



October 6, 2008

Mr. David Mitchell, CA
Regulatory Specialist
Alberta Utilities Commission
10055 – 106 Street
Edmonton, Alberta
T5J 2Y2

**RE: International Financial Reporting Standards (IFRS) Collaborative Process
Request for Information**

Dear Mr. Mitchell:

ATCO Gas, ATCO Electric and ATCO Pipelines (the ATCO Utilities) are writing in response to your letter dated September 25, 2008 where a list was requested of areas that utilities regard as priorities for the Alberta Utilities Commission (the AUC or the Commission) to deal with. That list is contained in Appendix A to this letter. This list is based on the current standards. As these standards change or new ones are introduced, this will change the list of issues that the AUC should consider.

The ATCO Utilities need to get these most time sensitive issues resolved by the end of this year so it can implement the necessary changes to its information systems in a cost effective manner. This process must start early next year. While some issues that have been identified will not impact information systems design, they will impact GRAs and GTAs that could be filed as early as the Spring of 2009.

As noted in the meeting on September 22, 2008, one goal that utilities have is to minimize the number of changes that would be required for regulatory purposes through the recognition of regulatory assets and liabilities under IFRS. The ATCO Utilities are working with their respective industry associations to lobby IFRIC to adopt this issue for consideration. The other goal is to bring regulatory practices in line with IFRS where it makes sense to do so and to consider that utilities are currently not allowed to recognize regulatory assets and liabilities under IFRS. It should be recognized that changes in regulatory principles may have an impact on the rates being charged to customers which are necessary to ensure that utilities continue to have a reasonable opportunity to recover their operating costs and earn their approved rate of return.

If you have any questions, please contact Dan Rochon at (403) 292-7389 who is the ATCO Utilities' representative for this process.

Yours truly,

Original Signed by Michael W. Gillis (for)

W. JAMES BECKETT, P. ENG.
EXECUTIVE VICE-PRESIDENT & CHIEF REGULATORY OFFICER

DR/dlz

Appendix A

Property Plant and Equipment

Fixed Asset issues are the most time sensitive as they will directly impact information systems development. As requested, these issues are presented in order of the most time sensitive to the least. These issues are not necessarily the most significant in terms of their impact on the regulatory process.

AFUDC

Utilities currently capitalize AFUDC as part of the cost of a project. This is usually done based on mid-year CWIP balances using the approved AFUDC rate.

Canadian GAAP allows utilities to capitalize the equity portion of AFUDC while IFRS does not. Canadian GAAP and IFRS both allow companies to capitalize Interest During Construction (IDC). The main differences between IDC under IFRS and the debt portion of AFUDC are that IDC under IFRS would be calculated on monthly CWIP balances and not mid-year balances and IDC under IFRS does not look at your total capital structure to determine what portion of CWIP is financed by debt. There are also some fairly small differences between IDC under IFRS and debt AFUDC on how the average embedded cost of debt is calculated. The net result is that AFUDC and IDC under IFRS should be fairly close in value. The lower cost rate is offset by the use of monthly CWIP balances. The AUC may or may not wish to adopt IFRS as its regulatory policy. If not, utilities would maintain current regulatory information as well as IFRS information.

Major Overhauls

Cost of major overhauls are usually capitalized and depreciated over the same life as the related asset. Some utilities expense these costs in the year incurred. Under IFRS, cost of major overhauls should be capitalized and depreciated until the next major overhaul. When an asset is acquired or constructed, the costs related to the parts that will be replaced in the first overhaul should also be depreciated until that first overhaul. The costs of assets being replaced should be retired.

The AUC may or may not wish to adopt IFRS as its regulatory policy. If not, utilities would maintain current regulatory information as well as IFRS information. Adopting IFRS in this instance however does not represent a significant change from current regulatory practice.

Asset Relocation Costs

Currently utilities capitalize the costs of moving an asset already in service from one location to another. Under IFRS, the installation cost in the new location can be capitalized as long as the costs in the old location are retired. The cost of actually relocating existing assets has to be expensed as it does not provide future economic benefit.

The AUC may or may not wish to adopt IFRS as its regulatory policy. If not, utilities would maintain current regulatory information as well as IFRS information. Adopting IFRS should not represent a significant change to current regulatory practice as these costs are usually fairly minor.

Other Issues

These issues are less time sensitive as they do not impact system development. They are presented in order of importance.

Income Taxes

Utilities currently use the flow through method of calculating income taxes for regulatory and Canadian GAAP. Starting in 2009, utilities will be required to record a Future Income Tax Liability, however it will be offset by a future income tax regulatory asset. Under IFRS, utilities will also be required to record a Future Income Tax Liability; however it may or may not be offset by a future income tax regulatory asset.

The AUC may or may not wish to adopt IFRS as its regulatory policy. If not, utilities would maintain current regulatory information as well as IFRS information. In the event that utilities are not able to recognize regulated assets under IFRS, the AUC should decide to allow future income taxes in the revenue requirement to support earnings and rate stability for utilities.

Regulated Assets and Liabilities

Canadian GAAP currently allows rate regulated companies to recognize regulatory assets and liabilities on their Balance Sheet. IFRS does not. Their current view is that the disposition of a deferral account balance is a future operating cost that relies on future volumes. The utility does not have the right to recover the deferral account balance until it is actually billed to the customer. There is no contractual relationship with those future customers as the customer that was “undercharged” in the past can move out of the service territory of the regulated company and avoid any payment. In the case of regulated liabilities, the customer must purchase future service to receive the benefit of lower rates. The ATCO Utilities understand that the only place where regulatory assets and liabilities are recognized is in Spain where the regulated company has a contractual relationship with the utilities commission that guarantees the recovery of deferral account balances.

The AUC may or may not wish to adopt IFRS as its regulatory policy. The ATCO Utilities would not recommend that the AUC change its previously approved deferral accounts to be consistent with IFRS. The ATCO Utilities are still working with its industry associations to lobby IFRIC to adopt the issue of regulated assets and liabilities for consideration.

Intangible Assets

Utilities currently record software development costs and land rights as property plant and equipment. IFRS classifies these assets as intangible assets. In 2009, the CICA Handbook will be changed to be substantially converged with IFRS. Utilities would continue to include these assets in their rate base and as such no change in regulatory treatment is required other than to acknowledge that intangible assets would be recognized in rate base.

Customer Contributions

Utilities currently classify customer contributions as a deduction to property plant and equipment. In IFRIC Draft Interpretation D24, IFRS requires that customer contributions be set up as an obligation. Utilities would continue to include these contributions as a reduction to rate base and as such no change in regulatory treatment is required other than to acknowledge that contributions would continue to be recognized in rate base.