April 30, 2008

IASB MEETING
LONDON, MAY 2008
OBSERVER NOTE 8 - APPENDIX 1

Mr. Paul Cherry
Chair, Accounting Standards Board
Canadian Institute of Chartered Accountants
277 Wellington St. West
Toronto, Ontario, M5V 3H2

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, U.K. EC4M 6XH

Dear Mr. Cherry and Sir David,

Re; Request for International Financial Reporting Standard 1 Amendment

The Canadian Accounting Standards Board ("AcSB") has confirmed that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") beginning January 1, 2011, with consistent comparative information required for the year 2010. In preparation, the Canadian Electricity Association ("CEA"), the Canadian Gas Association ("CGA"), and the Canadian Energy Pipeline Association ("CEPA") have been working collectively to develop resolutions to each of the common issues faced by these rate-regulated industries in the conversion and implementation of IFRS. A description of each of the industries follows at the end of this letter.

As a result of our collaboration, a key conversion issue has been identified which is the subject of this submission. Rate-regulated entities are capital intensive, and in many cases, construct their own assets. The cost of a self-constructed item of Property, Plant and Equipment (PPE) will comprise the cost elements specified in International Accounting Standard 16, *Property, Plant and Equipment*. As well, for rate-regulated entities, elements of cost for PPE can also reflect amounts capitalized under their national generally accepted accounting principles such as:

- An allowance for funds used during construction (AFUDC). The AFUDC is the imputed return to equity and actual cost of debt incurred to finance the asset during the period of construction; and
- Non-directly attributable items, such as indirect overheads, cost of employee benefits related to pensioners, cost of moving assets, gains/losses, etc.

Conversion to IFRS, as currently published, would cause the Canadian electricity, gas and pipeline industries to enter into a very costly and, in many cases, virtually insurmountable process of recreating detailed historic records as at the transition date to remove from PPE those amounts that would not be permitted to be capitalized under IFRS. As historical cost has been traditionally used by the regulators of these industries for rate-setting purposes, as well as by investors, creditors and rating agencies, a costly retrospective conversion process would have little or no economic benefit to stakeholders. The industry accepts that there are amounts currently capitalized as part of PPE that will not be permissible under IAS 16 after transition.

In accordance with IFRS 1, an entity may elect to measure an item of PPE at the date of transition to IFRS at its fair value, and use that fair value as its deemed cost at that date. However, the nature of our PPE is such that it is often unique and of use only within our industry. Fair value information is not readily available. It is our position that determining fair value would be time-consuming given our many long-lived items of PPE. Given the lack of qualified independent valuators, and the potential for verification issues, electing to use the fair value as deemed cost feature of IFRS 1 may not be practicable for all rate-regulated entities.

Accordingly, the Canadian electricity, gas and pipeline industries respectfully recommend that IFRS 1 be amended such that, as at the date of transition to IFRS, an enterprise subject to rate regulation is not required to retrospectively restate the net book value of PPE. Under the proposal in the attached paper, the enterprise can elect to use the historical carrying cost of PPE to be the deemed cost as at the date of transition to IFRS, subject to any impairment.

This proposal is the result of analysis and comment by a broad cross-section of industry members. All three of the industry associations support this proposal and request your thoughtful consideration and endorsement.

We thank you for your consideration of this request. Should you have any questions or require additional information regarding our proposal, please contact our representative in this matter:

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Yours truly,

CEA – Hans Konow, President

CGA – Michael Cleland, President

CEPA – David MacInnis, President

Attachment

DESCRIPTION OF CANADIAN
ELECTRICITY, GAS AND PIPELINE INDUSTRY ASSOCIATIONS

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.

At the heart of CEA is a core of corporate utility member companies. In addition, major electrical manufacturers and corporate consulting companies and several hundred other company and individual members are grouped within CEA's broad structure.

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.

Together, CGA members combine to deliver safe, reliable and environmentally preferred natural gas to more than 6 million customers in Canada and to major markets in the United States. CGA members employ approximately 15,000 people in Canada and supply the energy needs to 39% of the commercial sector, 48% of the residential sector and 51% of the manufacturing sector.

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.

We are world leaders in providing safe, reliable long-distance energy transportation. With assets in Canada and the United States, our members are the critical link between the supply and the market. Members expect to invest more than $20 billion (CDN) in the next 15 years as they continue to deliver the energy that fuels the Canadian economy and contributes to a high standard of life for all Canadians.