ONTARIO ENERGY ASSOCIATION

EXPOSURE DRAFT: REGULATORY ASSETS AND REGULATORY LIABILITIES SUBMISSIONS

JULY 30, 2021

To shape our energy future for a stronger Ontario.

Ontario Energy Association

ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

The Ontario Energy Association (OEA) is pleased to provide this response to the International Accounting Standards Board (IASB) regarding its proposed new accounting standard that would require entities subject to rate regulation to provide users better information about their financial performance.

COMMENTS

The OEA has reviewed the IASB's Exposure Draft (ED) with the proposed new standard and overall supports the IASB's goal of issuing an IFRS standard for entities with activities subject to rate regulation. We believe that this initiative will make the financial statements of entities subject to rate regulation more useful and more comparable to the users.

The OEA has the following key comments on the Exposure Draft:

- Scope – Should the IASB decide to develop a definition of a Regulator, then it should use the definitions based on IFRS 14 and IFRIC 12.
- Total allowed compensation – We disagree that regulatory returns on "assets not yet available for use" should be recognised only once the asset is in use.

  The return that is discussed in paragraph 15 is referred to by different names; some users refer to an allowance for funds used during construction (AFUDC), while others refer to interest during construction (IDC), and some use the IAS 23 Borrowing Costs term – capitalized borrowing costs (CBC). Regardless of the term used, the principle is the same, i.e., it is generally recognized that it is appropriate to apply a cost and a regulatory return on the cost to construction-work-in-progress (CWIP) which is incurred to finance the construction while it is taking place. We believe that the regulatory returns on the "interest cost" could also be presented with the regulatory assets.
- Measurement – We disagree that an entity should assess the sufficiency of the regulatory interest rate. We suggest that using the regulatory interest rate as the discount rate in all circumstances for discounting regulatory assets and regulatory liabilities would provide more useful information to the users.
- Measurement – We suggest that the IASB provide a practical expedient to requirement in Paragraph 31(b) for current regulatory assets and regulatory liabilities. (i.e., no discounting similar to that in paragraph 63 of IFRS 15 *Revenue from Contracts with Customers*).
- Presentation – We generally agree that regulatory line items should be presented separately. We also specifically agree that regulatory income minus regulatory expense should be presented separately from revenue arising under IFRS 15. However, we believe that regulatory income meets the definition of revenue – i.e. it is "an income arising in the course of an entity's ordinary activities". Therefore, we recommend that the IASB permit and/or allow to present the total of regulatory income minus regulatory expense within revenue. We also recommend that the IASB clarify the interaction between the presentation proposals and the IAS 1 requirements on aggregation / disaggregation.
- Presentation – The OEA recommends that the IASB consider revising paragraph 69 to remove the limitation to only items measured in accordance with paragraph 61, and instead paragraph 69 could read "The entity shall present the resulting regulatory income

or regulatory expense in other comprehensive income to the extent that the regulatory income or regulatory expense results from re-measuring the related liability or related asset through other comprehensive income."

If the ED is issued as currently drafted, this will result in some regulatory income and regulatory expense to be presented immediately below revenue in accordance with paragraph 67, which will be inconsistent with the initial recognition of the related asset or liability in other comprehensive income. One common example of this are re-measurements of non-pension employee future benefit obligations which are recognized in other comprehensive income. Recognizing the regulatory impact of these re-measurements in the statement of income would not provide relevant information or faithful representation of an entity's financial performance.

- Transition – The OEA believes that the IASB should reconsider whether additional transition time be permitted for utilities that are:
    - currently using U.S. GAAP;
    - for utilities that are in the middle of a rate application during the transition period; and,
    - and for utilities in the performance period following the approval of a rate application (for those using incentive-based model)

  For the above noted scenarios, it would an overwhelming amount of work to transition in the time period presented in the ED. The OEA recommends a longer transition period to at least 24 months or for entities to be allowed to use a modified retrospective approach with additional transition reliefs (as proposed in IFRS 16 Leases).

Updating the standard is critical to appropriately present the financial impacts of rate regulated entities and provide consistency and comparability across all entities and industries for the benefit of financial statement users.

We appreciate the opportunity to support the changes and we also hope that you will review our comments and take them into consideration. Please contact Roy Hrab (roy@energyontario.ca) if you wish to discuss any of the issues raised in this letter.

energyontario.ca

CONTACT

121 Richmond Street West
Suite 202
Toronto, Ontario M5H 2K1
416.961.2339
oea@energyontario.ca
@energyontario
energyontario.ca

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Let's unravel complex energy challenges, together.