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August 30, 2013

Mr. Hans Hoogervorst
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst:

RE: Exposure Draft ED/2013/5 Regulatory Deferral Accounts

Hydro Ottawa Limited ("HOL") is pleased to respond to the International Accounting Standards Board's (the "IASB's") Exposure Draft ED/2013/5 Regulatory Deferral Accounts, (the "interim Standard" or "ED"). HOL is a rate-regulated electricity distribution company that owns and operates the electricity infrastructure in the City of Ottawa, the capital of Canada. HOL is the third largest municipally owned electrical utility in the province of Ontario, Canada.

In Canada, there are more than three different accounting standards currently utilized by rate-regulated utilities resulting in a lack of comparability for financial statement users. We welcome the IASB's efforts to allow entities that intend to adopt International Financial Reporting Standards ("IFRS"), and that currently recognise regulatory deferral accounts in accordance with their previous Generally Accepted Accounting Principles ("GAAP"), to continue to do so. This will allow both a smoother transition until the comprehensive Rate-regulated Activities project is completed and a restoration of comparability.

Hydro Ottawa supports the proposals contained in the ED. We believe that the ED has effectively met the IASB's objectives for this interim Standard. Our detailed responses to the questions in the invitation to comment are provided in Appendix 1.

Yours truly,

Geoff Simpson
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## Appendix 1: Responses to the questions raised in the ED

**Question 1**

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP. Is the scope restriction appropriate? Why or why not?

**Response:**

*We agree with limiting the scope of the interim Standard to first-time adopters of IFRS. The intent of the interim Standard is to provide first-time adopters of IFRS that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP, temporary guidance until the IASB completes its comprehensive Rate-regulated Activities project. The restriction will limit the impact of the interim Standard until the final guidance is developed through the comprehensive Rate-regulated Activities project.*

**Question 2**

The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:

(a) an authorised body (the rate-regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and

(b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7–8 and BC33–BC34).

Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

**Response:**

*We believe the scope criteria identified in the interim Standard for regulatory deferral accounts are appropriate and broader than the previous Exposure Draft and will allow HOL and most Canadian utilities to record regulatory deferral accounts in accordance with previous GAAP .*

**Question 3**

The Exposure Draft proposes that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. If an eligible entity chooses to apply it, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope. If an eligible entity chooses not to adopt the [draft] interim Standard, it would derecognise any regulatory deferral account balances that would not be permitted to be recognised in accordance with other Standards and the *Conceptual Framework* (see paragraphs 6, BC11 and BC49).

Do you agree that adoption of the [draft] interim Standard should be optional for entities within its scope? If not, why not?

**Response:**

*We agree with the optional adoption of the interim Standard for entities within its scope. Regardless of rate-regulation, entities should have the ability to implement IFRS without applying the proposed interim relief. The uncertainty on when final guidance will be developed through the comprehensive Rate-regulated Activities project could be a concern for some entities. Furthermore, with the proposal for new presentation requirements (paragraphs 6, 18–21 and BC55–BC62), users will be able to isolate the impact of recognizing regulatory deferral account balances from the financial reporting requirements of other Standards thereby enhancing the comparability of financial reporting with those entities which have chosen not to apply the interim Standard.*

**Question 4**

The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. An entity that has rate-regulated activities but does not, immediately prior to the application of this [draft] interim Standard, recognise regulatory deferral account balances shall not start to do so (see paragraphs 14–15 and BC47–BC48).

Do you agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so? If not, why not?

**Response:**

*We agree with the restriction that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so. This is not the intent of the interim Standard and would not be possible without including additional guidance that first time adopters are obtaining from their previous GAAP.*

**Question 5**

The Exposure Draft proposes that, in the absence of any specific exemption or exception contained within the [draft] interim Standard, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards (see paragraphs 16–17, Appendix B and paragraph BC51).

Is the approach to the general application of other Standards to the regulatory deferral account balances appropriate? Why or why not?

**Response:**

*Yes, in the absence of any specific exemption or exception contained within the interim Standard the general application of other Standards to the regulatory deferral account should apply.*

**Question 6**

The Exposure Draft proposes that an entity should apply the requirements of all other Standards before applying the requirements of this [draft] interim Standard. In addition, the Exposure Draft proposes that the incremental amounts that are recognised as regulatory deferral account balances and movements in those balances should then be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?

**Response:**

*Yes, the separate presentation approach is appropriate in that it meets the objective of enhancing the comparability of financial reporting. The separate presentation approach will isolate the impact of recognizing regulatory deferral account balances from the financial reporting requirements of other Standards. This will help financial statement users identify the nature and financial effects of rate-regulation on an entity's activities.*

**Question 7**

The Exposure Draft proposes disclosure requirements to enable users of financial statements to understand the nature and financial effects of rate-regulation on the entity's activities and to identify and explain the amounts of the regulatory deferral account balances that are recognised in the financial statements (see paragraphs 22–33 and BC65).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the [draft] interim Standard.

**Response:**

*We believe the proposed disclosure requirements provide general information useful to an understanding of the nature and financial effects of rate-regulation. The proposed disclosure requirements are closely aligned with Canadian GAAP, Part V - Pre-changeover accounting standards, Accounting Guideline (AcG-19)*

*'Disclosures by entities subject to rate-regulation', which will provide consistency for Canadian financial statement users and preparers. We agree with the proposed disclosure requirements.*

**Question 8**

The Exposure Draft explicitly refers to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements (see paragraphs 22–24 and BC63–BC64).

Is this approach appropriate? Why or why not?

**Response:**

*The explicit reference to materiality and other factors an entity should consider to meet the proposed disclosure requirements is both appropriate and beneficial to financial statement users and preparers, and other interested parties. By setting out a general objective for disclosure as well as a list of detailed items that might be useful, preparers can use judgement when deciding which details are necessary to achieve the objective of providing useful information.*

**Question 9**

The Exposure Draft does not propose any specific transition requirements because it will initially be applied at the same time as IFRS 1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

**Response:**

*Yes, the transition approach is appropriate. The purpose of the interim Standard is to provide rate-regulated entities that are first-time adopters, the ability to grandfather their regulatory deferral accounts. The interim Standard will be applied at the same time as IFRS 1, which sets out the general IFRS transition requirements and relief available. Consequently, the need for specific interim Standard transition requirements is not necessary.*

**Question 10**

Do you have any other comments on the proposals in the Exposure Draft?

**Response:**

*We fully support the IASB in its efforts to come up with an interim Standard. In our view, the proposed interim Standard presented meets its intended objective of enhancing the comparability of financial reporting by reducing barriers to adoption of IFRS by entities with rate-regulated activities until final guidance is developed through the comprehensive Rate-regulated Activities project.*