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October 7, 2008

Mr. David Mitchell, CA
Alberta Utilities Commission
10055 – 106 St, 10th Floor
Edmonton, AB T5J 2Y5

Dear Sir:

Re: International Financial Reporting Standards (IFRS) Request for Information

AltaGas Utilities Inc. (AUI or the Company) is pleased to provide comments in response to the Alberta Utilities Commission's (AUC) letter dated September 25, 2008 regarding IFRS and its possible impact on future regulatory applications and reporting. The above noted letter requested the following information:

- (a) a list of areas regarded as priorities for the AUC to deal with in the order that they should be dealt with;
- (b) a summary of the differences between IFRS and Canadian GAAP for each area; and
- (c) options available to the AUC for each area.

AUI has identified several potential differences between the accounting policies and practices currently used by the Company for regulatory reporting purposes (i.e., Canadian GAAP) and the financial reporting requirements of IFRS. Differences in reporting requirements that remain upon transition to IFRS will require AUI to design and implement accounting practices and information systems to record and report accounting information for both regulatory and IFRS purposes. Some differences may be short term temporary differences that can be easily tracked and reconciled outside the general ledger using simple spreadsheets, while other differences may be more complex; that compound year after year, making them difficult to track outside of the general ledger. The more complex compounding differences are more time-sensitive as they may require changes to information systems and accounting practices that take time to develop and implement. Time-sensitive differences have been given higher ranking in the listing AUI has identified as priorities for the AUC to analyze and assess.

The following listing of prioritized issues is not comprehensive and does not identify every circumstance in which IFRS and regulatory reporting differ. The listing only includes those items that AUI views are sufficiently significant at this time to warrant consideration by the AUC.

1. Property Plant and Equipment

a. Depreciation

IFRS requires capital assets to be depreciated at a component level. Each part of an asset with a cost that is significant in relation to the total cost of the item must be depreciated separately. Depreciation is to be charged using a method which reflects the way in which the asset's future economic benefits are to be consumed by the entity. Depreciation of an asset is to begin when it is available for use.

For regulatory purposes, depreciation rates are applied to capital asset pools established in accordance with the Uniform Classification of Accounts. Further componentization of these capital asset pools may be required under IFRS. Depreciation is calculated on a straight line basis and applied to group or mass property assets. The depreciation rates utilized are developed using the equal life method and survivor curves to determine service life and probable remaining life. This approach may not be acceptable under IFRS because individual assets within capital asset pools may continue to be depreciated even after they are fully amortized since capital assets are only retired upon physical disposition and not necessarily at the end of their estimated service lives. Net additions to property, plant and equipment are not depreciated until the year after they are brought into service, which does not appear to be acceptable under IFRS.

b. Retirement of Assets

IFRS requires assets that are no longer utilized to be removed from the balance sheet. Both the asset and accumulated depreciation are to be eliminated and any gain or loss is to be recognized through the income statement.

For regulatory purposes, assets are retired upon physical disposal. Any gains or losses upon disposal of an asset are recorded against accumulated depreciation. This is a peculiarity of the group depreciation method which presumes that although disposition of individual assets may yield proceeds greater than or less than their respective book values, the ultimate gross proceeds from a group of assets will not differ materially from the aggregate book value thereof, and accordingly, recognition of those individual gains or losses should be deferred and effectively netted out.

c. Capitalization of Costs

i. General and Administration Expenses

IFRS allows costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management to be capitalized. Directly attributable costs include costs of employee benefits arising directly from the construction or acquisition of an item of property, plant and equipment, but do not include administration and other general overhead costs.

For regulatory purposes, AUI capitalizes as overhead a certain portion of the wages and benefits of employees that are involved in the supervision of engineering, construction, land, and inspection activities that may not be considered directly attributable for IFRS purposes. In addition, AUI capitalizes 35% of a number of administration and general expenses impacted by varying levels of capital expenditure that may not be considered directly attributable for IFRS purposes.

ii. Borrowing Costs

IFRS requires borrowing costs that are directly attributable to the acquisition, production and construction of a qualifying asset to be capitalized as part of the cost of the asset. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The amount of borrowing costs that are eligible for capitalization is determined by applying a capitalization rate to the average amount of accumulated net capital expenditures incurred for qualifying assets during the relevant reporting period. The capitalization rate applied under IFRS is the weighted average of borrowing costs applicable to the borrowings of the entity that are outstanding during the period.

For regulatory purposes, AUI capitalizes an allowance for funds used during construction (AFUDC) calculated at mid-year cost of construction work-in-progress multiplied by the regulatory weighted average cost of capital, which includes both an equity and debt component. All construction work-in-progress may not meet the criteria of a qualifying asset for IFRS purposes. In addition, the capitalization rate applied to capital expenditures under IFRS is different than that applied in the computation of AFUDC.

iii. Depreciation

IFRS allows the capitalization of depreciation on assets that are used to produce other assets. For regulatory purposes, depreciation on all property, plant and equipment is expensed in the current period.

d. Future Removal and Site Restoration Costs

IFRS requires an asset retirement obligation provision to be recognized when certain conditions are met. The amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used in the present value calculation is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The calculated obligation amount is charged to property, plant and equipment and depreciated with the underlying assets. Accretion expense is recognized over time in order to unwind the discounting of the obligation provision and the obligation provision is reduced as actual future removal and site restoration costs are incurred.

For regulatory purposes, the depreciation rates include a provision for future removal and site restoration costs. Accumulated depreciation and amortization includes the accumulated effect of the future removal and site restoration costs included in the depreciation rates. On retirement of depreciable assets, accumulated depreciation is charged with the cost of the retired unit, disposal and site restoration costs less salvage.

2. Regulatory Assets & Liabilities

IFRS does not specifically address the recognition of assets and liabilities resulting from rate regulation such as revenue deficiency accruals and deferred charges.

For regulatory purposes, AUI accrues a revenue deficiency accrual equivalent to the difference between the sales revenue expected to be received under its proposed general tariff application and the sales revenues recorded at current regulator approved rates. When the regulator issues a decision respecting the general tariff application, AUI finalizes its accrual based on the approved revenue requirement and the revenue charged at current approved rates. When directed by the regulator, AUI defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the earnings statement as they collect or refund amounts through future customer rates. IFRS may not permit the recognition of these assets and liabilities.

3. Income Taxes

IFRS requires taxes to be accounted for using the liability method. Under this method, deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

For regulatory purposes, income taxes are provided for using the taxes payable method where provision is made only for those income taxes currently payable. No deferred or future tax is recorded on the temporary differences between the financial reporting and tax basis of assets and liabilities. The taxes payable or flow through method is not allowed under IFRS.

4. Other Post Employment Benefits

IFRS requires other post employment benefits to be accounted for using the accrual method, whereby the cost of the benefits is actuarially determined using the projected benefit method.

For regulatory purposes, only the funded portion of other post retirement benefits is recognized as a current period expense, which is not allowed under IFRS.

Treatment options for IFRS:

The AUC has three readily apparent options in dealing with the transition to IFRS. One option is to not adopt any of the IFRS accounting treatments that differ from current regulatory accounting treatments. If this approach is taken, utilities will need to develop and implement accounting practices and information systems that are capable of handling dual reporting and incur ongoing staffing and administrative costs to maintain two sets of accounting records. The AUC will need to consider whether it will require audited special purpose financial statements for regulatory filings and to what extent it will require reconciliations between audited IFRS financial statements and regulatory financial statements. If audited special purpose financial statements are required, the utilities will require a set of standards for these financial statements to be audited against. Utilities will be faced with the challenge of explaining differences between IFRS and regulatory financial results to investors, stakeholders and consumers.

Another option is to fully adopt the IFRS standards for regulatory purposes. If this approach is taken, utilities would avoid the cost of maintaining two sets of accounting records and a separate audit of special purpose financial statements. However, there would be implications for the determination of rate base, operating expense, depreciation and resulting rates charged to customers. Changes in depreciation methods and rates, the amount of overheads and other costs capitalized, the treatment of capital asset retirements, and changes in the recognition and measurement of future removal and site restoration costs would all impact rate base, rate of return, and rates charged to customers. If rate base is significantly reduced, methods will have to be explored to compensate utilities' shareholders through adjustments to the rate of return. There are also significant transition issues that would need to be considered. The AUC would need to determine how and to what extent utilities would be able to recover accumulated differences between the flow through method and liability method for income taxes upon transition. Similarly, the AUC would need to determine how and to what extent utilities would be able to recover accumulated differences between the cash method and accrual method for other post employment benefits upon transition.

The third option is for AUC to partially adopt IFRS standards for regulatory purposes where differences currently exist. One approach would be to harmonize with IFRS only in areas where there are currently more complex compounding differences, such as property, plant and equipment, that would otherwise require utilities to develop and maintain costly dual reporting systems. Other areas, such as regulatory deferral accounts, income taxes and other post employment benefits that are relatively easy to reconcile could be left unchanged. As these items are easier to reconcile, the need for special purpose financial statements may be reduced, and there would be no need to rule on how and to what extent utilities would be able to recover transitional differences associated with changing recovery methods for income taxes and other post employment benefits.

AUI appreciates the opportunity to provide the foregoing comments and looks forward to participating in any working groups that may be developed in the future to examine these issues in further detail.

If you have any questions, please contact me at (780) 980-6724 or via email at mstock@agutl.com.

Regards,

<*Original Signed By*>

Mike Stock
Manager, Assurance & Financial Reporting
AltaGas Utilities Inc.