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May 23, 2014

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Utilities¹

Application to Continue to Report in Accordance with US Generally Accepted Accounting Principles (US GAAP) effective January 1, 2015

Attached please find an application by the FortisBC Utilities to the British Columbia Utilities Commission for approval, pursuant to sections 23, 49, 60 and 61 of the *Utilities Commission Act*, to continue to report in accordance with US GAAP for regulatory accounting and reporting purposes, effective January 1, 2015.

If you have any questions regarding this application, please contact Brett Henderson, Director Finance and Accounting (250) 717-0876.

Sincerely,

on behalf of the FORTISBC UTILITIES

Original signed by Diane Roy:

For: Roger A. Dall'Antonia

Attachment

¹ comprised of FortisBC Inc. and the FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc., set to amalgamate on January 1, 2015).

1. OVERVIEW

Pursuant to the British Columbia Utilities Commission (the Commission) Order G-117-11, the FortisBC Utilities¹ are applying under sections 23, 49, 60, and 61 of the *Utilities Commission Act* (the Act) to continue to use US Generally Accepted Accounting Principles (US GAAP) for regulatory accounting and reporting purposes effective January 1, 2015 (the 2014 Application). US GAAP continues to be the most appropriate accounting standard for the FortisBC Utilities as it aligns with external financial reporting; is a long-term, permanent, well established and accepted standard for rate-regulated accounting; is the most cost effective accounting standard for the FortisBC Utilities' customers; and is consistent with the accounting used in the FortisBC Utilities' Multi-Year Performance Based Ratemaking Applications for 2014 to 2018 (2014-2018 PBR Application) which were filed in mid-2013. The alternative to US GAAP, International Financial Reporting Standards (IFRS), continues to present uncertainty with respect to accounting for rate-regulated activities and is not regarded by the FortisBC Utilities as a prudent or cost-effective option under the current circumstances.

2. BACKGROUND

On February 9, 2011, the FortisBC Utilities filed an application with the Commission for approval to adopt US GAAP, effective January 1, 2012, for regulatory accounting and reporting purposes for the calculation of cost of service, revenue requirements, rate base, and the preparation of regulatory schedules and filings (the 2011 Application).

On July 7, 2011, the Commission issued Order G-117-11 approving the 2011 Application to adopt US GAAP effective January 1, 2012 until December 31, 2014. As part of Order G-117-11, the Commission requested that by September 1, 2014, the FortisBC Utilities apply to the Commission for approval of its regulatory accounting standard effective January 1, 2015. Furthermore, the Commission requested that the application include a cost estimate of adopting or continuing with the desired accounting standards and a comparison to other standards available at that time. Also, within the application, the FortisBC Utilities should provide the Commission an update of rate-regulated financial accounting activities.

This Application addresses the Commission's requests as outlined above and in Order G-117-11 to continue to report in accordance with US GAAP for regulatory accounting purposes, effective January 1, 2015. Once approved, US GAAP will continue to be used for the calculation of cost of service, revenue requirements, rate base, and the preparation of regulatory schedules and filings.

3. THE FUTURE OF US GAAP CONVERGENCE WITH IFRS

Over the past several years, the Financial Accounting Standards Board (FASB), the primary US GAAP regulator, and the International Accounting Standards Board (IASB), the IFRS

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regulator, have been working together on the convergence of certain standards; however there are still many differences that remain between US GAAP and IFRS.

While progress is being made towards convergence of certain standards, whether full adoption of IFRS in the United States will be achieved is currently undeterminable. Accounting for the effects of rate regulation is one of the several differences that remain, due to the lack of long-term guidance on accounting for rate-regulated activities under IFRS.

Although the FASB and the IASB are working to improve US GAAP and IFRS through convergence of certain standards, the FASB has stated they have concerns with full adoption of IFRS, including the impacts on the US investor community. Similarly, the IASB has a policy of publishing a single set of standards that are universally applied. Therefore, working towards aligning with specific accounting standards that exist under US GAAP is not in the best interests of maintaining the IFRS brand globally. As a result, significant barriers to full adoption of IFRS in the United States still remain.

It should be noted that a March 2014 meeting between the FASB and the IASB resulted in divergent views on lease accounting, which has been a joint project between the two standard-setters for several years. Additionally, recent decisions in the development of financial instruments guidance has also resulted in divergence between the FASB and the IASB, when the original intent of the project was to bring accounting in this area closer together.

The established set of accounting principles that exist for rate regulation under US GAAP is the fundamental reason why US GAAP remains the most reasonable and prudent accounting standard for rate-regulated entities. There is no guarantee at this point in time that similar guidance will ever be published under IFRS.

4. INTERIM IFRS 14 REGULATORY DEFERRAL ACCOUNTS IS STILL A TEMPORARY STANDARD

After adding a project on Rate-Regulated Activities to its technical agenda in 2008 and publishing an Exposure Draft in 2009, the IASB suspended the project in September 2010 due to many divergent views on the topic and the realization that the matter could not be resolved quickly.

In September 2012, the IASB staff recommended restarting the project on Rate-Regulated Activities as the issues require its own standards-level project. The IASB staff recommended that a comprehensive project should focus on how the IASB should develop an IFRS (or amend existing IFRS) to reflect the impact of rate regulation. As a result of the IASB staff recommendations, the IASB started a comprehensive Rate-Regulated Activities project (the Project) to consider the broad issues of rate regulation which will eventually be published in a future Discussion Paper.

Pending the outcome of this Project, on January 30, 2014, the IASB issued an optional interim standard, IFRS 14 *Regulatory Deferral Accounts* (the Standard). The Standard permits first-time adopters of IFRS to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements. However, to enhance comparability with entities that already apply IFRS and do not recognize amounts related to rate regulation, the Standard requires:

- i. That other IFRS standards be first applied, thereby potentially adding to or reducing amounts recorded in an entity's regulatory deferral accounts; and
- ii. That the effect of rate regulation be presented separately from other items.

An entity that already presents IFRS financial statements is not eligible to apply the Standard. The Standard is effective from January 1, 2016, with early application permitted.

The IASB has clearly stated that by publishing this Standard it is not anticipating the outcome of the Project. So while the IASB has released this interim, optional Standard, it is not yet known when the Project will be completed or whether IFRS will, as a result, include a permanent, mandatory standard to be applied by entities with activities subject to rate regulation. It is also not known whether a permanent standard would be consistent with how the FortisBC Utilities are currently applying rate-regulated accounting for regulatory accounting and reporting purposes, in accordance with US GAAP. There are already 90 countries that have adopted IFRS and have not recognized rate-regulated accounting, therefore a permanent standard on rate-regulated accounting is not a certainty. In the absence of a permanent standard for rate-regulated activities, the adoption of IFRS at this time would be premature and could result in volatility in the FortisBC Utilities' future cost of service and revenue requirements as compared to that which would otherwise be recognized under US GAAP.

The continued recognition of regulatory assets and liabilities best reflects the effect that regulatory activities have on the FortisBC Utilities' financial position, the economic realities of their businesses and the regulatory model they operate under. The only set of accepted and well-established accounting standards that currently exist that allow for regulatory assets and liabilities to continue to be recognized is US GAAP; therefore, US GAAP is the reasonable and prudent accounting standard under which the FortisBC Utilities should continue to report for both financial and regulatory reporting purposes.

5. CONTINUING TO USE US GAAP FOR EXTERNAL FINANCIAL REPORTING

Since the FortisBC Utilities are continuing to report in accordance with US GAAP for external financial reporting, the continued use of US GAAP for regulatory accounting purposes will allow for financial transparency and comparability.

FortisBC Utilities have received Ontario Securities Commission (OSC) Exemption to Continue to use US GAAP

In August 2013, the FortisBC Utilities' parent company, Fortis Inc. (Fortis), filed a confidential application with the OSC on behalf of Fortis' utility subsidiaries to extend the exemption granted in 2011 allowing them to prepare and file financial statements in Canada in accordance with US GAAP, without becoming US Securities and Exchange Commission Issuers (SEC Issuer) as defined in National Instrument 51-102. This application was made so that Fortis and its utility subsidiaries could continue to account for their rate regulated activities in a manner consistent with past practice and avoid the long-term uncertainty with respect to accounting for rate regulated activities that continues to exist under IFRS.

In January 2014, the OSC issued a relief order which permits the FortisBC Utilities to continue to prepare financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the FortisBC Utilities cease to have activities subject to rate regulation; or (iii) the effective date prescribed by the IASB for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. The OSC relief order replaces and extends the OSC's previous relief order, which was due to expire effective January 1, 2015.

The FortisBC Utilities believe that the same set of accounting principles should be used for regulatory purposes as is used for external financial reporting purposes so that the underlying economic substance of the entities' operations are appropriately reflected. If the Commission sets accounting requirements that differ from those used to account for the same transaction for external financial reporting purposes, this would result in the FortisBC Utilities having to maintain two sets of accounting records which would result in a significant amount of additional work and costs.

6. COST ESTIMATE OF CONTINUED USE OF US GAAP

Continuing to use US GAAP for regulatory purposes is still the most cost effective accounting standard for the FortisBC Utilities' customers.

No request for incremental costs resulting from continued use of US GAAP in conjunction with recent OSC exemption

The continued use of US GAAP for regulatory accounting purposes effective January 1, 2015, will not result in any incremental costs, due to the recent extension of the OSC exemption applicable from January 1, 2015 to December 31, 2018. The OSC exemption is in effect, a continuation of the previous relief order and maintains the status quo. Therefore the FortisBC Utilities are not requesting approval for any incremental costs related to the continued use of US GAAP for regulatory purposes as part of this application.

Incremental costs would result from adopting IFRS

Adopting an accounting standard other than US GAAP effective January 1, 2015, such as IFRS, would require significant resources and incremental costs. If the FortisBC Utilities were required to adopt IFRS for regulatory purposes, it is not possible to provide a reliable estimate of costs without a comprehensive review of the differences between US GAAP and IFRS that would exist at the time of conversion. Such a comprehensive review and transition plan has not been initiated, in part due to receiving the OSC exemption, but also due to the 2014-2018 PBR Application having been prepared under US GAAP. Since the FortisBC Utilities are utilizing US GAAP for external reporting purpose, the cost and effort to reconcile between regulatory accounting and external financial accounting is significantly less than it would be under a scenario whereby IFRS is used for regulatory reporting purposes and US GAAP is used for external financial reporting.

Incremental costs resulting from becoming an SEC Issuer

Should the FortisBC Utilities become SEC Issuers in order to continue preparing external financial statements in accordance with US GAAP, there would be incremental costs. Becoming an SEC Issuer could be required in the event that the OSC exemption is no longer

provided as relief, or should other unforeseen reporting requirements arise. In the event of becoming an SEC Issuer, the FortisBC Utilities would put forth a separate application with an estimate of the associated incremental and ongoing costs, or would include these costs and justification as part of their next revenue requirements reviews.

7. 2014-2018 PBR APPLICATIONS HAVE BEEN PREPARED USING US GAAP

The forecasts, including those used to determine the O&M and capital formulas, in the 2014-2018 PBR Applications which were filed in mid-2013 were prepared using US GAAP. Any deviation from using US GAAP for regulatory purposes would require changing these forecasts. However, the approval to continue to use US GAAP will ensure consistency with the PBR Applications and provide all relevant stakeholders with the accounting that they are familiar with not only for the next five years, but what they have been accustomed to seeing in the past.

8. CONCLUSION

Due to the fact that IFRS does not currently have a permanent standard for rate-regulated activities and the uncertainty in terms of the outcome of the Project, the FortisBC Utilities have made the prudent decision to continue to report in accordance with US GAAP for external financial reporting purposes as it is currently the only option available that allows for recognition of regulated assets and liabilities. The continued use of US GAAP for the calculation of cost of service, revenue requirements, rate base, and the preparation of the regulatory schedules and filings is in the public interest since it maintains transparency and comparability between regulatory and financial reporting and reduces the regulatory impact and costs that the FortisBC Utilities would experience if converting to IFRS.

9. APPROVAL SOUGHT

The FortisBC Utilities request approval to continue to use US GAAP for regulatory accounting and reporting purposes effective January 1, 2015.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

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DRAFT ORDER

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by the FortisBC Utilities
(comprised of FortisBC Inc., FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy
(Whistler) Inc.)
For Approval to Continue to use US Generally Accepted Accounting Principles effective January 1, 2015

BEFORE:

(Date)

WHEREAS:

- A. On July 7, 2011, the British Columbia Utilities Commission (the Commission), pursuant to sections 23, 49, 60 and 61 of the *Utilities Commission Act* (the Act) issued Order G-117-11, granting approval for the FortisBC Utilities to adopt US Generally Accepted Accounting Principles (US GAAP) for regulatory and accounting purposes;
- B. Order G-117-11 directed the FortisBC Utilities to apply to the Commission, by September 1, 2014, for approval of their regulatory accounting standard effective January 1, 2015;
- C. On May 23, 2014, the FortisBC Utilities applied to the Commission to continue to use US GAAP for regulatory and accounting purposes, effective January 1, 2015;
- D. The Commission has reviewed the Application and concludes that the Application should be approved.

NOW THEREFORE pursuant to sections 23, 49, 60 and 61 of the Utilities Commission Act, the Commission orders as follows:

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

2

1. Approval for the FortisBC Utilities to continue to use US GAAP for regulatory and accounting purposes, effective January 1, 2015.

DATED at the City of Vancouver, In the Province of British Columbia, this day of **<MONTH>**, 2014.

BY ORDER