GazMétro

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September 4, 2013

Attention: Mr. Hans Hoogervorst
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Mr. Hoogervorst:

Via "Open to Comment" page, www.iasb.org

RE: Exposure Draft – Regulatory Deferral Accounts

Gaz Métro Limited Partnership ("Gaz Métro") would like to thank the International Accounting Standards Board ("IASB") for the opportunity to provide its comments on the Exposure Draft ("ED") regarding regulatory deferral accounts. We completely support the proposals set out in the ED and consider the ED to be an important milestone in the overall IASB project on rate-regulated activities.

With more than $5 billion in assets, Gaz Métro is a leading energy provider. It is the largest natural gas distribution company in Quebec, where its 10,000-km underground network of pipelines serves 300 municipalities and more than 185,000 customers. Gaz Métro is also present in Vermont, producing electricity and distributing electricity and natural gas to cater to the needs to some 300,000 customers. Gaz Métro is actively involved in the development of innovative, sustainability-oriented energy projects such as the production of wind power, the use of natural gas as a transportation fuel and the development of biomethane as a renewable energy source. Gaz Métro is committed to ensuring the satisfaction of its customers, providing support to businesses, local organizations, families and communities, and meeting the needs of its Partners (GMi and Valener) and employees.

As an entity generating 95% of its revenues from rate-regulated activities, Gaz Métro has always been extremely conscious of the significant impact of rate-regulation on the transparency and thoroughness of its financial reporting process. Unfortunately, the uncertainty surrounding the IFRS treatment of regulatory deferrals has resulted in a divergence amongst Canadian utilities in regards to the accounting framework they report under. Most Canadian rate-regulated entities have developed methods to subtract themselves from adopting the IFRS. Some report under US GAAP, while others use deferrals in IFRS implementation to continue using pre-change-over Canadian GAAP. Gaz Métro is currently reporting under pre-changeover Canadian GAAP, awaiting the outcome of the IASB's project on rate-regulated activities.

We would like to express our support to the IASB's efforts in proposing an interim standard that is not overly limitative and that we consider to be a very reasonable compromise for first-time IFRS adopters. Gaz Métro believes that regulatory accounts best reflect the financial reality of rate-regulated utilities, and that the inclusion of regulatory assets and liabilities in a regulated entity's financial statement is critical for assessment of a utility's financial situation. Should you wish to discuss these issues further, please do not hesitate to contact me, as I would be pleased to participate in future discussions in regards to this project.

Yours sincerely,

Pierre Despars, FCPA, FCMA, CA
Executive Vice-President Corporate Affairs and Chief Financial Officer of GMi,
in its capacity as General Partner of Gaz Métro

life in blue

Appendix A:

Question 1—Scope
The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP. Is the scope restriction appropriate? Why or why not?

Gaz Métro Response
Gaz Métro agrees with the scope restriction. As stated in the ED, the lack of specific guidance for accounting of rate-regulated activities is one of the main reasons why there is a significant divergence in the accounting landscape in various jurisdictions. More specifically, in Canada, rate-regulated utilities use at least three different accounting frameworks (IFRS, US GAAP, pre-changeover Canadian GAAP). The proposed ED will remove barriers to the adoption of IFRS by Canadian rate-regulated entities until the IASB Comprehensive project is completed. Also, by restricting the scope to first-time adopters, the disclosures provided by the adopters of the ED will allow comparability amongst entities that recognize regulatory deferral accounts with entities that do not recognize such accounts.

Question 2—Scope
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?

Gaz Métro Response
We agree with the scope criteria as we note that it is similar to the criteria set out in ASC 980 of the US GAAP. The scope criteria are appropriate as they establish an identifiable causal effect that links the regulatory deferral account balances to the rate-setting process. We would like to outline the fact that the current ED has a broader scope than the previous ED issued in 2009, allowing entities to adopt IFRS and still continue to recognize regulatory deferral accounts, which contributes to removing barriers to entry for first-time IFRS adopters.

Question 3—Other comments
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 derecognize any regulatory deferral account balances that would not be permitted to be recognized 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?

Gaz Métro Response
We agree with the proposal. This is a similar approach to other IFRS 1 initial adoption elections.

Question 4— Recognition, measurement and impairment
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, recognize 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 recognize regulatory deferral account balances should not be permitted to start to do so? If not, why not?
Gaz Métro Response
We agree with the proposal. Considering it is an interim Standard, we believe it would be against the objective of the Standard to allow an organization to recognize regulatory deferral accounts either for the first time or after having already derecognized them during their IFRS conversion. Also, this proposal would maintain comparable and useful information until the adoption of the final Standard.

Question 5— Recognition, measurement and impairment
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 recognized 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?

Gaz Métro Response
We agree with the proposal. We believe regulatory deferral accounts have the same conceptual nature as regular assets and liabilities, and should therefore be subject to the same Standards, rather than be subject to a different treatment.

Question 6 — Presentation
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 recognized in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

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

Gaz Métro Response
We agree with the proposal. We believe it is a reasonable compromise allowing comparability between financial statements of entities that have already adopted IFRS and therefore have derecognized their regulatory deferral accounts, and financial statements of first-time IFRS adopters that would apply the ED. However, we believe further discussions should be held in order to determine the presentation approach that would best represent the nature of regulatory deferral accounts.

Question 7 — Disclosure
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 recognized 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 ED.

Gaz Métro Response
We agree with the proposal. We believe that disclosure requirements will allow a better understanding of the effects of rate regulation on the entity's financial statements and activities and will allow comparability between rate-regulated entities reporting under multiple accounting frameworks, rate-regulated entities that have already adopted IFRS and non rate-regulated entities. We do not believe, at this stage, that any disclosure requirements should be added to or removed from the ED. Finally, we believe that the disclosure requirements of the ED are similar to the requirements followed by Gaz Métro under pre-changeover Canadian GAAP.

Question 8 — Disclosure
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?

Gaz Métro Response
We agree with the proposal. We believe materiality is a concept that should be taken into account when deciding how to meet the proposed disclosure requirements of any Standard, and this line of thought, in our opinion, also applies to the ED discussed herein.

Question 9 — Transition
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?

Gaz Métro Response
We agree with the proposal, as the ED is only available to first-time adopters.

Question 10 — Other Comments
Do you have any other comments on the proposals in the Exposure Draft?

Gaz Métro Response
We would like to reiterate the fact that we believe the interim Standard is an important milestone in establishing accounting policies that allow rate-regulated entities to report financial information that best reflects their activities, and the nature of their regulatory deferral accounts. It is a step forward in reaching global comparability and transparency of financial information reported by rate-regulated utilities, as well as a step forward in eventually establishing firm guidelines that will result in upmost quality of the information reported under IFRS by those entities.