



**Canadian Association of Members of  
Public Utility Tribunals**

**Association canadienne des membres des  
tribunaux d'utilité publique**

January 19, 2009

The International Accounting Standards Board  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

Dear Sirs and Madams:

**RE: Exposure Draft – Additional Exemptions for First-time Adopters Comments**

The Canadian Association of Members of Public Utilities Tribunals (CAMPUT) is responding to the International Accounting Standards Board (IASB) request for comments on its exposure draft – Additional Exemptions for First-time Adopters.

CAMPUT is an association of the agencies that regulate gas and electric utilities in Canada: one federal, ten provincial and three territorial agencies. Some of the member agencies also regulate water and sewer utilities. Each agency has different methods and degrees of independence from its appointing government body. However, a common element of each agency is that they use financial statements prepared by Canadian rate regulated utilities.

CAMPUT would like to respond to Question 3 – Deemed cost for operations subject to rate regulation – of your exposure draft on Additional Exemptions for First-time Adopters.

CAMPUT is supportive of the proposed deemed cost option for entities with operations subject to rate regulation. Specifically, there is support for paragraph 19B. There are a number of reasons for this support.

1. Without the exemption, regulators in cost-of-service regulatory regimes will be forced to depart from an existing regulatory principle, or demand a second set of fixed assets records wherein the assets are maintained on the basis of pre-IFRS GAAP at least up until adoption of IFRS. Neither of these outcomes is desirable. Cost-of-service regulation is a dominant rate setting methodology used by regulators in North America. The existing regulatory principle is that the cost actually incurred to construct a component of property, plant and equipment (PP&E) is the amount upon which consumer rates are determined.

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Under cost-of-service regulation the following two items are included amongst the elements in rates charged to consumers:

- the cost of the PP&E is passed through systematically over its useful life to consumers through a depreciation charge included in rates, and
- a return on the unamortized balance of PP&E cost is included at a rate specified by the regulator to compensate the regulated entity for the fact that it has not yet received from consumers all of the amounts originally invested in the asset.

In regulatory parlance the principle is that cost of providing service through the use of assets is passed through to the consumer. It is a cornerstone principle of cost-of-service regulation that allows the regulator to be satisfied that rates are composed in a just and reasonable fashion – if the cost of components of PP&E pass the regulator's scrutiny for prudence, then basing rates on such costs is to base them on a sound foundation.

Without the exemption, a restated value of the cost of the asset will emerge as at the date of transition to IFRS that has no definable status in regulatory terms. It will include different amounts than those previously approved by the regulator year by year, asset by asset, as being prudently incurred. Depending on the entity and the particular regulatory regime, this difference will be a complex mixture of changes in overhead amounts capitalized and carrying charges during construction not permitted under IFRS, plus potential differences arising from componentization. To the regulator, the difference between the pre-IFRS and restated IFRS values will represent a stranded cost that has not been passed through to consumers.

Without the exemption the regulator is faced with the task of trying to determine whether and how the difference arising on restatement is to be dealt with. The exemption provides a way for the regulator and the regulated entity to adopt IFRS going forward without breaking faith with the principle of passing asset costs through to consumers. It allows the regulatory context to be considered when determining practicability.

2. Without the exemption, and where a difference arises on restatement as described in point 1 between pre-IFRS closing and IFRS opening balance in PP&E, there will be an implication that such excess costs are somehow inappropriate to be included in rates, although the costs were previously determined to be prudently incurred when they were scrutinized by the regulator. Such regulators had relied on previously accepted pre-IFRS GAAP as one of the bases for making the judgment that the costs were prudently incurred – if the accountants said the calculation was done through application of sound accounting principles, the regulator could take some comfort from that. The exemption permits, in cases where it may apply, continuing this view that the numbers previously approved were determined in a credible fashion. It is in the accounting profession's interest to allow this credibility to be maintained.



3. This is not proposed to be a carte-blanche exemption. For those assets which it is practicable to re-state, it is not expected that the exemption will be used. For other assets where meeting the IFRS requirements is either cost prohibitive or otherwise not possible, the exemption provides a practical alternative. It provides for an appropriate degree of flexibility in different regulatory regimes where the basis of regulation may be a factor in an entity determining practicability.

CAMPUT has reviewed the 'Basis for Conclusions' area of the exposure draft regarding the operations subject to rate regulation. In particular, CAMPUT notes the following quote from BC 11:

The restatement of property, plant and equipment to remove amounts not in compliance with IFRSs would require historical information that, given the typical age of some of the assets involved, is probably no longer available and would be difficult to estimate.

CAMPUT agrees with this statement and would also like to add that this non-availability of information is also compounded in instances where ownership of the utility has changed.

CAMPUT welcomes the opportunity to provide this response to you. If you require any further information, please contact the undersigned.

Yours very truly,



Peter W. Gurnham, Q.C.  
Chair CAMPUT