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Alberta Utilities Commission  
10055 – 106 Street, 10<sup>th</sup> Floor  
Edmonton, Alberta  
Canada T5J 2Y2

**Attention: Mr. David Mitchell - Regulatory Specialist**

Dear Mr. Mitchell:

**RE: Alberta Utilities Commission  
International Financial Reporting Standards (“IFRS”)  
Comments of NOVA Gas Transmission Ltd. (“NGTL”)**

NGTL refers to the letter dated September 25, 2008 from the internal IFRS team established by the Alberta Utilities Commission (the “AUC” or “Commission”). That letter included a request for information from utilities in respect of areas utilities have identified as the priorities for the Commission to address related to the Canadian Accounting Standards Board’s confirmed transition to IFRS effective January 1, 2011. Specifically, the Commission requested information related to the following items:

- 1) list areas utilities have identified as priorities for the Commission to address;
- 2) in each area identified, outline the specific aspects of the topic as priorities;
- 3) indicate the order the areas should be dealt with (from most time sensitive to the least);
- 4) summarize differences between IFRS and Canadian GAAP for each topic included; and
- 5) outline options available to the Commission for each topic.

NGTL has reviewed the information request and has prepared the attached outline of some issues it feels the Commission could consider during their review of IFRS (see attached Appendix A). NGTL believes that a more in-depth and thorough examination would be required to fully identify all issues, options and impacts that the Commission might consider in its analysis.

NGTL appreciates the opportunity to provide its input on the information as requested by the Commission. If you have any questions, please contact Carolyn Shaw at (403) 920-7172.

**NOVA Gas Transmission Ltd.**

A wholly owned subsidiary of TransCanada PipeLines Limited

***Original Signed by***

Murray Sondergard  
Director, Regulatory Services  
Law and Regulatory Affairs

**Appendix A:  
Alberta Utilities Commission  
IFRS Request for Information**

**Options available to the Commission**

Based on NGTL's preliminary analysis, NGTL believes that the issues associated with Canada's transition to IFRS could be addressed by the Commission through three differing approaches. NGTL has provided a summary of each of these three approaches as well as some of the challenges associated with each below.

*Option 1: No significant action required by the Commission*

Under this option, the Commission may select not to make any significant changes to the regulatory rules and thereby require regulated utilities to retain separate books of account for regulatory reporting. This option in some ways may be the simplest, as the Commission would require no immediate changes to regulatory reporting. Regulatory rules would also need to be examined to determine whether any such rules may be underpinned by the concept of generally accepted accounting principles and therefore inherently impacted by the changeover to IFRS. If this is the case, the Commission may need to examine Regulatory accounting even if its intent is not to take any significant actions on IFRS.

One of the challenges associated with this approach relates to the risk that utilities may experience increased cost of capital as a result of volatility in earnings that may occur under IFRS. In particular, if regulatory assets and liabilities are not recognized under IFRS, the financial results reported under IFRS may reflect volatility, which may make it more difficult or costly for utilities to obtain financing. Additionally, the cost of retaining two separate sets of books for accounting purposes is a challenge. Under this approach the utilities' shippers would be at risk of bearing the increasing cost of capital and the costs of running two sets of accounting books, in addition to a potential increased need for reconciliations.

*Option 2: Minimize differences between IFRS and Regulatory accounting to the extent practicable*

This option would allow the Commission to work to minimize differences between the two sets of rules wherever possible. Certain differences may be practicable to eliminate in the short term, where the elimination of other differences may require longer term projects. Under this approach some differences between Regulatory accounting and IFRS accounting may never be fully removed. However, this option would allow the Commission to prioritize efforts in certain areas in the immediate term and schedule other areas for consideration as part of a longer term conversion project. One of the challenges associated with this approach is that the minimization of differences will always require utilities to retain dual accounting records to some extent. The efficiencies to be gained by reducing accounting differences may decrease in direct relation to the extent of material differences still remaining under IFRS. Efficiencies associated with the elimination of the need for dual books would need to be balanced with the impact that a partial or full acceptance of IFRS may have on costs and ultimately on rates.

### *Option 3: Full adoption of IFRS for Regulatory accounting purposes*

This option would eliminate the need for utilities to retain two sets of accounting records. It would allow the Commission to utilize accounting standards already designed and maintained by the International Accounting Standards Board (“IASB”). This option could however have an impact on costs and ultimately on rates and regulations. The Commission would need to further examine such impacts to determine whether the resulting impact on Regulatory accounting and rates would be considered acceptable. This option may still result in utilities preparing two sets of books for a period of time as it may take a considerable period of time to fully implement adoption of IFRS for Regulatory accounting purposes.

### *Transitional Plan*

Under either of Option 2 or Option 3, the Commission will also need to consider the mechanics of any full or partial transition to IFRS. This would include considering whether IFRS adjustments would be recognized in full in the period they occur (possibly putting utility customers at risk of rate shock) or over a period of time (likely to spread the rate impact out). Generally any transitional plan needs to balance both the interests of stakeholders and the utilities.

### **Areas of priority for the Commission**

The Commission has requested that the utilities provide a list of perceived areas of priority for the Commission to address in respect of the transition to IFRS. NGTL has identified areas of consideration, including actions that the Commission might consider taking in each of these areas. Please note that the list is not all inclusive; a more thorough analysis may reveal additional areas of priority, or additional action options for each area identified. Additionally, NGTL recognizes that a number of the current IFRS standards are expected to change as a result of scheduled IASB projects. Future changes to IFRS may further impact the areas of priority and options selected by the Commission to address each area.

NGTL believes that all of the issues listed below could have an impact on the financial records of regulated entities and as such are all worthy of further investigation and analysis. However, NGTL suggests that the most critical issue the Commission needs to further investigate in the near term is the issue of costs disallowed under IFRS. This area requires immediate attention as its resolution could have significant impacts on accounting and reporting systems. Such system changes often require considerable lead time to plan, design and implement. NGTL believes that from a cost impact perspective the issue of regulatory deferrals could have a significant impact on rates and as such would also be an issue requiring high prioritization by the Commission.

#### **1) Costs Disallowance Under IFRS**

The issue of cost disallowance under IFRS can be divided into two major categories of costs: (1) those incurred pre-IFRS transition (for which the recently proposed IFRS 1 exemption for regulated operations may be applicable); and (2) those incurred post-IFRS transition.

The IASB recently issued an exposure draft of IFRS 1. This exposure draft proposes an election which would permit regulated operations to use the carrying amount, at the date of transition to IFRS, of items that were determined under previous GAAP but do not qualify for capitalization in accordance with IFRS. This exemption would be available in situations where it is otherwise impractical to meet the requirements of IFRS. The comment period on this exposure draft ends in January 2009. The final text of the exposure draft is not expected to be published until the second half of 2009.

It is unknown whether the proposed exemption will ultimately become part of the standards, and even if it were to become a standard whether regulated utilities would be able to demonstrate the impracticability criteria for application of the exemption. Per IAS 8 “applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.” As such, NGTL believes that the Commission may need to consider the accounting for costs disallowed under IFRS both pre and post-IFRS transition.

Certain items may not meet asset recognition criteria under IFRS. Such items include overhead costs, pre-operating costs and accounting for asset disposals. If these items do not meet IFRS criteria for capitalization as part of the property, plant and equipment (“PP&E”) they would need to be expensed for accounting purposes in the period incurred. As the Commission requires capitalization of these items in the rate base, this would create a difference between accounting books and regulatory books.

Allowance for funds used during construction (“AFUDC”) is partly calculated based on the rate of return on rate base approved by the Commission and included in the cost of PP&E. It is expected that this portion, equity AFUDC, would not be a permissible addition to PP&E under IFRS as such amounts would not be expected to qualify as assets. As such under IFRS, equity AFUDC is expected not to be recorded. Additionally, IFRS will permit an entity to capitalize all borrowing costs that are directly attributable to the construction of a qualifying asset. The regulator requires an entity to record equity AFUDC, which would differ from borrowing costs capitalized under IFRS thereby resulting in the need for two sets of books to track these amounts.

Earlier in this Appendix, NGTL outlined three potential options it believes are available to the Commission for addressing the differences between IFRS and existing Regulatory accounting. NGTL believes all three of these approaches are available to the Commission for addressing the issue of disallowed costs under IFRS.

## **2) Regulatory Deferrals – Recognition under IFRS**

Regulatory deferrals include items such as over/under collection of revenue, employee future benefits, foreign currency translation and items resulting from accounting for financial instruments. Effective for 2009 under Canadian GAAP, regulatory deferrals will also include future income tax balances.

Some have argued that IFRS currently do not appear to recognize regulatory deferrals as items meeting the Framework definition of assets and liabilities. Similarly, it could be argued whether sufficient “control” over customers from whom the regulatory deferrals are receivable/payable exist to meet the Framework definition. A risk also exists that regulatory liabilities may meet the

recognition criteria as provisions; while regulatory assets may not meet recognition criteria as assets or contingent assets. The International Financial Reporting Interpretations Committee (“IFRIC”) is considering whether to accept a project on this issue. The outcome of the IFRICs deliberations will not be known until at least November 2008. Ultimate resolution of this issue under IFRS may not occur for some time should a decision be made to take the project on at either an IASB or IFRIC level. As articulated in the Commission’s letter of June 30, 2008 to the IASB, there is a common concern that “a large number of regulatory assets and liabilities may not be allowed to be recognized under IFRS” in light of the fact that regulatory assets and liabilities do reflect economic reality.

In order to advance this issue, NGTL encourages the Commission to work with Canadian regulated entities and IFRIC to determine whether changes could be made to the wording of regulatory filings, rules or general statements made by the Commission in order to strengthen the argument for asset/liability recognition of regulatory deferrals under IFRS.

### **3) Other IFRS Differences**

This category of issues includes accounting for asset retirement obligations and differing depreciation methodologies, though NGTL recognizes further analysis of IFRS and regulated accounting may identify additional IFRS differences warranting consideration. To address the issues noted below the Commission could choose to follow any one of the three options previously discussed in this Appendix.

#### **Asset Retirement Obligations**

NGTL is currently not recovering end of life abandonment costs in its rates and an obligation has not been recognized for this future cost. Generally an entity is more likely to recognize an asset retirement obligation (“ARO”) under IFRS than under previous Canadian GAAP. IFRS introduces the concept of a constructive obligation and does not necessarily require the existence of a legal obligation to require recognition of a provision. IFRS emphasizes the importance of relevant information and as such an organization is generally required to provide its best estimate of a cost or liability.

A regulatory project is currently underway at the National Energy Board (“NEB”) to further investigate the issue of abandonment costs. The project is expected to address timing to begin the collection of this cost in rates and the scope of asset retirement thereby providing some guidance on how a pipeline system should be retired.

#### **Depreciation Methodologies**

IFRS require entities to depreciate assets on a componentized basis. Though it appears generally that regulated entities follow fairly disaggregated accounting for asset depreciation, there exists a risk that some regulated entities may find that the depreciation methodology required under IFRS may be different than that required for regulatory purposes.

## **Business Combinations**

IFRS is transitioning towards new business combination rules. These rules propose numerous changes to business combination accounting some of which will impact accounting for transaction and reorganization costs. The changing business combination rules may result in differences between IFRS accounting and Regulatory accounting.

## **IFRS 1 – First time Adoption**

IFRS contains a standard, IFRS 1, which specifically provides transitional rules to companies converting from their previous country specific GAAP to IFRS. The impact of various IFRS 1 adjustments available to the utilities on transition to IFRS will need to be evaluated in terms of any impact they may have on costs and ultimately on rates and regulations.