

September 4, 2013

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Via "Open to Comment" page, [www.iasb.org](http://www.iasb.org)

**RE: Exposure Draft – Regulatory Deferral Accounts**

Dear Sir or Madam:

British Columbia Hydro and Power Authority (BC Hydro) is responding to the International Accounting Standards Board's Exposure Draft on Regulatory Deferral Accounts (ED). We appreciate the opportunity to provide comments.

BC Hydro is a Crown Corporation of the Province of British Columbia (Province). As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, conserve and supply power. BC Hydro is one of the largest electric utilities in North America, serving 95 per cent of British Columbia's population and delivering electricity to approximately 1.9 million customers through a network of nearly 76,000 kilometers of transmission and distribution lines, 31 hydroelectric facilities, and three thermal generating plants, totaling approximately 12,000 MW of installed generating capacity.

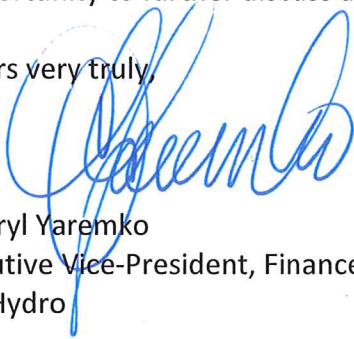
BC Hydro is regulated by an independent regulator, the British Columbia Utilities Commission (BCUC), and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. Revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro's specific comments on the exposure draft are in the attached appendix. We support the general direction of the Boards' proposal to issue interim guidance on regulatory deferral accounts and provide the attached comments as areas for further consideration. We believe that the final project on regulated deferral will assist in finding a level of consistency in reporting for regulated companies.



We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to the Exposure Draft.

Yours very truly,



Cheryl Yaremko  
Executive Vice-President, Finance and Chief Financial Officer  
BC Hydro



## **Appendix A:**

### **Question 1—Scope**

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

### **BC Hydro Response**

We generally agree with the proposal. However, we believe limited exceptions should be provided to certain entities in jurisdictions that have just recently transitioned to IFRS. In our opinion, entities that immediately prior to their recent transition to IFRS applied regulatory accounting to their financial statements should be permitted to adopt the interim standard.

### **Question 2—Scope**

The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:

- (a) an authorised body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and
- (b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7–8 and BC33–BC34).

Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

### **BC Hydro Response**

We agree with the scope criteria as it relates to the interim standard.

### **Question 3—Other comments**

The Exposure Draft proposes that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. If an eligible entity chooses to apply it, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope. If an eligible entity chooses not to adopt the [draft] interim Standard, it would derecognise any regulatory deferral account balances that would not be permitted to be recognised in accordance with other Standards and the Conceptual Framework (see paragraphs 6, BC11 and BC49).

Do you agree that adoption of the [draft] interim Standard should be optional for entities within its scope? If not, why not?



**BC Hydro Response**

We agree with the proposal.

**Question 4— Recognition, measurement and impairment**

The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. An entity that has rate-regulated activities but does not, immediately prior to the application of this [draft] interim Standard, recognize regulatory deferral account balances shall not start to do so (see paragraphs 14–15 and BC47–BC48).

Do you agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so? If not, why not?

**BC Hydro Response**

We agree that entities that currently do not recognize regulatory deferral account balances should not be permitted to start to do so. However, we would support a limited scope expansion to include entities that have recently transitioned to IFRS and applied regulatory accounting in their financial statements immediately prior to transition.

**Question 5— Recognition, measurement and impairment**

The Exposure Draft proposes that, in the absence of any specific exemption or exception contained within the [draft] interim Standard, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards (see paragraphs 16–17, Appendix B and paragraph BC51).

Is the approach to the general application of other Standards to the regulatory deferral account balances appropriate? Why or why not?

**BC Hydro Response**

We agree with the proposal.

**Question 6 — Presentation**

The Exposure Draft proposes that an entity should apply the requirements of all other Standards before applying the requirements of this [draft] interim Standard. In addition, the Exposure Draft proposes that the incremental amounts that are recognized as regulatory deferral account balances and movements in those balances should then be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?



**BC Hydro Response**

While we recognize the need to ensure transparency of the financial information, we are concerned that the presentation requirements may be overly prescriptive. The focus should be to ensure that the effects of applying the interim standard are presented clearly in a way that allows the users of the financial statements to understand the impact of applying the interim standard. However, the approach should also allow management some flexibility to present the effects of rate regulation in the way that they feel best reflects the information in accordance with their existing accounting policies (for example less prescriptive on the face of the financial statements but providing greater detail in the footnotes).

**Question 7 — Disclosure**

The Exposure Draft proposes disclosure requirements to enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities and to identify and explain the amounts of the regulatory deferral account balances that are recognized in the financial statements (see paragraphs 22–33 and BC65).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the [draft] interim Standard.

**BC Hydro Response**

We agree with the proposal.

**Question 8 — Disclosure**

The Exposure Draft explicitly refers to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements (see paragraphs 22–24 and BC63–BC64).

Is this approach appropriate? Why or why not?

**BC Hydro Response**

We agree with the proposal.

**Question 9 — Transition**

The Exposure Draft does not propose any specific transition requirements because it will initially be applied at the same time as IFRS 1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

**BC Hydro Response**

We agree with the proposal.



#### **Question 10 — Other Comments**

Do you have any other comments on the proposals in the Exposure Draft?

#### **BC Hydro Response**

We would like to reiterate that the proposed interim standard is considered a positive move for Canadian companies. In Canada, we have already seen divergence with similar companies electing to adopt US GAAP, remain on Canadian GAAP or adopt IFRS. Even within those companies adopting IFRS we see divergence with some recognizing regulatory deferral accounts and some not. This interim guidance will assist in finding a level of consistency in reporting amongst regulated entities. However, we would support a limited scope expansion to include entities that have recently transitioned to IFRS and applied regulatory accounting in their financial statements immediately prior to transition.