

**NEWFOUNDLAND AND LABRADOR  
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**AN ORDER OF THE BOARD**

**NO. P.U. 13(2012)**

1 **IN THE MATTER OF** the *Electrical Power*  
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the  
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,  
4 Chapter P-47 (the “*Act*”), and regulations thereunder;

5  
6 **AND**

7  
8 **IN THE MATTER OF** an application by  
9 Newfoundland and Labrador Hydro to adopt  
10 International Financial Reporting Standards  
11 for regulatory purposes effective January 1, 2012  
12 pursuant to Subsection 58 of the *Act*.

13  
14  
15 **WHEREAS** Newfoundland and Labrador Hydro (“Hydro”) is a corporation continued and  
16 existing under the *Hydro Corporation Act*, is a public utility within the meaning of the *Act*, and  
17 is subject to the provisions of the *EPCA*; and

18  
19 **WHEREAS** Hydro currently uses Canadian generally accepted accounting principles  
20 (“Canadian GAAP”) for financial reporting purposes and regulatory purposes; and

21  
22 **WHEREAS** in 2006 the Canadian Accounting Standards Board (the “AcSB”) determined, in  
23 effect, that all publicly accountable enterprises subject to Canadian GAAP would be required to  
24 comply with International Financial Reporting Standards (“IFRS”), and Hydro is a publicly  
25 accountable enterprise subject to Canadian GAAP; and

26  
27 **WHEREAS** by Order No. P.U. 43(2009) the Board ordered Newfoundland Power Inc.  
28 (“Newfoundland Power”) to file monthly updates in relation to the transition to IFRS, beginning  
29 February 1, 2010, and continuing until full implementation; and

30  
31 **WHEREAS** Hydro was not ordered by the Board to file monthly updates but adopted the same  
32 practice as Newfoundland Power to keep the Board informed of the status of its IFRS  
33 implementation; and

34  
35 **WHEREAS** in 2010 the AcSB determined that entities with rate-regulated operations subject to  
36 Canadian GAAP would be required to adopt IFRS no later than January 1, 2012, and Hydro is an  
37 entity with rate-regulated operations; and

1 **WHEREAS** Hydro advises that the lack of recognition of regulatory assets and liabilities in  
2 IFRS is a substantial obstacle to the adoption of IFRS for any rate-regulated enterprises; and

3  
4 **WHEREAS** Hydro advises that, after considering and evaluating options with regard to  
5 financial reporting and reviewing the decisions of other Crown-owned Canadian electrical  
6 utilities, it decided to adopt IFRS, with certain exceptions, for financial reporting purposes  
7 effective January 1, 2012; and

8  
9 **WHEREAS** on December 23, 2011 Hydro filed an application for approval to adopt IFRS with  
10 certain exceptions, for regulatory purposes effective January 1, 2012 (the “Application”); and

11  
12 **WHEREAS** on December 23, 2011 the Board requested that the Consumer Advocate, the  
13 Industrial Customers and Newfoundland Power provide any comments they wished to make on  
14 the Application to the Board by January 10, 2012; and

15  
16 **WHEREAS** the Board requested that its financial consultants, Grant Thornton, review and  
17 report to the Board on the Application (the “Grant Thornton Report”); and

18  
19 **WHEREAS** on January 10, 2012 an extension for the deadline of comments was granted to  
20 allow review of the Grant Thornton Report; and

21  
22 **WHEREAS** on January 20, 2012 Grant Thornton presented the results of its review of the  
23 Application to the Board; and

24  
25 **WHEREAS** the Grant Thornton Report concluded that Hydro’s proposal to adopt IFRS for  
26 regulatory purposes is acceptable, but was unable to conclude on the appropriateness of Hydro’s  
27 proposed treatment of transitional adjustments; and

28  
29 **WHEREAS** on February 6, 2012 and February 16, 2012 Hydro filed responses to the Requests  
30 for Information issued by the Board and the Industrial Customers; and

31  
32 **WHEREAS** on February 21, 2012 Newfoundland Power submitted its comments to the Board;  
33 and

34  
35 **WHEREAS** on February 22, 2012 the Consumer Advocate and the Industrial Customers  
36 submitted their comments to the Board; and

37  
38 **WHEREAS** on February 24, 2012 Grant Thornton submitted a supplementary report to the  
39 Board concluding that Hydro’s proposed treatment of transitional adjustments would not impact  
40 rate base or return on rate base for the 2012 year; and

41  
42 **WHEREAS** on March 2, 2012 Hydro responded to the comments of Newfoundland Power, the  
43 Consumer Advocate and the Industrial Customers; and

1 **WHEREAS** on December 23, 2011 Hydro made a separate application for changes to its  
2 depreciation methodology which is being reviewed in a detailed process, the Board will not  
3 approve any changes to Hydro's depreciation methodology in this Application; and  
4

5 **WHEREAS** Hydro's 2012 Capital Budget Application was prepared in accordance with IFRS  
6 standards; and  
7

8 **WHEREAS** in Order No. P.U. 2(2012) the Board approved certain changes to Hydro's capital  
9 expenditure methodology to incorporate the requirements of IFRS standards; and  
10

11 **WHEREAS** the Board has reviewed the Application and all supporting documentation and is  
12 satisfied that it is appropriate for Hydro to commence financial reporting for regulatory purposes  
13 as of January 1, 2012 in accordance with IFRS accounting standards, with certain exceptions.  
14  
15

16 **IT IS THEREFORE ORDERED THAT:**  
17

- 18 1. The adoption and use of International Financial Reporting Standards accounting standards by  
19 Hydro for financial reporting for regulatory purposes, effective January 1, 2012, is approved  
20 with the following exceptions:  
21
- 22 (a) Hydro shall continue to adhere to existing accounting guidelines with respect to  
23 reporting of Rate Stabilization Plan balances and activity;  
24
  - 25 (b) Hydro shall continue to adhere to existing accounting guidelines with respect to  
26 reporting of deferred costs;  
27
  - 28 (c) Hydro shall ensure that 2011 transitional differences associated with the adoption of  
29 International Financial Reporting Standards are adjusted in Hydro's 2012 opening  
30 retained earnings;  
31
  - 32 (d) Hydro shall include unamortized deferred revenue as a reduction from rate base; and  
33
  - 34 (e) Hydro shall record net insurance proceeds associated with capital projects of \$50,000  
35 or more as an offset against the cost of capital assets and as a reduction of the rate  
36 base value of those assets.  
37
- 38 2. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador this 15<sup>th</sup> day of May, 2012.

---

Dwanda Newman  
Commissioner

---

James Oxford  
Commissioner

---

Cheryl Blundon  
Board Secretary