Hydro Québec

Lise Croteau
Vice President, Accounting and Control
Hydro-Québec
75 René-Lévesque Blvd. West, 6th floor
Montréal, Québec H2Z 1A4
CANADA

July 31, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir/Madam:

Re: Comments on Exposure Draft *Regulatory Deferral Accounts*

Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l'énergie [energy board], which sets rates on the basis of cost of service plus a reasonable return on the rate base.

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on your exposure draft entitled *Regulatory Deferral Accounts.* We are very pleased with IASB's decisions to propose an Interim Standard for Regulatory Deferral Accounts and to work on a comprehensive project on Rate-regulated Activities.

Given that Hydro-Québec is a rate-regulated entity, it currently reports under pre-changeover Canadian GAAP. We totally support the projected Interim Standard for Regulatory Deferral Accounts, mainly because it will allow us to avoid making major changes in accounting policy as regards the transition to IFRS until guidance can be developed through the comprehensive project. For Hydro-Québec, it is important that the interim standard be approved by the 2015 deadline for IFRS adoption.

Overall, we agree with the recommendations of the exposure draft mentioned above. Attached are our detailed responses to the questions it raises.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Lise Croteau

Lise Croteau, FCPA, FCA
Vice President, Accounting and Control

Exposure Draft
Regulatory Deferral Accounts
Comments to be received by 4 September 2013

Scope

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?

We believe the scope restriction is appropriate. It is consistent with the objective to reduce barriers to the adoption of IFRS by entities with rate-regulated activities, especially if these entities have significant regulatory deferral account balances. It will allow these entities to avoid making major changes in accounting policy on transition to IFRS until guidance can be developed through the comprehensive project.

The non-recognition of regulatory assets and liabilities under IFRS has been a significant barrier to the adoption of IFRS by rate-regulated entities in Canada. It has led to a wide diversity in practice. Currently, Canadian rate-regulated entities are reporting under US GAAP, IFRS or pre-changeover Canadian GAAP. We believe this interim Standard will allow more rate-regulated entities to make the transition to IFRS, thus reducing the diversity of accounting frameworks used by these entities in Canada and enhancing comparability.

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?

We agree with the scope criteria for regulatory deferral accounts, which are wider than those included in the 2009 Exposure Draft. Currently, Hydro-Québec's electric power distribution and transmission activities are regulated under a cost of service model. However, in Canada, there is a trend to add an earning sharing mechanism or incentive rate mechanism to the cost of service basis of rate-setting. We believe these regulatory models would also be included in the scope of the interim Standard.

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?

We agree that adoption of the interim Standard should be optional for entities within its scope.

Recognition, measurement and impairment

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?

> We agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start doing so.

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?

> We believe the approach to the general application of other Standards to the regulatory deferral account balances is appropriate.

Presentation

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 recognized 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?

> We believe the separate presentation approach is appropriate. It will enhance comparability with other entities and increase the transparency of regulatory deferral account balances. It will also help users to clearly identify the amounts involved. In addition, this separate presentation approach would result in a consistent application of IFRS for all other transactions or activities, regardless of whether an entity has rate-regulated activities.

Disclosure

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.

We believe the proposed disclosure requirements provide decision-useful information. It is pretty in line with the actual disclosure required for rate-regulated entities under pre-changeover Canadian GAAP. The proposed disclosure would help users to understand how an entity's financial position and financial performance have been affected by rate regulation.

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?

We believe this approach is appropriate. It is consistent with the concept of materiality as described in IAS 1, *Presentation of Financial Statements*, and in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Transition

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?

We believe the transition approach is appropriate.

Other comments

Question 10:

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

We have no other comments on the proposals.