EB-2008-0220
Board Staff Submission
December 31, 2008

Z-factor Treatment of International Financial Reporting Standards Costs

In its pre-filed evidence (Exhibit A-1 p6-9) Union stated that the International Financial Reporting Standard event (IFRS) meets all Z factor criteria. Criteria 5 requires that "The cost increase / decrease must meet the materiality threshold of $1.5 million annually per Z factor event (i.e. the sum of all individual items underlying the Z factor event)." Union indicated that for 2009 the pre-tax cost associated with converting to IFRS is $1.511 million, thereby meeting the criteria for treatment as a Z factor.

In response to Board Staff interrogatory Exhibit B1.1 Union confirmed that it is seeking approval (Z factor treatment) in the 2009 rates proceeding to recover the amounts reflecting the impact of the conversion to IFRS on its revenue requirement for the years 2009 through 2012. Both forecasted Operating and Maintenance expenses and the Capital Investment carrying costs (depreciation, interest, return, taxes) associated with the conversion to IFRS comprise the costs captured in the revenue requirement amounts for each year. See tables below for a summary of the annual conversion costs and the revenue requirement impact.

IFRS Conversion Costs

(in thousands)	2008	2009	2010	2011	2012
Capital Investment	$ 592	$ 1,334	$ 263		
Annual Carrying Cost *	$ 86	$ 363	$ 581	$ 595	$ 497
Operating & Maintenance	$ 882	$ 1,148	$ 929	$ 96	
Total Annual (pre-tax) Cost	$ 968	$ 1,511	$ 1,510	$ 691	$ 497

* comprised of depreciation and interest

Source: Exhibit A-1- p6 table 1

IFRS Conversion Revenue Requirement

(in thousands)	2008	2009	2010	2011	2012
Annual Carrying Cost **	-$ 14.0	$ 91	$ 511	$ 823	$ 712
Operating & Maintenance	$ 882	$ 1,148	$ 929	$ 96	
Total ***	$ 868	$ 1,239	$ 1,440	$ 919	$ 712

**comprised of depreciation, interest, return and flow through taxes

*** Union is not seeking recovery of the impact on the 2008 revenue requirement

Source: Exhibit A-1 p9 table 2

In its Argument-in-Chief (p.5) Union stated:

> Union views the IFRS costs as a one time event and proposes to adjust rates annually over the IR term, given that the costs associated with the IFRS conversion are largely incurred in 2009 and 2010. Because a large proportion of those costs are capital costs associated with changes to Union's accounting system, there will be revenue requirement impacts beyond those years (depreciation, return, tax). Accordingly, the costs in 2011 and 2012 are directly relating to capital costs incurred in 2009 and 2010. They are part of the same Z factor event and cannot be viewed on a standalone basis (Exhibit A, T1, p. 6, Table 1; Exhibit B2.1(c)).

It is not clear to Board staff that the nature of the costs incurred, be it a capital expenditure or an operating expense, can modify the stipulation in criteria 5 that the $1.5 million threshold is to be met annually for the amount to be treated as a Z factor for the rate year. The "annually" provision in criteria 5 seems to preclude the notion that IFRS event costs incurred over the 2008-2012 period are not to be viewed on a stand-alone year by year basis.