



**Canadian Association of Members of
Public Utility Tribunals**

**Association canadienne des membres des
tribunaux d'utilité publique**

October 27, 2008

The International Financial Reporting Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH
Attention: Ms. Tricia O'Malley

Dear Ms. O'Malley

**RE: Agenda Paper 7A: Project Plan for Agenda Request on Rate Regulated
Activities**

The Canadian Association of Members of Public Utilities Tribunals (CAMPUT) is responding to the International Financial Reporting Interpretations Committee's (IFRIC) request for comments on its agenda paper 7A – Project Plan for Agenda Request on Rate Regulated Activities.

CAMPUT is an association of the agencies that regulate gas and electric utilities in Canada: one federal, ten provincial and three territorial agencies. Some of the member agencies also regulate water and sewer utilities. Each agency has different methods and degrees of independence from its appointing government body. However, a common element of each agency is that they use financial statements prepared by Canadian rate regulated utilities. This financial information is of critical importance, being independently verified by audit, and forms a cornerstone for the determination of appropriate rates. Each agency has the right to demand financial information from the rate regulated utility entities, and some have the jurisdiction to determine the format of that information. Further in some cases, agencies have issued accounting principles or regulations providing specific direction for the preparation of financial statements for regulatory purposes.

All CAMPUT members are essentially charged with the task of ensuring that approved rates are just and reasonable. Some are charged with obtaining rates that reflect the "lowest possible costs consistent with reliable service". Regulators make decisions that result in economic events that occur over multiple fiscal years and are recognized as multi-year transactions. Regulatory orders and decisions have provided utilities with the ability to recover prudently incurred expenditures through current or future rates. This has allowed the regulatory agencies to manage the annual revenue requirements of the utilities so that consumers enjoy stable/or reasonable rates.

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An example of where specialized accounting has occurred is in the circumstance where a utility has incurred extraordinary costs to repair damage caused by a storm. In the case where a regulator has decided to allow for economic recovery of these costs through rates over a specified period of years, Canadian accounting recognizes that such a rate-setting decision has provided for future recovery such that an asset has been created and recognized in general-purpose financial statements – an economic reality that seems unreasonable to ignore.

Another example is costs incurred by all utilities in one province a few years ago for the transition to a new regulatory market. In this case the regulator ruled that all prudent costs of the transition (in specified categories) would be eligible for recovery through rates over specified time periods. This gave economic substance to the idea that the consumer and not the shareholder should bear these costs and provided sufficient assurance of future recovery that treatment of these costs as an asset was appropriate.

For some time, CAMPUT members have been reviewing the implications of the adoption of International Financial Reporting Standards (IFRS) on the financial statements of rate-regulated entities.

CAMPUT is particularly concerned that under IFRS it may no longer be permissible for utilities to continue to recognize certain regulatory assets and liabilities on their financial statements. The changes for many of the rate-regulated entities will be significant and result in material earnings volatility from year to year.

There are two impacts that CAMPUT sees could cause problems in the future if the effect of regulatory decisions on the cash flows and economic reality of utilities is not recognized by IFRS:

1. To keep track of the multiple year economic effects of their price-setting regulatory decisions, CAMPUT members could require that rate-regulated entities continue to report information to the regulator using rate-regulated accounting that differs from IFRS. The resulting special purpose rate regulated financial statements could be significantly different from IFRS-based audited financial statements. The larger earnings volatility reported in IFRS financial statements could result in the market demanding a higher premium to reflect the risk of large annual variations in utility net income, a result that could result in the utilities being compensated for risks that, in reality, they would not bear.
2. Regulatory rulings are often specifically designed to alter the cash flows of utilities and the rate-based payments of customers. Utility regulators are likely to continue to take these actions, regardless of IFRS accounting standards, to meet rate-setting objectives. However, creating an environment of systematically ignoring major regulatory actions that result in economic consequences for utilities will impede the value of IFRS financial statements. The users of financial statements may well place pressure on both the rate-regulated entities and their regulators to explain apparent dichotomies between regulatory decisions and published financial

information. This could require and result in complex financial analyses that may do more to confuse financial statement users than enlighten them.

In summary, for IASB/IFRIC not to affirm the legitimacy of specialized regulatory accounting within IFRS would be to deny recognition of the full economic effect of rate decisions of regulators.

CAMPUT members are involved in a number of IFRS related activities. For example, the Alberta Utilities Commission and the National Energy Board have already submitted comments to the IFRIC (on June 30, 2008 and August 22, 2008, respectively).

CAMPUT strongly recommends that the issue of rate-regulated activities be re-examined by the IASB. CAMPUT would be prepared to assist. For more information please contact the undersigned.

Yours very truly,



Peter W. Gurnham, Q.C.
Chair CAMPUT

cc: Canadian Accounting Standards Board, 277 Wellington Street West, Toronto, ON M5V 3H2