



October 6, 2008

David Mitchell, CA
Regulatory Specialist
Alberta Utilities Commission
10055 -106 Street
Edmonton AB T5J 2Y2

Dear David;

In response to the Alberta Utilities Commission's (AUC) letter dated September 25, 2008, EPCOR Utilities Inc.(EPCOR), on behalf of its subsidiaries regulated by the AUC, hereby submits its list of prioritized concerns regarding the transition to International Financial Reporting Standards (IFRS). As mentioned in our implementation status on September 22, 2008, we have completed the planning stage and are assessing the impact of the various IFRS sections and developing an information systems strategy to accommodate the conversion. Due to the uncertainty surrounding the International Accounting Standard Board's (IASB's) recognition of regulatory accounting, our plan is not dependent upon this recognition.

While we would like to minimize the differences between regulatory accounting and IFRS to streamline record keeping requirements, we strongly believe that longstanding regulatory accounting principles should generally be reaffirmed. This will mean dual reporting and will also mean information systems changes to accommodate such dual reporting.

We have prioritized our concerns into two categories: 1) IFRS changes requiring priority review by the AUC and 2) IFRS changes that should not require extensive AUC review to determine.

1) IFRS changes requiring priority review by the AUC

These priority items are those which would require significant system modifications if IFRS and regulatory accounting are different on a prospective basis. These items should be the primary focus of any discussions surrounding IFRS. As these changes have significant system impacts, EPCOR would appreciate knowing by December 31, 2008 how the AUC plans to address these issues. As mentioned above, EPCOR is of the view that the current regulatory practice be reaffirmed as changes to such longstanding practices will lead to material financial impacts on utilities and their customers.

IFRS Reporting¹	Regulatory Reporting
<i>IAS 16</i> – Certain costs such as general overheads cannot be capitalized.	General overheads may be included in rate base.
<i>IAS 16</i> – Gains and losses on derecognition are taken directly to income.	Group depreciation model is used which defers gains and losses on retirement by continuing recognition through future depreciation rates.

IFRS Reporting	Regulatory Reporting
<i>IAS 23</i> – Capitalized borrowing costs must reflect the company’s actual cost of debt.	Allowance for Funds Utilized During Construction is capitalized which includes an equity return component.
<i>IAS 37</i> – Asset retirement obligation is based on legal and constructive obligation and must be recognized and discounted at a rate specific to the liability.	Any retirement provision is set by the regulator and discounted at the utility’s weighted average cost of capital.
<i>IAS 16</i> - Assets must be depreciated on a component basis over their useful life.	Depreciation rates are set by the regulator and reflect group depreciation.
<i>IAS 16</i> – The lives of assets must be reassessed on a regular basis	Depreciation rates are revised only during tariff filings.
<i>D 24</i> – Customer contributions are recorded as a liability	Customer contributions are netted against property plant and equipment (PPE)
<i>IAS 16</i> – Insurance proceeds are recorded as income	In certain instances, insurance proceeds are recorded as part of accumulated depreciation.
Deferral accounts are not recognized.	Deferral accounts are recognized.
<i>IAS 16</i> – Depreciation commences when the asset is available or ready for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.	Depreciation commencement may be different. As an example, depreciation may not commence until all testing is done, which would be later than required under IFRS.

Note 1: “IAS” refers to International Accounting Standard; “D” refers to International Financial Reporting Interpretations Committee (IFRIC) Draft Interpretation; both as at the date of this letter.

As most of the above changes require retrospective restatement, upon initial adoption of IFRS, there are certain cumulative adjustments which will be recorded against an entity’s retained earnings. As an example, if the proposed Exposure Draft on IFRS 1 First Time Adoption is not adopted, certain overheads which are not allowed under IFRS would be removed from the asset’s cost base on adoption. In addition, cumulative pension surpluses or liabilities not currently recognized can be recognized immediately upon first time adoption. We seek confirmation that upon adoption, these IFRS adjustments would not be recognized for regulatory purposes through an adjustment to rate base or revenue requirement.

2) IFRS changes that should not require extensive AUC review to determine.

As noted above, the fundamental principles underlying rate determination should be complementary with and not be driven by changes in accounting principles. Rate making principles should generally stand on their own. In that spirit we believe that the adoption by the AUC for rate making purposes is unlikely and therefore should not be the focus of initial discussions.

- Under IFRS there are situations where an entity may record adjustments relating to fair value. An entity may choose to record its assets at fair value rather than cost, either on initial adoption of IFRS or as an ongoing policy choice. In addition, under IFRS the requirement to test for impairment and the tests for impairment are more stringent than under current generally accepted accounting principles (GAAP). These changes may lead to greater balance sheet fluctuations. EPCOR does not expect fair value reporting to be part of any regulatory rate making model as assets continuously recorded at fair value would not reflect the utility’s investment in rate base and would likely cause volatility in customer rates.
- IFRS, like GAAP, uses the liability method for accounting for income taxes. We would not expect the AUC would change the existing regulated method.
- IFRS, like GAAP, uses an accrual method to account for certain pension plans and benefits. Under the regulated method a cash basis is used. We would not expect this to change.

Given the importance of these matters in determining system requirements and our overall conversion to IFRS, we respectfully request that the AUC provide guidance on the *IFRS changes requiring priority review* by December 31, 2008. We believe that this should provide the AUC with sufficient time to apply the necessary resources and assist the utilities in making their conversions.

I hope this information is useful and we look forward to participating in any process to address these issues.

Yours truly,

Mark Jurijew, CA
Director, IFRS
EPCOR Utilities Inc.