EB-2009-0354

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15 (Sched. B),

AND IN THE MATTER OF an Application by Union Gas Limited, pursuant to section 36(2) of the *Ontario Energy Board Act, 1998,* for an order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission, and storage of gas as of January 1, 2009;

AND IN THE MATTER OF Union's request for an accounting order to establish a deferral account to record the one-time administrative costs Union Gas Limited will incur to convert accounting policies and processes from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

BEFORE: Gordon Kaiser
Presiding Member

Paul Sommerville
Member

DECISION

BACKGROUND

On September 24, 2009, Union Gas Limited ("Union" or the "Applicant") filed an Application requesting the Board's approval of an accounting order to establish a deferral account (Deferral Account No. 179-120) to record the one-time administrative costs Union will incur to convert accounting policies and processes from Canadian Generally Accepted Accounting Principles (“CGAAP”) to International Financial Reporting Standards (“IFRS”) (the “Application”).

The Board issued a Notice of Written Hearing and Procedural Order No. 1 on October 23, 2009 (the “Notice”). In the Notice, the Board adopted the intervenors in the EB-2009-0275 proceeding as intervenors in this proceeding and deemed those intervenors that were eligible for cost awards in that proceeding to be eligible for cost awards in this proceeding. The Notice set out a timeline for all parties to file submissions in this proceeding on the basis that the Board would proceed to hear the Application by way of a written hearing, which it did.

Submissions were received from Board staff, Canadian Manufacturers and Exporters (“CME”), and Energy Probe. The Applicant filed a reply argument on November 11, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONVERSION COSTS DEFERRAL ACCOUNT

Union’s application requested the Board’s approval of an accounting order to establish Deferral Account No. 179-120 to record the one-time administrative costs it will incur to convert accounting policies and processes from CGAAP to IFRS. Union stated it is not requesting, as part of this Application, that the Board make any determination with respect to whether the balances that accumulate in the requested deferral account will be recoverable from ratepayers.

In its evidence, Union noted that the Canadian Accounting Standards Board (“AcSB”) requires that all publicly accountable companies adopt IFRS in place of CGAAP for interim and annual reporting for the fiscal years beginning on or after January 1, 2011, including the 2010 annual statements for comparative purposes. Union is a publicly accountable enterprise and therefore must comply with the accounting changes required by the AcSB.

Union also noted that the *Report of the Board: Transition to International Financial Reporting Standards*, EB-2008-0408, dated July 28, 2009 (“Report of the Board), stated that the Board “…will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS.”

Union described the purpose of the proposed IFRS conversion costs deferral account ("IFRSCCDA") as follows:

> To record, as a debit (credit) in Deferral Account No. 179-120 the difference between the actual incremental one-time administrative costs incurred to convert accounting policies and processes from their current compliance with Canadian Generally Accepted Accounting Principles (CGAAP) to their future compliance with International Financial Reporting Standards (IFRS) and the costs included in rates as approved by the Board.

Board staff, Canadian Manufacturers and Exporters ("CME"), and Energy Probe all agreed that the Board should grant the Applicant approval of the IFRSCCDA and that the description provided by Union is an adequate description of the account. Board staff and CME submitted that consideration of the appropriateness and prudence of the costs recorded in the IFRSCCDA should be a matter for deliberation at a future date when the Applicant seeks disposition of the account.

Board staff noted that on October 29, 2009 the Board issued a document to the electricity utilities entitled *Ontario Energy Board Accounting Procedures Handbook – Frequently Asked Questions*, where the answer to FAQ #3 is as follows:

> The costs authorized for recording in the [IFRSCCDA] shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in these accounts may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.
>
> These accounts are exclusively for necessary, incremental transition costs and shall <u>not</u> include ongoing IFRS compliance costs or impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income. The incremental costs in these accounts shall <u>not</u> include costs related to system upgrades, or replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall <u>not</u> include capital assets or expenditures.

Board staff, supported by CME, submitted that the same criteria should be adopted for the gas sector regarding the costs to be recorded in IFRSCCDA.

In its reply argument Union stated that the submissions received from Board Staff and intervening parties supported its application and its request for the IFRSCCDA should be approved.

Board Findings

The Board approves the establishment of Union's IFRSCCDA and the description provided by the Applicant.

The Board notes that on October 1, 2009, Enbridge Gas Distribution Inc. ("Enbridge") filed an application requesting the establishment of an IFRS transition cost deferral account under Board File No. EB-2009-0359. In that proceeding Board staff submitted that the criteria applicable to the electricity utilities outlined in the answer to FAQ #3 should be applied to Enbridge's IFRS transition cost deferral account.

In its response to the Board staff submission, Enbridge noted that while it was not opposed in general to the accounting guidance provided in the answer to FAQ #3, it was opposed to the suggestion that capital expenditures and their financial impact should be excluded from its IFRS transition cost deferral account. Enbridge submitted that the costs of any system upgrade or replacement incurred by utilities primarily as a result of conversion to IFRS are likely to be capital in nature. Enbridge stated that in meeting the criteria that costs incurred primarily as a result of conversion to IFRS are eligible to be recorded in the deferral account, gas distribution utilities should be allowed to record (and to ultimately recover) such costs regardless of whether they are operating or capital in nature. Enbridge further pointed out that it is in the middle of a five year incentive regulation regime and it has no mechanism for capital spending adjustments.

The Board issued its Decision in the EB-2009-0359 proceeding on December 9, 2009 (the "Enbridge Decision"). In the Enbridge Decision, the Board considered the question of whether the IFRS transition cost deferral account should include costs related to capital assets or expenditures.

In the Enbridge Decision, the Board noted that Enbridge's confusion regarding the non-inclusion of capital assets in the IFRS transition cost deferral account seemed to arise from its interpretation of the answer to FAQ #3. The last two sentences in the last paragraph of the answer read:

> The incremental costs in these accounts shall not include costs related to system upgrades, or replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.

In the Enbridge Decision, the Board clarified that the above statement should be interpreted to allow for the revenue requirement impact (including depreciation) of eligible incremental capital costs to be recorded in the IFRS transition cost deferral account. The Board in this proceeding is providing the same clarification to Union.

In the Enbridge Decision, the Board also noted that the answer to FAQ #3 was not clear on whether a financial return on the eligible incremental capital would be allowable in the IFRS transition cost deferral account. The Board decided that in the absence of timely clarification by the Board, Enbridge may request a return on that capital at the time it seeks disposition of the deferral account. The Board in this proceeding will offer the same opportunity to Union; that is, Union may request a return on eligible incremental capital investments at the time it seeks disposition of the IFRSCCDA.

Finally, the Board notes that the consideration of the nature and prudence of the costs recorded in the IFRSCCDA will be a matter for consideration at a future date when the Applicant seeks disposition of this account.

Cost Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will issue a decision on costs awards after the steps set out below are completed.

THE BOARD THEREFORE ORDERS THAT:

1) The new account and accounting entry shall be in accordance with Appendix “A” and this account shall be maintained in accordance with the specifications set out in this decision.

2) Intervenors shall file with the Board and forward their respective cost claims within 26 days from the date of this Decision.

3) Union shall file with the Board and forward any objections to the claimed costs of an intervenor within 40 days from the date of this Decision.

4) The intervenor whose costs are objected to shall file with the Board and forward to Union any responses to any objections for cost claims within 47 days of the date of this Decision.

5) Union shall pay the Board’s costs incidental to this proceeding upon receipt of the Board’s invoice.

ISSUED at Toronto, December 17, 2009

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

APPENDIX “A”

TO DECISION AND ORDER

ACCOUNTING ENTRIES

BOARD FILE NO. EB-2009-0354

DATED: December 17, 2009

UNION GAS LIMITED

Accounting Entries for IFRS Conversion Costs Deferral Account
Deferral Account No. 179-120

Debit:	Other Deferred Charges – CGAAP to IFRS Conversion Costs	(Account No. 179-120)
Credit:	General Expense	(Account No. 728)
Credit:	Depreciation	(Account No. 303)

To record, as a debit (credit) in Deferral Account No. 179-120 the difference between the actual incremental one-time administrative costs incurred to convert accounting policies and processes from their current compliance with Canadian Generally Accepted Accounting Principles (CGAAP) to their future compliance with International Financial Reporting Standards (IFRS) and the costs included in rates as approved by the Board.

Debit:	Other Deferred Charges – CGAAP to IFRS Conversion Costs	(Account 179-120)
Credit:	Other Interest Expense	(Account 323)

To record, as a debit (credit) in Deferral Account No. 179-120, interest on the balance in Deferral Account No. 179-120. Simple interest will be computed monthly on the opening balance in the said account in accordance with the methodology approved by the Board in EB-2006-0117.