identified. • Availability of historical information to retrospectively construct a record of all adjustments in each period.
<p>Employee Benefits</p> <p>Actuarial gains/losses</p>	<p><u>Brief Description of Key Elective Exemption</u></p> <ul style="list-style-type: none"> • Permits recognition of all cumulative actuarial gains and losses at transition date in equity. • The election must be applied consistently across all employee benefit plans and all entities. <p><u>If Exemption Elected</u></p> <ul style="list-style-type: none"> • Recognize in full, at transition, all previously unrecognized actuarial gains and losses through equity (i.e. reset unamortized actuarial gains and losses to zero by adjusting opening equity). • Avoids need to re-measure unrecognized actuarial gains and losses as if IFRS had always been applied. • Avoids the future amortization of previous unamortized losses to the P&L. <p><u>If Exemption Not Elected</u></p> <ul style="list-style-type: none"> • Need to re-measure unrecognized actuarial gains and losses as if IFRS had always been applied.

	<p>Relevant Considerations</p> <ul style="list-style-type: none"> • Availability of historical records for plans. • Impact on rate setting process.
<p>Employee Benefits Disclosures</p>	<p>Brief Description of Key Elective Exemption</p> <ul style="list-style-type: none"> • Permits an entity <u>not</u> to disclose historical /trend information regarding defined benefit plan arrangements. <p>If Exemption Elected</p> <ul style="list-style-type: none"> • Can choose to disclose such amounts from date of transition only (i.e. the first annual IFRS financial statements will include two periods of disclosures for employee benefit plans, being the first IFRS reporting period and the restated comparative period). An additional disclosure period will be added each year until the five periods required by IAS 19 are provided. <p>If Exemption not Elected</p> <ul style="list-style-type: none"> • An entity must disclose significant information for the current annual period (2011) and the previous four annual periods. <p>Relevant Considerations</p> <ul style="list-style-type: none"> • Availability of historical records for plans.
<p>Investments in subsidiaries, jointly controlled entities and associates</p>	<p>Brief Description of Key Elective Exemption</p> <ul style="list-style-type: none"> • When an entity prepares separate financial statements (non-consolidated financial statements), the investment in the subsidiary can be accounted for either at cost or in accordance with IAS 39, Financial instruments, recognition and measurement. If a first-time adopter measures such an investment at cost, it shall measure that investment at cost or it can elect to measure it at deemed cost in its separate opening statement of financial position. Deemed cost is either the fair value of the investment at the date of transition to IFRS or its previous GAAP carrying amount at that date. <p>If Exemption Elected</p> <ul style="list-style-type: none"> • For non-consolidated financial statements, investments in subsidiaries can be measured at deemed cost which is the fair value of the investment in the subsidiary at the date of transition. This amount will then be the cost basis from the date of transition onwards. <p>If Exemption Not Elected</p> <ul style="list-style-type: none"> • For non-consolidated financial statements, Investments in subsidiaries will continue to be carried at cost. <p>Relevant Considerations</p> <ul style="list-style-type: none"> • Difficulty and cost of determining fair value of the subsidiary. • Users of financial statements and incentive to present investment in subsidiary at increased value (assuming fair value is greater than cost)

Mandatory Exemptions

Estimates

Brief Description of Exceptions to Retrospective Application

- Estimates at January 1, 2010 under IFRS must be consistent with estimates at same date made under CGAAP, unless there is evidence those estimates were in error or where there are differences between CGAAP and IFRS as to determination of such measurements.
- If new estimates are required under IFRS at January 1, 2010 then estimates must reflect conditions that existed at that date and cannot reflect conditions arising after that date.

Comments

- For the transition year, GHI should calculate its estimates under both CGAAP and IFRS, based on evidence available at that time.

2. Property, Plant and Equipment and Borrowing Costs

Key GAAP Differences

Capital vs. Expense

- Under both IFRS and CGAAP, costs of PP&E include all expenditures directly attributable to bringing the asset to the location and working condition for its intended use.
- IFRS provides specific guidance as to the types of costs that are directly attributable. IFRS specifically prohibits capitalization of administrative other, general overhead and training, while CGAAP is not as explicit (no specific prohibitions).
- Normally, feasibility studies are not capitalized under IFRS as these costs do not always result in asset construction, and therefore may not meet the criteria of providing a future economic benefit.
- Third party compensation for damaged assets should be recognized as revenue when receivable, the replacement asset should be capitalized and an impairment charge, if applicable, recognized on the damaged asset.

Borrowing Costs

- Under IFRS, borrowing costs related to "qualifying" assets must be capitalized if certain conditions are met. IFRS also provides specific guidance, as follows, on the capitalization rate and timing of capitalization, whereas CGAAP is silent.
 - Under IFRS the capitalization rate includes a debt component only.
 - Interest on both general and specific borrowings is eligible for capitalization under IFRS. However, the amount capitalized is limited to the actual interest expense incurred.
 - Capitalization is suspended when development is interrupted for extended periods, and ceases when the asset is ready for its intended use.

Dismantlement or Decommissioning Costs

- IFRS requires legal and constructive obligations to be considered in determining dismantling or decommissioning costs, compared to CGAAP where asset retirement obligations are based on legal obligations only. The measurement of decommissioning obligations is also different under IFRS.

Cost Model vs. Revaluation Model

- IFRS allows two models for measuring PP&E after recognition: the cost model and the revaluation model (based on fair value).

Component Accounting

- Separate accounting for "significant" components of PP&E is more rigorously applied and broader under IFRS. CGAAP is less specific than IFRS about the level at which component accounting is required.
- Under IFRS, components include non-physical components such as a major inspection or overhaul, while CGAAP does not provide guidance on non-physical components.

De-recognition

- IFRS requires that the carrying amount of a replaced asset or part of an asset be de-recognized (even if not treated as a separate component) and the cost of the replacement asset be capitalized. CGAAP does not provide explicit guidance on the replacement of components or parts of an asset.

Property, Plant and Equipment and Borrowing Costs (continued)

Depreciation

- IFRS requires that component depreciation be taken based on its cost less its residual value over its estimated useful life which is similar to CGAAP. However, IFRS also requires an annual review of the method of depreciation, residual value and useful life, where CGAAP requires review periodically or when events or changes in circumstances indicate that the current estimates may no longer be appropriate.
- IFRS requires idle or inactive assets be depreciated.
- IFRS allows assets to be grouped for purposes of determining the depreciation charge only where the significant part of an item of PP&E has the same useful life and depreciation method of another significant part of the same item. It may be appropriate to aggregate individually insignificant items.

Transfer of Assets

- IFRIC 18, "Transfer of Assets from Customers", was recently approved by the IASB. Customer contributions are recognized at fair value to PP&E and revenue over the period of service. It is necessary therefore to identify the services required to be provided to a customer in exchange for the asset. If the service is merely connection to a network, then the credit is recognized in full to revenue at the date of connection. However, if the services involve ongoing access to the supply of electricity on an ongoing basis at a price lower than would be charged without the transfer of asset, then the revenue would be recognized over the period of ongoing supply or the useful life of the asset (if earlier).

Major spare parts

- IFRS and Canadian GAAP standards on inventory are harmonized. In this industry and in practice, however, some variation in treatment can occur regarding cyclical and insurance spares. Cyclical spares refer to major spare parts that are expected to be replaced during the life of the asset, whereas insurance spare parts refer to major spare parts that are not expected to be used, but where it is necessary to keep the spare available in the event it is required. Depreciation of the insurance spares follows the depreciation period of the asset it is in place for, while cyclical spares are depreciated when they are put into use.
- Assets taken out of service are transferred to inventory to be held as spares. The transfers are recorded at cost rather than net book value.

Classification and Presentation

- An asset which incorporates both intangible and tangible elements should be accounted for in accordance with the more significant element of the asset.

Impact on GHI's Current Accounting Policy / Application

Capital vs. Expense

- Under IFRS, the criterion to capitalize burdens includes costs directly attributable to bringing the asset to the location and working condition for its intended use.
- Guelph Hydro Electric Systems Inc. ("GHESI") applies burdens to capital comprising of payroll and operations, engineering, vehicle and stores burdens. These burdens include a variety of costs, some of which may be viewed as administrative and other general overhead costs. Management will need to review the components of GHESI's labour, engineering, fleet and material burdens to determine if they meet the capitalization criteria under IFRS.
- The payroll and operations burden is comprised of employee benefits as well as costs for clothing, building maintenance, small tools, as well as the salaries, benefits and other employment costs relating to the supervisors. These costs are allocated to capital based on an established percentage applied to direct labour values. Some of the costs included in the payroll and operations burden may not be considered to be directly attributable to the construction of an asset. Management will need to analyze the components of payroll and operations burden to determine if all costs can continue to be capitalized.
- The engineering burden includes the cost of all staff in engineering as well as non-labour costs such as general office supplies, training, and computer maintenance. The non-labour components of the engineering burden are allocated to capital based on an established percentage which is applied to actual direct labour values incurred for the employees in the engineering department. Some of the non-labour costs included in the engineering burden may be viewed as administrative and other general overhead costs that cannot be capitalized under

- IFRS. Management will need to analyze the components of engineering burden to determine if all costs can continue to be capitalized.
- Fleet burden is capitalized by GHESI, using a standard vehicle rate for the vehicle when a vehicle is used on the project. Fleet expenses, of which the burden rate is comprised, include building operating costs, property taxes, depreciation, fuel, maintenance and supplies. This burden includes a variety of costs some of which may be viewed as administrative and other general overhead costs that cannot be capitalized under IFRS. Management will need to analyze the components of fleet burden to determine if all costs can continue to be capitalized.
 - The stores burden consists of storekeeper hours, operating costs for building, freight costs, insurance, property tax and engineering administration costs; the costs relate to cost of storing the inventory (receiving and stores department). Components of GHESI's stores burden may not be able to be capitalized under IFRS. Management will need to analyze the components of stores burden to determine if all costs can continue to be capitalized.
 - Under IFRS, pre-construction activities generally do not qualify for capitalization as design work does not generate expected future economic benefits. In addition, start-up and pre-operating costs such as feasibility studies are generally expensed as incurred because they are not linked to a specific item of PP&E at the time they are incurred. Management should determine whether these types of costs have been capitalized and the proper treatment as required under IFRS.
 - When GHESI receives compensation from third parties for damaged PP&E (i.e. damaged pole in an accident) it should be recorded as revenue when it is receivable. Management should develop a process to recognize this compensation as revenue, record the asset impairment as an expense and capitalize the replacement asset.

Borrowing Costs

- Under IFRS, borrowing costs have three components: qualifying assets, capitalization rates and timing of capitalization.
- Qualifying Asset: GHESI does not capitalize any interest on construction in progress balances. A qualifying asset is defined as an asset that takes a substantial period of time to get ready for its intended use. In KPMG's view a substantial period of time would represent an asset construction extending well in excess of six months. Management will need to ensure that interest is capitalized for any asset construction projects with a duration well in excess of six months.
- Capitalization rate: Under IFRS the borrowing costs capitalized must reflect the weighted average of the actual borrowing costs applicable to general borrowings, where specific borrowings for construction are not in evidence.
- GHESI will need to consider what portion of their general borrowings from the City of Guelph is attributed to fund construction in progress ("CIP") and determine the capitalization rate applicable to the borrowing attributed to fund CIP.
- Timing of capitalization: GHESI will need to determine if there are periods of inactivity during which interest capitalization should be suspended. GHESI will also have to determine when it should cease capitalization.

Dismantlement or Decommissioning Costs

- GHESI currently does not record Asset Retirement Obligations (AROs) under Canadian GAAP. Under IFRS, the broader provision requirements surrounding legal or constructive obligations related to past events may require recognition of a liability for decommissioning or dismantling activities. Therefore management needs to consider whether the estimated costs related to replacement of assets, such as replacement of old meters with smart meters, old poles with new poles, etc., meets the criteria for liability recognition and what the appropriate measurement amount is for any liability that might need to be accrued. Furthermore, management will need to consider whether they have an obligation to restore the Ecotricity land and/or building at the end of the lease term, and determine appropriate measurement amount for the decommissioning provision.
- GHESI, in general, will decommission an asset only to replace it with another (substations and poles). No provision for the cost of removing assets is currently recorded at the inception of the asset, and all costs of removal and replacement are capitalized (expensed as appropriate) at the time of replacement. Management will need to determine if a liability should be recorded under IFRS.

Cost Model vs. Revaluation Model

- GHESI may elect to use the revaluation model to measure its PP&E or continue to use the cost model. If the revaluation method is adopted this will lead to higher future depreciation charges. Management will need to consider the impact of revaluation on rate setting.

Component Accounting

- IFRS requires different individual components of an asset that require different depreciation methods or rates to be accounted for separately. Although GHESI identifies individual components within its assets to some extent, management will need to analyze its current policy/method of identifying components to determine whether it is in compliance with IFRS requirements. The distribution plant is segregated between substations, meters, transformers, overhead and underground lines: overhead and underground lines are made up of switches, poles and cables, which may be significant components, and have not been segregated for amortization purposes.
- Management will need to analyze the nature of the overhead and underground infrastructure, buildings, and other complex assets in order to determine the appropriate useful life for each significant component in the class.
- GHESI does not currently segregate non-physical components such as a major inspection or overhauls for depreciation purposes. Current inspection, testing and overhaul programs are performed as part of GHESI's repair and maintenance program. Management should give consideration to identifying major inspections, or overhauls that entail major expenditures, which occur at regular intervals over the life of an asset, as distinct from costs associated with routine repairs and maintenance. In addition, management should consider inspection costs related to transformers and substations.

De-recognition

- Assets, or components or parts of assets, are tested and replaced by GHESI regularly; specifically poles, meters and transformers, all of which are grouped assets. Where inspections lead to major replacement or refurbishment of transformers and substations, GHESI will capitalize the related material and labour through a work order. However, the asset that is replaced is generally not derecognized, and no gain or loss is recognized on the replacement of PP&E. Management needs to review this policy as it is inconsistent with IFRS.

Depreciation

- GHESI depreciates assets on a straight-line basis over a useful life that has been outlined by the OEB through the Electricity Distribution Rate Handbook, Appendix E Capitalization Rates. If GHESI intends to continue to utilize these rates, it will need to demonstrate that these useful lives truly reflect the useful lives of the assets to GHESI. We also understand that the OEB has proposed to facilitate a joint depreciation study to determine depreciation methodologies and rates that will be applied to all electrical distribution utilities for the purpose of setting rates.
- GHESI depreciates assets using a group-life methodology. GHESI will need to demonstrate that these methodologies truly reflect the useful lives of the assets to GHESI.
- GHESI does not review the depreciation method, useful lives or residual values on an annual basis. This needs to be performed under IFRS.

Transfer of Assets (Contributed Capital)

- Currently transfers of assets are recorded as a contra account to PP&E. Under IFRIC 18, Transfers of Assets from Customers, where GHESI concludes it controls the transferred asset, GHESI's use of a contra account in PP&E would not be appropriate, and at a minimum, it will require that the credit to be recorded as either a liability or as revenue. The credit would depend on the nature of the identifiable services provided. The credit is recognized in revenue immediately upon connection if the service is merely a connection to a network. If the service involves ongoing access to the supply of electricity on an ongoing basis at a price lower than would be charged without the transfer of the asset, then the revenue would be recognized over the period of ongoing supply or the useful life of the asset. The Contributed Capital account in the Fixed Asset register is approximately \$17 million (NBV) at December 31, 2008. Management will need to modify their policy to be in accordance with IFRS.

Major Spare Parts

- GHESI carries major spare parts for its transformers, meters, poles and parts for the substation that they believe are critical to their ability to provide emergency services quickly and efficiently in the event of a power failure or emergency. These spare parts are also put into use when the asset undergoes maintenance or is tested so there is no overall loss of power to customers. Meters and transformers that are not dedicated to a particular piece of equipment are included in PP&E and are depreciated. The remaining spares are included in inventory and depreciated when used and transferred to PP&E. Management needs to review the nature of their major spare parts to determine if they are cyclical spares or insurance spares as these two different classifications of assets are subject to different depreciation methodologies.

- Assets taken out of service and held for spares may be either cyclical or insurance spares, and consideration should be given to recording at original cost as opposed to NBV. Management will need to review the nature of these spare parts and the accounting for them under IFRS.

Classification and Presentation

- GHESI classifies construction in progress as PP&E.
- GHESI's computer software class is currently classified as PP&E if costs are bundled with computer hardware, otherwise costs are expensed in the period incurred. GHESI will have to assess the nature of the computer software and if necessary reclassify it as an intangible asset.

Additional IFRS Disclosures

- The financial statements shall disclose, for each class of PP&E, a reconciliation of the cost and accumulated depreciation at the beginning and end of the period showing items including additions, disposals and depreciation.
- If GHI elects to use fair value in its opening IFRS statement of financial position as deemed cost for an item of PP&E, its first IFRS financial statements should disclose, for each line item in the opening statement of financial position (a) the aggregate of those fair values; and (b) the aggregate adjustment to the carrying amounts reported under previous CGAAP.
- If GHI chooses the revaluation model for measurement of PP&E on an ongoing basis, significant differences in disclosure would result, and new disclosures would be necessary.
- The following additional disclosures are recommended but not required under IFRS:
 - Carrying amount of idle PP&E
 - Gross carrying amount of fully depreciated PP&E that is still in use
 - Carrying amount of PP&E retired from active use and not classified as "held for sale"
 - Where the cost model is used for measurement of PP&E, disclose the fair value of PP&E when it is materially different from the carrying amount.

Impact on IT Systems and Processes

New Processes

- GHI will need to develop new processes to support the data capture and recording of transactions in accordance with new IFRS accounting policies, such as:
 - Capitalization policy – develop a process for filing a capitalization policy with the OEB as part of GHESI's first rate filing after IFRS adoption and any updates to the capitalization policy.
 - Labour and engineering, vehicle and materials burdens – change in process to have these burdens reflect costs that can be capitalized under IFRS
 - Borrowing Costs – identify qualifying assets as those constructions in progress accounts that extend well in excess of 6 months and implement a process to determine the interest to be capitalized.
 - Capitalization rate of general borrowings – develop a process for determining the capitalization rate as the OEB will be discontinuing publication of market based rates for applying borrowing costs to CWIP as indicated in their report on the Transition to IFRS.
 - Pre-construction activities – change the process to capitalize only those costs that provide a future economic benefit to GHI.
 - Customer Contributions – change the process for journalizing customer contributions to map to revenue or deferred revenue as needed.
 - Decommissioning / dismantling – pending determination of material dismantlement costs, change the process to measure and capitalize dismantlement costs related to replacements of poles, meters, transformers etc.
 - Major Spare Parts – changes to the procurement process may be required to capture major spare parts that are to be recorded in fixed assets as individual asset records as opposed to grouping them in asset pools.

IT Systems

Capital vs. Expense

- GHI will need to adjust its Fixed Asset sub-ledger to accommodate any changes to GHI's capitalization of burden rates related to labour, engineering, vehicles and materials etc. This is an issue not only during the parallel accounting period (CGAAP and IFRS financial statements for 2010), but also ongoing if the OEB require non-IFRS balances for rate setting purposes. If requirements for capitalized burden costs differ, then this will lead to a different cost basis for regulatory purposes for the same asset.
- Amounts are capitalized as costs are incurred which may be prior to completing construction; the amounts capitalized are depreciated manually on a monthly basis.
- Burden rates captured within SunGard are used to automatically calculate the amount of burden to be capitalized on a fixed rate, over a

range of accounts, for every unit that is billed to a work order (based on direct labour values). The SunGard system does not have the capability to apply multiple burden rates to transactions (i.e. for OEB vs. IFRS reporting). During the parallel accounting period, a new process may be required to calculate adjustments for IFRS differences, or system changes may be required to accommodate the use of multiple burden rates. Changes will also be required on a go-forward basis if two sets of transactional data are required (i.e., OEB and IFRS).

- All self-constructed assets are managed using the Work order request module in SunGard.
- The rates calculated are entered into rate tables within SunGard system.

Borrowing Costs

- Borrowing costs are not tracked within SunGard for constructed assets. Changes in fixed asset values for capitalized interest would have to be manually calculated and affected via a manual journal entry.

Component Accounting

- The system impact of component accounting is significant as existing SunGard system does not have a Fixed Asset module to address this requirement.
- As there is no Fixed Asset module within SunGard, the impact of restating opening fixed asset balances on transition as if IFRS had always been used, cannot be automatically calculated by the system. An intensive manual process would need to be undertaken to manually recalculate the fixed asset amounts and post the adjustments to the G/L.
- As a result of accounting differences, there could be two different cost bases for each asset added during the parallel accounting period, in addition to possible different cost bases for OEB purposes vs. IFRS books.
- GHI will need to consider implementing the Fixed Asset Module and integrate into the current SunGard system. Functionality within the Asset Management module can address some of the requirements, for instance, each serialized item can be set up as a separate fixed asset record and multiple fixed asset records can be linked together (in a parent child relationship) within the system for componentization purposes. However, the SunGard Asset Management module does not have the capability to report fixed assets multiple ways / for multiple purposes. System changes or changes in business processes will be required to address this requirement.
- From a business process perspective, the impact is much higher, as each component must be set up in the SunGard Asset Management module with its own asset record. This will be required regardless of the IFRS 1 choices made.

Cost Model vs. Revaluation Model

- Revaluations of fixed assets can be recorded manually using amortization spreadsheets; amortization of these new amounts can then be performed, with the changes in fixed asset values affected in the G/L by journal entries within the SunGard system. Historical values are retained by the system, which can be viewed in the event the historical values of the revalued assets are required.

Depreciation

- As there is no Fixed Asset module within the current SunGard system, spreadsheets are used to address requirements such as depreciation period, depreciable amount, residual value, useful life, and depreciation method.
- Fixed asset scrap / residual values are not currently captured within the work order system or fixed asset amortization spreadsheet. Changes will be required to the spreadsheet in order to record material fixed asset scrap values and adjust the depreciation amounts accordingly.

De-recognition

- The business process impact of this requirement will be high for assets that are currently pooled within the system (i.e. there is not an individual fixed asset record for each item in the system) as a specific asset within the pool cannot be identified for de-recognition.

Disclosure

- Configure reports and/or spreadsheets to create continuity schedules as required for disclosure under IFRS.

**Other Impacts
(Business and People
Impacts)**

Financial Impact:

- Changes as a result of introducing IFRS may:
 - Affect the timing of expense recognition – administrative and general overheads, interest expense, depreciation
 - Affect the timing of revenue recognition for customer contributions
 - Affect the net book value ("NBV") of PP&E
 - Introduce volatility to the P&L

Regulatory Reporting:

- Further consideration must be given to the impact on rate setting.
- GHI may need to maintain two sets of books (IFRS and OEB), and reconcile them where required. This is currently the subject of OEB deliberation.

If the OEB does not change the rate setting mechanism

- IFRS could impact rate base to the extent that NBV of PP&E changes for capitalization of:
 - Interest
 - Administrative other general overheads
 - Abnormal amounts of wasted labour
 - Asset retirement obligations
- IFRS could impact rate base to the extent that NBV of PP&E changes for changes to depreciation resulting from:
 - Component accounting
 - Review of useful lives
 - Review of depreciation methods
 - Review of residual values
- IFRS could impact rate base to the extent that NBV of PP&E changes for the following:
 - Use of the revaluation model
 - De-recognition of replaced assets or parts of assets
- IFRS could impact revenue requirement to the extent that the capitalization of distribution expenses and administrative and other general expenses changes for:
 - Abnormal amounts of wasted labour
 - Expenses included in overhead rates

Other Business Impacts:

- To the extent that the IFRS value of PP&E differs from the value accepted by the OEB, GHI's cost of assets under IFRS may not be fully recoverable from their customers.
- Volatility in the P&L will affect key ratios reviewed by management, the audit committee and the board such as current ratio and return on capital ratios.
- Volatility in the P&L will affect key inputs to the debt covenant calculations (Times-Interest-Earning Ratio) for the Federation of Canadian Municipalities debt.
- Volatility in the P&L will affect overall results and thus consideration should be given to the impact GHI's incentive based compensation.
- The proposed new dividend policy is 50% of net income. The dividend payment policy may need to be amended to be more cash flows based.

Budget Impact:

- Changes in the P&L will affect the budget process to the extent that IFRS-based figures are used in establishing budget amounts.

**Considerations for
Next Phase
(Conversion Plan
Activities)**

Tax Impact:

- The impact on taxable income will have to be assessed once Canada Revenue Agency's guidelines and the IFRS tax standard are fully developed.

People Impact:

- As a result of changes to PP&E and what can and can't be capitalized, the engineering / operations crew will need to be trained on new capitalization processes (i.e. what can be included in a work order such as start-up costs).
- Training for accounting and finance teams on new processes as described above.
- Training for rate regulation staff regarding use of a second ledger for OEB books, and resulting reconciliation processes.

Strategic Planning

- Engagement of the OEB to ensure plans for changes to rate-regulated processes are clearly understood and regulatory impacts identified.
- Plan and design function of the second set of books, identify primary vs. secondary basis of accounting; IFRS vs. Canadian GAAP/OEB.

Capital vs. Expense

- Identify the components of the pre-construction activities that would not qualify as providing expected future economic benefits to GHI, and quantify materiality of currently capitalized costs (feasibility studies and other pre-construction activities).
- Identify the components of the labour, engineering, fleet and stores burden that would not qualify as directly attributable costs for capitalization under IFRS.
- Conclude on appropriateness to capitalize current labour, engineering, fleet and stores burdens to PP&E as costs directly attributable to the construction of the asset.
- Once accounting conclusions are reached regarding the burden rates, design changes to the system as necessary.
- Conclude on whether a decommissioning / dismantling cost should be recognized for constructive obligations (i.e. replacement costs of old meters for smart meters). If asset retirement obligations are identified, then it will be necessary to consider the related IFRS 1 exemption.
- Develop a process to identify constructive obligations for decommissioning/dismantling costs that may occur in the future.
- Design changes to the process for recording replacement of damaged equipment and third party compensation.

Component Accounting

- Determine appropriateness of current level of PP&E componentization.
- Conclude on whether significant non-physical components exist.
- Once conclusions are reached regarding the appropriate level of componentization under IFRS:
 - quantify non-physical components if they exist;
 - calculate new carrying values for new components;
 - conclude on the need to retrospectively apply new component level based on materiality;
 - develop business processes to create new master file records as necessary for each new component.
 - determine useful lives of components identified

Cost Model vs. Revaluation Model

Conclude on use of revaluation or cost model to measure PP&E

De-recognition, Depreciation and Borrowing Costs

- Investigate appropriateness of current estimates of useful lives and residual values. Design process for updating the Fixed Asset amortization spreadsheets for changes to useful lives (i.e. depreciable period) and residual values to ensure changes can be made on a prospective basis.

Property, Plant and Equipment and Borrowing Costs (continued)

- Consider appropriateness of current useful lives of significant components under IFRS.
- Consider appropriateness of current depreciation method and residual values.
- Develop and implement processes for reviewing the residual value and useful life of assets, at least annually. This process should highlight the significant components or areas of the PP&E where residual values could change over time, which would likely be fairly specific.
- Design new processes for de-recognition requirements when assets, components, or parts of assets are replaced.
- Design new policies and processes for capitalizing borrowing costs with respect to the capitalization rates and qualifying assets.

IFRS 1

- Conclude on policy for assessing opening balance of PP&E at transition.
- Conclude on the applicability of the ED exemption and the impact of the ED on rate regulated accounting.
- Conclude on option for treatment of borrowing costs on transition.
- Conclude on option for treatment of past contributions of assets from customers.
- If asset retirement obligations exist, conclude on option to depreciate changes to decommissioning liabilities on transition prospectively.

Transfers of assets

- Determine a process for identifying services rendered in connection with customer contributions for prospective application of this standard.
- Conclude on whether service associated with transferred assets is a connection to a network or involves the ongoing access to the supply of electricity on an ongoing basis at a price lower than would be charged without the transfer of the asset.

Classification and Presentation

- Conclude on the practical treatment for major spare parts, as either insurance or cyclical spares.
- Design new processes for any change in treatment of major spare parts.

Other

- Consider changes to incentive compensation programs.
- Determine communication strategy with stakeholders regarding volatility in the P&L as a result of conversion to IFRS.
- Determine specific training requirements of various staff.
- Determine impact of IFRS conversion on accounting for income tax once GHI has adopted the relevant changes in CICA HB s3465.
- Consider the need for documentation of technical conclusions through draft accounting policies.
- Design financial reporting processes and procedures, and draft accounting policies.

Index of Additional Topics of Interest

- Refer to IFRS 1.
- Refer to Impairments.
- Refer to Investment Property (see Miscellaneous Topics).
- Refer to Provisions, Contingent Assets and Contingent Liabilities for consideration given to decommissioning and dismantling costs.
- Refer to Intangibles.

3. Regulatory Accounting

Key GAAP Differences

- Under IFRS, all items recognized in the financial statements must meet the definition of a financial statement element as defined in the IFRS framework. CGAAP previously exempted rate regulated entities from applying these definitions to balances resulting from rate regulation. Commencing in 2009, CGAAP permits, through the GAAP hierarchy, rate-regulated entities to apply specific industry guidance (FAS 71), which can give rise to regulatory assets and liabilities.
- A project to develop a standard for Rate-Regulated Activities has been undertaken by the IASB with an exposure draft released on July 23, 2009 (the "ED"). This ED addresses assets and liabilities resulting from rate regulation. Some differences exist between this proposed standard and current Canadian accounting treatment.
- Like CGAAP, regulatory assets and liabilities would be recognized under the proposed standard provided GHI meets the scope criteria. The proposed standard also requires these regulatory assets and liabilities to be reviewed to determine if there are temporary differences that exist that would require the recognition of a deferred tax asset or liability.
- Costs that are required by a regulator to be included in the cost of an asset (i.e. PP&E or intangibles) for rate-making purposes, but would otherwise be expensed in accordance with IFRS, are required to be capitalized and disclosed as an item of PP&E, if it is highly probable that they would be allowed by the regulator. If it is not highly probable then the costs may be accounted for as separate regulatory assets.
- Regulatory assets and liabilities are measured at the expected present value of cash flows to be recovered or refunded on initial recognition and at the end of each reporting period. The cash flows must be probability weighted and discounted at the current market risk-free rate.
- Regulatory assets are to be tested for indicators of impairment.
- Regulatory assets and liabilities must be presented as either current or non-current, without offsetting.

Impact on GHI's Current Accounting Policy / Application

- The proposed Rate-regulated Activities standard applies to those entities that are within the proposed scope of the standard. GHI will need to determine if their operating activities meet the two criteria set out in the proposed standard.
- GHI currently records future tax assets or liabilities with respect to its regulatory assets and liabilities. GHI will have to determine if any deferred tax assets or liabilities will be required under this proposed standard.
- The proposed standard requires a company to apply other IFRSs first and any amounts that would otherwise be recognized as income or expense in accordance with the other IFRSs may be recognized as a regulatory asset or liability when a right to recover or obligation to refund exists. This is also applicable to assets and liabilities- e.g. smart meters recorded as a regulatory asset should probably be recorded as PPE not as a regulatory asset.
- GHI capitalizes certain costs through its burdens that may not be capitalizable under IAS 16, Property, Plant and Equipment. If the regulator requires GHI to capitalize these costs then the proposed standard would require the company to include these costs in the cost of PP&E as is currently done provided it is highly probable to recover them rather than recording these differences as regulatory assets. GHI will have to determine which costs are currently being capitalized that would not be allowed under IAS 16 and determine if the regulator requires these costs to be capitalized. OEB issued new policies on July 28, 2009 which require utilities to use IFRS capitalization accounting requirements.
- GHI measures its regulatory assets and liabilities at the difference between the costs incurred currently and the amounts collected from or refunded to its customers. GHI will have to develop a process to measure its regulatory assets and liabilities at the expected present value of the cash flows. GHI will have to determine the probability of recovery or refund and determine its current market risk free rate and the price for bearing the uncertainty at each reporting period.
- GHI will need to develop a process to test its regulatory assets for indicators of impairment. If indicators of impairment exist, GHI will have to test the cash generating unit for impairment.

Additional IFRS Disclosures	<ul style="list-style-type: none">• The proposed standard requires disclosure of risks and uncertainties affecting the future recovery of regulatory assets and liabilities• A continuity schedule for each category of regulatory asset and liability is required to be disclosed.• If additional financing costs are capitalized in excess of the amounts required by IAS 23 Borrowing Costs, this amount must be disclosed.
Impact on IT Systems and Processes	<p><u>New Processes</u></p> <ul style="list-style-type: none">• GHI will need to develop new processes to support separate regulatory reporting and rate setting requirements. <p><u>IT Systems</u></p> <ul style="list-style-type: none">• Changes in regulatory asset / liability amounts are affected by a combination of automated postings (billings from the SunGard system) and manual adjustments, based on monthly reconciliations performed, using standard journal entry functionality within SunGard. In the event that accounting for regulatory assets and liabilities differs between IFRS and OEB reporting requirements, two sets of reporting will be required.• SunGard does not have dual reporting functionality and thus does not have the capability to report amounts under both CGAAP and IFRS for the 2010 fiscal period. GHI will need to explore alternative means for IFRS reporting such as the use of additional IFRS adjustment G/L accounts or modify the system to copy source transactions to a separate IFRS company database and process entries using IFRS rules / configurations.• Utilizing the test environment within SunGard, fixed asset transactions can potentially be reported using differing methods for each financial reporting requirement (CGAAP, Tax, OEB, IFRS).• The OEB report requires rate applications filed in 2011 for 2012 rates to provide 2010 historical year information in both CGAAP and IFRS. 2011 and 2012 financial information must be provided in modified IFRS. Historical year prior to 2010 may be provided in CGAAP only.

**Other Impacts
(Business and People
Impacts)**

Financial Impact:

- The proposed standard may result in the recognition of additional impairment losses and also may result in recognition of additional revenues and expenses.

Regulatory Reporting:

- Regulatory assets and liabilities may be measured on a different basis than that required by the regulator. GHI may need to maintain two sets of books for its regulatory accounts.
- It must be highly probable that the regulator will require a cost to be included in the cost of an asset for rate-making purposes in order for that cost to be included in the cost of the asset under the proposed Rate-regulated Activities standard. If it is not highly probable, asset values under IFRS will be different than that reported for rate-making purposes. GHI may need to maintain two sets of books.
- In its report dated July 28, 2009, the OEB indicated that regulated net book value should be used as the basis for setting opening rate base values upon adoption of IFRS accounting and that IFRS capitalization requirements will be used after the date of adoption of IFRS. It is not clear whether the date of adoption of IFRS (OEB date) and the transition date (IFRS date) are the same date. GHI will have to maintain two sets of books if these two dates are different.

Tax Impact:

- The impact on taxable income will have to be assessed.

People Impact:

- Training for accounting and finance staff regarding the application of the proposed standard for Rate-regulated Activities.

IFRS Project Impact:

- Interpretation of the proposed Rate-regulated Activities standard is still in progress and the impact on LDC's in Ontario is not completely known.
- The approved standard may differ from the ED and those differences are not known. GHI will have to build flexibility into their project plan as a result.
- OEB policies have been set out in their July 28, 2009 report for filing requirements and the version of GAAP to be used, however, the Board may revisit their policies in particular pertaining to filing requirements subsequent to 2012.

**Considerations for
Next Phase
(Conversion Plan
Activities)**

- Evaluate GHI's activities against the scope of the proposed standard to determine if the company is within the scope of the standard and can apply the recommendations.
- Determine whether any deferred tax assets or liabilities are required relating to regulatory amounts.
- Evaluate the regulatory assets and liabilities against the definitions contained in the current and proposed IFRS framework.
- Determine whether there are any costs that the regulator requires the company to include in the cost of the asset and evaluate whether this requirement is highly probable.
- Design a process to measure regulatory assets and liabilities at the expected present value of the cash flows.
- Design a process to evaluate whether there are any indicators of impairment of the regulatory assets.
- Design a process to test cash generating units for impairment.
- Monitor IASB developments with respect to the ED on Rate-regulated Activities. A final standard is expected in June 2010.
- Monitor OEB developments. A Report of the Board was issued on July 28, 2009 which stated that the Board's approach may need to be

Regulatory Accounting (continued)

	<p>modified if an unanticipated ruling is received from the IASB</p> <ul style="list-style-type: none">• Consider the need for documentation of technical conclusions through draft accounting policies.• Design financial reporting processes and procedures, and draft accounting policies.
Index of Additional Topics of Interest	<ul style="list-style-type: none">• Refer to Revenue.

4. Revenue

Key GAAP Differences

Revenue Recognition

- Under IFRS, service revenue is recognized when the outcome of the transaction can be estimated reliably. Certain sources of revenue are not recognized as revenue under rate regulated accounting (e.g. smart meter customer billings).
- IFRS requires revenue to be measured at the fair value of the consideration received or receivable. Rate regulated accounting allows certain revenues to be recorded at approved amounts.
- Rate regulated utilities argue that under CGAAP, following the GAAP hierarchy, they can use FAS 71 to account for rate regulated transactions.
- IFRS requires revenue to be presented on a gross or net basis depending on the assessment of terms and risk. Billable work is presented on a net basis in the financial statements.

Impact on GHI's Current Accounting Policy / Application

- Customer billings for the debt retirement charges are recorded as a liability which is cleared when payment is made to the Ontario Energy Finance Corporation ("OEFC"). No revenue is ever recorded for these customer billings. If GHI is acting as a principal in respect of these billings then the billings would be recognized as revenue under IFRS. It is management's preliminary view that GHI acts as an agent in connection with these transactions.
- The rate impact of changes in the tax rates occurring after the rate application has been filed has been recognized as a reduction of distribution revenue. Distribution revenue should be measured at the fair value of the consideration received.
- IESO settlement arrangements - the adjustment at month end to make expense equal revenue may not meet the recognition criteria under IFRS as an asset/liability with a corresponding impact on either revenue /purchases.
- Retailer customer accounts - GHI records revenue (gross) as a principal for services provided through a Retailer. Management will need to determine whether or not the utility acts as principal or agent in connection with retailer billings.
- Ontario Power Authority (OPA) - Funding received from the OPA is recorded net of related costs in deferred revenue. GHI will have to determine if they act as principal or agent for the programs operated through OPA funding and a determination will have to be made whether the funding received from the OPA is in the nature of a government grant.

Additional IFRS Disclosures

- Accounting policies for the presentation of government grants may need to be developed and disclosed
- No other material disclosure differences noted.

Impact on IT Systems and Processes

New Processes

- GHI will need to develop new processes to support revenue recognition in accordance with IFRS.

IT Systems

- Billing, collections and cash processing of utility bills are processed through the SunGard system. Should accounting policies regarding revenue recognition on utility billing be changed, GHI will need to review the mapping of billing transactions to the GL chart of accounts and assess other potential implications (i.e. adding additional GL accounts, changing existing GL account category codes for reporting, changing existing custom reports to exclude or include certain accounts from appropriate accounting ledgers).

<p>Other Impacts (Business and People Impacts)</p>	<p><u>Financial Impact:</u></p> <ul style="list-style-type: none"> • The introduction of IFRS may result in the recognition of additional revenue sources and impact the amount, timing and recognition of certain revenues and expenses. <p><u>Regulatory Reporting:</u></p> <ul style="list-style-type: none"> • Where the financial impacts noted above are not accepted by the OEB, GHI may need to maintain two sets of books, IFRS and OEB, and reconcile them where required. This is currently the subject of OEB deliberation. <p><u>Other Business Impacts:</u></p> <ul style="list-style-type: none"> • Changes to the amount and timing of revenue and expense recognition will affect the key ratios reviewed by management, the audit committee and the board. The changes will impact retained earnings which may impact debt covenant (Times-Interest-Earning Ratio) calculations. <p><u>Budget Impacts:</u></p> <ul style="list-style-type: none"> • Consideration will have to be given to changes required in the budgeting process with respect to the amount and timing of revenue recognition. <p><u>Tax Impact:</u></p> <ul style="list-style-type: none"> • Additional revenue sources may be included in accounting income. Tax impacts will have to be considered. <p><u>People Impact:</u></p> <ul style="list-style-type: none"> • Accounting and finance staff will require training on the application of revenue recognition principles under IFRS.
<p>Considerations for Next Phase (Conversion Plan Activities)</p>	<ul style="list-style-type: none"> • Design new processes for the recognition of all customer billings as revenue while tracking revenue and associated costs and approved recoveries for rate setting purposes, if required. • Conclude on whether GHI is acting as agent or principal with respect to the billing, collection and payment of retailer billings, on behalf of the City, and the debt retirement charge as well as other "pass through" activities. • May need to design new processes to capture debt retirement charges as revenue and record the related expense to the OEFC. • May need to redesign the budget process to reflect the changes to revenue recognition. • Determine communication strategy with stakeholders regarding changes to amount and timing of revenue recognition. • Determine specific training requirements for finance staff. • Consider the need for documentation of technical conclusions through draft accounting policies. • Design financial reporting processes and procedures, and draft accounting policies.
<p>Index of Additional Topics of Interest</p>	<ul style="list-style-type: none"> • Refer to Regulatory Assets and Liabilities.

5. Intangible Assets

Key GAAP Differences

- The new Canadian GAAP HB S3064 Goodwill and Intangible Assets is effective for GHI on January 1, 2009. This new Canadian guidance is largely harmonized with IFRS, except IAS 38 which:
 - permits intangible assets to be measured subsequently using fair value (if specific criteria are met) or the cost method;
 - provides more detailed guidance on estimating an asset's useful life, selecting and reviewing an amortization period and method, and reviewing retirements and disposals.
- An asset which incorporates both intangible and tangible elements should be accounted for in accordance with the more significant element of the asset.

Impact on GHI's Current Accounting Policy / Application

- GHI's computer software, purchased with computer hardware as a bundle, is currently classified as PP&E.
- Depending on which component of the software is more significant, the tangible or non-tangible component, some computer software may be re-classed to Intangible Assets. Computer software would represent a finite life intangible asset.

Additional IFRS Disclosures

- Disclosures of intangible assets include:
 - Indefinite vs. finite useful lived intangible assets;
 - Amortization methods and useful lives/amortization rates where the intangible asset has a finite life;
 - Gross carrying amount and accumulated amortization;
 - The line to which the amortization expense has been recorded;
 - A reconciliation of the cost and accumulated amortization of each class at the beginning and end of the period including additions, disposals, held for sale assets, changes due to revaluations, impairment losses & reversals, amortization recognized during the period;
 - For intangible assets with indefinite useful lives, the carrying amount and the reason for assessing the asset as an indefinite lived intangible;
 - A description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the financial statements.

Impact on IT Systems and Processes

New Processes

- A new business process should be developed to identify whether future purchases of software should be classified as PP&E or Intangible Assets.

IT Systems

- System configuration changes may be necessary to map Intangible Assets to separate accounts in the chart of accounts, and ultimately the financial statements via separate account groupings.

Other Impacts (Business and People)

Regulatory Reporting:

- Rate base could be impacted to the extent that Computer Software is moved to Intangible Assets.

People Impact:

Intangible Assets (continued)

Impacts)	<ul style="list-style-type: none">• Determine training necessary for accounting and finance teams on new accounting requirements and any new financial reporting processes.• Communicate changes to regulatory staff for incorporation into rate applications.
Considerations for Next Phase (Conversion Plan Activities)	<ul style="list-style-type: none">• Conclude on appropriateness of re-classifying computer software from PP&E to Intangible Assets.• Consider plans for mapping the re-classified computer software to a separate line on the financial statements, and related processes for ongoing reconciliation between the sub-ledger and the general ledger.• Develop a process for annual review of the amortization period and method.• Configure reports or design new processes to address new disclosure requirements under IFRS.
Index of Additional Topics of Interest	<ul style="list-style-type: none">• Refer to PP&E.• Refer to Impairments.

6. Impairments

Key GAAP Differences

- Similar to CGAAP, long lived assets other than goodwill or indefinite life intangible assets, are tested for impairment when there has been a triggering event. However, impairment testing under IFRS involves a one stage process where the carrying value of the asset (or group of assets) is compared to the recoverable amount, which is defined as the higher of the value-in-use (discounted cash flows) or fair value less cost to sell. In contrast, CGAAP first determines whether impairment exists by comparing the carrying value to the undiscounted cash flows, and, if a write-down is necessary, the carrying value is compared to fair value of the asset.
- Value-in-use is a new concept under IFRS; it represents the discounted future cash flows of an entity.
- Under IFRS, impairment testing is conducted for a Cash Generating Unit ("CGU"), the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. Generally, a CGU is at a lower level than an asset group used under CGAAP.
- Impairment losses, other than from goodwill, are reversed if there has been a change in the estimate used to determine the assets' recoverable amount.

Impact on GHI's Current Accounting Policy / Application

- GHESI has not recorded an impairment loss on its long lived assets to date. Management believes that so long as GHESI can recover costs on its PP&E through rates it will never trigger the requirement to review impairment. Management needs to review the impairment triggering events under IFRS to determine that this approach is still appropriate.
- Management will need to review the allocation of assets to determine what makes up a CGU and if the rate regulated operations are one cash generating unit.
- Where a separate set of OEB books are maintained, a potential triggering event may include permanent differences between the OEB and IFRS cost basis of long lived assets (such as disallowed costs in rate base), as the recoverable amount would be limited by the OEB balance that is approved for recovery through rates.
- GHESI receives transfers of assets from customers. Any impacts on the recoverable value of these assets given the current regulatory treatment must be considered. (i.e. they are not included in rate base).

Additional IFRS Disclosures

- If impairments of Long-lived Assets and Intangible Assets are recorded, then the following disclosures would be required for each class of asset:
 - The amount of impairment losses recognized or reversed in profit or loss during the period, and the line item it was recorded to;
 - The amount of impairment losses on revalued assets recognized (or reversed) in other comprehensive income during the period.
- For each material impairment loss recognized or reversed during the period, disclose the following:
 - The events and circumstances that led to the recognition or reversal;
 - The amount;
 - The nature of any individual assets or a description of the CGU, where applicable;
 - Any changes to the assets comprising a CGU;
 - Whether the recoverable amount is the fair value less cost to sell or value-in-use, with discount rates used if the latter.
- Disclose, in aggregate, the main classes of assets affected by, and the main events and circumstances that led to, an impairment loss or reversal.

Impact on IT Systems and Processes

New Processes

- Reconciling OEB balances to IFRS long lived asset balances to determine whether assets are recoverable; where the OEB balance is less than the IFRS balance, a triggering event may exist as the recoverable amount (through rates) would be limited to the OEB balance.
- For assets where a triggering event has occurred, an impairment test will need to be completed. GHI will need to develop processes in accordance with new IFRS accounting policies, such as:
 - Determining CGU's;
 - Gathering fair value and cost to sell information;
 - Gathering cash flow details and calculating other estimates (i.e. discount rate);
 - Allocating an impairment loss across the assets in a CGU;
 - Tracking assets that are impaired for potential future impairment reversals.

IT Systems

- As there is no Fixed Asset module within the current SunGard system, GHI can utilize the Fixed Asset amortization spreadsheets to record impairment losses on assets (PP&E and finite life Intangible Assets, such as computer software) by changing the fixed asset value. The system does not retain a history of previous values.

**Other Impacts
(Business and People
Impacts)**

Financial Impact and Regulatory Reporting:

- In general, the new requirements give rise to more frequent impairment. However, in rate regulated industries, impairment losses would generally be dependent on the differences between the asset balances submitted to the OEB (i.e. the recoverable rate base) and the IFRS balances.
- To the extent that impairment losses are recorded, the impact on regulatory reporting will have to be determined.

Other Business Impact:

- The calculation of dividends payments will be impacted if an impairment loss is recognized. GHI will have to amend the definition of the measures used for this calculation.
- Key performance indicators such as net income, operating and capital expenditures, EBITDA, return on rate base, return on equity and other key ratios may be impacted if an impairment loss is recognized.
- Key inputs to debt covenant (Times-Interest-Earning Ratio) calculations for the Federation of Canadian Municipalities debt may be impacted.

Tax Impact:

- The impact on taxable income will have to be assessed once Canada Revenue Agency's guidelines and the new IFRS tax standard are fully developed.

People Impact:

- Training accounting and finance teams on new processes as described above.
- Training for finance teams on methods and concepts used in impairment testing under IFRS.

**Considerations for
Next Phase
(Conversion Plan
Activities)**

- Determine if there are separable assets within the regulated business and determine the assets to be included in each CGU.
- Develop a policy and processes for impairment testing including:
 - Determining CGU's;
 - Gathering fair value and cost to sell information;
 - Gathering cash flow details and calculating other estimates (i.e. discount rate);
 - Allocating an impairment loss across the assets in a CGU;
 - Tracking assets that are impaired for potential future impairment reversals.
- Configure reports or design new processes to address new disclosure requirements under IFRS.
- Consider the need for documentation of technical conclusions through draft accounting policies.
- Design financial reporting processes and procedures, and draft accounting policies.

**Index of Additional
Topics of Interest**

- Refer to PP&E.
- Refer to Intangible Assets.

7. Provisions, Contingent Liabilities and Contingent Assets

Key GAAP Differences

- IFRS requires both legal and constructive obligations to be assessed in determining dismantling or decommissioning costs, compared to CGAAP where asset retirement obligations are based on legal obligations only.
- The measurement of a decommissioning provision differs under IFRS whereby the accretion on the liability is required to be treated as interest expense.
- In determining whether a provision should be recognized, both CGAAP and IFRS look to past events and the probability of future outflows of resources. However, the probability threshold is different: IFRS uses a "more likely than not" threshold (greater than 50%), while CGAAP uses a "likely" recognition threshold (greater than 70%).
- If there is a large population and a continuous range of equally possible outcomes, then the obligation is measured at the mid-point of the range under IFRS. CGAAP requires that where no amount within a range is a better estimate than any other, then the obligation is measured at the low end of the range.
- IFRS requires discounting of provisions if the effect would be material.

Impact on GHI's Current Accounting Policy / Application

- GHI may have decommissioning provisions to be recognized under IFRS whereas they have recognized no such Asset Retirement Obligations under CGAAP. Decommissioning provisions may relate to the dismantling of transmission and distribution equipment and to old meters for the mandatory replacement by smart meters.
- GHI may have additional provisions to be recognized under IFRS based on the lower probability threshold for a provision.

Additional IFRS Disclosures

- IFRS requires additional disclosures for each class of provisions, as follows:
 - The carrying amount at the beginning and end of the period;
 - Additional provisions made in the period, including increases to existing provisions;
 - Amounts used (i.e. incurred and charged against the provision) during the period;
 - Unused amounts reversed during the period;
 - The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate, where applicable.
- For each class of provision, GHI shall disclose:
 - A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
 - An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, disclose the major assumptions made concerning future events;
 - The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement, where applicable.

<p>Impact on IT Systems and Processes</p>	<p>New Processes</p> <ul style="list-style-type: none"> • Process changes to identify and measure provisions and contingent assets and liabilities. • Design new process to create continuity schedules as required for disclosure under IFRS. <p>IT Systems</p> <ul style="list-style-type: none"> • No system impact is expected.
<p>Other Impacts (Business and People Impacts)</p>	<p>Financial Impacts</p> <ul style="list-style-type: none"> • The introduction of IFRS may result in the increased recognition of provisions which will impact results. <p>Regulatory Reporting:</p> <ul style="list-style-type: none"> • Further consideration to be given to the impact on rate setting. • If the OEB does not harmonize the rate setting mechanism with IFRS then: <ul style="list-style-type: none"> ◦ IFRS could impact rate base to the extent that asset retirement obligations and decommissioning provisions are required. ◦ IFRS may impact revenue requirement to the extent that recorded provisions increase depreciation and operations and maintenance expense. <p>Other Business Impact:</p> <ul style="list-style-type: none"> • If additional provisions are recorded, GHI will have to assess the impact on cost per customer used as key performance indicators and in the bonus plan as well as the impact on the calculation of net income for purposes of dividend payout calculation. <p>Tax Impact:</p> <ul style="list-style-type: none"> • The impact on taxable income will have to be assessed once Canada Revenue Agency's guidelines and the new IFRS tax standard are fully developed. <p>People Impact:</p> <ul style="list-style-type: none"> • Training accounting and finance teams on recognition and measurement of provisions and any changes in processes resulting. • Training regulatory team on the differences that may arise under IFRS.
<p>Considerations for Next Phase (Conversion Plan Activities)</p>	<ul style="list-style-type: none"> • Conclude on whether a decommissioning / dismantling cost should be recognized for constructive obligations, for example replacement costs of old meters for smart meters and transmission and distribution equipment. • Further analyze the current or potential liabilities to determine if a provision should be recognized under IFRS, by applying a lower threshold than applied under CGAAP. • Configure reports or design new processes to address new disclosure requirements under IFRS. • Develop a process to reassess estimates (i.e. discount rates) where discounting of provisions is required and determine appropriate mapping of accretion (unwinding of the discount).
<p>Index of Additional Topics of Interest</p>	<ul style="list-style-type: none"> • Refer to PP&E and discussions on Decommissioning Costs.

8. Employee Benefits

Key GAAP Differences

- Under both IFRS and CGAAP, where insufficient information is provided regarding a multi-employer defined benefit pension plan then the plan may be recorded as a defined contribution plan. While there is a presumption under CGAAP that sufficient information is not available, there is no such presumption under IFRS. However, even if the multi-employer plan is accounted for as a defined contribution plan, IFRS may require recognition of an additional pension asset/liability if there is a contractual arrangement to share/fund any plan surplus/deficit.
- Under IFRS, actuarial gains and losses may be recognized in profit or loss, or alternatively recognized immediately through equity. The policy chosen for the recognition of actuarial gains and losses is applied consistently to all defined benefit plans and from period to period. CGAAP does not permit recognition through equity and does not explicitly require the policy chosen to be applied consistently to all defined benefit plans.
- Under IFRS, past service costs for benefits that have not yet vested are amortized straight-line over the period until they vest. Vested past service costs are recognized directly in the statement of profit and loss. Under CGAAP, past service costs are amortized on a straight-line basis over the expected average remaining service life of employees.
- Under IFRS, guidance exists for post employment benefits funded through insurance policies. Whether this guidance is applicable to insured long term employee benefits is currently being debated. Application of this guidance would require companies to account for insured long term employee benefits under defined benefit accounting where risks are retained, directly or indirectly, by the organization.
- Under IFRS, short term employee benefits which are accumulating compensated absences are recognized when the employees render service, which increases their entitlement to future compensated absences. Accumulating compensated absences that do not vest must include a forfeiture factor when measuring the obligation. Under CGAAP, no liability is recorded for accumulating compensated absences that do not vest.
- Under IFRS, the rate used to discount post-employment benefit obligations is determined by reference to market yields at the balance sheet date on high quality corporate bonds. Under CGAAP, when the maturities of corporate bonds do not extend far enough into the future to match the cash flows inherent in the accrued benefit obligation, the rates on government bonds are used.

Impact on GHI's Current Accounting Policy / Application

- Where sufficient information is provided by OMERS, under IFRS, GHI may be required to account for their pension plan as a defined benefit pension plan, as opposed to a defined contribution plan. Even if the OMERS plan is accounted for as a defined contribution plan, IFRS may require recognition of an additional pension asset/liability if there is a contractual arrangement to share/fund any plan surplus/deficit.
- Under IFRS, any future past service costs must be recognized immediately (if vested) or amortized over the period until they vest.
- GHI currently recognizes actuarial gains and losses using the corridor method. Under IFRS, GHI may choose to recognize actuarial gains and losses immediately, directly in equity.
- Under IFRS, a liability may need to be recorded for accumulating compensated absences that do not vest (i.e. sick pay).

Additional IFRS Disclosures

- GHI shall disclose the employee benefits for key management personnel and employee benefits expense.
- Where sufficient information cannot be provided by OMERS of GHI's participation in the multi-employer plan, and the pension plan is accounted for as a defined contribution plan, the following disclosures are required:
 - The fact that the plan is a defined benefit plan;
 - The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan;
 - To the extent that a plan surplus or deficit may affect the amount of future contributions, the following additional disclosures are required:
 - any available information about that surplus or deficit;
 - the basis used to determine that surplus or deficit;
 - the implications, if any, for the entity.
- Disclose the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.
- If sufficient information is available to record GHI's participation in OMERS as a defined benefit plan, then additional disclosures will also be required.

Impact on IT Systems and Processes

New Processes

- GHI will need to develop processes in accordance with new IFRS accounting policies, such as gathering information required for additional disclosure including new requirements to disclose employee benefits of key management personnel and employee benefits expense.
- Pending determination of OMERS's ability to provide sufficient information to record the pension plan as a defined benefit plan and whether there are any contractual agreements on distribution of a plan surplus, or funding of a plan deficit, additional disclosures will be required for the plans.
- GHI will need to develop a formal process for their annual bonus payments to GHESI management and GHI employees.
- GHI will need to develop a formal process for measuring and recording accumulating compensated absences that do not vest (i.e. sick pay).

IT Systems

- No system impact is expected - standard journal entry functionality within SunGard will be utilized to record adjustments based on reports provided by a third party.

Other Impacts (Business and People Impacts)

Financial Impact

- Changes in timing of expense recognition as a result of conversion to IFRS.
- Where information is available from OMERS, measurement of the plan under defined benefit accounting may result in volatility in the P&L.

Regulatory Reporting

- Further consideration to be given to the impact on rate setting, if any.
- IFRS could impact revenue requirement to the extent that operating expenses change as a result of the timing of recognition of employee benefits.

Other Business Impact

Employee Benefits (continued)

- Changes in the timing of expense recognition, due to changes in the amortization period (average remaining service life to vesting period) or accounting under defined benefit plans will affect:
 - Key ratios reviewed such as current ratio, debt to equity ratio and cost per customer;
 - Debt covenant (Times-Interest-Earning Ratio) calculation to the extent that changes to accounting for the defined benefit plans may impact retained earnings and total earnings;
 - Overall results and thus consideration should be given to changing the threshold and target ranges for GHI's bonus plan.
- Changes to assumptions made by actuaries to incorporate IFRS requirements, where necessary.

Considerations for Next Phase (Conversion Plan Activities)

- Conclude on whether OMERS can provide sufficient information to GHI for the plan to be recorded as a defined benefit plan and whether there are any contractual agreements on distribution of a plan surplus, or funding of a plan deficit.
- Communications with actuaries regarding impact to GHI's actuarial valuations as a result of IFRS conversion.
- Monitor developments on whether risks are indirectly retained by GHI with respect to its long term life insurance program, as risks may be retained through the mechanism of setting future insurance premiums. Identify all long term employee benefits funded through insurance policies.
- Determine liability to be recorded for accumulating compensated absences that do not vest (i.e. sick pay). This calculation may need to be done in conjunction with the actuary.
- Configure reports or design new processes to address new disclosure requirements under IFRS.
- Conclude on elective exemption regarding recognizing unamortized actuarial losses in equity.
- Consider the need for documentation of technical conclusions through position papers and draft accounting policies.
- Design financial reporting processes and procedures, and draft accounting policies.
- Determine appropriate discount rate for post-employment obligations.

9. General Financial Statement Topics

Key GAAP Differences

Form and Components of Financial Statements

- Under IFRS, a statement of changes in equity and a statement of comprehensive income are required. Under CGAAP, a statement of retained earnings is presented instead of the statement of changes in equity.
- Under IFRS, an analysis of expenses by nature or by function is required in the income statement or in the notes, and the chosen classification must be applied consistently.
- Under IFRS, if there is a change in accounting policy three statements of financial position are required. This will be required in the year of transition.
- Under IFRS, a reporting entity has an accounting policy choice of classifying interest and dividends received as operating or investing activities and interest and dividends paid as operating and financing activities on the statement of cash flows. Under CGAAP, interest received and paid, and dividends received are treated as operating activities, while dividends paid are part of financing activities.
- IFRS makes no distinction between ordinary and extraordinary activities, and the presentation, disclosure or characterization of items as "extraordinary items" in the income statement or notes is prohibited.

Presentation of financial statements

- Current and non-current classification of certain items can be different between CGAAP and IFRS. The presentation and classification of customer deposits may also be different. Under IFRS all deferred tax assets/liabilities are non-current. Under CGAAP, the current vs. non-current classification is determined based on the nature of the asset/liability giving rise to deferred tax balance. An exposure draft of the new IFRS standard on income taxes has been released. One of the proposed changes is to present deferred taxes consistently with CGAAP, thereby eliminating the difference. The new standard is expected to be effective for fiscal 2012, with earlier adoption permitted. Therefore, GHI will need to determine the date that this new standard will be adopted and then determine the accounting differences based on the standard being applied.

Impact on GHI's Current Accounting Policy / Application

Form and Components of Financial Statements

- GHI will need to:
 - Reconsider the format of its Income Statement and determine its policy for presenting expenses by nature or function;
 - Present a separate statement of changes in equity instead of a combined statement of income and retained earnings;
 - Make an accounting policy choice on whether interest and dividends paid and received are financing or operating activities.

Additional IFRS Disclosures

- Accounting policy notes will be required to contain more details regarding policy elections and key judgments and estimates that have been made in preparing the financial statements.
- The ED on rate regulated accounting is expected to require disclosure of reconciliation between the opening and closing balance of regulatory assets and liabilities by type.

Impact on IT Systems and Processes

Form and Components of Financial Statements

- Design new processes to gather the information necessary to present a statement of equity.
- Design changes to process and present interest and dividends, paid or received, in financing or operating activities based on policy chosen by management.

IT Systems

- GHI generates its financial statements using reports from SunGard, with the notes prepared using MS Word based on data from SunGard. These reports and documents will have to be modified to reflect changes in the presentation of the components of the financial statements.

General Financial Statement Topics (continued)

	<p>and application of accounting policies.</p> <p><u>Presentation of financial statements</u></p> <ul style="list-style-type: none">• Remap any current deferred tax balances to non-current to comply with IFRS (assuming IFRS tax standard is not early adopted).
<p>Other Impacts (Business and People Impacts)</p>	<p><u>People Impact:</u></p> <ul style="list-style-type: none">• Training for accounting and finance teams on new processes and requirements as described above.
<p>Considerations for Next Phase (Conversion Plan Activities)</p>	<ul style="list-style-type: none">• Develop a template or draft Financial Statements with related notes.• Consider disclosures and accounting policy choices of peers in the industry.• Configure reports or design new processes to address new disclosure requirements under IFRS and the additional OEB disclosure requirements.

10. Miscellaneous Topics

Key GAAP Differences

There are often issues that arise due to differences in practice on the application of IFRS and CGAAP. Some of these are set out below.

Leases

- Under IFRS, a lease is classified as either a finance (capital) lease or an operating lease. The classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee. A number of indicators are used to assist classification. However, under CGAAP, in practice the quantitative thresholds included in the indicators generally are interpreted as "bright lines."

Inventory

- Effective January 1, 2008, GHI adopted CICA HB s 3031, which harmonized CGAAP with IFRS. Major spare parts and standby equipment have been reclassified from inventory to fixed assets upon adoption of s3031. Although the standards have been harmonized, there may still be differences in practice and interpretation. GHI will need to review the classifications in light of the IFRS guidance.

Investment Property

- IFRS includes in the definition of investment property: dual-use property, certain property under an operating lease, as well as investment property itself. Investment property is measured using the fair value or cost model and disclosure of the fair value of all investment property is required. Subsequent expenditures are capitalized only when it is probable that it will lead to economic benefits and transfers to or from investment property can be made only when there is a change in use of the property.

Related Party Transactions

- IFRS includes key management (including directors), their close family members, and post-employment benefit plans as related parties, whereas CGAAP does not address whether a post-employment benefit plan is a related party.
- Under CGAAP, there are special recognition and measurement requirements for related party transactions, whereas IFRS does not have specific requirements.

Impact on GHI's Current Accounting Policy / Application

Leases

- GHI accounts for all existing leases (certain office equipment and Electricity lease) as operating leases. Management does not anticipate a change in classification based on the IFRS standard; however, this assessment will need to be assessed.
- GHI pays an annual amount for the right to place its lines on poles on certain property owned by third parties (Bell Canada). The agreements, termed "joint use agreement", may contain a lease for purposes of IFRS and should be assessed further.

Inventory:

- In certain cases, assets returned to inventory for maintenance are transferred at average cost, not depreciated cost. When the asset was transferred back to PP&E, it was done at average inventory cost. The issue is multiple: (1) the amount reflected in PP&E for these assets maybe overstated since it reflects average inventory cost; (2) the asset was not depreciated while held in inventory; and (3) the value in inventory for the transferred item should reflect the depreciated cost (NBV) of the asset.

Investment Property:

- GHI leases parts of its building third parties (Atria). Management does not consider this arrangement to be material enough for further analysis. If circumstances change where the arrangement becomes material, these properties may need to be accounted for as investment property.

Miscellaneous Topics (continued)

	<p><u>Insurance Contracts</u></p> <ul style="list-style-type: none">• GHI is a member of MEARIE, a reciprocal insurance exchange, where members with similar risks agree to share in each others' losses. While amounts paid to MEARIE are pooled and claims paid from that pool, the amounts would be risk adjusted by member, however, there is a potential that each member would share in losses created by other members. <p><u>Related Party Transactions</u></p> <ul style="list-style-type: none">• There are a number of disclosure requirements for related parties of GHI. Examples of GHI's related parties include:<ul style="list-style-type: none">◦ Parents: Guelph Hydro Inc.;◦ Key management personnel, including the board of directors, and their close family members;◦ Other related parties, including all parties controlled by their parents (i.e. all the subsidiaries of their parent).• The IASB issued an exposure draft that proposes amending IAS 24 to provide an exemption from requirements to disclose related party transactions in respect of related party relationships that arise through common control by the state, except if indicators of influence exist between the entities. This will need to be assessed.
Additional IFRS Disclosures	<p><u>Leases</u></p> <ul style="list-style-type: none">• There are different lease disclosure requirements that GHI may be subject to pending materiality and classification as operating or finance, and lessee or lessor. <p><u>Investment Property</u></p> <ul style="list-style-type: none">• IFRS requires significant disclosure under the Investment Property standard, such as fair value amounts. <p><u>Related Party Transactions</u></p> <ul style="list-style-type: none">• IFRS requires disclosure of related party relationships between a parent and its subsidiaries, while CGAAP does not.• Compensation of key management personnel must be disclosed and categorized as short-term employee benefits, post-employment benefits, other long-term benefits, and termination benefits.• Comprehensive disclosures of related party transactions are required under both standards, however, IFRS requires the disclosure to be grouped into categories of related parties.• IFRS requires disclosure of the details of any guarantees given or received for outstanding balances resulting from related party transactions.• IFRS requires disclosure of the provisions for doubtful debts related to the amount of outstanding related party balances.• Under IFRS, the expense recognized during the period in respect of bad or doubtful accounts due from related parties is disclosed.
Impact on IT Systems and Processes	<p><u>New Processes</u></p> <ul style="list-style-type: none">• Pending identification of <u>Investment Property</u>: Design new processes for disclosure requirements.• <u>Leases</u>: Design new processes to gather lease commitment information if required.• <u>Related Party Transactions</u>: Design processes to gather information necessary for the related party disclosure requirements.
Other Impacts	<p><u>People Impact</u></p>

Miscellaneous Topics (continued)

(Business and People Impacts)	<ul style="list-style-type: none">• Training for accounting and finance teams on new processes and requirements as described above.• Communication plan regarding disclosure of compensation of key management personnel.
Considerations for Next Phase (Conversion Plan Activities)	<ul style="list-style-type: none">• Design new processes as set out above.• Configure reports or design new processes to address new disclosure requirements under IFRS. <p><u>Leases</u></p> <ul style="list-style-type: none">• Re-evaluate existing leases to determine the proper classification under IFRS. <p><u>Investment Property</u></p> <ul style="list-style-type: none">• Conclude on existence of investment property. <p><u>Insurance Contracts</u></p> <ul style="list-style-type: none">• Determine if participation in MEARIE falls within the scope of the Insurance Contract standard under IFRS (which is not applicable solely to Insurance companies). <p><u>Related Party Transactions</u></p> <ul style="list-style-type: none">• Follow resolution of exposure draft to amend IAS 24.
Index of Additional Topics of Interest	<ul style="list-style-type: none">• Refer to PP&E.

