



**Ontario Energy Board**

Commission de l'énergie de l'Ontario

# IFRS Challenges Regulator's Viewpoint

CAMPUT May 12, 2009

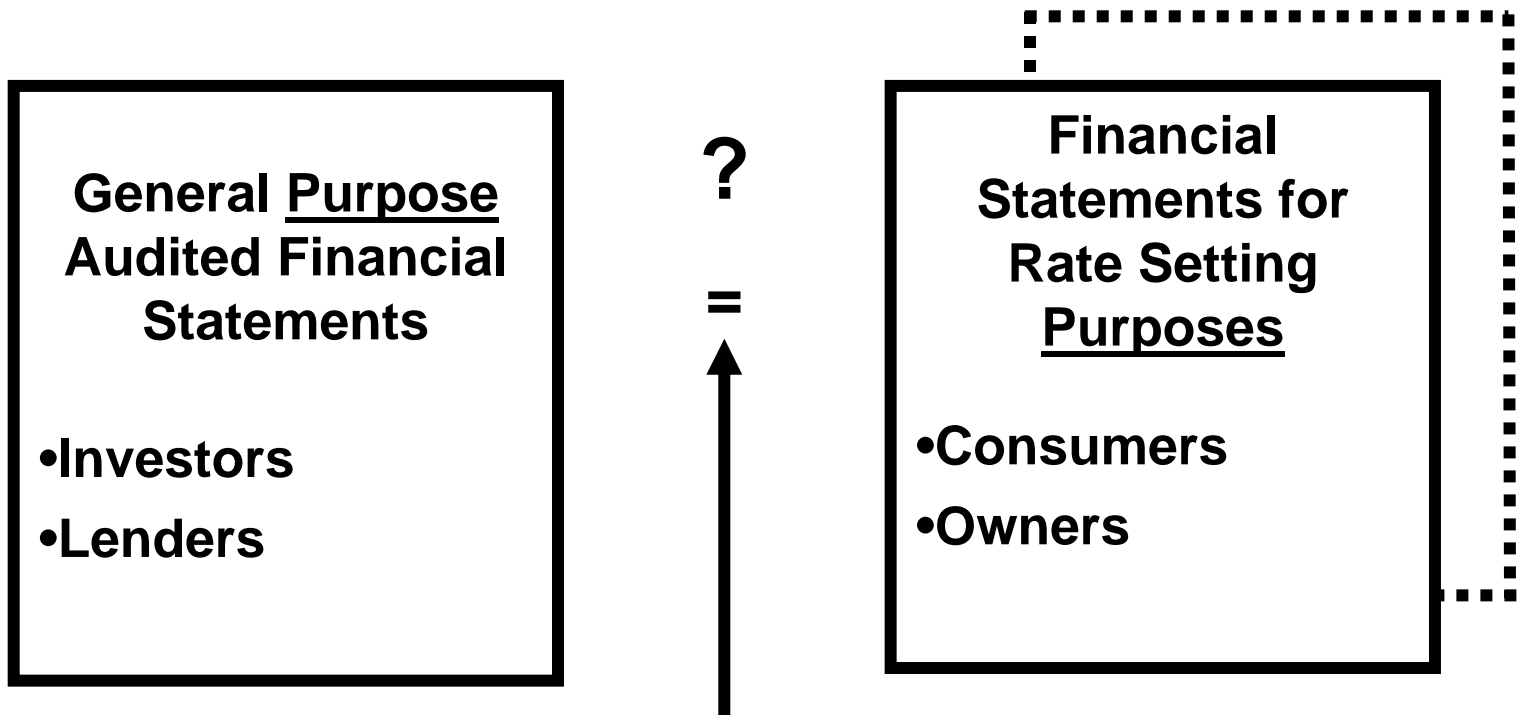
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# IFRS Challenges – Topics

1. Purpose governs relevance
2. Regulatory landscape in Ontario
3. Impact areas
4. The work plan
5. Illustrative issues list
6. Work elsewhere in Canada

# Purpose Governs Relevance

## Perspective(s) on Economic Reality



**Greater differences mean more challenge to run the enterprise to meet differing objectives**

# Regulatory Landscape in Ontario

- Rate Regulated Electricity Utilities

- 80 Distributors
- 3 Transmitters
- 1 Generator (partial)

(Some reporting issuers or subs of reporting issuers, many government owned, many not GAAP savvy)

- Rate Regulated Gas Utilities

- 2 Large Distributors
- 1 Small Distributor

(2 Large are reporting issuers)

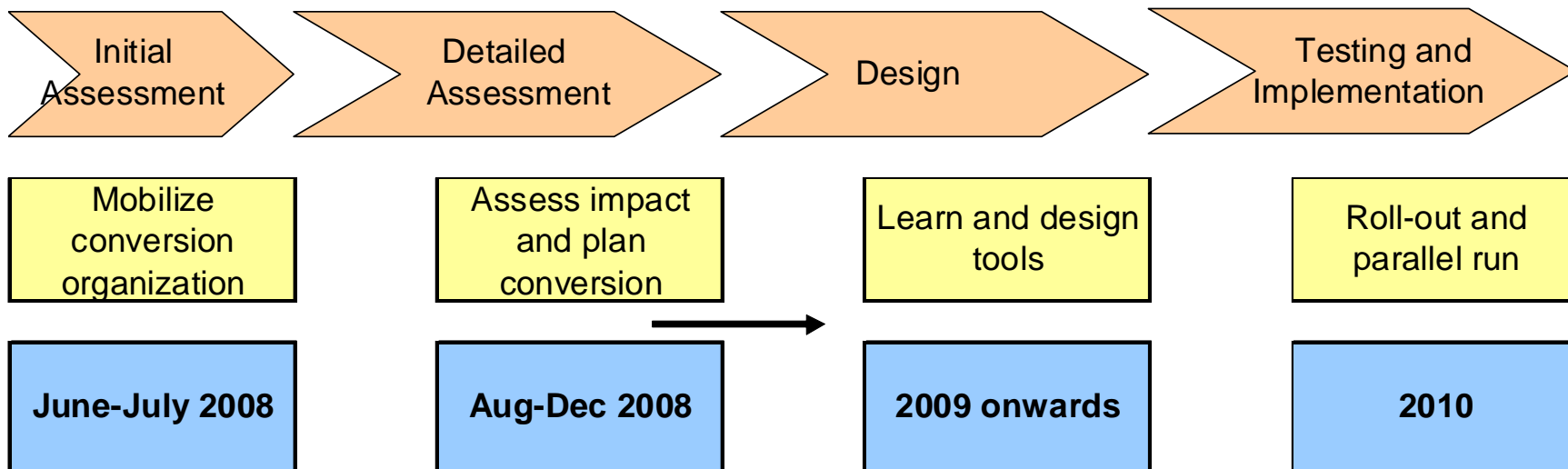


# Impact Areas

- Migration from Canadian GAAP to IFRS will
  - Change financial reporting by market participants
  - Influence OEB regulatory accounting and reporting requirements
  - Impact rate setting processes and assumptions
  - Create uncertainty until details are worked out
- Will require modifications to
  - Regulatory accounting standards
  - Reporting and record-keeping requirements
  - Rate setting processes
  - Training and communication

# Overall Timeline

## Regulated Enterprise



## OEB Decisions

Key principles

(mid 2009)

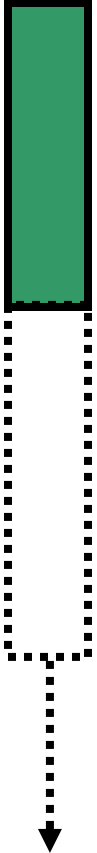
Board tools

(end 2009)



# OEB Work Plan

- Preparatory work
- Phased approach
  1. Policy consultation: formulate policy principles involved in transition to IFRS
  2. Amend relevant regulatory instruments in order to implement the Board's policy
  3. Possible Phase 3 – electricity generators and transmitters ? No firm plans yet



# Preparatory Work

- Fall of 2008 - OEB staff met with industry participants to help develop IFRS transition plan
- Participants provided information and feedback
- Material posted on OEB's website
  - “Simulated Electricity Distributor Inc” – before IFRS and after financial statements
  - Key areas of potential change to accounting
  - Key topics in reference manuals requiring change
- Matters raised used to prepare draft issues list in next stage

# Phase 1: Policy Consultation

## Overall Objective of Phase 1

- Set out key principles to apply in Ontario in an IFRS world for
  - regulatory accounting
  - periodic reporting
  - applications filings
- Applicable to
  - Electricity distributors
  - Gas distributors

# Phase 1: Policy Consultation (Cont'd)

## Key Steps:

- Issues meeting
  - Board staff consultant report to illuminate issues
  - Approximately 65 participants, intervenor costs
  - Group of intervenors supported by expert
- Informal meetings
  - potential for resolution on some issues
- Stakeholder conference with Board members on issues, week of May 4<sup>th</sup>
- Written comments
- Board report addressing issues

# Phase 1: Policy Consultation (Cont'd)

## Board staff consultant, KPMG, report addresses:

1. Key areas in which principles are required to support transition to IFRS
  - relevant issues that need to be addressed under IFRS
  - range of alternatives available
  - implications on rate-making of each alternative for rate payers, regulated utilities and the rate making process
2. IFRS experience in other regulatory jurisdictions

# Phase 1: Issues List

- **Regulatory Assets and Liabilities**
  - Continue to use deferral and variance accounts if not recognized under IFRS?
  - Approve definitions for deferral and variance accounts?

# Phase 1: Issues List (Cont'd)

- **Property, Plant & Equipment**
  - First-time adoption: require historic cost NBV or IFRS adoption of Fair Value or restatement as opening values?
  - After adoption historical or FV restatement?
  - After adoption capitalization requirements conform to IFRS?
  - What about other matters: borrowing costs in CWIP, customer contributions in rate base, reclassifications to intangible assets, asset retirement obligations, gains/losses on disposition, asset impairment?

# Phase 1: Issues List (Cont'd)

- **Depreciation**

- Should Board set parameters for regulatory purposes, e.g.
  - Depreciation methods?
  - Level of sub-componentization?
- Should Board facilitate distributors setting own depreciation rates vs using ones historically provided?

# Phase 1: Issues List (Cont'd)

- **Changes to accounting and rate treatments – other areas?**
  - Inventory valuation (Gas: lower of cost and NRV, vs flow through?)
  - Payments in lieu of corporate income taxes
  - Pension and employee future benefit costs

# Phase 1: Issues List (Cont'd)

- **Uncertainties – What to do About Changing Accounting Standards?**
  - Exemption re retrospective restatement of PP&E?
  - Recognition of regulatory assets/liabilities
  - Applicability of IFRS to public sector organizations

# Phase 1: Issues List (Cont'd)

- **Uncertainties – Rate Impacts**
  - Magnitude and direction of rate impacts?
  - Need a mechanism to mitigate rate impacts, if any?
  - Should rate increase thresholds be set?
  - Who should pay for transition and ongoing costs?
  - How can the Board encourage minimization of IFRS implementation costs?

# Phase 1: Issues List (Cont'd)

- **Filing Guidelines for Rate Applications?**
  - During and after transition to IFRS?
  - Financial info to use in Cost of Service applications for historical and test years after 2009?
  - Any specific measures in multi-year incentive rate mechanisms to take account of IFRS?
  - Incentive Rate applications include reconciliation to same standards used when incentive framework approved?

# Phase 1: Issues List (Cont'd)

- **Other Changes to Reporting Requirements?**
  - Reporting during and after transition?
  - Require reporting using IFRS beginning January 1, 2011?
  - Require continued use of Cdn GAAP until December 31, 2010?
  - Require reconciliations between IFRS and regulatory accounting info?
  - Require supplementary audit assurance re regulatory accounting values?

# Phase 2: Regulatory Instruments

## **Gas rules:**

- Natural gas USoA
- Natural gas RRR

## **Electricity reporting requirements:**

- Electricity RRR
- Electricity USoA

## **Policy guidelines:**

- Electricity APH
- Filing for rate applications (electricity and gas)

# Work Elsewhere in Canada

- Alberta Utilities Commission
  - Developed principles
  - Draft positions on key regulatory accounting matters out for consultation
- Other regulators?

# Closing Remarks

- Engaging Board members
- Team approach
  - Case Manager
  - Subject Matter Experts
- OEB website

[www/OEB.gov.on.ca](http://www/OEB.gov.on.ca)  
(under OEB Key Initiatives)

