

CAMPUT 2010

Countdown to International Financial Reporting Standards (IFRS)

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Céline Arsenault-Smith
Corporate Controller and IFRS Project Lead
Toronto Hydro Corporation



Agenda



- Toronto Hydro at a Glance
- IFRS Project Status Update
- Major Impacts for Toronto Hydro
- Guidance Needed from Regulators

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Toronto Hydro at a Glance



- One of the largest municipal electricity distribution companies in Canada, distributing approximately 18% of the electricity consumed in Ontario

Revenue:	\$2.5B
Net Income:	\$42M
OPEX:	\$211M
CAPEX:	\$249M
Total Assets:	\$3.0B

Toronto Hydro at a Glance



- Over 95 years of service history
- Amalgamation of six utilities in 1998
- Reporting issuer with \$1.2B in public debt
- Capital intensive company
- Over 690,000 customers, population of over 2.5 million
- Peak demand of over 5,000 MW
- Over 1,700 employees
- Owned 100% by the City of Toronto

IFRS Project Status Update

Phase 1: Awareness and Assessment

2007 – Late 2008

- Established a formal governance structure
- Performed a high level assessment of all significant IFRS differences
- Detailed assessment of the systematic gap analyses of accounting and disclosure differences
- Conducted an analysis of the different choices to be made
- Detailed assessment on the Corporation's systems, processes and controls as well as other business, regulatory and tax impacts was also conducted
- Established communication plan and staff-training plan
- Hired an external consultant to assist with the IFRS implementation process

Phase 2: Design

Late 2008 – Mid 2010

- Identified key resources and established issue-specific working groups in each of the identified risk areas
- Established key milestones including recommendations development, analyzing financial system and internal control impacts, and drafting of significant accounting policies
- On going discussions with external auditors
- Determining the impact on the Corporation's F/S
- Identified and developed new business processes and modifications to existing business processes
- Continued to roll out communication and training initiatives
- Designed the systems to provide the additional information requirements for F/S and disclosures
- Execution of staff-training plan

Phase 3: Implementation

Mid 2009 – 2011

- Development of new accounting policies, manuals and associated training
- Test effectiveness of changes made to systems
- Simulation of financial reporting process
- Preparation of opening B/S on transition date and related reconciliations
- Assess ongoing impacts on the IFRS F/S and disclosures
- Implementation of possible changes to debt covenants, internal performance measures, contracts and processes
- On going discussions with external auditors
- Roll-out business process changes
- Updating controls and procedures to ensure integrity of internal controls over financial reporting and disclosures
- Issue quarterly and annual IFRS F/S and notes for 2011 and 2010 comparatives

IFRS Project Status Update



- Currently and simultaneously in the *Design* and *Testing & Implementation* Phases of the Project.
- Issue-specific working groups continue to focus on generating options and making recommendations in the identified risk areas.
- Finalization and re-visitation of significant accounting policies (known as “whitepapers”) under IFRS.
- Senior management and external auditor are involved throughout the course of the decision-making process.

IFRS Project Status Update



- The IT system was successfully implemented to support Canadian GAAP reporting with additional IFRS reporting capabilities.
- Roll-out business processes and IT training sessions to finance and operational teams.
- Began accumulating IFRS data in 2010 and to quantify Day 1 Opening Balance Sheet position.
- However, due to the uncertainty around IASB Project on Rate-Regulated Accounting, uncertainty remains with respect to the full quantification of the impacts of IFRS.

Major Impacts for Toronto Hydro



- Upon transition to IFRS, the following areas of accounting differences have been assessed as having major impacts for Toronto Hydro:
 - Rate-Regulated Accounting
 - Property, Plant and Equipment
 - Asset Retirement Obligation
 - Payments In Lieu of Corporate Taxes
 - Employee Benefits
 - IFRS 1, *First-Time Adoption of IFRS*.

Major impacts due to uncertainty of Rate-Regulated Standard / ED

PEOPLE

- Continue to monitor progress of the IASB project
- Revisit and update whitepaper positions
- Unable to quantify all impacts to the Corporation's financial position
- Delays in booking IFRS entries
- Unable to finalize new or modified policies relating to RRA

SYSTEMS

- Additional contingency planning and built-in strategy to handle multiple possible scenarios to comply with the ultimate finalized standards
- Increased efforts in systems design, testing and implementation
- Systems will need to be updated once a decision is obtained

PROCESSES

- Unable to finalize new or modified processes due to the possibility of changing whitepaper conclusions
- Delays in rolling out training and communicating plans
- Processes will need to be revised and updated once a decision is obtained

Guidance Needed from Regulators



- Utilities can choose how they will adopt IFRS for their general purpose financial statements.
- Reconciliation is required to bridge the gap between the general purpose financial statements and the information used by their respective regulator in their regulatory capacity.
- Reconciling differences between the IFRS framework and the regulatory framework will require additional resources, administrative costs, establishment of internal processes and controls.

Guidance Needed from Regulators



- While the adoption of full IFRS for rate making is ideal, currently two sets of books and records is the reality. Guidance from regulators who are actively involved and understand the accounting differences will help minimize regulatory complexity and uncertainty.
- There is urgency for regulators to make final determinations about how and when it will adopt IFRS, including timely communication for Canadian adopters.

Guidance Needed from Regulators



- IFRS will have the greatest impact for Toronto Hydro, as it relates to Property, Plant and Equipment and Rate-Regulated Accounting.
- Having regulatory guidance in this area is specifically important given the extent of capital projects that utilities have and the transaction data collection that is required.
- Example where the OEB provided some guidance to minimize regulatory and IFRS differences – Joint Depreciation and Componentization studies

Guidance Needed from Regulators



- Provide utility specific direction with respect to rate filings under IFRS
- Provide guidance to utilities on accounting for both initial/permanent and ongoing IFRS differences under the regulatory framework
- Continued use of deferral and variance accounts under IFRS, including new accounts for IFRS transitional adjustments
- Use of historic costs to set the opening rate base value for January 1, 2011
- Updates to the OEB Accounting Procedures Handbook, Electricity USoA and RRR