



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-117-11**

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

and

Application by the Fortis BC Utilities
(comprised of FortisBC Inc., Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc.,
and Terasen Gas (Whistler) Inc.)
For Approval to Adopt US Generally Accepted Accounting Principles effective January 1, 2012

BEFORE: M.R. Harle, Commissioner

July 7, 2011

O R D E R

WHEREAS:

- A. On February 9, 2011, the BC utilities of Fortis Inc. (the Fortis BC Utilities), comprised of FortisBC Inc., Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc., filed an application pursuant to sections 23, 49, 60 and 61 of the *Utilities Commission Act*, for approval to adopt US Generally Accepted Accounting Principles (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 Application);
- B. The Application also sought approval to record the one-time conversion costs associated with adoption of US GAAP in a rate base deferral account for each of the Companies, for recovery from its respective customers in 2012 and 2013;
- C. The Fortis BC Utilities stated that a series of events transpired in the latter half of 2010 that resulted in a significantly reduced probability that International Financial Reporting Standards (IFRS) will allow recognition of regulated assets and liabilities for the foreseeable future;
- D. In the first quarter of 2011, the Fortis BC Utilities Board of Directors approved the adoption of US GAAP for financial reporting effective January 1, 2012;
- E. The Fortis BC Utilities state that the adoption of US GAAP will allow the Companies to continue to recognize regulated assets and liabilities for financial reporting purposes and it is prudent for the Companies to adopt an accounting standard that most appropriately reflects the economic and regulatory activities of the Companies given their status as public utilities. As well, adopting US GAAP for regulatory purposes will improve transparency by harmonizing results presented to regulatory and non-regulatory stakeholders, thereby avoiding significant efforts that would be necessary to reconcile between financial and regulatory reporting results;
- F. The Fortis BC Utilities will incur necessary incremental costs, primarily one-time in nature, in the adoption US GAAP but believe these costs are reasonable and prudent;
- G. The Fortis BC Utilities provided, confidentially in Appendix D to the Application, both the one-time conversion cost estimates as well as the ongoing cost estimates of US GAAP adoption;

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- H. The Fortis BC Utilities provided notice of this Application to registered parties to each of its current revenue requirement negotiated settlement agreements;
- I. Commission Order G-25-11 established a regulatory timetable for review of the Application;
- J. The Commission has reviewed the Application and concludes that the Application is in the public interest and should be approved.

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

1. Approval for the Fortis BC Utilities 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 as set out in the accompanying Reasons for Decision.
2. Approval for each of the Fortis BC Utilities to record the one-time conversion costs associated with the adoption of US GAAP in a rate base deferral account for each of the Companies, for recovery from its respective customers in 2012 and 2013.
3. By September 1, 2014, Fortis BC Utilities is to apply to the Commission for approval of its regulatory accounting standard effective January 1, 2015. That application should including a cost estimate of adopting or continuing with the desired accounting standards and a comparison to other standards available at that time. Within that application, the Fortis BC Utilities should provide the Commission an update of rate-regulated financial accounting activities as well.
4. Each of Fortis BC Utilities' entities adopting US GAAP shall prepare a reconciliation of amounts reported for regulatory accounting to those amounts that would otherwise be reported under 2011 Canadian GAAP. This reconciliation should be included in annual reports and revenue requirements applications up to December 31, 2014.

DATED at the City of Vancouver, In the Province of British Columbia, this *Seventh* day of July 2011.

BY ORDER

Original signed by:

M.R. Harle
Commissioner

Attachment



IN THE MATTER OF

The Fortis BC Utilities
(comprised of FortisBC Inc., Terasen Gas Inc.,
Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc.)

Application for Approval to Adopt
US Generally Accepted Accounting Principles effective January 1, 2012

REASONS FOR DECISION

July 7, 2011

BEFORE:

Michael R. Harle, Commissioner

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1.0 EXECUTIVE SUMMARY

On February 9, 2011, Fortis BC Utilities (FBU) applied to the British Columbia Utilities Commission (Commission) to adopt United States Generally Accepted Accounting Principles (US GAAP) effective January 1, 2012 (Application, Proceeding). The Application also seeks approval to allow FBU to establish deferral accounts to capture one-time costs necessary to convert FBU to US GAAP. FBU proposes to recover this deferral account from ratepayers between 2012-2013 (Exhibit B-1, p. 14).

The Interveners in this Proceeding were British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO), Commercial Energy Consumers Association of BC (CEC), and Regional District of Central Kootenay (RDCK). BCOAPO and CEC support the approval of the Application (BCOAPO and CEC Final Submissions, respectively). RDCK made no submissions in the proceeding.

In this Decision, the Commission approves the Application, subject to the terms and conditions noted.

2.0 INTRODUCTION

2.1 Background

FortisBC Utilities is comprised of FortisBC Inc., FortisBC Energy Inc. (formerly Terasen Inc.), FortisBC Energy (Vancouver Island) Inc. (formerly Terasen Gas (Vancouver Island) Inc.) and FortisBC Energy (Whistler) (formerly Terasen Gas (Whistler) Inc.).¹ FBU currently report to the Commission (regulatory reporting) using Canadian Generally Accepted Accounting Principles (Canadian GAAP) as the general basis of accounting. FBU uses Canadian GAAP for financial reporting purposes as well. Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS) for publicly accountable entities in Canada for financial periods beginning on or after January 1, 2011 (Application, pp. 3-4).

FBU submits it had intended to adopt IFRS on January 1, 2011, and had incurred and deferred various costs in preparation for the changeover. FBU indicates that total amounts of IFRS conversion costs deferred to date are approximately \$0.65 million for FortisBC Inc., \$1 million for FortisBC Energy Inc., \$0.9 million for FortisBC Energy (Vancouver Island) Inc., and \$0.3 million for FortisBC Energy (Whistler) Inc. FBU submits that while these costs were incurred for the purpose of IFRS transition, there has been a great deal of value obtained from these changeover activities (Application, p. 11).

Rate-Regulated Accounting Standards

In 2008 FBU notes that existing IFRS standards did not contain specific rate-regulated accounting (RRA) guidance and it was uncertain if regulatory assets and liabilities could be recognized for financial reporting purposes. As a result, in July 2009 the International Accounting Standards Board (IASB) issued an exposure draft proposing, amongst other things, RRA that would allow for the recognition of regulatory assets and liabilities (Application, p. 3).

In 2010 various events and meetings occurred to discuss this RRA exposure draft. However, no consensus was reached and the IASB determined the matter required further research. The IASB further indicated that a new standard would not occur before mid-January 2011 and that no transitional relief would be provided (Application, p. 3). Later in 2010 the IASB would reiterate this position and suspended RRA dialogue at the IASB until further public consultation occurred (Application, p. 4).

¹ While the Application refers to Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. or TGI, TGVI and TGW, respectively, the Decision hereafter uses either FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. or FEI, FEVI and FEW, respectively.

In response to the actions of the IASB, the Canadian Accounting Standards Board (AcSB) provided relief to certain Canadian regulated utilities by initially offering a two-year deferral for the adoption to IFRS. This relief was later revised to a one-year deferral. FBU determined that they qualified for this relief and intended to defer IFRS adoption for one year until January 1, 2012 (Application, p. 4).

As well, in late 2010, the Big Four International Accounting firms communicated to the Canadian Electrical Association that these large accounting firms would not generally support the recognition of regulatory assets and liabilities under IFRS (Application, p. 4).

Towards the end of 2010, FBU began to review financial reporting options in light of the uncertainty. FBU believes that US GAAP was the only set of accounting standards that would generally allow utilities to recognize regulatory assets and liabilities and FBU believes that those assets and liabilities are necessary to represent their economic realities and facilitate the regulatory model. Therefore, FBU decided it would adopt US GAAP for financial reporting purposes as it submits that this is the reasonable and prudent accounting standard for FBU to report under (Application, p. 4).

2.2 The Application and Relief Sought

FBU submits that it is critical to adopt US GAAP for regulatory purposes as maintaining the same basis for accounting in both regulatory and financial reporting matters is transparent and results in few changes from the status quo (Application, p. 5). FBU also seeks approval to defer, in a new regulatory account in each effected FBU entity, costs to adopt US GAAP and charge back those costs to ratepayers in 2012 and 2013. (Application, p. 14).

2.3 The Written Hearing Process

On February 23, 2011, the Commission issued Order G-25-11 establishing a Written Public Hearing Process and a Regulatory Timetable for review of the Application. The Regulatory Timetable allowed for Information Requests and Responses, Written Submissions from Interveners and Final Argument by FBU. The Commission issued both public and confidential Information Requests on March 17, 2011. The BCOAPO, CEC and RDCK registered as Interveners to the Proceeding. BCOAPO and CEC subsequently issued Intervener Information Requests on March 17, 2011. FBU responded to the Commission and Intervener Information Requests on April 7, 2011. On April 18th, FBU filed their Final Written Submissions (FBU Final Submission). On May 2, 2011, BCOAPO filed its Final Written Submission (BCOAPO Final Submission) and on May 3, 2011, CEC filed its Final Written Submission (CEC Final Submission). RDCK made no submissions. On May 17, 2011, FBU filed its Reply. On June 17, 2011, FBU submitted a letter titled an "Update on Ontario Securities Commission Application for Exemptive Relief" and also submitted confidential Attachment B-FEU US GAAP Cost Estimates Comparison Update. On June 27, 2011, the Commission issued a letter to all participants requesting any objections to the inclusion of the June 17th non-confidential filing within the record of the proceeding. No objections were received.

3.0 APPLICATION IMPACT ON FEVI RATEPAYERS

3.1 Effects of Adoption

FEU submits that there are three main reasons for proposing the adoption of US GAAP for regulatory purposes:

- I. IFRS is in a state of uncertainty about recognition of rate regulated activities, and US GAAP is the only currently available standard that allows the Companies to continue to recognize regulated assets and liabilities in external financial reporting;
- II. Adoption of US GAAP will continue to allow for transparency and comparability between regulatory reporting and external financial reporting;
- III. Adoption of US GAAP will have less regulatory impact than conversion to IFRS.

(FEU Final Submission, p. 2)

I) Uncertainty of Rate Regulated Accounting

Under existing IFRS, FBU notes that RRA is not recognized and it is uncertain if it will be recognized in the future. FBU submits that US GAAP is the only basis of accounting that will provide certainty in allowing the recognition of regulated assets and liabilities in the near future (FBU Final Submission, p. 3).

FBU identifies that a “modified” version of IFRS may be possible to allow for the recognition of RRA; however it indicates that such a hybrid would not be appropriate because of i) the disconnect it would create between regulated and financial reporting and ii) the need for ongoing reconciliation (FBU Final Submission, p. 3).

FBU also acknowledges the possibility that US GAAP may converge with IFRS in the future, however such convergence is uncertain. If it does occur, FBU believes it will benefit from past IFRS work. However, FBU submits that IFRS without regulatory accounting should be avoided for as long as possible (FBU Final Submission, p. 4).

II) Transparency and Comparability of Regulatory and Financial Reporting

FBU submits that transparency of information is enhanced with a single accounting standard for both regulatory and financial reporting purposes. As FBU intends to adopt US GAAP for financial reporting purposes, it would be more transparent to adopt this accounting standard for regulatory purposes as well. FBU also believes that by using similar accounting standards in the future that make use of RRA, information will be more comparable over time. As US GAAP allows for regulatory accounting similar to existing Canadian GAAP, regulated information in the future will be more comparable to the past when using US GAAP rather than IFRS which does not allow for regulatory accounting (FBU Final Submission, pp. 4-5).

III) Less Regulatory Impact

FBU submits that adopting US GAAP will better reflect the economic realities of FBU. Also, FBU indicates that US GAAP should have less regulatory impact and the outcomes of US GAAP are less complicated than those of IFRS (FBU Final Submission p. 4). FBU has identified potential variances to Canadian GAAP and US GAAP in the areas of taxes, financial instruments and employee future benefits. However further assessment is underway to quantify the in-depth impact of adopting US GAAP (Application, p. 7). Regardless, FBU believes that that US GAAP offers increased certainty around the impacts of its adoption as compared to those impacts of adopting IFRS (Application, p. 8).

3.2 Cost Considerations and US Registration

FBU estimates total costs for first time adoption and ongoing use of US GAAP vs IFRS in the table below:

	Teragen Utilities			FortisBC		
	US GAAP	IFRS	Variance	US GAAP	IFRS	Variance
	(\$ millions)			(\$ millions)		
Total Forecasted One-time conversion costs (2011)	1.8	1.4	0.4	0.8	0.6	0.2
Total Forecasted Ongoing Costs (2012 and onwards)	0.9	0.9	-	0.3	0.4	(0.1)

(Application, p.9)

Based on the amounts included in the table above, the initial forecasted one-time cost of adoption of US GAAP would exceed that of IFRS for all FBU sub-groups by \$0.4M and \$0.2M in FortisBC Energy entities and FortisBC entities, respectively. However, the ongoing costs to maintain US GAAP are expected to be equal to or less than ongoing costs for IFRS for these same sub-groups.

FBU indicates that these initial cost estimates include an amount to register securities FBU securities with the Securities Exchange Commission (SEC) in the United States (Application, p.10). An SEC registration is necessary to report under US GAAP for Canadian Securities purposes unless an exemption certificate is obtained from Canadian securities regulators. Fortis Inc. and its subsidiaries, which include FBU, had applied to the Ontario Securities Commission (OSC) for this exemption certificate (Application, p. 6, BCUC IR 1.3.3). Significant costs are involved with the initial SEC registration process and then FBU would be required to comply with various ongoing reporting requirements, including the requirements of the Sarbanes-Oxley Act (Application, p. 10).

3.3 Views of the Interveners

BCOAPO supports the approval of the Application. It found that adopting US GAAP was in the public interest due to the increased comparability of information and avoided increase in accounting costs associated with an ongoing IFRS regulatory accounting regime. BCOAPO also notes that while it is not does not appear that US GAAP reporting will cost ratepayers less than a modified IFRS approach, the differences between the two systems are likely to increase over time and, as a result, the associated reconciliation costs could also reasonably be expected to increase (BCOAPO Final Submissions).

However, BCOAPO asks that should the BCUC approve this Application, a provision be included requiring that for 2012, each of the affected FBU entities provide a full reconciliation under Canadian GAAP versus the same test period under US GAAP. BCOAPO submits that this disclosure would increase regulatory transparency and allow both interveners and the Commission to determine what changes in the applications are due to the differences between accounting systems or real changes due to cost, revenue, or load fluctuations making year to year comparisons more suitable during transition (BCOAPO Final Submissions).

CEC supports the approval of the Application as US GAAP provides a set of standards that best reflect the rate regulated industry and that provide a sustainable model for commercial users to apply to their business plans. CEC also observes that US GAAP provides for a reasonable rate increase application process that is stable and does not require significant resources that may otherwise be required to review the wide fluctuation we would see in gas pricing (CEC Final Submissions).

However, CEC also requests that Fortis BC provide a reconciliation of Canadian GAAP to US GAAP. CEC submits that this would provide the transparency that has been part of Fortis BC's US GAAP adoption rationale and that reconciliation would allow for useful year over year comparisons clear understanding of rate increases (CEC Final Submissions).

3.4 Update: Ontario Securities Commission Permits Usage of US GAAP

On June 17, 2011, FEU submitted a letter entitled "*Update on Ontario Securities Commission Application for Exemptive Relief*" which included an exemption certificate from the OSC to Fortis Inc. granting exemption from National Instrument 52-107. This certificate grants Fortis Inc. and its reporting issuer subsidiaries, including FBU, permission to file Canadian securities regulatory documents, such as financial statements, in accordance with US GAAP for 2012-2014. Such an exemption would eliminate the need for FBU to complete the SEC registration for the purposes of adopting US GAAP (FBU Submission, June 17, 2011).

3.5 Commission Determinations

Subject to the comments in this decision, as well as certain filing requirements set out in the attached Order, the Commission finds that the Application is in the public interest and should be approved.

As FBU intends to adopt US GAAP for financial reporting purposes beginning January 1, 2012, using IFRS for regulatory reporting purposes would create many inconsistencies between financial and regulatory reporting. These variances would result in significant annual reconciliations. The Commission Panel believes that such complex reconciliation would hinder transparency and the efficiency of financial information provided to the Commission.

Also, as IFRS does not appear to allow for regulatory assets and liabilities, further reconciliation may be required to any IFRS-prepared financial documents in order to make them useable for the purposes of regulatory reporting. This process could add further complications and costs not already recognized in FBU's estimates for utilizing IFRS.

The Commission Panel recognizes that FBU has few alternatives available to allow for generally consistent, efficient and useful financial reporting to both securities and rate-regulating Commissions in Canada. While some uncertainty surrounds the longevity of US GAAP beyond 2015, the utilities industry of North America and its regulators continue to raise the concerns of the economic realities of RRA within the international community. This activity may or may not impact future accounting standards of both IFRS and US GAAP; however it is too early to draw any conclusions on what may transpire. For the current time, US GAAP does allow for the recognition of RRA and is also acceptable for FBU's financial reporting to securities regulators. As such, the Commission Panel believes that adopting US GAAP on January 1, 2012 is reasonable. However, Fortis Inc.'s OSC exemption certificate expires on January 1, 2015 and at such time, FBU will need to identify the financial accounting standards it plans to adopt in 2015. Such a change will likely impact the comparability and transparency of regulatory reporting as well. **Accordingly, the Commission Panel believes that US GAAP is a practical and efficient financial reporting tool and is appropriate from January 1, 2012 until January 1, 2015. By July 1, 2014, FBU is to conduct a review of the status of various accounting standards, alternatives and costs. By January 1, 2015, FBU shall file a report with the Commission, summarizing this review along with a description of FBU's proposed financial and regulatory accounting standards effective January 1, 2015, for approval.**

Given the uncertain impact of changes to US GAAP at this time and the importance of comparability noted by FBU as well as BCOAPO and CEC, each of FBU's entities adopting US GAAP shall prepare a reconciliation of amounts reported to the Commission to those amounts that would otherwise be reported under 2011 Canadian GAAP. This reconciliation should be included in annual reports and revenue requirements applications up to December 31, 2014.

Parts of the Application were filed on a confidential basis because of their commercially sensitive nature. The request for confidentiality was unopposed. The Commission also asked a set of Confidential Information Requests. No objection was taken to the use of Confidential Information Requests in this proceeding. The Commission agrees that the information is commercially sensitive and will maintain the information on a confidential basis.