

October 6, 2008

Attention: Mr. David Mitchell
Regulatory Specialist
Alberta Utilities Commission
10055 – 106 Street, 10th Floor
Edmonton, Alberta
T5J 2Y2

Dear Mr. Mitchell

**Subject: International Financial Reporting Standards (IFRS)
Request for Information**

In response to your letter of September 25, 2008, AltaLink, L.P. (AltaLink) is pleased to provide the Alberta Utilities Commission (AUC) with the requested information. This letter contains a list of topics, together with specific aspects of each topic, which AltaLink regards as priorities for the AUC to address. AltaLink has also provided a brief summary of the differences between Canadian GAAP (C-GAAP) and IFRS for each topic included and has listed the topics in order of priority.

AltaLink would like to emphasise the importance of obtaining any guidance the AUC would like to provide to the utilities as early as possible. Although the transition date for IFRS will be January 1, 2011, AltaLink will need to begin collecting financial information in IFRS format one year before that date. AltaLink will need sufficient time to modify its accounting and management systems and processes prior to the transition date. The requirement for maintaining internal control over financial reporting means that AltaLink must embed the related changes directly into its systems and avoid the higher long-term costs and risk of error associated with the use of spreadsheet solutions. Since AltaLink expects it will need to make decisions regarding systems and process changes by the second quarter of 2009, AltaLink seeks direction from the AUC on how they may intend to address these topics prior to March 31, 2009.

1. Property, Plant and Equipment (PP&E) – IAS 16

(a) Valuation after Initial Recognition

IAS 16 allows two accounting policy options for valuation of PP&E subsequent to initial recognition - revaluation (fair value) model and cost model. C-GAAP does not have an option for revaluation. If AltaLink chooses to use the fair value model for the recognition of its PP&E, AltaLink anticipates this will affect its rate base and

regulatory reporting. This raises the issue of whether revalued amounts for PP&E will be allowed to be recognised in the rate base for regulatory reporting.

(b) Indirect Engineering & Supervision (E&S) Costs

Currently, AltaLink capitalizes indirect E&S costs in PP&E, whereas, under IFRS, non-directly attributable costs, such as administration and other general overhead costs, cannot be capitalized in PP&E. Indirect E&S costs are included in AltaLink's rate base. However, upon transition to IFRS, indirect E&S costs will no longer be capitalized in PP&E and included in rate base. This raises the issue of how AltaLink and other utilities will deal with this concern.

(c) Treatment of Gains and Losses

Currently, when an item of PP&E is derecognised, the gain or loss is recognised in accumulated depreciation and not directly in the income statement. Under IFRS, gains and losses arising from derecognizing an item of PP&E are required to be recognised directly in the income statement. This raises the issue of how the gains and losses will be included in revenue requirement.

2. Income Taxes – IAS 12

Currently AltaLink uses the liability method for accounting for future income taxes to be included in its revenue requirement. The AUC has directed AltaLink to convert to the flow through method. The flow through method is not allowed under IFRS. This raises the question of how the AUC will deal with this issue.

3. Provisions, Contingent Liabilities and Contingent Assets – IAS 37

(a) Site Restoration Costs

AltaLink has collected amounts in its revenue requirement for future site restoration costs. Currently these amounts are included in PP&E (net against the cost of PP&E). However, under IFRS, these amounts should be recognised as an obligation until expenditures are incurred for site restoration. The removal of these amounts from PP&E will increase the rate base. This raises the issue of how site restoration costs will be dealt with from a regulatory perspective.

(b) Constructive Obligation

Under C-GAAP, liabilities for asset retirement obligations (ARO) are recognised only when there is a legal obligation, whereas, under IFRS, a liability is required to be recognised from either a legal or a constructive obligation. Upon transition to IFRS,

it is possible that AltaLink could recognise a higher liability for its asset retirement obligations. How will this issue be addressed from a regulatory perspective?

(c) **Regulatory Assets and Liabilities**

It is possible that regulatory assets and liabilities, such as deferral account balances, may not be recognised under IFRS, but they may be required to be recognised for regulatory reporting. Will the regulatory treatment change to reflect the IFRS accounting recognition?

4. Borrowing Costs – IAS 23

(a) **AFUDC Equity**

Under C-GAAP, both AFUDC equity and AFUDC debt can be capitalised in PP&E. IAS 23 does not allow the capitalisation of AFUDC equity. This raises the question of how the AUC proposes that AltaLink and other utilities should deal with this issue.

(b) **AFUDC Debt**

Capitalised borrowing costs under IAS 23 appear to be similar to AFUDC debt; however, the calculation of the amount to be capitalised may be different under IFRS. How does the AUC propose that AltaLink and other utilities deal with this issue?

5. Impairment of Assets – IAS 36

Under IFRS, impairment testing of PP&E is required at the end of each reporting period and any impairment is to be included in the income statement. AltaLink currently uses the equal life group method for recognising its assets and related depreciation, with any resulting gain or loss not being recognised in the income statement. Upon the transition to IFRS, AltaLink will more than likely have impairments to PP&E that will be required to be recognised in the income statement for the related period. This raises the question of how the AUC will deal with this issue and whether the impairment loss will be an allowable expense for AltaLink's revenue requirement.

6. Other

- Insurance proceeds are currently accounted for as salvage proceeds and adjusted through accumulated depreciation. Under IFRS, insurance proceeds are reflected in the income statement. This raises the question of how the AUC will deal with this issue.

- Customer contributions are currently reflected as an offset to PP&E; however, IFRS requires customer contributions to be recorded as deferred revenue. This raises the question of how the AUC will deal with this issue.
- IFRS may require certain adjustments to existing balances on transition. This raises the question of how the AUC will deal with this issue.

In addition to the timing issue referred to above, it is clear that the impact of IFRS may be increased volatility in both the earnings of utilities, as well as the rates to be charged to customers from year to year. This should be considered an important factor in any decision on how to address these issues.

We would be pleased to discuss any questions or comments you may have in respect to this letter. To do so, please contact Richard McCabe, Vice President, Controller at (403) 267-4407 (e-mail: richard.mccabe@altalink.ca).

Yours very truly,

[Original signed by]

Richard McCabe, CA, MBA
VP, Controller

cc. Zora Lazic
SVP Regulatory and Client Services