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BY E-MAIL AND WEB POSTING

December 21, 2011

To: **All Licensed Electricity Distributors**
All Licensed Electricity Transmitters
All Rate-regulated Gas Distributors
Ontario Power Generation Inc.
Other Interested Stakeholders

Re: **Revision of Accounting Procedures Handbook for Electricity Distributors**
Board File No.: EB-2011-0428

The Ontario Energy Board has today posted for comment a revised *Accounting Procedures Handbook for Electricity Distributors* (the "APH", formerly titled *Accounting Procedures Handbook for Electric Distribution Utilities*). Many of the proposed revisions were undertaken to recognize the transition to International Financial Reporting Standards ("IFRS"). Appendix B to this letter outlines the key revisions to the APH.

All interested stakeholders are invited to provide written comments on the revised APH, which will be considered by the Board in finalizing the APH. Specific suggestions for wording to implement any changes recommended in the comments would be appreciated by the Board. In addition, the Board is particularly interested in comments on questions highlighted in Appendix B in the summaries to Articles 410 and 490. The revised APH can be found on the Board's website at www.ontarioenergyboard.ca under the "Transition to IFRS" webpage.

Written comments on the revised APH must be filed with the Board by **January 13, 2012** in accordance with the filing instructions set out below.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* in relation to their participation in this consultation. The costs will be divided equally between rate-regulated electricity distributors, and apportioned among the distributors on the basis of distribution revenue.

Appendix A to this letter contains important information regarding cost awards for this consultation, including eligibility requests and objections.

Cost awards will be available to eligible participants as follows:

Activity Eligible for Cost Awards	Total Eligible Hours per Eligible Participant
Written comments on the revised APH	Up to 16 hours

Filing Instructions

Two (2) paper copies of each filing must be provided, and should be sent to:

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

The Board requests that interested stakeholders make every effort to provide electronic copies of their filings in searchable/unrestricted Adobe Acrobat (PDF) format, and to submit their filings through the Board's web portal at www.errr.ontarioenergyboard.ca.

A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filings services" webpage on the Board's website at www.ontarioenergyboard.ca, and fill out a user ID password request. Additionally, interested stakeholders are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the e-filing services webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at BoardSec@ontarioenergyboard.ca.

Those that do not have internet access should provide a CD containing their filing in PDF format.

Filings to the Board must be received by the Board Secretary by **4:45 p.m.** on the required date. They must quote file number **EB-2011-0428** and include your name, address, telephone number and, where available, your e-mail address and fax number.

All materials related to this consultation will be available on the Board's website at www.ontarioenergyboard.ca under the "Transition to IFRS" webpage. The material will also be available for public inspection at the office of the Board during normal business hours.

If the written comment, request for cost award eligibility or other filing is from a private citizen (i.e., not a lawyer representing a client, not a consultant representing a client or organization, not an individual in an organization that represents the interests of consumers or other groups, and not an individual from a regulated entity), before making the filing available for viewing at the Board's offices or placing the filing on the Board's website, the Board will remove any personal (i.e., not business) contact information from the filing (i.e., the address, fax number, phone number, and e-mail address of the individual). However, the name of the individual and the content of the filing will be available for viewing at the Board's offices and will be placed on the Board's website.

If you have any questions regarding the revised APH please contact Ben Baksh at 416-440-8128, or by e-mail at Ben.Baksh@ontarioenergyboard.ca.

The Board’s toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Appendix A

Cost Award Information

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. The Board identified parties eligible for cost awards in its Decision on Cost Eligibility dated January 28, 2009 for participants in the initial phase of the EB-2008-0408 IFRS consultation. The Board affirms that those parties are eligible for costs for their participation in this consultation.

Any other person requesting cost eligibility must file with the Board a written submission to that effect by **December 28, 2011**, identifying the nature of the person's interest in this process and the grounds on which the person believes that he or she is eligible for an award of costs (including addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost award eligibility will be posted on the Board's website.

Rate-regulated licensed electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If a distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board Secretary by **4:45 pm** on **January 11, 2012**. All objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility of the requesting parties.

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

Groups representing the same interests or class of persons are expected to make every effort to communicate and co-ordinate their participation in this process.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process. For more information on the cost awards process, please see the Board's *Practice Direction on Cost Awards.* The Practice Direction can be found on the Board's website at www.ontarioenergyboard.ca on the "Rules, Codes, Guidelines and Forms" webpage.

Appendix B
Amendments to Accounting Procedures Handbook (“APH”)
APH Article Summaries

Chapter I: Introduction

Article 100—Introduction to the Accounting Procedures Handbook - Revised

This APH establishes the accounting records that electricity distributors must use for regulatory purposes. Such records assist in providing an adequate information base for establishing rates and monitoring distributor performance. The financial accounting and reporting system set out in this APH provides the structure to be used for financial forecasting, including test period information, revenue requirement, financial performance benchmarking, cost allocation and rate design. The Board conducts selected audits and reviews to assess distributor compliance with the APH.

The APH is designed for use by:

- each distributor’s accounting, financial and regulatory personnel;
- the distributor’s external auditors, where applicable;
- stakeholders, including intervenors in distributors’ regulatory proceedings; and
- the Board and the Board’s regulatory staff.

The APH has also been prepared in order to:

a) Summarize regulatory accounting procedures and requirements and provide a Uniform System of Accounts (“USoA") for the use of all electricity distributors, including those distributors concurrently possessing qualifying renewable generation assets and/or transmission capabilities.

b) Summarize the requirements and the Board’s interpretation, for regulatory purposes, of Canadian Generally Accepted Accounting Principles (“GAAP”) based on Part 1 – International Financial Reporting Standards (“IFRS”) of the Canadian Institute of Chartered Accountants Handbook - Accounting (“CICA Handbook”);

c) Address financial accounting issues where further guidance specific to Ontario distributors is required to ensure consistent and accurate information is recorded and reported;

d) Recognize that the regulatory process introduces certain specific cause-and-effect relationships in the matching of a distributor’s revenues and expenses, which may require special treatment for regulatory accounting; and

e) Encourage consistency in the application of regulatory accounting requirements and, to the extent possible, GAAP, where choices exist.

This Article addresses the following topics:

Regulatory Authority for the Accounting Procedures Handbook
Purpose of this APH
Application of the APH
Accounting Standards Applicable to Electricity Distributors
Sum Application Guidance for this APH
Summary of Specified Financial Reporting Requirements
Guidance for Use of this APH
Structure of the Articles in this APH
Effective Date of the Articles in this APH
Future Additions and Revisions to the APH
Publication of APH Material
Inquiries

Chapter II: Uniform System of Accounts

Article 210—Chart of Accounts - Revised

Name of Article changed from “Index” to “Chart of Accounts”

Account numbers and names are added, deleted or revised for reasons as follows:

1. New accounts approved by the Board in decisions, orders, policy papers, reports, guidelines and APH-FAQs
2. New accounts arising from IFRS accounting requirements
3. “Obsolete” accounts (were deleted)

Article 220—Account Descriptions - Revised

This Article provides accounts descriptions for all accounts in the Chart of Accounts.

Account descriptions added, deleted or revised for reasons as follows:

1. New accounts approved by the Board in decisions, policy papers, guidelines and APH-FAQs
2. New accounts arising from IFRS accounting requirements
3. Improve clarity of recording requirements

Article 230—Definitions and Instructions - Revised

Definitions and instructions added, deleted or revised to address recording requirements in the Uniform System of Accounts:

1. New regulatory accounting requirements
2. New IFRS accounting requirements

Chapter III: Application of Accounting Concepts

Article 315—Applying Regulatory Accounting Requirements in a Rate-Regulated Environment – New Article

The purpose of this Article is to provide guidance on the requirements for regulatory filing and reporting given the different accounting frameworks that are available for use by regulated electricity distributors for their general purpose financial statements. Further, this Article summarizes the modifications made to CICA Handbook Part I – IFRS by the Board for purposes of regulatory accounting and reporting.

The Board resolved that it will require all distributors that are required to adopt IFRS by accounting standard setting bodies to report information to the Board using modified IFRS (“MIFRS”) for regulatory accounting values. For those few distributors not required to adopt IFRS for financial reporting, the Board has stated that it will not require regulatory filing and reporting in MIFRS from those distributors. However, the Board does require distributors not using MIFRS to demonstrate their eligibility to use an alternative standard to IFRS for financial reporting, and set out the advantages and disadvantages of their choice of accounting framework.

In addition, the Board retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among distributors. The Board may also provide a distributor-specific regulatory accounting direction in a decision and order.

Unlike US GAAP, IFRS currently does not have any guidance or standard to address the unique issues arising in a rate-regulated environment. Instead, entities that are subject to rate regulation apply the same accounting principles and standards as those applied by non-regulated profit-oriented businesses. However, the IFRS accounting policies that are applied by a distributor are “modified” by regulatory requirements or the ratemaking actions of the Board and are thus called “modified IFRS” or “MIFRS” for regulatory accounting and reporting purposes. This Article lists the modifications to IFRS required by the Board for regulatory purposes.

Article 320—Accounting Changes - Revised

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. IFRS sets out accounting policies that are believed to result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. When specifically addressed by IFRS, a distributor applies the accounting policy or policies required by the applicable IFRS principle to a transaction. When IFRS does not cover a particular issue, a distributor uses judgment in developing and applying an accounting policy that results in relevant and reliable information. Where modified IFRS has been provided by the Board for a specific transaction, event or condition, the distributor shall use modified IFRS for regulatory accounting and reporting purposes.

In respect of a change in accounting policy that affects allowable costs for rate-making purposes, for regulatory accounting and reporting purposes the Board may permit the effect of the change to be recognized either prospectively or retrospectively. Determination of the accounting policy changes for which the Board will provide specific transitional guidance is at the discretion of the Board. For those accounting policy changes for which the Board has provided specific guidance, distributors are required to account for the change in the manner prescribed by the Board.

Article 330—Treatment of Certain Revenues and Expenses - Revised

Consistent with the requirements of accrual accounting, a distributor must assess whether the financial statements should include an amount of revenue for electricity distributed prior to the end of the period but that will not be billed until the subsequent period (unbilled revenue). To the extent a distributor has any such unbilled revenue that qualifies for recognition, the distributor is required to use an estimation technique to determine the amount of unbilled revenue to be accrued at the end of the period. IFRS does not prescribe how unbilled revenue should be estimated and this Article provides several methods that a distributor may use to determine the appropriate amount to accrue at period end.

Although accrual accounting and other concepts under IFRS are an important consideration in determining regulatory accounting and reporting requirements, the objective of just and reasonable rates is the primary driver of such requirements. As a result, the Board has the authority to establish regulatory debits and credits and require distributors to defer certain amounts recognized as revenues or expenses under IFRS as regulatory assets or regulatory liabilities for regulatory accounting and reporting purposes.

Distributors may undertake transactions that give rise to non rate-regulated revenues and expenses. Non rate-regulated revenues and expenses should be accounted for separately from regulated revenues and expenses to ensure that there is no cross-subsidization between regulated and non rate-regulated lines of business. In instances where activities envisioned by a USoA account could encompass both regulated and non-rate regulated activities e.g., distributor-owned qualifying renewable generation facilities, CDM programs and billing, the distributor should establish sub-accounts within the existing USoA account to capture financial information relating to similar activities that may be non-regulated in nature, or use the accounts prescribed for these non rate-regulated activities in the USoA.

Article 340—Allocation of Costs and Transfer Pricing - Revised

The purpose of this Article is to:

a) Provide regulated electricity distributors and their affiliates with a framework for the development of their own policies and procedures for allocating the cost of transactions, products or services between the distributor and its affiliates.

b) Provide distributors and their affiliates with an overview of the Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC") as it relates to accounting procedures or requirements in this APH.

c) Provide the Board with a framework for reviewing the policies and procedures developed by distributors for allocating costs and accounting for affiliate transactions.

This Article provides a framework related to the allocation of costs that should be followed by a distributor and its affiliates in developing policies and procedures for allocating the cost of transactions, products or services between the distributor and its affiliates. Transfer pricing principles that should be followed by a distributor and its affiliates in accounting for transactions between its regulated business and its affiliates are also discussed in this Article.

This Article also addresses the use of clearing accounts for overhead cost allocation. Distributors that allocate overhead costs to more than one account may initially include these costs in a "clearing account". Once the basis of allocation is determined, the costs contained in the clearing account would then be distributed to the appropriate accounts as provided for in the USoA.

Chapter IV: Accounting for Specific Items

Article 410—Property, Plant & Equipment and Intangible Assets - Revised

This article has been extensively revised to recognize the transition to IFRS, and comments on this Article would be appreciated. Major changes include “Intangible Assets” now addressed in this Article. With respect to Intangible Assets, the Board notes that capital contributions paid by a distributor to another distributor or a transmitter would be classified as an intangible asset, and these amounts will typically be included in rate base at the next cost of service rate application.

Furthermore, the Article does not address the regulatory treatment for decommissioning costs (asset retirement obligations). **The Board will consider in the future whether generic guidance is required and therefore comments on this issue are of interest to the Board**.

For Contributions in Aid of Construction received by a distributor, and the associated amortization, the Board is proposing that records be maintained in sufficient detail that the contribution or grant can be directly assigned to the specific type of asset for which the contribution was made. **The Board invites comment on the level of effort required to maintain this detail**.

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, International Accounting Standard 16 – *Property, Plant and Equipment* (IAS 16), which prescribes the accounting treatment for property, plant and equipment, and includes the recognition of assets, the determination of carrying amounts and the depreciation charges to be recognized. This Article also incorporates concepts from CICA Handbook Part I IFRS – IAS 38 – *Intangible Assets* (IAS 38); IAS 23 – *Borrowing Costs* (IAS 23); and IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). Accordingly, the Article should be read in conjunction with IAS 16, IAS 38, IAS 23 and IAS 37.

It should be noted that both IAS 16 and IAS 38 include the concept of a “Revaluation Model”, whereby property, plant and equipment or intangible assets whose fair value can be measured reliably may be carried at a revalued amount if the entity so chooses. Otherwise, the entity carries such items at historical cost less accumulated depreciation.

The Board requires that for rate-making purposes, distributors use historical acquisition cost as the basis for reporting property, plant and equipment as well as intangible assets.

This article describes the process and specific criteria used for determining if expenditures should be recognized on the balance sheet or expensed to operations in the period incurred. This article covers the following accounting issues:

a) Expenditures Qualifying as Capital Assets
- Recognition of Assets
- Measurement at Recognition
- Subsequent Costs (Capitalization)
- Measurement after Recognition
- Derecognition, Disposal and Retirement
- Provisions for Decommissioning, Restoration and Similar Costs
- Like Assets
- Readily Identifiable Assets
- Major Spare Parts and Stand-by Equipment
- Accounting for Contributions in Aid of Construction
- Cost Deferrals for Rate-Making Purposes

b) Construction in Progress and Related Borrowing Costs
- Capitalization of Borrowing Costs
- Commencement of Capitalization of Borrowing Costs
- Suspending and Ceasing the Capitalization of Borrowing Costs
- Regulatory Treatment

c) Depreciation and Amortization Methods
- General
- Depreciation/Amortization Methods
- Revision of Depreciation/Amortization Method and Estimated Useful Life

Article 420—Inventory - Revised

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, International Accounting Standard 2 – *Inventories* (IAS 2), which provides the accounting treatment for inventories. IAS 2 provides guidance on the determination of cost of inventory and its subsequent recognition as an expense, including any write-down to net realizable value (NRV). Additionally, it provides guidance on the cost formulas that are used to assign cost to inventories.

The key issues in this Article relate to the treatment of spare parts and stand-by equipment, as well as acceptable methods of inventory cost determination. Note that the accounting treatment for major spare parts and stand-by equipment is found in Article 410— Property, Plant & Equipment and Intangible Assets. This Article should be directly referred to for guidance on the accounting treatment of these items. No change is proposed to the current treatment of spare parts as assets since this is acceptable under IFRS.

The Board does not prescribe which method of inventory cost determination should be used by distributors for general IFRS financial statement purposes, or regulatory reporting and rate-making purposes. The Board does recognize that the majority of distributors use weighted average costing and this is acceptable.

Article 425—Lease Transactions – New Article

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, IAS 17 — *Leases* (IAS 17), which prescribes the appropriate accounting policies and disclosures for lessees and lessors to apply in relation to leases. The accounting treatment for a lease depends on which party bears risks and rewards incidental to ownership of the leased asset, rather than legal ownership.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Under an operating lease, the lessee recognizes the lease payments as income or expense over the lease term.

A lease of land and building is treated as two separate leases, a lease of the land and a lease of the building. The two leases may be classified differently.

In determining whether the lease of land is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

Article 430—Contributions in Aid of Construction - Revised

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS IAS 16 *Property, Plant and Equipment* (IAS 16), IAS 18 *Revenue* (IAS 18), and IFRIC 18 *Transfers of Assets from Customers* (IFRIC 18 or the Interpretation), which provide guidance for the accounting treatment for transfers of assets from customers.

If as part of a connection or expansion project a distributor must incur costs to connect a customer to its distribution network, in certain scenarios, the distributor is permitted to recover a portion (or all) of the costs of the connection from the customer (i.e., a contribution in aid of construction). The customer contribution may be in the form of monies, services or property.

For ratemaking purposes, the portion of the cost of property, plant and equipment funded through customer contributions and any related depreciation expense is not allowed to be included in the distributor's rate base and revenue requirement, respectively. A deferred revenue account will be used to identify and record contributions in aid of construction received by a distributor. Amounts recognized in the deferred revenue account will be amortized to income over the useful life of the property, plant and equipment. The amortization process and deferred revenue account will offset the related depreciation expense and property, plant and equipment accounts respectively, effectively eliminating depreciation expense and property, plant and equipment funded through contributions in aid of construction from the determination of the distributor's revenue requirement and rate base.

Article 435—Foreign Currency Translation – New Article

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, IAS 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21), which prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The key issues in this Article are which exchange rate(s) to use and how to report the effects of changes in exchange rates for a distributor foreign currency transactions.

The assets, liabilities, revenues and expenses of a distributor are measured in its functional currency, which is defined as the currency of the primary economic environment in which the distributor operates. Although an electricity distributor may have operations in foreign countries and/or transact in currencies other than the Canadian dollar, the functional currency of an electricity distributor is unlikely to be a currency other than the Canadian dollar as such foreign operations and transactions typically form only a small part of its total economic activities. For a typical electricity distributor, the majority of its operations and transactions are conducted in Ontario.

A distributor may be permitted to present its audited financial statements in a currency other than its functional currency. However, for regulatory accounting and reporting purposes, the Canadian dollar must be used.

Foreign exchange gains or losses that arise on translation or settlement of a foreign currency denominated monetary item or non-monetary item measured at fair value should be recorded in Account 4398, Foreign Exchange Gains and Losses, Including Amortization. These amounts should be disclosed to the Board for rate setting purposes.

Article 440—Income Taxes - Revised

The purpose of this Article is to set out the regulatory accounting procedures or requirements for income taxes. Income taxes include all domestic and foreign taxes which are based on taxable profits/income. This Article does not deal with the methods of accounting for government grants or investment tax credits. However, this Article does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

CICA Handbook Part – IFRS, IAS 12 — *Income Taxes* ("IAS 12") prescribes the accounting treatment for income taxes. IAS 12 requires an entity to recognize the current and future tax consequences of transactions and other events of the current period and the future recovery (settlement) of the carrying amount of the assets (liabilities) that are recognized in the entity's statement of financial position. Use of the 'taxes payable method', which only recognizes current tax assets and liabilities, is not permitted.

The Board's practice is to include estimated taxes (the current tax or PILs provision) in revenue requirement for purposes of setting rates. Tax or PILs related costs as incurred in the future may be recovered in rates when approved in a future rate proceeding. This means that the method of accounting for deferred income taxes will not affect the manner in which just and reasonable rates are set by the Board. The accounts for deferred taxes provided in the USoA are provided in this Article.

Article 450— Financial Instruments, Deposits and Collateral Funds - Revised

Derivatives are financial instruments that derive their value from an underlying price or index, which could be for example, an interest rate, a foreign exchange rate or commodity price.

All derivatives are recognized on the statement of financial position and are measured at fair value.

An embedded derivative is not accounted for separately from the host contract when it is closely related to the host contract or when the entire contract is measured at fair value through profit or loss. In other cases, an embedded derivative is accounted for separately as a derivative.

The Article also discusses non-derivative financial instruments.

An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Financial assets and financial liabilities are recognized in the statement of financial position when an entity becomes subject to the contractual terms of the instrument.

A financial asset is derecognized when the contractual rights to the cash flows from that asset expire or when the entity transfers a financial asset and the transfer qualifies for derecognition. A financial liability is derecognized when it is extinguished or when its terms are modified substantially, and any gain or loss on extinguishment is recognized in profit or loss.

All financial instruments are measured initially at fair value.

IAS 39 establishes specific categories into which all financial assets and financial liabilities are classified. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the financial statements of an entity.

Financial assets are measured subsequently at fair value except for loans and receivables and held-to-maturity investments, which are measured at amortized cost. Financial liabilities, other than those held for trading or designated as at fair value through profit or loss, are measured at amortized cost subsequent to initial recognition.

Reclassifications of financial assets between different categories are permitted only if certain criteria are met. Certain items cannot be reclassified.

When there is objective evidence that a financial asset measured at amortized cost, or at fair value with changes recognized in other comprehensive income, may be impaired, the amount of any impairment loss is recognized.

Deposits may be collected to guarantee payment of energy bills, performance of contract requirements or payment of construction costs.

Collateral funds are customer or other types of funded deposits that have been pledged as security and segregated in special funds.

Article 455—Joint Ventures – New Article

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, IAS 31 — *Interests in Joint Ventures* (IAS 31), which prescribes the accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers, regardless of the structures of forms under which the joint venture activities take place**.**

A joint venture is an entity, asset or operation that is subject to contractually established joint control.

For jointly controlled assets, the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output. Similarly, for jointly controlled operations, the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation.

Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements. Unrealized profits and losses on transactions with jointly controlled entities are eliminated to the extent of the investor's interest in the investee.

New accounts are established in the USoA for these transactions.

Article 460—Business Combinations – New Article

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, IFRS 3 — *Business Combinations* (IFRS 3), which establishes principles and requirements for how an acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest of the business combination by the acquiree,
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination

The Article describes the regulatory accounting treatment for electric plant, and for the acquisition or disposal of such assets.

Purchase premiums are contained in Account 2060, Electric Plant Acquisition Adjustments. For ratemaking purposes, this amount is not included in the distributor's revenue requirement in the future.

Article 470—Employee Benefits - Revised

The purpose of this Article is to set out the regulatory accounting procedures or requirements for employee benefits. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, other than share-based payments. An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis, and include directors and other management personnel.

The employee benefits covered by this Article include those provided:

a) Under formal plans or other formal agreements between a distributor and individual employees, groups of employees or their representatives;

b) Under legislative requirements, or through industry arrangements, whereby distributors are required to contribute to national, state, industry or other multi-employer plans; or

c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The Board issued an *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*. The Board noted that the issues relating to pension and other post-employment benefit costs ("P&OPEB") are not the same for all distributors. The Board did not change the Board's approach to P&OPEB and decided not to address specific issues faced by distributors in a generic proceeding. Specifically, the Board made the following decisions:

a) For electrical utilities, the current practice approved by the Board will continue for P&OPEB. Any changes to current practice may be sought through an application to the Board;

b) The Board will not approve the creation of a generic account for IFRS related impacts on P&OPEB accounts occurring at the date of transition. The option remains for utilities to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS;

c) The Board will not create or define a generic account to address ongoing volatility after rebasing under modified IFRS ("MIFRS"). Utilities can apply to the Board for a utility-specific variance account if they can demonstrate the probability of significant ongoing volatility after rebasing under MIFRS; and

d) The Board will not create or define a generic account to record the impacts of changes in IFRS standards. Any individual utility that anticipates a large impact from a change in IFRS standards can apply to the Board for relief.

As a result of the above decisions by the Board, distributors are expected to continue to account for P&OPEB as they have done in the past. Specifically, those distributors that have been allowed to include P&OPEB in determining revenue requirement under previous Canadian GAAP will continue to do so under MIFRS. However, for such distributors, the recognition and measurement of the P&OPEB cost will be determined based on the requirements of IAS 19 rather than previous Canadian GAAP. Further, unless a distributor applies to the Board and is granted permission to use a deferral/ variance account to address impacts arising from its transition to IFRS, ongoing fluctuations in P&OPEB after rebasing under MIFRS and/or impacts arising from the recent (and future) changes to IAS 19, P&OPEB costs to be included in revenue requirement will be determined based on IAS 19.

Article 475—Operation and Maintenance Activities – Revised (formerly Article 530)

The underlying concept for this Article is that the cost of operation and maintenance ("O&M") activities should be classified and reported in a manner that facilitates comparability of the activities conducted by each electricity distributor with those of other distributors.

The O&M account structure in the Uniform System of Accounts ("USoA") enhances the Board's ability to perform such a comparison. In addition, the distinguishing characteristics attributable to O&M activities allow the Board to better understand the nature of distributors' cost components in their rate applications.

This Article provides detailed guidance on the classification of O&M activities described in the accounts in the USoA.

Article 490—Accounting for Specific Items Retail Services and Settlement Variances - Revised

This Article summarizes the accounting procedures and requirements pertaining to all of the Retail Service Cost Variance Accounts ("RCVA") and Retail Settlement Variance Accounts ("RSVA") as well as miscellaneous recoveries and charges.

The Board particularly requests comments on the following issue: IFRS requires that the accrual method be used for items such as those described in this Article. To be consistent with this requirement, the Board will require that the accrual method be used for RCVAs and RSVAs. The Article establishes a requirement to commence this approach on January 1, 2011. **The Board is interested in comments from parties on whether a transition period is required, and if so, what would be a reasonable and practical date for the transition? June 30, 2012?**

This Article emphasizes the need, for regulatory purposes, to provide detailed accounting for the revenue and expense streams associated with the variance accounts for retail service and market settlements. This detail will provide information on the distributor's cash flow and risk exposure and will assist the Board in making further decisions related to the use and disposition of the variance accounts and the appropriateness of Board approved rates, charges or fees.

Chapter V: Accounting for Transitional Issues

Article 510—Transitional Issues Relating to the Adoption of IFRS – New Article

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1), which sets forth the transitional requirements for the first-time adoption of IFRS.

IFRS 1 sets out the transitional requirements and exemptions available on first-time adoption of IFRS. Generally, IFRS 1 requires full retrospective application of IFRS in a first-time adopter's first IFRS financial statements, although there are mandatory exceptions and optional exemptions that provide specific relief from this requirement in certain areas.

An entity is required to present an opening IFRS balance sheet at the date of transition to IFRS, which is the starting point for accounting in accordance with IFRS.

A first-time adopter typically will generate a series of adjustments in preparing its opening IFRS balance sheet. Any required opening IFRS balance sheet adjustments are generally recognized directly in retained earnings (or, if appropriate, another category of equity) at the date of transition.

A first-time adopter must explain in its first IFRS financial statements how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows.

All distributors that adopt IFRS must continue to report information to the Board using Canadian GAAP until and including the fiscal year prior to the year in which the distributor has chosen to adopt IFRS for financial reporting. Subsequently, beginning with the year in which the distributor has chosen to adopt IFRS for financial reporting, a distributor is required to report information to the Board using modified IFRS for regulatory accounting values. Those few distributors that have not adopted IFRS for financial reporting must report information to the Board using the form of generally accepted accounting principles applicable to them as regulated entities.

Two dates are particularly relevant to the first time adoption of IFRS. In this Article, the "changeover date" is the first day of the year in which the distributor has chosen to adopt IFRS for financial reporting. However, in the year prior to the changeover date, distributors are required by IFRS to maintain accounts for financial reporting in both previous Canadian GAAP and IFRS. In this Article, the first day of the year in which records are to be kept under both systems is referred to as the "transition date".

The vast majority of distributors will adopt IFRS in fiscal 2012. A distributor adopting IFRS in fiscal 2012 must begin using modified IFRS for regulatory accounting and reporting purposes as of January 1, 2012 (the changeover date). At this date, the distributor is required to compare the balances of the regulatory accounts contained in the USoA as determined under previous Canadian GAAP at December 31, 2011 to the corresponding balances at December 31, 2011 determined in accordance with modified IFRS. For any account balances with different carrying amounts, the distributor must record journal entries such that the resulting account balances are in compliance with modified IFRS. The adjusting entries will reflect any differences arising on the date of transition as well as differences arising during the 2011 fiscal year.

Adjustments required at the transition date are generally recognized directly in opening retained earnings. In respect of PP&E, a distributor must use a deferral account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified IFRS. A generic deferral account is not available for other IFRS related impacts occurring at the date of transition. The option remains for distributors to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS.

Article 525—Application of Generally Accepted Accounting Principles in a Rate-Regulated Environment - Revised (formerly Article 310)

This Article was included in the previous version of the APH (July 1, 2007) as Article 310, but was removed when regulated utilities transitioned to IFRS and MIFRS effective January 1, 2012. New Article 315 was created to address the application of regulatory accounting in a rate-regulated environment.

This Article, renumbered Article 525, has been included for general information purposes only. The accounting policies, practices and procedures discussed herein were acceptable for both general purpose financial reporting and regulatory accounting prior to the adoption of IFRS and MIFRS (i.e. January 1, 2012). These accounting practices are currently not acceptable for reporting subsequent to January 1, 2012. Refer to Articles 100 and 315 for details of the accounting practices to be applied from January 1, 2012. In addition, there may be some historic value in keeping this former Article as a reference to the regulatory accounting which was in force under previous Canadian GAAP.

All references to the CICA Handbook contained in this Article relate to “pre-changeover accounting standards” in effect to December 31, 2011 i.e. those standards applied by an entity prior to its adoption of IFRS.