ATCO
GROUP

Corporate Office

January 22, 2009

International Accounting Standards Board
30 Cannon Street
London, England
EC4M 6XH

Dear Sir or Madam:

Re: Exposure Draft - Additional Exemptions for First Time Adopters
Proposed Amendments to IFRS 1

ATCO Ltd. and Canadian Utilities Limited are writing in response to your request for comments on Exposure Draft with respect to Additional Exemptions for First Time Adopters which if accepted, will result in proposed amendments to IFRS 1.

ATCO Ltd. is an investor owned; Alberta based worldwide organization of companies with assets of approximately $8.59 billion and more than 7,800 employees. ATCO Group is comprised of three main business divisions: Power Generation, Utilities (natural gas and electricity transmission and distribution) and Global Enterprises (industrial, technology, logistics and energy services). ATCO Ltd. owns 52.5% of Canadian Utilities Limited which owns and operates the utilities business division.

We support the IASB's efforts to address the challenges associated with regulated companies' transition to IFRS. Without this proposed election, our regulated entities would spend significant time and effort restating items of property plant , equipment and intangible assets. This would provide little or no value to users of our financial statements including shareholders, investment analysts, debt rating agencies and regulators. This is a concern especially for costs that are not significant compared to total cost of property, plant and equipment.

ATCO however, fully supports and endorses the concerns raised by the Canadian Energy Pipeline Association, the Canadian Gas Association and the Canadian Electric Association in their joint letter to the IASB dated January 22, 2009. For ease of reference, we have attached a copy of this letter.

ATCO LTD. & CANADIAN UTILITIES LIMITED
1500, 909 - 11th Avenue S.W., Calgary, Alberta T2R 1N6 Tel (403) 292-7500 Fax (403) 292-7532

In order to maximize the relief which may be provided to entities considering elections being proposed under this exposure draft, we request that the IASB issue the final wording of amended IFRS 1 as soon as possible. Entities converting to IFRS for 2011 will soon be selecting their IFRS 1 elections, and preparing their opening balance sheet as of January 1, 2010. As such, in order to maximize efficiencies and reduce the costs of the conversion process where ever possible, we request the IASB expedite its issuance of IFRS 1 in its final form and issue the final standard no later than mid 2009.

If you have any questions with respect to this submission, please contact Mr. Dan Rochon, CA, Project Manager, IFRS Implementation, at (403) 292-7389.

Yours truly,

KM Watson

Karen M. Watson
Senior Vice President and
Chief Financial Officer

CEPA
Association canadienne de pipelines d'énergie
Canadian Energy Pipeline Association

ANNIVERSARY 1907 - 2007 ANNIVERSAIRE

Canadian Electricity Association | Association canadienne de l'électricité

January 22, 2009

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir or Madam:

The Canadian Energy Pipeline Association (CEPA), Canadian Gas Association (CGA) and Canadian Electricity Association (CEA) are pleased to submit their comments in response to the Invitation to Comment on the Exposure Draft on *Additional Exemptions for First-time Adopters, Proposed amendments to IFRS 1* as issued by the International Accounting Standards Board (IASB).

CEPA, CGA and CEA support the goal of a single set of high-quality accounting standards that are accepted and applied globally. We are highly supportive of the IASB's proposal to provide transition relief under IFRS 1 to entities with operations subject to rate regulation. We would like to thank the IASB for the time and resources it has committed to understand the issues faced by rate regulated entities. We highly commend the IASB on its recent decision to add the issue of regulatory assets and liabilities to its research agenda.

As outlined in our responses herein we are concerned that:

1. The proposed wording of the IFRS 1 election is not workable in practice and does not appear to be inline with the original intent by which the election was drafted.
2. The concept of impracticability as currently utilized in this election will severely limit the ability of rate regulated entities to use this election on transition to IFRS.
3. Reference to testing on an item by item basis for impairment in accordance with IAS 36 is not attainable in a rate regulated environment as our assets do not operate as individual assets but rather as systems of assets.

We request that the IASB revise the election for rate regulated entities to be similar in scope and applicability to that offered to first time adopters using full cost accounting to measure oil and gas assets. The IASB should focus the election on balancing the cost and effort of total compliance on adoption of IFRS with the benefits of such presentation to financial statement users.

Question 1

Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?

We have no comments on this issue.

Question 2
Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

We have no comments on this issue.

Question 3
Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

We acknowledge that the IASB has worked extensively with the Canadian Accounting Standards Board and the Canadian rate regulated industry to understand and address the challenges associated with the industry's transition to IFRS. We are supportive of changes to IFRS 1 to address such challenges. However, in our review of the proposed wording of paragraph 19B we express concern with regard to whether the wording as proposed is achieving the objective intended by the IASB. We believe that the IASB needs to further refine the wording of the election. Our specific comments are as follows:

a) Balancing cost and effort with total compliance

The proposed Basis of Conclusions paragraph 12 describes the Board's conclusions with regards to the cost and effort of total compliance versus the objective of providing a suitable starting point for accounting under IFRSs. The proposed election for operations subject to rate regulation is intended to address the cost and effort associated with total compliance. However, we are concerned that the introduction of the concept of impracticability to this election changes the focus of the election away from balancing cost and effort. It also appears that an entity would have to apply this impracticability test on an item of plant basis. As the practicability of making retrospective changes decreases the further back in time an entity goes, this may provide no more relief in practice than what is currently available under IAS 8.24 (where an entity only has to apply a new accounting policy retrospectively as far back as practicable). Irrespective of whether the impracticability criterion can be demonstrated in practice, the cost of total or even partial compliance under IAS 8.24 may far outweigh any of the benefits of such application of IFRS for users of financial statements.

We note that the challenges faced by regulated entities in establishing opening balances under IFRS for property, plant and equipment may not be unlike many of the challenges faced by entities that used full cost accounting in the oil and gas industry. In particular, for many regulated entities information related to older assets may not be available. Establishing the fair value of regulated assets could also be challenging given the monopolistic nature of these assets and the difficulty associated with securing qualified expertise to value the required number of capital-intensive operations all within a short period of time. Establishing opening balances for a regulated entity's property, plant and equipment under IFRS could be excessively costly.

The requirement to demonstrate impracticability in order to utilize the proposed deemed cost option for entities with operations subject to rate regulation appears highly inconsistent with requirements of other IFRS 1 elections. We note that no other IFRS 1 election, or any other IFRS standard for that matter, with the exception of IAS 8, requires an entity demonstrate impracticability.

We request that the IASB consider removing the concept of impracticability from this election. The IASB should balance the effort and cost associated with establishing opening balances at the date of transition with the objective of providing a suitable starting point for accounting under IFRS.

b) Requirements of IFRS 1 (should the concept of impracticability not be removed as requested in a) above)

The proposed wording of paragraph 19B indicates that the election may be utilised when "it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS." We find this statement confusing as it is unclear what is intended by the reference to "requirements of this IFRS". IFRS 1 requires that on transition to IFRS an entity apply each IFRS effective at the end of its first IFRS reporting period. Therefore, we interpret the proposed wording of the election to indicate that in order to utilize the election a regulated entity is required to demonstrate the impracticability of applying retrospective restatement in accordance with IAS 16 – *Property, Plant and Equipment.* However, IFRS 1 paragraph 16, which contains the fair value as deemed cost election, is not a requirement of IFRS 1 but rather an election available under it. We believe the election as proposed would not require the impracticability of applying IFRS 1 paragraph 16 (the fair value as deemed cost election) be demonstrated.

Based on the preamble to Question 3 contained in the IFRS 1 exposure draft document (and also included in the Basis for Conclusions paragraphs 10 and 11), it may have been the intent of the IASB to require that the election in 19B be available for use only when an entity can demonstrate that both retrospective restatement and fair value as deemed cost are impracticable. In our opinion the current wording of 19B does not communicate this requirement.

We believe the deemed cost option for entities with operations subject to rate regulation should not require an entity to demonstrate the impracticability of utilizing fair value as deemed cost. We note that a regulated entity's property, plant and equipment is generally based on historical cost and fair value is not of particular relevance.

c) Testing for impairment

Paragraph 19B states that "at the date of transition to IFRS, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36, and if necessary, reduce the carrying amount." The insertion of the reference to an "item" into this sentence makes application of this election practically unachievable for regulated entities because IAS 36 cannot be reasonably applied on an item basis.

The concept of an item is not defined under IFRS. However, if analogy was to be drawn to the concept of an item of property, plant and equipment in IAS 16, an item could be determined at a rather low level. Such a level would be expected to be significantly below that of a cash generating unit (CGU) or an asset. The requirement to test for impairment on an item basis as outlined in this proposed election is, therefore, significantly more extensive than IAS 36 which requires that an entity assess at the end of each reporting period whether there is any indication that an asset (an individual asset or CGU) may be impaired. Conceptually, the requirement to apply IAS 36 on an item basis significantly deviates from the requirements of other IFRSs.

Furthermore, applying IAS 36 impairment testing on an item by item basis may not be possible and, even if possible, immensely costly. Information would not be available to most entities to assess items of property, plant and equipment for impairment indicators, rather such items would need to be assessed as part of the asset or CGU to which they belong. In a case where impairment indicators could be assessed and identified on an item basis, an estimate of the recoverable amount of the item would be extremely challenging without combining the item with the asset or CGU to which it belongs.

We also find the proposed wording stating that "an entity shall test each item....for impairment in accordance with IAS 36..." confusing as we do not understand what is meant by "testing in accordance with IAS 36". IAS 36 requires an entity to assess an asset for impairment indicators and, where such indicators are present, estimate the recoverable amount. We believe the Board could better describe this by stating "an entity shall apply IAS 36", rather than making reference to the concept of testing for impairment.

We request that the IASB consider removing the requirement to test for impairment in accordance with IAS 36 on an item basis. We note that at the date of transition to IFRS an entity is required to apply IAS 36 which inherently would require that an entity examine its assets and CGUs for indicators of impairment and, where present, proceed to estimate the recoverable amount of the asset or CGU.

d) Description of entities subject to rate regulation

The proposed wording of the election describes rate regulated entities as follows:

"...operations are subject to rate regulation if they provide services or products to customers at prices (ie rates) established by legislation, an independent regulator or other authorised body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment."

We note that rates are set to provide a rate regulated entity the **opportunity** to recover its costs and earn a return on its investment rather than to allow it to earn a determined return on investment. *We request that the IASB change the proposed wording of paragraph 19B from "allow the entity to earn" to "allow an entity the opportunity to earn" to appropriately reflect the economics of the situation.*

e) Basis of conclusions

We note that paragraph 9 of the proposed basis of conclusions states that "the inclusion of an imputed cost of equity in property, plant and equipment is not in accordance with IAS 23 *Borrowing Costs* and IAS 16 *Property, Plant and Equipment*". IAS 23 paragraph 3 states that "the Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability." *We believe it is unnecessary for the basis of conclusions in IFRS 1 to state that imputed cost of equity is not in accordance with IAS 23. In fact, IAS 23 does not deal with such a concept.*

f) Interaction with optional exemption for borrowing costs

The IASB has specifically addressed the interaction between the proposed IFRS 1 exemption for operations subject to rate regulation and IFRS 1 paragraph 25E as related to decommissioning, restoration and similar liabilities. We recommend the IASB also clarify the interaction between the proposed IFRS 1 exemption for operations subject to rate regulation and IFRS 1 paragraph 25I as it relates to borrowing costs. *We believe that the proposed IFRS 1 exemption for operations subject to rate regulation should trump the optional exemption for* *borrowing costs, thereby effectively grandfathering borrowing costs capitalized under previous GAAP as they form part of the carrying amount of property, plant and equipment at the transition date. However, we believe it would be helpful for the IASB to provide clarification.*

g) Items not classified as property, plant and equipment

The proposed IFRS 1 exemption for operations subject to rate regulation is worded such that it appears to apply only to "items of property, plant and equipment". We note that some regulated entities may have intangible assets the carrying amount of which may include certain items in accordance with the entities previous GAAP. For example, certain costs related to items such as land rights may be included in intangible assets along with their related imputed cost of equity. *We request that the IASB consider amending the exemption to acknowledge that similar costs may be included in other categories besides property, plant and equipment such as intangible assets.*

Question 4

Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

We agree conceptually with the proposal to amend the election for leases in IFRS 1 paragraph 25F. However, we believe the wording of the proposed election and its accompanying guidance requires further consideration by the IASB. As currently written the proposed amendment appears to preclude entities in countries with previous GAAP identical to IFRIC 4 except for their transitional provisions from being able to utilize the proposed election. We believe restricting use of the election to entities with previous GAAP with identical transitional provisions is unnecessary. We request that the IASB consider permitting entities in cases such as this to apply the election to retain assessments on contracts already performed under previous GAAP. We believe the extent of relief provided by this proposed election to first time adopters of IFRS could be enhanced if the requirement for identical transitional provisions was removed.

Additionally, we believe the transition of entities to IFRS could be further facilitated if the IASB was to allow entities to retain on transition to IFRS accounting for arrangements that were previously grandfathered under local GAAP, even if local GAAP during the grandfathered period was not identical to IFRIC 4.

We express concern with the wording proposed in the basis of conclusions paragraph 14 which states that "the Board noted that any such proposal must apply to identical, rather than similar accounting". We understand the Board's dilemma with regards to enforcing what constitutes a sufficient degree of similarity, however we feel that the use of the word identical may be prohibitively exclusive. Some users may interpret the word identical in an extreme manner, expecting that in order to meet this requirement every word of the previous GAAP match IFRIC 4 exactly. We believe this was not likely to have been the intent of the Board and as such would suggest the Board consider replacing the word "identical" with "substantially similar". Alternatively the Board could consider wording such as 'GAAP that would come to the exact same conclusion in every instance of application by the entity' or the Board could consider specifying the paragraphs of the standard that need to be identical, versus those where some deviation may be acceptable.

Question 5
Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

We have no comments on this issue.

Other items

Entities converting to IFRS as of January 1, 2011 will be required to select their IFRS 1 elections and prepare their opening balance sheet on December 31, 2009. If entities do not know the final wording of the standard until late 2009 they may be forced to do more work and thus incur more costs than that which would have otherwise been necessary had the final wording of the standard been known. In particular as related to the election for rate regulated entities we believe significant clarification of the wording of the election is required. As such, in order to maximize efficiencies and reduce the costs of the conversion process where ever possible *we request the IASB expedite its issuance of IFRS 1 in its final form and issue the final standard no later than mid 2009.*

CEPA, CGA and CEA hope that its comments will be useful to the IASB in its deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Sincerely,

CEPA – President, Brenda Kenny

CGA – President, Michael Cleland

Pierre A. Guimond

CEA – President, Pierre A. Guimond

Cc: Mr. Peter Martin, Accounting Standards Board (Canada)

Canadian Energy Pipeline Association
The Canadian Energy Pipeline Association (CEPA) represents Canada's transmission pipeline companies. Through an extensive network of pipeline systems, our members transport 97 per cent of the total crude oil and natural gas produced in Canada. This includes delivering two-thirds of all the energy consumed in Canada each day.

Canadian Gas Association
Founded in 1907, the Canadian Gas Association (CGA) is the voice of Canada's natural gas delivery industry. The Association is made up of over 125 companies, organizations and individuals who are involved in the delivery of natural gas in Canada and the United States. CGA members are typically local gas distribution companies from coast to coast, transmission companies, related equipment manufacturers, and other service providers.

Canadian Electricity Association
A safe, secure, reliable, sustainable and competitively-priced supply of electricity is essential to Canada's prosperity. Founded in 1891, the Canadian Electricity Association (CEA) is the voice of the Canadian electricity industry, promoting electricity as the critical enabler of the economy and Canadians' expectations for an enhanced quality of life.