July 13, 2009

Ms. Erica M. Hamilton
Commission Secretary
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

RE: Project No. 3698500

British Columbia Utilities Commission (BCUC)
British Columbia Hydro and Power Authority (BC Hydro)
F2009/F2010 Revenue Requirements Application (F09/F10 RRA)
Compliance with Directive No. 53 of the BCUC March 13, 2009 Decision

BC Hydro is writing in compliance with Directive No. 53 of the BCUC’s decision with respect to BC Hydro’s F09/10 RRA. Attached please find a report on the progress BC Hydro has made with respect to International Financial Reporting Standards (IFRS) and their implementation for Fiscal 2012.

For further information, please contact Guy Leroux at 604-623-3696.

Yours sincerely,

[Signature]

Joanna Sofield
Chief Regulatory Officer

Enclosures (7)

c. BCUC Project No. 3698500 (BC Hydro F09/F10 RRA) Registered Intervenor Distribution List.
F09/F10 RRA Decision
Response to Directive 53

BChydro

International Financial Reporting Standards
Progress Report

July 2009
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1 Purpose and Outline of Report


Directive 53 requires the following:

"The Commission Panel direct BC Hydro to provide within four months of the date of this Decision a report on the IFRS project and its progress to date. The report should include the project charter, a detailed project plan, a consultation plan with stakeholders, any potential changes to business or accounting policies, any unresolved issues, a summary of the present accounting policies under Canadian GAAP that conform to IFRS, a listing and rationale for all anticipated accounting policy changes, and a listing and explanation of accounting policy positions related to IFRS that are the same and/or divergent from other utilities under the Commission's jurisdiction or elsewhere in Canada. In particular, BC Hydro is also to include details of its plans to coordinate its approach with that of other BC resident utilities regulated by the Commission and its shareholder's requirements."

This report provides the current status of BC Hydro's progress on implementing International Financial Reporting Standards (IFRS) for Fiscal 2012, and includes the following sections and appendices:

- Section 2, BC Hydro's progress to date on the IFRS conversion project;
- Section 3, an overview of BC Hydro's IFRS Project Charter;
- Section 4, a description of BC Hydro's IFRS project time line;
- Section 5, the IFRS project consultations that BC Hydro has undertaken or plans to undertake with external stakeholders;
- Section 6, an outline of potential changes to BC Hydro's business or accounting policies;

• Section 7, a summary of unresolved IFRS issues;

• Section 8, a reference to a summary of current GAAP policies that conform to IFRS;

• Section 9, details of BC Hydro’s actions to coordinate its IFRS activities with those of other B.C. resident utilities;

• Appendices A and B, the IFRS Project Charter and Timeline respectively, that provide detail related to sections 3 and 4;

• Appendix C, the Consultation Plan with External Stakeholders, which relates to section 5;

• Appendix D, a detailed listing of BC Hydro’s IFRS policy choices and open issues, which provides more information for sections 6, 7, and 8;

• Appendix E, the IFRS Peer Utility Group accounting paper that Terasen Gas Inc. included with its 2010-2011 Revenue Requirements filing, which provides information for sections 7 and 9; and

• Appendix F, Benchmarking Policy Choices with Other Canadian Utilities, which summarizes the results of an informal survey undertaken by BC Hydro, and provides supporting information for section 9.

2 IFRS Progress to Date

2.1 Overview of IFRS Requirements and the IFRS Conversion Process

In Canada, IFRS requirements will become effective for reporting years beginning on or after January 1, 2011. For BC Hydro, this means that its external financial reporting will continue to comply with Canadian Generally Accepted Accounting Principles (CGAAP or GAAP) in Fiscal 2010 and Fiscal 2011.

IFRS represents a comprehensive set of principle-based standards. As a result, BC Hydro’s IFRS conversion process requires a thorough review of its existing accounting policies to determine what changes are required. This includes consideration of impacts to:

• information systems;
• business policies and processes that support creation of financial information;

• the requirement and ability to capture and report financial information;

• business metrics that may result from the IFRS conversion; and

• customers’ rates.

To address these different requirements BC Hydro has treated the conversion to IFRS as a project and has prepared an IFRS Project Charter and IFRS Project Plan, which are described in sections 3 and 4.

The conversion to IFRS is required to be complete for BC Hydro’s Fiscal 2012 external reports; however, many elements of the IFRS conversion will need to be completed for Fiscal 2011 so that comparative balances for Fiscal 2011 can be presented in Fiscal 2012 IFRS reports.

For regulatory purposes, BC Hydro has proposed that many of the accounting treatments adopted for IFRS should also be used in BC Hydro’s implementation of the BCUC Uniform System of Accounts (USoA). This will allow BC Hydro’s external reporting to continue to be reconcilable to amounts reported for regulatory purposes.

2.2 Initial Planning

The IFRS project planning included development of a general plan to address the scope and requirements of IFRS conversion, developing sponsorship and awareness, identification and appointment of advisors who will support the IFRS conversion process, and completion of project governance documentation such as the charter. This planning work started during Fiscal 2008 and was completed during Fiscal 2009. Major tasks completed include:

- Engaging KPMG as the primary IFRS advisor. KPMG also acts as BC Hydro’s external auditor. This dual role provides BC Hydro with greater assurance that IFRS policy choices, interpretations, and implementation methodologies are subject to early assessment by its auditor. This will help to mitigate the risk that IFRS financial statements will require significant last-minute changes. Note that this dual role of auditor and IFRS advisor is common and does not create independence concerns.
• Hiring of a project manager to assist in overall coordination between BC Hydro internal
  project teams and advisory resources, and in development of the project plan and
  timeline.

• High level assessment which was used to create awareness for approximately 40
  BC Hydro and BCTC finance and regulatory staff. These staff will be involved in
  development and sustainment of the business processes that are impacted by IFRS.
  During this early phase, staff were provided with an awareness of the IFRS requirements
  and changes. They were also able to inform the IFRS technical specialists of issues and
  unique requirements that affected the implementation requirements scoping.

• Holding initial discussions with the BC Hydro Audit & Risk Management Committee of the
  Board of Directors.

• Training for BC Hydro and BCTC senior finance staff to provide an understanding of the
  IFRS changes of particular significance for BC Hydro.

2.3 Assessment and High-level Design

IFRS conversion requires adoption of a consolidated body of standards that includes
International Financial Reporting Standards, International Accounting Standards (IAS), and
related interpretations issued by the International Financial Reporting Interpretation
Committee, and by the Standards Interpretation Committee. In addition, each of the major
accounting firms publishes IFRS interpretations that govern their determination of the
accounting requirements to be met in order to comply with IFRS. It is notable that, for
various subject areas, the requirements for IFRS compliance may differ among the major
accounting firms.

The need to interpret and assess the impacts of IFRS and establish the requirements for
IFRS conversion is a major task. This assessment generally requires advisory assistance.
BC Hydro's IFRS advisor, KPMG, has assisted BC Hydro in establishing a methodology for
interpreting and assessing the impact of differences between IFRS and CGAAP. BC Hydro's
accounting staff have applied the information in the development of requirements and IFRS
implementation plans.
The assessment and high-level design, comprising validation of IFRS interpretations, several IFRS-topic specific workshops to discover impacts, and the development of the initial work plan, was completed during Fiscal 2009. The outcome of this work includes:

- a detailed work plan;
- templates to assess how IFRS policy choices may influence BC Hydro’s financial statements and related disclosures;
- IT requirements to be addressed by the Financial Systems Replacement Project (FSRP) which is described in section 6.1.1;
- identification of financial reporting and regulatory impacts, and development of potential mitigation solutions;
- a consultation plan with external stakeholders; and
- a change management strategy, which addresses internal communications, staff training, and support requirements.

2.4 Implementation

BC Hydro recently initiated the implementation phase of the IFRS project. This work phase will validate and implement the tasks established as part of the IFRS assessment and high-level design. Work during this phase will be performed by BC Hydro finance staff supported by internal finance technical specialists. KPMG will continue to be involved in the interpretation of IFRS changes, and in assessing the methodologies that are implemented by BC Hydro.

It is anticipated that most of the IFRS implementation will be completed during Fiscal 2010. This is required to facilitate the capture of IFRS information for Fiscal 2011 that will be reported as comparative information when IFRS reporting begins in Fiscal 2012. Completion of major components of the implementation will allow BC Hydro to ensure its IFRS methodologies operate as expected, or to make changes if required before IFRS reporting commences. It is also anticipated that BC Hydro will complete its implementation of SAP Financials systems for Fiscal 2011, which will include the methods and data required for
International Financial Reporting Standards Progress Report

BC hydro

1. IFRS. This overall effort will allow BC Hydro to prepare its Fiscal 2012 RRA using IFRS, based on the expectation that IFRS and BC Hydro’s implementation of the USoA will be harmonized and integrated in its regulatory reporting.

2.5 Readiness Assessment

BC Hydro participated in a readiness assessment survey conducted by KPMG. This work provides a comparative tracking of the progress of IFRS conversion within the Canadian utilities sector. Based on the assessment, which was performed in early 2009, BC Hydro’s progress is similar to other major Canadian utilities and ahead of smaller Canadian utilities.

As a sector, utilities have been proactive in their IFRS conversion for various reasons, including:

- the potential for major impacts to customer rates and financial statements due to the significant use of industry-specific practices that are not allowed under IFRS;

- the capital intensive nature of the industry, and the reliance on self-constructed assets that is likely to result in major changes in accounting for Property, Plant and Equipment; and

- the utility sector may be subject to fewer challenges from the current economic recession, compared to other industry sectors, and therefore has been able to maintain the relative priority of IFRS implementation compared to other business requirements.

BC Hydro’s IFRS project team will continue to perform internal readiness assessments as a primary component of its change management activities. BC Hydro will also participate in externally sponsored change management surveys, where appropriate, to gauge its progress compared to its peers.

2.6 Impact of IFRS on BC Hydro’s Regulatory Filings

BC Hydro has reviewed the implications of IFRS conversion in the context of its existing regulatory framework of Special Directions, BCUC-approved regulatory accounting practices, and existing GAAP-compliant practices. Similar to the current level of integration with GAAP, BC Hydro hopes to implement a strategy that will allow its regulatory reporting to
be harmonized with its external reporting. This will help to ensure that management
practices continue to support both external and regulatory reporting. It will also limit the
complexity and administrative burden that would result from multiple accounting
methodologies that would need to be embedded in its business processes should regulatory
reporting not be harmonized with external reporting.

A significant component of the harmonization of IFRS and regulatory reporting is expected
to occur through BC Hydro’s proposals with respect to the USoA. The USoA has not been
updated for several years, and many of its underlying accounting methodologies reflect
GAAP as of 1980. As part of USoA implementation, BC Hydro hopes to update the USoA
used for BC Hydro’s code of accounts (USoA/BC Hydro Code of Accounts) to harmonize the
accounting requirements that will prevail after Fiscal 2011 when BC Hydro will both begin to
prepare reports under IFRS and implement the USoA.

BC Hydro anticipates that for regulatory purposes IFRS impacts will be implemented as
follows:

- The RRA for Fiscal 2012 and subsequent years will be the first application that reflects
  IFRS impacts. This RRA will also reflect classification of balances under the
  USoA/BC Hydro Code of Accounts as per Directive 56 of the R09/F10 RRA Decision.

- The BCUC Annual Financial Report for Fiscal 2012 will reflect IFRS and the
  USoA/BC Hydro Code of Accounts.

For both the RRA and the Annual Report, BC Hydro is currently reviewing the extent to
which comparative information will be available for years prior to Fiscal 2011. As some of
the conversion to IFRS may involve transitional or temporary increases in reported
expenditures, BC Hydro is working to develop strategies to mitigate those impacts on
customer rates.

Examples of IFRS-related accounting changes that may require mitigation to avoid rate
impacts include:

- potential write-off or revaluation of regulatory accounts, causing a one-time impact at the
  conversion date;
• potential need to revalue provisions and property, plant, and equipment, causing a one-time impact at the conversion date;

• ongoing changes in the level of costs that are eligible and attributable to capital work, causing a reduction of costs capitalized with an offsetting increase in operating costs;

• changes in accounting for pension and other post-employment benefits; and

• potential changes in accounting for significant contract types, such as energy purchase agreements and electricity trade transactions.

The specific nature and amount of these impacts will be determined during the implementation work phase. BC Hydro will use this information to establish regulatory proposals, and will outline these proposals so that the implications and suggested related regulatory treatments are provided in the F2012 RRA.

3 IFRS Project Charter

BC Hydro’s IFRS Project Charter defines the project objectives, scope, schedule, key assumptions about inter-project or cross-organization dependencies, risk factors, as well as key roles and responsibilities. The following list highlights the project definition and elements from BC Hydro’s IFRS Project Charter:

• The key objectives of the project include ensuring BC Hydro complies with IFRS, and making sure that significant IFRS conversion impacts to ratepayers and to the Province (as shareholder) are properly mitigated.

• The scope includes BC Hydro and its operating subsidiaries, Powerex and Powertech, as well as BC Hydro Service Asset Corporation. The scope of the project also includes preparing amendments, where necessary, to business policies; ensuring the changes are communicated; supporting changes to business processes to accommodate IFRS; and supporting the development of changes to BC Hydro’s regulatory framework.

• The project budget is approximately $2.9 million, which represents costs for KPMG as IFRS advisors, as well as external consultants for project management, change management, and asset-related consulting services such as depreciation study work.
- Key internal dependencies related to BC Hydro’s Financial Systems Replacement Project include defining IFRS requirements in the new SAP Financials systems effective for Fiscal 2011 (for F2012 comparative reporting). Key external dependencies include working with the BCUC and the Province to ensure appropriate mitigation of ratepayer and shareholder impacts. The project will also rely on BCTC to ensure the accounting for BC Hydro’s transmission assets complies with IFRS.

- The Steering Committee, which is chaired by BC Hydro’s Chief Accounting Officer, provides overall project governance. The Steering Committee includes the CFOs of BC Hydro and of Powerex, the Finance Directors of each of BC Hydro’s business groups, the Chief Regulatory Officer, and the Director, Communications and Public Affairs.

- An Accounting Oversight Committee chaired by the Chief Accounting Officer that includes each of BC Hydro’s business group controllers. This group provides oversight on any key accounting policy changes resulting from the project.

Please see Appendix A for the complete IFRS Project Charter.

4 IFRS Project Timeline

The IFRS Project Timeline provides a high level view of the phases and activities for the conversion to IFRS and is attached as Appendix B. The timeline incorporates tasks to address the following requirements:

- accounting and financial policy changes, including changes to presentation requirements for externally reported information;

- financial system change requirements to address IFRS, which will be implemented by the Financial System Replacement Project (FSRP);

- Change management requirements, including internal and external stakeholder communication and training; and

- regulatory requirements to address IFRS conversion impacts, including the impacts to Special Directions issued by the Province or accounting orders issued by the BCUC.
5 Stakeholder Consultation Plan

The scope of the IFRS project includes work to assess, design, and support the implementation of amendments to BC Hydro’s regulatory framework of Special Directions, accounting orders, and other enabling documentation. This work is intended to ensure that significant impacts related to IFRS conversion are identified and mitigated, where appropriate. As part of the assessment activities, BC Hydro has identified key stakeholders who would be interested in how implementation of IFRS at BC Hydro might affect them. BC Hydro’s Consultation Plan with External Stakeholders is attached as Appendix C.

BC Hydro will provide an update on the IFRS conversion process as part of its next RRA (for Fiscal 2011, expected to be filed in February 2010). Further, it is expected that discussions with the BCUC related to BC Hydro’s implementation of the USoA will also include proposals to harmonize the accounting used for regulatory reporting with BC Hydro’s IFRS-compliant external reporting.

6 Potential Changes to Business or Accounting Policies

6.1 Dependency on other BC Hydro Initiatives

6.1.1 Financial Systems Replacement Project (FSRP)

Certain aspects of BC Hydro’s IFRS conversion are dependent on related initiatives. For example, as part of its Information Technology and Telecommunication Strategy, BC Hydro will implement a single enterprise reporting platform through a staged implementation over time. The first step in this strategy is the FSRP, which will implement SAP Financials. The IFRS project has already provided the IFRS-related requirements to the FSRP to ensure the new financial system platform fully supports IFRS.

One of the major challenges that the IFRS conversion creates for the FSRP is the need to implement a regulatory reporting view that will differ from external reporting. This will likely require BC Hydro to implement a system of parallel ledgers to track accounting treatments that are used for regulatory and ratemaking purposes, but that do not comply with IFRS. BC Hydro will propose that its regulatory reporting be harmonized, where practical, with its IFRS accounting treatment in order to reduce the complexity that needs to be embedded in
its financial systems. This will also help to limit analytical complexity resulting from multiple views of the same activity and reconciliation between audited financial statements and those prepared for regulatory purposes. However, even with significant harmonization, it is likely that parallel ledgers may still be required. This is an area of major uncertainty, and is highly dependent on the issue of whether regulatory accounting will be allowed under IFRS. It is anticipated that an Exposure Draft will be issued by the International Accounting Standards Board (IASB) by the end of July 2009 which will provide additional clarity regarding this issue.

6.1.2 BCUC Uniform System of Accounts

The F09/F10 RRA Decision includes Directives 54 through 57 that require BC Hydro to adopt and implement the USoA for the Fiscal 2012 reporting year for both the Annual Financial Report to the BCUC and any revenue requirement application filed after January 1, 2011. The oversight of this implementation work falls within the scope of the FSRP. The IFRS project supports BC Hydro’s USoA implementation to ensure an integrated approach to implementing IFRS and the USoA starting in Fiscal 2012. This includes the development of proposals to update and harmonize the USoA, where appropriate, to reflect the requirements of IFRS which would become BC Hydro’s Code of Accounts. Where it is not possible to harmonize the treatments, it is anticipated that regulatory deferral accounts will continue to be used.

Please refer to the report submitted by BC Hydro on June 12, 2009 in response to Directive 56 of the F09/F10 RRA Decision for further information regarding the FSRP and BC Hydro’s implementation of the USoA.

6.2 IFRS changes

It is anticipated that IFRS will change the total amount of expenditures that are capitalized compared to Canadian GAAP. Appendix D contains detailed information about these changes by topic or standard. In summary, the main reasons for these changes include:

- Certain types of expenditures, such as major equipment inspection and overhaul activities, will be capitalized under IFRS. BC Hydro currently accounts for these items as operating costs.
IFRS will significantly reduce the level of costs that are allocated to capital as part of BC Hydro’s capital overhead calculations. Certain directly attributable costs that are currently allocated for administrative ease, such as design costs and sundry materials, will continue to be assigned to capital. However, the costs of various capital support activities, which are currently reflected as capital for both Canadian GAAP and regulatory reporting, will no longer be eligible for capitalization under IFRS. This change is not expected to result in any additional cost uncertainty or volatility, but is expected to result in fewer costs being capitalized. The issue of capital support costs may require regulatory accounting treatment.

IFRS conversion will also influence the timing of recognition for certain types of costs, as well as how those costs should be measured. One example relates to when provisions must be recorded, and the process that must be followed to determine the amount of costs that should be recorded. It is expected that, where IFRS creates sufficient forecasting uncertainty regarding the timing of costs or their related volatility, regulatory accounts will be proposed to ensure the expected rate impact will be manageable.

7 Unresolved Issues

7.1 Key Standards are not Final

Some of the standards currently being contemplated have not yet been finalized by the IASB.

One major area of interest to BC Hydro and other regulated enterprises is whether IFRS will allow regulatory accounting. Current IFRS do not allow for the creation of regulatory assets and liabilities, which CGAAP allows. However, an exposure draft expected in July 2009 may, if adopted as a standard, allow regulatory accounting practices, although perhaps not in the same form as CGAAP currently permits. The resolution of this issue will influence BC Hydro’s assessment of the IFRS impacts that must be mitigated. As of May 31, 2009, BC Hydro had $990 million in regulatory accounts.

It is also expected that an IFRS exposure draft regarding Employee Benefits which will be issued later this year may impact BC Hydro’s accounting when IFRS is adopted.
Table 1 of Appendix E, an accounting paper prepared by the IFRS Peer Utility Group (which comprises senior accounting and regulatory staff from BC Hydro, BCTC, Terasen, FortisBC, and Pacific Northern Gas), contains a listing of anticipated changes.

### 7.2 IFRS Interpretations are still Subject to Change

In addition to IFRS changes, BC Hydro’s policy choices could change in response to changes in the interpretation of IFRS by its external auditor. Currently, in areas where IFRS is subject to interpretation, it has been found that interpretations may differ across utilities and the major accounting firms that act as IFRS advisors. Examples of IFRS interpretations that may differ across organizations include the types of activities that are eligible for assignment to capital work. Similarly, there is still uncertainty regarding which capital projects should attract interest. The interpretation of these areas has been found to vary widely across different Canadian utilities, and the accounting firms that act as IFRS advisors do not have a common interpretation.

BC Hydro currently works with an IFRS Peer Utility Group that includes the major energy utilities in B.C. (BC Hydro, Terasen, FortisBC, Pacific Northern Gas, and BCTC) that are regulated by the BCUC. The work of this group is discussed in section 9.1. This group has identified that there is a high level of alignment in the IFRS topic areas that will have the greatest impact to each entity. However, different business drivers, external auditors, and other constraints may result in different accounting policy choices. BC Hydro has informally surveyed its peer group to determine the level of alignment of accounting policy choices, as well as whether the interpretation differs across entities. The results of this survey are discussed in Appendices E and F.

It should be noted that the survey information provided remains preliminary. Many of the accounting policy choices and interpretations applied by BC Hydro and its peers are still subject to change as the conversion process continues, in response to new pronouncements from the IASB.
8 Summary of Current GAAP Policies that Conform to IFRS

BC Hydro has performed a comprehensive assessment of IFRS topics to determine the impacts on its current Canadian GAAP accounting policies. Appendix D identifies all of BC Hydro’s accounting policy impacts, as well as the accounting policy choices that have been made, where options are available. These documents reflect the current status of BC Hydro’s IFRS conversion process. Except as otherwise identified in Appendix D, BC Hydro does not anticipate that IFRS conversion will result in changes to its current accounting policies. It should be noted, however, that resolution of the uncertainties highlighted in section 7 will lead to probable changes to accounting policy impacts and policy choices.

9 Co-ordination with Other B.C. Resident Utilities

 Directive 53 of the F09/F10 RRA Decision requires BC Hydro to include details of its plans to coordinate its approach with that of other B.C. resident utilities regulated by the BCUC. The following sections describe BC Hydro’s approach to this coordination.

9.1 IFRS Peer Utility Group

For the utilities regulated by the BCUC, a collaboration process has been in place for several months. This IFRS Peer Utility Group currently comprises senior accounting and regulatory staff from BC Hydro, BCTC, Terasen, FortisBC, and Pacific Northern Gas.

The IFRS Peer Utility Group meets regularly for the purposes of discussing areas of IFRS conversion of common interest, including:

- the nature and extent of use of advisory resources to assist with IFRS conversion;
- necessary financial or other system updates;
- status and comparison of policy interpretation among the utilities and their major advisory firms;
- status of IFRS impact assessment and policy choice selection; and
• agreement on IFRS impacts common to all utilities.

As a result of ongoing discussions, the Peer Utility Group has already provided the following two significant deliverables to the BCUC:

1. On April 6, 2009, the IFRS Peer Utility Group provided a full-day IFRS training workshop, at the request of the BCUC. This workshop was developed by KPMG in conjunction with the IFRS Peer Utility Group. Attendees included representatives from BCUC staff, intervenors, and the Provincial Government. Accounting and regulatory representatives from each of the utilities regulated by the BCUC also attended.

2. On June 11, 2009 Terasen Gas Inc. included, as part of its 2010-2011 Revenue Requirements filing, an accounting paper developed by the IFRS Peer Group titled “IFRS, A Summary of Anticipated Impacts of Transition to IFRS by Rate Regulated Utilities in British Columbia”. This paper is attached as Appendix E. The IFRS Peer Utility Group collaborated to develop this accounting paper to explain the major accounting impacts of IFRS compared to GAAP.

The IFRS Peer Utility Group continues to meet and provide each other with updates of each utility’s IFRS conversion process.

The consensus of the IFRS Peer Utility Group has been that it is helpful to be able to coordinate the areas where IFRS conversion is of common interest. Each utility expects to individually bring its own set of proposals forward for discussion with the BCUC, reflecting the specific issues and circumstances of that utility.

**9.2 Coordination with BCTC**

In addition to the IFRS Peer Utility Group work, BC Hydro actively discusses IFRS issues with BCTC. Relative to the work done with other B.C. resident utilities, the work with BCTC has unique requirements since BCTC manages accounting issues for transmission assets that are owned by BC Hydro and reported in BC Hydro’s financial statements. The result is that BCTC will need to ensure it is able to change its accounting procedures to support BC Hydro’s IFRS reporting requirements, as well as support BC Hydro’s implementation of the USoA.
BC Hydro and BCTC have made efforts to ensure a coordinated approach to IFRS implementation including:

- hiring a common project manager to support the IFRS implementation for both entities;
- including BCTC representatives in BC Hydro’s IFRS project team two-day workshop in January 2008 (approximately 40 attendees in total);
- including BCTC representatives in BC Hydro’s one-day finance staff awareness training workshops in September 2008 (approximately 140 attendees in total);
- including BCTC representatives at BC Hydro’s IFRS assessment workshops; and
- providing BCTC access to major deliverables created by the BC Hydro IFRS project to leverage knowledge transfer. In particular, BC Hydro has provided BCTC with relevant components of its IFRS assessment documentation, and full copies of its mock Financial Statements and Notes, as well as the IFRS IT requirements. This facilitates BCTC’s understanding of BC Hydro’s IFRS conversion requirements. It also allows BCTC to utilize this information for its own IFRS conversion project.

Ongoing discussions between BCTC and BC Hydro’s IFRS project teams will ensure overall timeline coordination, including regulatory timelines. Discussions between BCTC and BC Hydro’s FSRP team are ensuring coordination of IT requirements, and leveraging of IT implementation work. This includes IFRS requirements that must be implemented and supported by BCTC’s Oracle Financial system for BC Hydro’s transmission assets. BC Hydro’s accounting policy choices will need to be consistently applied, whether the accounting is performed by BC Hydro or BCTC. BC Hydro will continue to actively engage and coordinate work with BCTC to ensure IFRS conversion is efficient and to avoid duplication of costs.

9.3 Other

The Canadian Electrical Association has an accounting group that includes representatives from many of the Canadian utilities, as well as a sub-group related to IFRS conversion. A recent meeting of this group in May 2009 included discussion forums on IFRS, with presentations by many of the major accounting firms who act as advisors to the IFRS
conversion process. BC Hydro used this meeting as an opportunity to collaborate with this peer group to assess the level of alignment of accounting policy choices and interpretation, as well as other issues related to how IFRS will be enabled within financial systems. The general results of the accounting policy survey are included as Appendix F.

BC Hydro also participates in two discussion forums.

- The B.C. Government Office of the Comptroller General hosts regular meetings of B.C. Crown Corporations, including BC Hydro and BCTC, that will be converting to IFRS.
- Ernst & Young hosts quarterly video conferences for an “IFRS Community of Interest” covering the Canadian regulated utility sector.

BC Hydro will continue to work with various stakeholders, BCUC staff and others, as the conversion to IFRS project progresses.
Appendix

A

IFRS Project Charter
International Financial Reporting Standards

Project Charter
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1. Project Purpose and Objectives

BC Hydro is expected to be required to complete a conversion to International Financial Reporting Standards (IFRS) effective for Fiscal 2012. This proposed change, to be effective for fiscal years commencing on or after January 1, 2011, applies to publicly accountable enterprises, and results from the fact that IFRS will replace Canadian Generally Accepted Accounting Principles (Canadian GAAP) for these entities. "Publicly accountable enterprises" includes publicly traded companies as well as certain government business organizations and regulated enterprises; such as BC Hydro. International Financial Reporting Standards are intended to provide a single set of high quality, understandable and enforceable global accounting standards. It is intended that IFRS should enable providing shareholders and regulators with financial information that has enhanced comparability and transparency. The Steering Committee, Project Manager and Project Core Team members will be responsible for ensuring that the Project work is comprehensively described with the scope, objectives, and constraints established under this document.

This Project Charter serves as a baseline reference against which any Change Requests should be assessed and measured. Any update to this Project Charter must be reviewed and approved by the Project Steering Committee.

1.1. Business Opportunity and Benefits

A high-level overview of the business opportunities and key benefits to be addressed by the IFRS Project (Project) is provided below:

- A primary objective of this Project is to provide a coordinated approach to ensure BC Hydro’s ability to prepare its financial statements, including any related disclosures and comparative information, in compliance with IFRS effective for the go-live date of April 1, 2011. BC Hydro’s Fiscal 2012 financial statement will need to include IFRS-compliant comparative opening Fiscal 2011 balances and operating results Fiscal 2011 year, and this will result in the need to complete a significant part of the conversion process well in advance of Fiscal 2012. It is planned that significant components of the implementation must be completed prior to April 1, 2010 to achieve a satisfactory result.

- It is anticipated that various accounting policies, financial rules, and the related business processes will need to change as part of the IFRS conversion process. It is also expected that the Project may identify the need for related business policy changes as well as opportunities for standardization, simplification, or automation of business processes. Such opportunities will be considered for inclusion as part of the Project implementation scope. However, process improvement is not considered a specific requirement of this Project.

- BC Hydro’s regulatory accounting practices are currently highly integrated with its Canadian GAAP financial reporting. The implementation of IFRS will cause BC Hydro to assess its current regulatory accounting practices, and whether they will be appropriate under IFRS. A review will be completed to validate existing regulatory accounting practices and how they should be applied. This review may support the refinement of existing practices, or development of new practices. This assessment and review will help to improve the existing enabling mechanisms such as regulatory orders, and facilitate the design of a new set of regulatory accounting ledgers that will be managed on a centralized basis by corporate finance.

- BC Hydro will, as a separate initiative, implement new SAP Financials systems, replacing the current Peoplesoft systems. The Project will identify IFRS impacts and articulate the IFRS-specific business and
information requirements to be delivered by these new financial systems. The Project team will work with the SAP Financials Project to help to design the solutions to meet these new requirements.

1.2. Overview of Project Scope

The Project will consider the following organizations within the Project Scope:

- **Powerex Inc**: Full implementation (meaning addressing accounting processes as well as financial statement presentation and disclosure requirements) of IFRS working with Powerex finance staff
- **Powertech Labs**: Full implementation of IFRS working with Powertech finance staff
- **BC Hydro Service Asset Corporation (BCH SAC)**: Stand-alone implementation of IFRS.
- **For all other BC Hydro subsidiaries**: It is assumed that stand-alone IFRS-compliant reporting is not required. However, the accounting for any significant transactions or balances will be considered within scope to support the consolidation of those balances within BC Hydro’s consolidated financial statements.
- **British Columbia Transmission Corporation (BCTC)**: The Project will ensure the financial accounting transactions between BC Hydro and BCTC are supportive of the new accounting standards, and that accounting information passing from BCTC into BC Hydro’s accounts will meet BC Hydro’s accounting policies after revision for IFRS. The Project Team will work with designated BCTC representatives to ensure agreement on the role and responsibility of each party to ensure compliance with IFRS. Additional activities to be completed, in collaboration with BCTC, will include ensuring reasonable alignment of regulatory strategies for dealing with IFRS, as well as assisting the SAP Financials Project in ensuring system-enabled changes are properly coordinated with concurrent changes that BCTC will be incorporating within their Oracle Financial systems. Some BCTC staff will attend BC Hydro training and BC Hydro will coordinate training BCTC staff on BC Hydro policies that BCTC will need to implement.

While the implementation timeline requires BC Hydro’s financial reporting to comply with IFRS for Fiscal 2012, a significant number of deliverables need to be developed and operating well in advance of the “go-live” date. For example:

- **Accounting must allow for Fiscal 2011 balances**: to comply with IFRS so that they may be presented as comparative information for the Fiscal 2012 financial statements.
- **New regulatory accounting methodologies must be designed and implemented**: prior to the Fiscal 2012 and future Revenue Requirements Application processes. Revisions to BC Hydro’s regulatory framework must be well defined and agreed to by executive management by F10 Q1 (i.e. before June 2009). The Regulatory group will establish a collaborative process to help ensure the Province and / or the British Columbia Utilities Commission (BCUC) can establish the various enabling mechanisms by June 2010.
- **Commencing with an RRA filing for the Fiscal 2012 year**: will require budgeting under an IFRS-compliant accounting model. To support this, it is assumed that the SAP Financials project will implement a new budget system by July 1, 2010.
- **Training of Finance staff will be required**: to ensure staff understands the new methodologies for evaluation and accounting for transactions. Substantial components of this training must be coordinated with user-training for SAP Financials, and must be completed before the new systems proposed SAP “go-live” in April, 2010. It is
assumed that the Project team will work with the SAP Financials project team to ensure a well-integrated program of change management.

- Data conversion methodology will need to be established for various purposes including: Reporting under Canadian GAAP for Fiscal 2011 (and assuming BC Hydro’s primary accounting ledger supports IFRS); providing multi-year comparability at a high level to display budget impacts, and show that BC Hydro’s revenue requirement is reasonable. It is also assumed that the Project will need to support a reconciliation of accounting impacts to BC Hydro’s Service Plan estimates that have previously been provided under Canadian GAAP.

Examples of work requirements include:

Financial Accounting and External Financial Reporting:

- The IFRS project will perform a topic-based analysis of Canadian GAAP / IFRS difference, and a detailed assessment to determine the impacts of those differences. This assessment will inform the design of new accounting policies, business process requirements, and financial system changes that will be needed to support Fiscal 2012, as well as Fiscal 2011 year comparative information.

- One of the major impacts associated with the implementation of IFRS is that regulatory accounting is no longer expected to be included for external financial reporting. This change, combined with other changes required under IFRS, will result in a significant increase in the volatility of BC Hydro’s reported earnings and, potentially, the Payment to the Province. The Project team will work with BC Hydro senior management to ensure appropriate policy choices are made to help manage this increased volatility of earnings. This will include working with management responsible for the relationship with the Province to ensure timely and accurate communications with the Province and other stakeholders. This will help to ensure a proper understanding of the potential implications of the impact that IFRS conversion may have to the Province’s financial position and cash flow and will allow time for mitigation plans.

Business Process and IT Change Requirements:

- The Project will establish new business process requirements, and develop or validate the business / information requirements to be supported by BC Hydro’s new financial systems. Strong integration with the SAP Financials Project will allow BC Hydro’s accounting and data capture requirements to be embedded in BC Hydro’s financial systems effective April 1, 2010 (this information will provide the comparative information for the Fiscal 2011 year). The IFRS project will involve or establish coordination procedures with affected process owners, and with other Finance projects such as the SAP Financials project. For clarity of accountability, the Project scope is limited to assisting the SAP Financials project in documenting business requirements related to revised business processes, and considering how those requirements should be delivered through BC Hydro’s financial systems. The SAP Financials project will take responsibility for delivery of the financial systems requirements, including ensuring the adequacy of IT controls resulting from the new changes. The Project budget does not include any IT tasks or costs, except as necessary to deliver IFRS-related business requirements to the SAP Financials Project. It is also assumed that BC Hydro’s Group Controllers will ensure that changes to business processes include appropriate consideration of internal control.
Members of the Project team will be involved in the Design Phase of the SAP Financials project to ensure IFRS requirements are properly incorporated into the design. Anticipated requirements include the establishment of a separate regulatory ledger and a process for reconciliation to primary ledgers that support IFRS. In addition, for the Fiscal 2011 year, it is anticipated that the IFRS project team will work with the SAP Financials project team to establish conversion methodologies and a robust audit trail to support restatement of IFRS balances to conform with Canadian GAAP, as well as to ensure budget and Service Plan data can be reconciled.

During the implementation phase, subject matter experts (SMEs) identified for the IFRS project will work with the SAP Financials project to coordinate the implementation of new processes within the business groups and to assist in understanding of the IFRS requirements. SMEs will also provide oversight with respect to the development and documentation of the IFRS-specific aspects of BC Hydro’s accounting model and related data capture rules.

The Project team will work with BCTC to ensure that BCTC is aware of, and is implementing, any changes required to accommodate BC Hydro policy choices under IFRS. The Project team will also coordinate with BC Hydro’s Corporate Transmission group (who is management responsible for managing the BCTC relationship) to determine whether this requires amendments to Agreements between the entities. The Project is not responsible for ensuring that such amendments are established.

Change Management and Communication Requirements:

- IFRS conversion will result in a technical training requirement regarding IFRS for many professional accountants or accountants-in-training. The Change Management component of the project will develop a role-based training program for affected employees, including delivery of technical training, development of job aids and implementation support, targeted communications to affected internal stakeholders, and general communication to other employees.

- A more detailed Change Management Strategy and tactical Plan (under separate cover) outlines the approach, scope, and deliverables expected from the change program. BC Hydro’s Business Transformation department is responsible for delivering on this plan, as well as the SAP Change Strategy, to ensure appropriate coordination and integration between the two Projects.

- The IFRS project team will work with the SAP implementation team to ensure users understand new accounting model requirements arising from IFRS conversion, and that support is in place during the transition.

Regulatory Strategy:

- Post-conversion, it is currently assumed that regulatory accounting will not be permitted in BC Hydro’s IFRS-compliant financial reporting. As BC Hydro’s regulatory accounting practices are currently highly integrated with its Canadian GAAP reporting, this change will require that BC Hydro consider its regulatory accounting practices, and how those practices should interact with, but be segregated from, BC Hydro’s primary accounting records.

- The Project scope will include documentation of BC Hydro’s regulatory accounting principles, recommendations to amend the current regulatory accounting practices, analysis of whether and how the changes resulting from IFRS should influence the determination of rates, and working with BC Hydro’s
Regulatory Group to ensure enabling mechanisms are in place in time for Fiscal 2012 and future Revenue Requirements Applications. A regulatory strategy will be developed, working with BC Hydro’s Regulatory group, to ensure the processes for determining BC Hydro’s rates are properly updated for changes as a result of IFRS conversion.

Note: It is assumed that BC Hydro will align its Revenue Requirements filings to align with the conversion to IFRS. However, it is the responsibility of the Regulatory group to establish the applicable filing periods that will need to be supported and how the IFRS conversion should be reflected in these filings.

- The Project will include high-level discussions with other Canadian utilities in establishing recommended policy or to determine comparability of proposed practices with BC Hydro’s peers. However, no formal process of collaboration will be established except as required by the Regulatory group or the Steering Committee.

- The Project will support the implementation process established by the Regulatory group and other BC Hydro financial management. However, the Project will not be responsible for establishing the collaboration process or for any direct communications with the Regulator.

**Shareholder Strategy:**

- The Project will support communication and discussions with the Shareholder related to understanding IFRS conversion impacts, including the potential impact of changes in BC Hydro’s reported earnings, to the Province’s financial results, and the related impact on the Payment to the Province. BC Hydro will rely on the Province to establish clear expectations regarding the acceptability of earnings volatility and cash flow, and to establish necessary enabling mechanisms, such as: amendments or issuance of Orders-in-Council, to mitigate these impacts.

- The Project will support the Director, Communications & Public Affairs who will be responsible for managing the relationship with the Province and overseeing the development of a schedule and process for the above-mentioned enabling mechanisms.

**1.3. Project Schedule**

This project was initiated in January 2008 and is expected to be completed by August 2011 (being the end of Q1 reporting for Fiscal 2012). Below is pictorial of the work program followed by written details.
The work details are as follows:

**External Financial (GAAP) Reporting:**

- During F08Q4 and F09Q1 (January, 2008 through June 2008), initiate project planning, and develop awareness of the potential impacts of IFRS amongst key internal stakeholders, particularly in the Finance organization. This includes Core Team training to approximately 40 BC Hydro senior managers that was completed in January, 2008. Also, a Board Tutorial was delivered to BC Hydro’s Board of Directors in May, 2008.

- During F09 Q2 to the beginning of F09 Q4 (July 1, 2008 to January 31, 2009), a detailed assessment will be performed for each of the IFRS subject areas to identify any requirements to be addressed through IFRS conversion, and to inform the development of a detailed implementation plan and timeline. This work will also (1) ensure BC Hydro’s accounting subject matter experts are aware of the changes, and can create broader awareness within BC Hydro, and (2) provide reasonable clarity regarding the significant impacts that will need to be enabled through changes to BC Hydro’s financial systems so that these requirements can be passed to the SAP Financials Blueprint Project. An integration process will be established with the SAP Financials project, BC Hydro’s Regulatory group, and BCTC to ensure significant dependencies are being addressed.

- During F09Q3 and Q4 (October, 2008 to March, 2009), complete the assessment phase. A key deliverable will be a detailed project plan to the end of implementation. It is assumed that this work will be aligned with the SAP Financials project Design Phase to ensure required changes to financial systems are also enabled for the “go-live” date, of April 1, 2010.
• During F09 Q4 through F10 Q4 [January, 2009 through March, 2010], complete all implementation tasks required to support IFRS-compliance for the Fiscal 2011 comparative period. At a minimum, this should ensure that all high volume transaction streams are supported by the SAP Financials systems and, in particular, project accounting and fixed asset accounting processes. The Project responsibility limited to ensuring that IFRS requirements are incorporated into the SAP Financials detailed design. The SAP Financials Project is responsible for ensuring delivery of the new financial systems by April 1, 2010 to support this data capture requirement. The Project scope includes assisting with design of accounting model changes to support data capture to support IFRS reporting for Fiscal 2011 and conversion to support Canadian GAAP reporting for Fiscal 2011. The Project will ensure all IFRS-related accounting routines and conversion methodologies are communicated, and monitor business readiness prior to the go-live date.

• During F11 Q1 through F11 Q4 [April, 2010 through March, 2011], all remaining implementation tasks required to support IFRS conversion will be completed. This will include a final assessment of low volume transaction streams that can be processed at a higher level. Examples include one-time write-offs, transitional adjustments and recording provisions. The Project will also assist the preparation of quarterly (and, if necessary, monthly) comparative balances for the F11 reporting periods that will be used during F12, and will work with KPMG (in its role as auditor) to ensure a sufficient audit trail to support reporting under Canadian GAAP for fiscal 2011 including quarterly reporting.

• During F12 Q1 and Q2 [April 2011 through September 2011], monitor the monthly and F12 Q1 financial reporting process. This will include support (or, if necessary) direct involvement in the financial reporting processes for this period until IFRS-compliance is satisfactorily achieved. With the consent of the Steering Committee, the Project will be considered completed on satisfactory completion of the first quarterly report for Fiscal 2012.

Regulatory Accounting / Regulatory Financial Information:

• During F09 Q2 and Q3 [June 2008 to December 2008], review the impacts of IFRS to BC Hydro’s regulatory accounting framework (comprising various Orders-in-council issued by the Province, and regulatory orders issued by the BC Utilities Commission, and the supporting BC Hydro accounting policies and procedures) resulting from conversion to IFRS. Establish proposals for mitigation and obtain directional approval from internal portfolio owners (assumed to be the Chief Accounting Officer and the Chief Regulatory Officer)

• During F09Q3 and Q4 [October 2008 to March 2009] establish a regulatory plan, including details of the F11 and future Revenue Requirement Application processes, and how the transition to IFRS should be staged. BC Hydro’s Regulatory group will be responsible for developing a timetable for establishing enabling mechanisms and communication with the regulator to ensure IFRS impacts are mitigated. The Project responsibility is limited to communicating the impacts to the Regulatory group, assisting with the design of mitigation tools, and support of the regulatory process.

• During F10 Q1 to F11 Q1 [April 2009 to June 2010], the Project will support the Regulatory group in establishing the required regulatory changes (Special Direction amendments, Accounting orders, etc) so that they are in place prior to the F12 and future Revenue Requirements Application processes. This will be driven by IFRS-compliant accounting data combined with new regulatory accounting policies. It is also assumed that
the SAP Financials Project will deliver a new budget system by July 2010 to support the F12 and future Revenue Requirements Application processes.

Change management

- During F09 Q1 to Q3 [April 2008 to December 2008], commence awareness activities including Project Core Team training, technical training for professional accounting and accounting-in-training staff, and governance (Board of Directors) awareness training. The Chief Accounting Officer and the Chief Financial Officer will establish a process for communicating to BC Hydro’s executive team and Board of Directors, which will be considered in the development of a Change Management Strategy for the IFRS conversion process. The Project Steering Committee and Accounting Oversight Committee members are responsible for understanding and supporting the Change Management Strategy and Plan, and will ensure effective execution within their own business group responsibility area.

- During F09 Q3 to the end of the Project [October 2008 to approximately August 2012], the Project team will work with representatives within BC Hydro’s business groups to execute the Change Management Strategy and Plan. To the extent possible, the IFRS Conversion Change Management Strategy and Plan will be integrated with dependent project or processes including: Financial Simplification Initiative (FSI); Financial Systems Replacement Project (SAP Financials Project); and the Revenue Requirement Application process for Fiscal 2012 and future years.

1.4. Project Cost Summary

The incremental cost, mainly related to external services, for this project is estimated to be approximately $2,900,000 budgeted in the following years: F2008 - $200K (spent); F2009 - $700K; F2010 and F2011 - $2,000K. This Project cost does not include the costs of BC Hydro staff time required for the work. However, key BC Hydro resources, responsibilities, and assumed time commitments are included in this Project Charter.

1.5. Project Stakeholders

Stakeholders are those people who have a significant influence on the outcome of the project or whose cooperation is required to make the project a success - they ultimately define the success criteria for the project. A detailed Stakeholder Analysis is contained in the Change Management Strategy; key stakeholders of this project are listed below:

- Chief Financial Officer (CFO): The CFO expects the IFRS conversion process to proceed in an orderly manner, and with limited disruption of core financial processes. To help achieve this, the CFO will be responsible for ensuring that the Project has sufficient business priority and resources to deliver the required outcomes, and that BC Hydro’s Finance organization, Executive Team, and Board of Directors are engaged, as appropriate, in the decision-making processes related to IFRS conversion. The CFO will ensure a clear understanding of the business implications to BC Hydro as a member of the Project Steering Committee.

- Chief Accounting Officer (CAO): The CAO expects and is ultimately responsible for ensuring the continuity of BC Hydro’s external reporting process throughout the IFRS conversion period, and an orderly transition to IFRS-compliant external reporting when required. To help achieve this, the CAO will act as the Chair of the Project Steering Committee and the Accounting Oversight Committee, and will be actively engaged in the
Project decision-making processes, and oversight of the Project activities. The CAO will also ensure the active participation of BC Hydro’s senior financial management and Executive Team.

- Business Group Finance teams: The Business Group Finance teams (through the Finance Leads and Group Controllers) are responsible for ensuring business group processes continue to properly support BC Hydro’s external and internal reporting processes throughout the IFRS conversion period, and after the IFRS conversion process is complete. They are also responsible for ensuring a clear understanding of IFRS implications within the decision making processes within their own business group. To help achieve this, each business group Finance Lead is included as a member of the Project Steering Committee, and each Group Controller will act as a member of the Accounting Oversight Committee. The roles, responsibilities, and accountabilities of these Committees are identified in this Project Charter.

- Regulatory group: The Regulatory group is responsible for establishing and maintaining the relationship with BC Hydro’s regulator. This includes the establishment of ratemaking principles and frameworks and related enabling mechanisms, understanding regulatory information requirements, and establishing and executing a regulatory schedule of Applications or other Filings. IFRS conversion will likely remove the strong linkage that currently exists between BC Hydro’s external reporting and regulatory reporting. The Regulatory group will need to manage the transition to new regulatory reporting including facilitating mitigation strategies for the impacts caused by IFRS conversion. To help achieve this, the Chief Regulatory Officer (CRO) will act as a member of the Project Steering Committee to ensure an understanding of IFRS conversion impacts, and the impacts on BC Hydro’s ratepayers. The CRO will also ensure that the Regulatory group is actively engaged in the design, communication and implementation of mitigation strategies as part of the IFRS conversion process. The CRO is responsible for ensuring that any necessary enabling mechanisms and consents are in place in time for the Fiscal 2012 year.

- Communications & Public Affairs: The Director, Communications & Public Affairs will act as a member of the Project Steering Committee. As part of this role, there is a need to understand the IFRS conversion impacts in order to help provide perspective on how to communicate with the Province, as well as coordinate those discussions. The Director, Communications & Public Affairs will also oversee the development of the schedule and process for enabling mechanisms such as new Orders-in-Council and Special Directions.

External Stakeholders include:

- BC Utilities Commission, on behalf of BC Hydro’s ratepayers (BCUC): BC Hydro’s Regulatory group will be responsible for ensuring the BCUC has sufficient understanding of BC Hydro’s plans for IFRS conversion. It is expected that BC Hydro will rely on the BCUC to decide how IFRS impacts should influence ratemaking, and also provide any necessary accounting orders to mitigate the impacts of IFRS conversion.

- Province of British Columbia (Province): BC Hydro’s Director of Communications and Public Affairs will be responsible for ensuring the Province (through various contacts) is informed of the impacts of IFRS, including the potential impact of changes in BC Hydro’s reported earnings to the Province’s financial results, and the related impact on the Payment to the Province. BC Hydro will rely on the Province to establish clear expectations regarding the acceptability of earnings volatility and cash flow, and to establish necessary enabling mechanisms, such as amendments or issuance of Orders-in-Council, to mitigate these impacts.
2. Project Framework

2.1. Results to be Achieved
The key deliverables are:

- Assessment documentation for all IFRS impacts, and related implementation requirements. This information will be comprehensively reviewed with the Accounting Oversight Committee and approved by the Chief Accounting Officer by the end of F09 Q4.

- IFRS Business IT Requirements documentation will be completed for use by the SAP Financials Project in the detailed design of the new financial systems. The Project team will also assist in the interpretation of the IFRS requirements and development of solutions to be implemented through the SAP Financials systems. The Project team will assist in system testing and signoff of the SAP Financials systems prior to the go-live date.

- IFRS Regulatory Impacts documentation will be completed for use by the Regulatory group and by Corporate Finance in establishing an updated regulatory framework design, and a related timetable and process for implementation. The Project deliverable will be completed by the end of Fiscal 2009, and coordination with the Regulatory group will commence in advance of that date.

- Development of, and update to, all affected accounting processes, business processes, budgeting processes, policy documents and performance metrics consistent with IFRS. The deliverable will be a document that identifies the affected process, or other business items, and the work to be completed by the Project team or by the applicable business process owners with the assistance of the Project team. The Project team will execute or monitor the completion of all required tasks as part of the conversion process.

- Change Management Strategy and Implementation Plan including Stakeholder Analysis, Communication Plans, and Training Plans for employees affected by IFRS conversion. The Strategy and Implementation Plan will be approved by the CAO and the Project Lead and executed by the Project team as part of the conversion process. Deliverables will also include any necessary presentations, communication and job aids to the Executive Team, the Board of Directors, and the Province, where requested by the Chief Accounting Officer or Chief Financial Officer.

- Data Conversion Plans and Methodologies related to conversion of IFRS-compliant data to support Canadian GAAP reporting for Fiscal 2011, inclusive of adequate audit trail; conversion of data at a high level to display impacts for regulatory purposes; conversion of Service Plan to support comparison of forecast data previously presented in compliance with Canadian GAAP, and conversion and updating of analytical reporting cubes to view and analyze this data for the purposes of variance analysis and budget preparation. Periods covered, effective date of the forecast, and level of accuracy will be determined as part of this task.

2.2. Scope

2.2.1. IN SCOPE Items/Activities
The Project will address the design and implementation effort related to key business requirements outlined in Section 2.1.

The following table provides a high level summary of the scope for each scope item.
<table>
<thead>
<tr>
<th>Scope Item</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1. Assessment and Planning | - Conduct gap analysis GAAP to IFRS.  
- Complete detailed assessment documentation for each IFRS subject area, and establish change requirement and implementation plan and timeline. Provide policy change analysis and recommendations to the Project’s Accounting Oversight Committee.  
- Perform high level scenario and impact analysis using a multi-year financial model.  
- Develop and define reporting impact requirements; including both interim and year-end disclosures for all periods during the conversion process through the Fiscal 2012 year.  
- Create pro-forma financials for BC Hydro and for all in-scope subsidiaries subject to full IFRS implementation  
- Coordinate implementations for Powerex, Powertech, and BC Hydro Service Asset Corporation. Establish a coordination process related to ensuring BCTC is able to support BC Hydro’s IFRS compliance. |
| 2. Business Policy and Process Requirements Document | - Define, develop and document a clear “Business Policy and Process Requirements Document” which outlines the required changes to BC Hydro’s entity-wide policies, procedures, and reporting requirements in order to implement IFRS.  
- This includes supporting business process mapping, being done by the SAP team, where significant changes are required to current process or where new business procedures are required to support the updated financial reporting model.  
- Support business process owners in understanding and updating changes to existing standard form contracts, analytical methodologies, risk evaluation or decision making tools that rely on Canadian GAAP information. Identification of these contracts, methodologies, or tools is the responsibility of the Accounting Oversight Committee members. |
- Support the Budget process owner in updating corporate target calculation and related information to incorporating IFRS-compliant accounting policies.  
- Support the development of financial data displayed in the Fiscal 2012 Service Plan (completed by January 2011 and covering fiscal years 2012 through 2014). Support discussion within the Service Plan to explain the impacts of IFRS conversion of BC Hydro’s financial forecasts for those years.  
- Define a process and conversion methodologies to deliver financial information on both an IFRS and Canadian GAAP basis for Fiscal 2011.  
- Support Corporate Finance in evaluating, defining, and documenting impacts to BC Hydro’s financial accountability framework and performance metrics for BC Hydro and each BG. |
| 4. Reporting Requirements for Business/Performance Metrics and Reporting | - Support Corporate Finance in the development of a “core” set of accountability and business performance report requirements and metrics and operational report requirements and metrics to ensure the impacts of IFRS conversion are reflected.  
- Support Corporate Finance in the redevelopment of any accountability, business performance, and operational reports that are impacted by IFRS conversion. The Accounting Oversight Committee is responsible for identifying reports that are subject to significant impacts within each business group. |
### 5. Data Conversion
- Data conversion requirements will be defined through discussion with the Accounting Oversight Committee, and subject to approval by the Chief Accounting Officer. The Project will support the development of methodologies for data conversion, but the responsibility for execution will reside within either Corporate Finance or the SAP Financials Project. This execution will include the opening balances for IFRS as of 1 April 2010.

### 6. Regulatory Accounting
- Identify impacts to BC Hydro’s regulatory accounting and framework working with representatives from BC Hydro’s Regulatory group.
- Work with Regulatory group to develop regulatory accounting and reporting requirements that both meets BC Hydro needs and will form the basis of discussion with the Commission.
- Work with the Regulatory group and the SAP Financials Project to define how the new regulatory requirements should be incorporated within the design of the SAP Financials systems.

### 7. Change Management program
- Define and deliver technical training to professional accounting staff and accountants-in-training
- Develop a change management strategy and plan to transition BC Hydro to its new accounting model and framework, updated business processes and new financial systems.
- Monitor business readiness prior to go-live date, and provide assistance to the BGs in transitioning to the new processes and requirements.
- Support or execute the delivery of training of employees in the new business processes and understanding of new performance metrics and reporting, and in interpretation and analysis of the new reports.

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### 2.2.2. **OUT of SCOPE Items/Activities**

Any work item not specified in Section 2.2.1 In Scope Items/Activities and Section 3.2 Deliverables/ Milestones is considered out of scope of this project. In particular, the following items are not included in the scope of this project:

- **Change Order for ABS BC BPO.** The Project team will attempt to identify IFRS impact that may impact the processes, products or services provided to BC Hydro by ABSU. This information will be provided to BC Hydro’s Outsourcing group for consideration. Any changes to the BPO services, including the need to define new work requirements, negotiate Change Order Requests, or the updating of the Amended Master Service Agreement with ABSU, are outside the scope of this project. The project team will provide input as appropriate but will rely on the Outsourcing group to identify the need for changes.

- **SAP Financials implementation.** The Project’s responsibility will be limited to defining IFRS requirements to be delivered by the SAP Financials implementation, and supporting the SAP Financials Project during the detailed design phase in the interpretation of those requirements and in the development of the potential solutions to be applied. The delivery of financial systems that meet the identified requirements, including updating of related processes or reports, is the responsibility of the SAP Financials Project.

- **Changes related to the Financial Simplification Initiative (FSI).** The FSI Project will separately ensure the delivery of updated business requirements to the SAP Financials Project or to affected business process owners.
The Project will work with the FSI Project, where necessary, to resolve any conflicts in requirements and in updating BC Hydro’s accounting and data model.

- **Regulatory Implementation.** The Project will identify IFRS-related accounting impacts and work with Regulatory group to consider the impacts on BC Hydro’s regulatory accounting practices and regulatory framework. The Project will also support Corporate Finance and the Regulatory group in the design and implementation of an updated regulatory accounting model, the design of regulatory accounting ledgers within the SAP Financials design, and the development of information for discussion with the BCUC. The delivery of any required enabling mechanisms (Orders-in-Council, Special Directions, or Regulatory Orders) will be supported by the Project team but is the responsibility of the Regulatory group. Further, it is the responsibility of the Regulatory group to determine the timing of any Revenue Requirements filings, the periods to be covered in those filings, and how the IFRS conversion should be reflected in those periods.

- **Business group or Process Owner Changes:** It is likely that the conversion will identify numerous impacts to business group-specific or process-specific policies, procedures, data capture requirements, as well as spreadsheets or other enabling tools. Revision or replacement of these items, and related change management, is the responsibility of the affected business group or process owner. However, the Project team will assist the business group or process owner in determining whether compliance with IFRS is advisable, and what changes may be required.

- **Changes to BCTC Service Level or Master agreements.** However, the Project Team will support the BCTC Relationship Manager in quantifying IFRS impacts to financial transactions between BC Hydro and BCTC.

## 2.3. Assumptions

A number of assumptions have been made as part of the process for determining the project schedule and the number of participation days required from BC Hydro and consulting resources.
### 2.3.1. Specific Assumptions

<table>
<thead>
<tr>
<th>Specific Assumptions</th>
<th>Impact if Assumption Proves False</th>
<th>Mitigation Strategy</th>
</tr>
</thead>
</table>
| 1. IT Assumption / Dependency: IFRS Accounting Model for high volume transactions must be operating by April 1, 2010. This means IFRS-related business requirements must be reflected in the SAP Financials design, scheduled for completion in early F10Q1 (approx April 2009). | - Failure to operationalize IFRS for the F11 year will cause a need for (potentially significant) manual data conversion and, especially for high volume activities. The volume of additional data conversion effort will be proportional to the length of the delay. It may also mean that conversion methodologies need to be customized based on whether the data capture has occurred pre or post-conversion. This may cause a requirement to create custom spreadsheets that will need to be relied on for an indeterminate period.  
  - The implementation schedule and budget of both the SAP Financials and IFRS Projects would be impacted. The revenue requirement process may be difficult to support. The change management approach and level of effort would be impacted significantly. | - Interdependencies between the Project and the SAP Financials project will be controlled through a high level of overlap in Steering Committee and other oversight committees, and in the Project teams.  
  - IFRS dependency, and specific roles related to IFRS are included in the SAP Financials Project Charter. IFRS-related IT requirements deliverables are included in the IFRS Project Plan. The audit and IFRS advisor, KPMG, will have an overlapping role in the SAP Financials Project.  
  - Checkpoints have been established to ensure IFRS requirements are fully considered in the SAP Financials design. |
| 2. Canadian GAAP reporting requirement There will be dual external reporting requirements for Fiscal 2011 - external reporting will be under Canadian GAAP and external reporting for Fiscal 2012 will require the Fiscal 2011 comparatives to comply with IFRS. While a specific solution will be established as part of the SAP Financials design phase it is assumed that, commencing in Fiscal 2011, the primary accounting ledgers will be IFRS compliant, and that Cdn GAAP reporting will be satisfied through | - Reporting requirements for Fiscal 2011 may be difficult to satisfy on a timely, reliable, and auditable basis.  
  - Canadian GAAP conversion process may need to be sustained beyond Fiscal 2011, and require additional effort and staff for an extended period. | - Project work includes ongoing monitoring for changes in external requirements.  
  - Project work tasks include design of an IFRS to Cdn GAAP conversion methodology at a detailed level. |
conversion methodologies. Further, it is also assumed there will be no further need for Cdn GAAP-compliant reporting after Fiscal 2011. The above is in addition to regulatory reporting and reporting requirements to the Province.

| 3. Policy options / Changes in IFRS: Senior financial managers will need to be able to understand the IFRS options recommended, and interpret impacts within their own business group. Further, there will be ongoing, and potentially significant, changes in IFRS standards that may cause the need to re-validate the options selected on a regular basis. The Chief Accounting Officer will Chair the accounting committee responsible for policy decisions, and this group will provide timely and informed decisions regarding the impacts to be managed. |  - Decisions which are not timely or not authorized will impede the progress of implementation, and create exposure to re-work.  
- Timelines may be missed.  
- Regulatory mechanisms may need to be revised.  
- Project Sponsors and Steering Committee will ensure highly capable and responsible staff are available to support this work  
- The CAO will be responsible for ensuring decisions can be escalated rapidly if considered outside of the scope of responsibility of the Accounting Oversight Committee.  
- The Project Team will schedule all meetings with adequate notice, and ensure meeting materials are provided in advance, including recommendations. |

| 4. External consultation: The Project Team will support the determination of impacts and the development of proposals. However, the process and execution responsibility for consultations with external parties (including the Province and the Regulator), are |  - If key external stakeholders do not agree, there is potential that a high level of redesign will be required. Deadlines and expectations will not be met.  
- A regulatory/finance team including key members of the RRA process will address the IFRS issues. |
2.3.2. General Assumptions

The following general assumptions have also been made, and are critical to the success of the Project:

- The scope (both in-scope and outside-scope work), approach and deliverables have been accurately described herein and the respective roles of the Project teams, the business groups, and process owners are agreed.

- The Project is a strategic priority and will use the best employees based on the skills and experience required for each of the roles. Business groups will make staff available, and utilize backfills where appropriate to ensure continuity of normal business operations. Roles should be filled by BC Hydro employees where possible to maximize the retention of knowledge and skills in the future.

- The funding for Project work will be provided by Corporate Finance Office, except for costs incurred by the business groups to complete work assigned to them, or to make necessary amendments to business group or process-owner specific changes or enabling tools. The funding does not cover the work performed by BC Hydro staff, nor the costs of backfilling staff with external consultants if this is necessary.

- The workplan and funding does not reflect significant changes in expected work or deliverables related to major changes in the IFRS requirements related to current issues under review by the International Accounting Standards Board. It is expected that such changes will occur but the related impact to implementation requirements, effort and cost, is not determinable. In the event that incremental work is required, such work will be reported to the Steering Committee.

- The Project sponsors, being the Chief Financial Officer and Chief Accounting Officer, will ensure the Project work has adequate priority, and that staff are available to complete any work that is required to support the Project deliverables.

- The OCIO will be responsible for ensuring all IT deliverables related to the SAP Financials project are completed on schedule. The Project plan and funding does not reflect any incremental work required in the event that the IT deliverables are not available on the scheduled date. In the event that incremental work is required, such work will be reported to the Steering Committee.

- The Chief Regulatory Officer will be responsible for establishing the regulatory filings schedule, and that any mitigation of IFRS impacts is enabled through the regulatory process. The Project plan and funding does not reflect any incremental work required in the event that the Regulatory deliverables are not available on the scheduled date. In the event that incremental work is required, such work will be reported to the Steering Committee.
• BC Hydro Executives and senior management will be expected to make timely decisions on project related matters; failure to do so may delay completion of project tasks and result in additional time/expenses for the project.

• The Steering Committee will manage any issues outside the control of the Project team, including the need, timing, and process for obtaining external authorizations from the Board, the Province, and the Regulator, as well as any renegotiation required with BCTC or ABSU. The Project team will assume these external stakeholder issues are being managed and that no change in the planned scope is required, except otherwise advised by the Steering Committee.

• KPMG specialists will be available to meet BC Hydro specified timelines and delivery schedules.
### 2.4. Constraints

<table>
<thead>
<tr>
<th>Item</th>
<th>Constraint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Personnel</td>
<td>Project resources are constrained by the availability of resources with the required skills. The Steering Committee is responsible for ensuring adequate resources will be available when required.</td>
</tr>
<tr>
<td>Budget</td>
<td>The project is constrained within the budget allocated for the project. The Steering Committee is responsible for ensuring changes in funding requirements are reasonable and, if appropriate, that funding will be provided.</td>
</tr>
<tr>
<td>Fiscal year end, and Regulatory schedule</td>
<td>This Project will increase the complexity and relative effort required to complete existing business processes, including planning and budgeting, and reporting and financial analysis processes. The Project outcomes will be heavily influenced by the availability of sufficient resources to coordinate IFRS-related issues at the go-live date (starting April 2010) and for a number of months thereafter. This includes how “in flight” projects will be handled, how analysis will be performed, and to provide general support of financial reporting and budgeting processes. It is expected that there is a high likelihood that IFRS will cause confusion in the initial months of implementation (this has been reported in many jurisdictions that have already completed conversion). Similarly, there is a need to resolve how the regulatory filings schedule should be impacted by IFRS and this will include consideration of the relative effort of filing single or multi-year filings, when regulatory mitigation strategies can be executed and enabled, and the overall complexity of the communication burden (both internal witnesses and staff responsible for preparing evidence).</td>
</tr>
<tr>
<td>Definition of data and reports required to “run the business”</td>
<td>There is a need to clearly define which data, reports and disclosures are required in order to continue to effectively operate BC Hydro, and whether those reporting views should reflect IFRS as part of business accountability. The project team needs to determine this and get acceptance from the appropriate approving authority prior to completion of the assessment phase of the project, and prior to completion of the design of SAP Financials. Until this scope is defined, it is unclear whether all requirements will be identified and deliverable at the go-live date.</td>
</tr>
<tr>
<td>Availability of BC Hydro personnel</td>
<td>There is a finite set of BC Hydro personnel and they are currently assigned to other work. There is a high likelihood that inter-project coordination will be difficult and highly complex. This project needs to work with other project teams and business organizations to articulate the priorities for completing the Project work, and the potential impacts if the work cannot be completed on schedule.</td>
</tr>
<tr>
<td>Constraints due to unclear Other projects that are already “in-flight” will: compete for key project personnel</td>
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</tbody>
</table>
requirements or dependencies between projects. and internal subject matter experts; define deliverables for other projects that may not be anticipated; and cause additional work to coordinate and align timelines and deliverables. There is a reasonable likelihood that inter-project issues will cause additional work.

### 2.5. Risks Management

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Probability</th>
<th>Impact</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Factor</td>
<td>L = 1</td>
<td>L = 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M = 3</td>
<td>M = 3</td>
<td></td>
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<tr>
<td></td>
<td>H = 5</td>
<td>H = 5</td>
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</table>

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Probability</th>
<th>Impact</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missed Implementation Date due to schedule or project variances, missed impacts, tight timeframe, errors, other unplanned impacts.</td>
<td>3</td>
<td>X</td>
<td>5</td>
</tr>
</tbody>
</table>

- **1. Critical BC Hydro or KPMG resources are not available to participate in the project or part of the project.** Most of the business resources have multiple assignments, some of which may be deemed, in the short-term, to be of higher priority than this project. Examples include the Revenue Requirement process and the SAP Financials work. The project also spans a number of years.

  - A request for resources document will need to be confirmed by the Steering Committee to secure the individuals necessary to put together a successful team. The project schedule will be reviewed and confirmed by all parties involved. A Project Team vacation plan will be identified. Where schedule conflicts arise for key personnel, the Project Manager will escalate the issue to the PMO and Business Case Owner who can either secure the resource on the Project’s behalf or secure a suitable replacement.

- **2. Missed Implementation Date**

  - Additional Project management support may be requested to allow for additional insight and risk mitigation capabilities.
  - Project Sponsorship will be utilized to assist in
<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Probability</th>
<th>Impact</th>
<th>Exposure</th>
<th>Mitigation Approach (to reduce) and Plans (to manage and monitor)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>L = 1</td>
<td>L = 1</td>
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<td></td>
<td>M = 3</td>
<td>M = 3</td>
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<td></td>
<td>H = 5</td>
<td>H = 5</td>
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<tr>
<td>3 Discussion with the Commission on Regulatory Accounting may be delayed due to availability of Commission staff.</td>
<td>3 X 3 = 9</td>
<td>BC Hydro will need to communicate the plan and timeline for discussion with the Commission “early on” in the project.</td>
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</table>
| 4 Discussion with the Commission on Regulatory Accounting may result in an outcome that is different than BC Hydro desires or expects. | 3 X 5 = 15 | • Action to complete the desired BC Hydro Regulatory Ledger, communication and discussion with other BCUC, regulated utilities and early communication with BCUC is encouraged to proactively guide a result that BC Hydro desires, and to avoid re-work.  
• BC Hydro Senior Executive communication with the BCUC will be taken if necessary. |
| 5 SAP Implementation | 5 X 5 = 25 | The SAP go-live date and the related risks are key drivers to project scope & success.  
Specifically the IFRS-related requirements will be reflected in the SAP design, based on operating assumptions of the IFRS project. These operating assumptions could result in money expenditures on SAP |
<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Probability</th>
<th>Impact</th>
<th>Exposure</th>
<th>Mitigation Approach (to reduce) and Plans (to manage and monitor)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>L = 1</td>
<td>L = 1</td>
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<td>M = 3</td>
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<td>design that potentially could be made redundant if standard setters change their minds. Unfortunately, this is unavoidable (can be mitigated somewhat if the SAP implementation is delayed until April 1 2011) due to the constraint of the moving standards.</td>
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<tr>
<td>6 IFRS – The standards</td>
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<td></td>
<td>• The IFRS are under evaluation in various areas for significance to BC Hydro. There is the likelihood that the standards may change over the course of implementation and this will necessitate a change in the scope and cost for the IFRS implementation.</td>
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</tr>
<tr>
<td>7 Other Project Impact</td>
<td>5</td>
<td>X 5</td>
<td>= 25</td>
<td>• The Project Manager will work with the Subject Matter Experts and BG representatives to define impacts, dependencies and determine impacts to the IFRS project. Issues and conflicts will be escalated to the Steering Committee if not resolved at the lower levels of the organization.</td>
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</table>

\[(\text{Probability} \times \text{Impact} = \text{Exposure})\]
3. Project Organization, Roles and Responsibilities

3.1. Project Organization Chart

**BC Hydro IFRS Project Organization**

**Steering Committee**
- Cheryl Reed
- Cheryl Varanka
- Joanna Sibilio
- Steve Vangelis
- Garth Peacock
- Edward Leung
- Brian Tabo
- Lisa Snider
- Carol Richards

**Accounting Oversight Committee**
- Cheryl Varanka
- Don Rowell
- Michelle McLean
- Ken Chang
- Simon Polansky
- Lisa Snider

**KPNG Auditor Interfaces**

**Project Sponsor**
- Charlie Role

**Project Initiator**
- Cheryl Varanka

**Project Management Office**
- George Kyprianoglou
- Neil Elliott (P5E)

**Core Team**
- Darin Hale
- Simon Wong
- Vincent Ma
- Wall Kaseem
- Kevin Cinnamon
- Yvonne Gao
- Lisa Gerhard
- Georgia Huang
- Barry Raymond
- Billinda Sprates

**BCG Contacts**
- IFRS team
- Eiizabeth Hang
- Gary Lask
- Derek Delmons
- Sylvia Lee

**KTGO Contacts**
- IFRS team
- Eiizabeth Hang
- Gary Lask
- Derek Delmons
- Sylvia Lee
3.2. **Roles and Responsibilities of the Project Team Members**

The roles and responsibilities for the Project are summarized in the following table:

<table>
<thead>
<tr>
<th>Roles</th>
<th>Responsibilities</th>
</tr>
</thead>
</table>
| **Project Executive Sponsor**  
(Charles Reid) | The Executive Sponsor:  
- Appoints the Steering Committee  
- Obtains / ensures ongoing organizational commitment, including Business Groups, Subsidiaries, the Executive Team and the Board of Directors  
- Ensures strategic alignment, establishes the priority for this Project relative to other strategic priorities, and ensures appropriate resource deployment.  
- Provides the Steering Committee with timely access to the Executive Team, as necessary, to obtain consents or resolve issues.  
- Receives regular updates, as appropriate, as part of the Steering Committee or, otherwise, from the Steering Committee Chair  
- Supports change management and communications.  
- Acts as a visible and vocal advocate for the project and implementation.  
- Monthly updates between Executive Sponsor and Chair of the Steering Committee with IFRS Advisor. |
| **Project Initiator**  
(Cheryl Yaremko) |  
- Chair of the Steering Committee  
- Chair of the Accounting Oversight Committee  
- Support awareness about IFRS within BC Hydro through presentations and discussions |
| **Steering Committee**  
(Meeting frequency – monthly or at the request of the Project Manager)  
Members include:  
Cheryl Yaremko, Chair  
Charles Reid  
Joanna Sofield  
Steve Vanagas  
Gurj Parmar  
Brian Tabe  
Esther Leung  
Carol Richards  
Lisa Snider | The Steering Committee:  
- Provides overall governance for the Project, and will provide advice to the project on behalf of their Business Group. However, at all times, members will guide the Project on a basis that will provide the best outcome for BC Hydro as a whole.  
- Provides input into, and approves, the Project Charter  
- Will assist the Chief Financial Officer and Chief Accounting Officer in ensuring that key executive, stakeholder groups, and the Board understand and are appropriately engaged in the conversion process.  
- Approve the Project Management team, and ensure appropriate project controls are in place. The Project Management team will report to the Steering Committee with respect to all Project work.  
- Approve the Project organization.  
- Has sufficient understanding of the Project plan to ensure the overall requirements of IFRS compliance are met, and related business impacts are appropriately mitigated.  
- Will meet periodically and receive and approve reports regarding project progress, completion of key project milestones, schedule, budget, and risks.  
- Ensures appropriately qualified and responsible BC Hydro personnel are available to the Project, when required to complete the required work.  
- Reviews and, if appropriate, approves requested changes in scope and funding. This includes approval of any significant changes to project budget and timeline.  
- Establishes an Accounting Oversight Committee (AOC) with responsibilities as described in the Project Charter. The Steering Committee will receive updates on accounting decisions through the Chief Accounting Officer.  
- Will understand interrelationships with other business initiatives or with other organizations such as BCTC and will consider and approve solutions for how the Project team should interact with other project teams or initiatives. |
### Roles and Responsibilities

<table>
<thead>
<tr>
<th>Roles</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• For greater clarity, the Steering Committee will be responsible for ensuring the Project work is properly aligned with the requirements of BC Hydro’s regulatory strategy and schedules, and with its IT strategy. The Steering Committee will resolve any issues where Project deliverables are misaligned with these requirements.</td>
</tr>
<tr>
<td></td>
<td>• Where voting is applied and there is no majority, the decision of the Chair shall be final and binding.</td>
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<tr>
<td></td>
<td>• Supports change management and communications.</td>
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<tr>
<td></td>
<td>• Provides visible support and advocates for the project and implementation.</td>
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<tr>
<td></td>
<td>The Accounting Oversight Committee (AOC):</td>
</tr>
<tr>
<td></td>
<td>• Reviews accounting documentation provided by the Project Team for approval.</td>
</tr>
<tr>
<td></td>
<td>• The members will provide input into the accounting decisions by the Chair, and which are required to allow the Project work to be delivered. Such input will be provided on behalf of their Business Group but, at all times, will ensure decisions that provide the best outcome for BC Hydro and consistent with this Project Charter.</td>
</tr>
<tr>
<td></td>
<td>• For greater clarity in regards to the use of SAP specifically, the decisions within this Committee are final and binding. The Chair of the AOC is responsible for escalating issues to the Steering Committee or to other responsible management where necessary to provide a binding decision.</td>
</tr>
<tr>
<td></td>
<td>• Has no accountability related to Project Scope, Cost or Schedule (other than to make business decisions that are consistent with project scope, cost and schedule parameters as established by the Steering Committee).</td>
</tr>
<tr>
<td></td>
<td>• Maintains a detailed understanding of all significant project decisions, provides input into business implications and how they should be managed. Members will accept or assign responsibility for management of impacts within their own business group.</td>
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<tr>
<td></td>
<td>• Members will ensure corporate-wide and own-business group issues are dealt with.</td>
</tr>
<tr>
<td></td>
<td>• Supports change management and communications.</td>
</tr>
<tr>
<td></td>
<td>• Provides visible support and advocates for the project and implementation.</td>
</tr>
<tr>
<td></td>
<td>The Project Core Team is the primary working group:</td>
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<tr>
<td></td>
<td>• Is responsible for day-to-day task management and delivery of expected outcomes of the Project and consistent with the work requirements identified in this Project Charter.</td>
</tr>
<tr>
<td></td>
<td>• Works with the Project Advisor (KPMG).</td>
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<td></td>
<td>• Coordinates other BC Hydro staff and external advisors to ensure all necessary expertise and inputs are available to the Project.</td>
</tr>
<tr>
<td></td>
<td>• Monitors all issues within assigned areas of subject matter responsibility including: changes in accounting standards that may occur from time-to-time; workplan design and scheduling; task and issues management; and identification of issues requiring resolution by the AOC or Steering Committee.</td>
</tr>
</tbody>
</table>

### Accounting Oversight Committee

- Meeting Frequency – As required and schedule by the Project Team
- Members include:
  - Cheryl Yaremko, Chair
  - Dave Read
  - Michelle Madsen
  - Ken Dang
  - Simon Paisley
  - Lisa Snider

### Project Core Team (Working Group)

- Members include:
  - George Koyanagi, Lead
  - Darin Hale
  - Simon Wong
  - Vincent Moo
  - Wes Gale
  - Lisa Bartucci
  - Georgina Huang, IT and Accounting Model impacts
  - Wafi Kassam, Planning & Regulatory impacts
  - Birgit Reinders, Change management
  - Belinda Spears, Change management
<table>
<thead>
<tr>
<th>Roles</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Manager</strong></td>
<td>The Project Manager is responsible for management and administrative control:</td>
</tr>
<tr>
<td>Neil Elliott</td>
<td>• Monitoring completion and acceptance of all Project tasks on time, in scope and on budget.</td>
</tr>
<tr>
<td></td>
<td>• Facilitating the development and execution of a Project plan and timeline consistent with requirements. To achieve this, the Project manager will work with Project Core Team members to articulate the project deliverables, and the work, resources, and timeline required.</td>
</tr>
<tr>
<td></td>
<td>• Assist the Project Core Team Lead and Steering Committee Chair with issues management and resolution.</td>
</tr>
<tr>
<td></td>
<td>• Identification and managing dependencies, as identified within this Project Charter.</td>
</tr>
<tr>
<td></td>
<td>• Maintains issues log, reports on project risks, and other documentation required to manage the Project issues and risks.</td>
</tr>
<tr>
<td><strong>Change Management / Communication Lead</strong></td>
<td>• Leads the development of audience / stakeholder analysis.</td>
</tr>
<tr>
<td></td>
<td>• Periodically assesses and provides reporting to the Project Manager, Project Core Team members, and Steering Committee regarding overall business readiness, and change management plans, activities, risks and mitigation plans.</td>
</tr>
<tr>
<td></td>
<td>• Leads the development and execution of a Project communication plan to ensure timely reporting to and appropriate engagement with affected business areas and other stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Leads the development and execution of Finance training plans to facilitate overall readiness for “go-live”.</td>
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<td></td>
<td>• Leads or supports the production of any user documentation and training material working with Project Core Team members, and affected business process owners</td>
</tr>
<tr>
<td></td>
<td>• Produces Transition and Sustainment Plans to support key non-accounting internal stakeholders including Regulatory group, and Corporate Affairs.</td>
</tr>
<tr>
<td></td>
<td>• Produces organizational change documentation including support of any HR impacts, if required, working with HR personnel.</td>
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<tr>
<td></td>
<td>• Ensures coordination with, and integration of, communication and training requirements of related process and technology initiatives. (e.g. SAP Financials Project and Financial Simplification Initiative). To facilitate this, the Change Management / Communications Lead will be appointed by BC Hydro’s Business Transformation function.</td>
</tr>
<tr>
<td><strong>IFRS Advisor (KPMG)</strong></td>
<td>The IFRS advisor will:</td>
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<tr>
<td></td>
<td>• Assist the Project Core Team and Project Manager in establishing and supporting Project methodology.</td>
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<tr>
<td></td>
<td>• Support and provide commentary to the Project Core Team regarding changes in International Accounting Standards (IFRS), and assist in interpretation of IFRS and related changes.</td>
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<tr>
<td></td>
<td>• Assist the Project Core Team by providing commentary on potential solutions for addressing IFRS conversion and implementation requirements.</td>
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<td></td>
<td>• Where appropriate, ensure coordination with BC Hydro audit team (i.e., KPMG in its role as Auditor) to ensure acceptability of BC Hydro’s interpretation of IFRS, and to support KPMG’s ability to provide an Audit Opinion on BC Hydro’s financial statements in the transition and post-conversion period.</td>
</tr>
<tr>
<td></td>
<td>• Provide information to the Project Core Team to assist with BC Hydro’s design and development of accounting model changes and the design of the SAP Financial systems. KPMG’s role will aid BC Hydro in ensuring that IFRS requirements are properly considered during the various SAP implementation phases.</td>
</tr>
<tr>
<td></td>
<td>• KPMG’s role will be advisory in nature; KPMG will not make design decisions.</td>
</tr>
<tr>
<td>Roles</td>
<td>Responsibilities</td>
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<tr>
<td>-------</td>
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</tr>
<tr>
<td></td>
<td>related decisions.</td>
</tr>
</tbody>
</table>
Appendix

B

IFRS Project Timeline
# IFRS Project Timeline Summary

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Planning Phase</th>
<th>Assessment &amp; Design Phase</th>
<th>Implementation Phase</th>
<th>Go-Live</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiate project planning</td>
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<tr>
<td>Gap analysis between IFRS and Canadian GAAP</td>
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<tr>
<td>Scoping of resource requirements</td>
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<tr>
<td>Establish governance structure / steering committee</td>
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<td>Deliver training and communicate changes to accounting processes</td>
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<td>Consult with BCUC staff about IFRS-related accounting orders</td>
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Appendix C

Consultation Plan with External Stakeholders
IFRS Conversion Project
Consultation Plan with External Stakeholders

Background

BC Hydro recently completed the assessment work regarding the requirement to implement International Financial Reporting Standards (IFRS) for external reporting purposes, effective for F2012. It is expected that IFRS conversion will significantly affect accounting policies and financial reporting requirements, and have the following impacts:

- Significant changes in BC Hydro's reported earnings;
- Increased inter-period earnings volatility; and
- Broad-based change to how assets, liabilities, revenues, and expenses are measured, classified, and presented in its financial statements.

As these changes will influence the interpretation and perception of BC Hydro's financial position and results of operations, it is necessary to establish a strategy for engaging key stakeholders to consider the impacts of IFRS, and to ensure changes are properly communicated, and the impacts properly managed and mitigated.

This briefing provides an overview of some of the key considerations that will be important to BC Hydro's two key external stakeholders, the Province (Shareholder) and the British Columbia Utilities Commission (Regulator), including ratepayers.

BC Hydro currently prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). Beginning with F2012, the accounting principles will change. This will have the following impacts to the Shareholder and Regulator:

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<tbody>
<tr>
<td>The estimates provided in BC Hydro’s Annual Service Plan will reflect IFRS, and influence the Shareholder’s expectations of BC Hydro’s contribution to the Province’s fiscal requirements.</td>
<td>The accounting principles reflected in determining BC Hydro’s revenue requirement are well aligned with the calculation of earnings under CGAAP. This alignment may no longer be as apparent under IFRS.</td>
</tr>
<tr>
<td>BC Hydro’s reported earnings will differ considerably under IFRS compared to CGAAP. Further, as regulatory accounting impacts are not reflected under IFRS, periodic earning forecasts will be difficult and subject to uncontrollable factors. These impacts will affect the Province’s consolidated accounts.</td>
<td>Regulatory accounting orders and practices establish the basis for recovering BC Hydro’s costs in rates, and the relative risk sharing between BC Hydro and its ratepayers. Some of the current accounting orders issued by the BCUC may need to change to mitigate IFRS impacts. Similarly, some of the Special Directions to BC Hydro and the BCUC will require amendment.</td>
</tr>
<tr>
<td>BC Hydro’s annual Payment to the Province is based on its earnings; thus, the payment that the Province receives from BC Hydro may change under IFRS.</td>
<td>The BCUC will want to ensure that the influence of IFRS on utility economics is reasonable and acceptable. It is expected that the BCUC will want to ensure that utilities under its jurisdiction work together to ensure reasonable consistency of the treatment of IFRS-related impacts for ratemaking.</td>
</tr>
</tbody>
</table>
BC Hydro’s Plans to Engage and Communicate to Stakeholders about IFRS Conversion

BC Hydro’s IFRS assessment work has actively considered the impacts of accounting policy choices on the Shareholder, and to rates. Where choices exist, the recommendation philosophy generally reflects a bias toward avoiding significant impacts. Where alternatives do not exist, potential mitigating solutions will be developed. However, it is unlikely that all impacts can be mitigated.

BC Hydro’s overall design and detailed implementation plan is still under development but includes a number of components to engage the Province and the BCUC. This engagement is already underway, and will help to ensure our external stakeholder’s awareness of the impacts is high, and that the impacts are reasonably mitigated where possible. Key events that have occurred, or are anticipated to occur are described in the following section.

Province/Shareholder:

Communication and awareness activities include:

- Participating in a collaboration of the Office of the Controller General (OCG) and Crown Corporations to discuss the impacts of IFRS and to compare accounting policy choices. [Ongoing - quarterly meeting commenced in early F2009]

- Providing the OCG with a preliminary listing of major impacts that can be anticipated post-conversion to IFRS [F2009]. OCG is coordinating information from all Crown Corporations for presentation to the Minister of Finance.

- Identifying a key contact within the Ministry of Energy, Mines and Petroleum Resources who will help to coordinate actions with the Province. [Ongoing]

- Participating in discussions with the Province regarding BC Hydro’s earnings impacts, and the impact on the Province’s earnings and dividend [Ongoing]

Consultation and implementation activities include:

- Establishing RRA filing strategy for F2012 and future years. Agreeing on plan to mitigate impacts, including the potential need for changes to Special Directions to take effect for F2012. [During F2010]

- Providing scenarios to show the impact of various Special Direction changes on BC Hydro’s reported earnings, customer rates, and dividends. [During F2010]

- Identifying updates to Special Directions to BC Hydro and the BCUC [Expected by F2011, Q1 to facilitate completion of the F2012 Revenue Requirements Application]

- The Service Plan filed for F2012 will provide the Province with the first view of the IFRS conversion impacts, as well as the regulatory mechanisms established (Special Directions and BCUC-issued accounting orders) to mitigate these impacts. [F2011, Q4]

- The first official reporting of BC Hydro’s financial results under IFRS will occur during F2012, Q1. There will potentially be large variations between the actual results and the Service Plan due to non-controllable factors, such as energy costs that may no longer be eligible for regulatory accounting under IFRS [F2012, Q1]
BCUC/Regulator:

Communications and awareness activities include:

- Participating in a collaboration of BCUC-regulated utilities to compare assessment results, implementation plans, and accounting policy choices. This includes reviewing IFRS-related processes in other jurisdictions to develop proposals [Ongoing - meeting are held approximately monthly]

- Working with peer group and with BCUC staff to host an IFRS information session. The session was attended by utility regulatory staff, BCUC staff, representatives of the intervenors, and representatives from government (OCG). [Held April 6, 2009]

- Preparing a report to be filed with the BCUC regarding the IFRS conversion project. The report is due July 13, 2009.

Consultation and implementation activities include:

- The first RRA filed after the end of F2010 is expected to reflect the IFRS-conversion impacts, and the regulatory mechanisms established (Special Directions and BCUC-requested accounting orders) to mitigate these impacts. It is anticipated that this will occur for BC Hydro’s Revenue Requirement Application for F2012 and subsequent years. [Expected to be filed F2011, Q4 approximately concurrent with the delivery of the Service Plan for that year]

- Agreeing on a process to consult with BCUC staff regarding the need for accounting orders or other enabling mechanisms. [During F2010 with anticipated completion by F2011, Q1 to enable the F2012 Revenue Requirements Application]
Appendix

D

IFRS Policy Choices
Preliminary and Open Items/Issues
<table>
<thead>
<tr>
<th>Required Changes / Major Actions</th>
<th>BG Affected</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting change</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Only directly attributable costs can be capitalized.</td>
<td>Corp Field Ops EARG CC&amp;C Trans'n</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Review OMA overheads lead to M&amp;E, identify costs no longer eligible for capitalization.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Determine practical approach to capitalization of directly attributable costs, which were previously allocated through overheads lead (e.g., salaries, depreciation).</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Costs billed by BC Hydro to T&amp;O and returned back through T&amp;O billing: identify costs not eligible for capitalization / not relating to capital projects.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Revise policy for capitalization of borrowing costs</td>
<td>Corp Field Ops EARG CC&amp;C Trans'n</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Develop a definition of &quot;qualifying asset.&quot;</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Develop a definition of suspension of capitalization of borrowing costs</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Review composition of capitalized borrowing costs and formulate for calculation of capitalization of borrowing costs</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Compositional</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Review existing components, establish additional components, as necessary.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Assign book values, useful lives and remaining useful lives to newly established components.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Establish non-physical components</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Assess and revise, as needed, market prices to ensure compliance with IFRS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Resolve whether result from disposal of non-physical components is recorded through depreciation or gain / loss on disposal.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Treatment of holding gains</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Identify and fair value investment properties</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8 Review contributions in aid of construction arrangements. Determine those representing government grants, service concession arrangements and arrangements with substance of the less. Determine IFRS-compliant approach to those classified as none of the above.</td>
<td>✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Insurance proceeds for damaged assets are recognized in income. Such insurance proceeds are recognized as receivable only when virtually certain of collection.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Determine transition date carrying amounts</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Map the approach to determine the fair values.</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Define definition of an asset</td>
<td>✓ ✓ ✓ ✓ ✓</td>
<td></td>
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</tr>
<tr>
<td>11 Develop P&amp;E disclosures (incl. continuities)</td>
<td></td>
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</tr>
</tbody>
</table>

- Under IFRS, qualifying projects are those that require a substantial time to complete (minimum of 6 months).
- Deviation from the capitalization rate used for regulatory purposes: IDC rate is based on BCUC direction.
- Develop approach to determine useful lives and book values of components, and validate the assumptions.
- Assess and revise, as needed, market prices to ensure compliance with IFRS.
- Will amend Canadian GAAP policies to conform with IFRS.
- Identify stakeholders’ take on the approach to determine transition date carrying amounts.
- No current explicit IFRS guidance available for customer contributions, Proposed discussion paper D24 may change recognition of credit.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Possibilities under consideration</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Measurement at transition date</td>
<td>- Reconstruct IFRS historical cost - Fair value as deemed cost or (if passed) IFRS 1 amendment</td>
<td>Would need to identify historical cost components - Valuation assumptions are subject to sensitivity</td>
<td>Discounted cash flow option</td>
<td>Limited visibility into historical cost, making reconstruction exercise impractical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Operational assumptions for fair value</td>
<td>1. Fair value equals book value for all regulated assets</td>
<td>Historical Canadian / US practice - reliance on put-put option for regulatory treatment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. (a) Specialized assets: fair value based on marketplace assumptions, potentially adjusted for discount rates (income approach)</td>
<td>Fitted on fair value concepts (marketplace assumptions / annuity-length) - does not rely on the fact that the regulator will not let you keep the gain.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Non-specialized assets: normal fair value</td>
<td>Low risk, Australian interpretation. Not common past practice in North America.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>3. Optimized depreciated replacement cost (assuming no income approach)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 PPE Ongoing measurement</td>
<td>- Cost model - Fair value model</td>
<td>Cost model</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Ongoing measurement of investment property</td>
<td>- Cost model - Fair value model</td>
<td>Fair value model</td>
<td>PV less to be disclosed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Fair value model</td>
<td></td>
<td>Potentially higher than current book value, May be more volatile</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Accounting for mass assets: practical approach</td>
<td>- Retirement of mass assets accounting for processes from disposal - Empirical data to support useful life and retirement assumptions used</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Capitalization of costs</td>
<td>Only direct costs can be capitalized; distinguish between direct and indirect costs (overheads)</td>
<td>Certain costs capitalized through overheads will no longer be eligible for capitalization.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Practical approach to track certain direct costs currently included in overheads (dispersed costs)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Eligibility for capitalization: designer costs on customer-initiated designs</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Judgment areas: procurement, handling, warehousing and vehicles costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Treatment of costs to remove an asset when it is replaced with an identical asset</td>
<td>- Asset retirement obligation</td>
<td>Would result in large liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Depreciation when replacement occurs</td>
<td>Current IFRS guidance</td>
<td>Easiest from administrative point of view</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Capitalization as cost replacement (&quot;new&quot; asset)</td>
<td>Capitalizing as cost of new asset</td>
<td>Subject to final confirmation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Develop a definition of &quot;qualifying asset&quot;, which assists capitalization of borrowing costs</td>
<td>Under IFRS, qualifying projects are those that require a substantial time to complete (KPMG interpretation: well in excess of 6 months).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Authorization threshold impact</td>
<td>Regulatory (CPIC, RRA) &amp; BDC authorizations and discretionary thresholds based on full cost incl. G&amp;A</td>
<td>Consider approaches - varying thresholds, apply national OH</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key:**
- **Operator:** | Overall IFRS Impact |
- **Operator:** | Overall Effort |
- **Operator:** | BIS Driver |
- **Operator:** | Effort |
- **Operator:** | - <5m | - 5-50m | - 50-200m | >200m |
Decommissioning and site restoration obligations (asset retirement obligations)
Executive Summary - Assess Phase DRAFT

Accounting Policy Changes and Decisions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommended</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 IFRS 1 optional exemption regarding asset retirement obligation ('ARO')</td>
<td>Reconstruct existing AROs by applying periodic discount rates in effect over the lives of the AROs.</td>
<td>Use IFRS 1 exemption</td>
<td>Reconstruction will require considerable recalculations of both ARO asset and Liability based on discount rates in effect over the life of the ARO.</td>
<td>( )</td>
<td>( )</td>
<td></td>
</tr>
<tr>
<td>2 Corp Field One ERG CC&amp;C Trans's PWX</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Accounting Change

1. Requirement to add any ARO Provisions for constructive obligations:
   - Determine if constructive obligations exist
   - Measure the constructive obligation

2. Probability threshold / provisions how to be created for probable obligations. I.e. 50% or more probability of occurrence; probability threshold is lower than under Canadian GAAP.

3. AROs are to be recognized at best estimate to quantify. Presumption that the estimate cannot be made only in extremely rare circumstances.

4. towering costs to be classified as interest costs instead of as operating costs

5. Review composition of costs included in provision. Determine whether all components of such costs are eligible for inclusion in provision.

6. ARO asset required to be adjusted for changes in interest rates

7. Develop disclosures (incl. continuities)

Outstanding Questions / Issues

1. Monitor changes to IAS 37. Provisions, including guidance on ARO

Overall Impact (incremental over impact identified under Provisions)

<table>
<thead>
<tr>
<th>Overall B/S Impact</th>
<th>Overall Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td></td>
</tr>
</tbody>
</table>

KEY:

Quantum: [ ] = Low (< $5m)  [ ] = Medium ($5m → $50m)  [ ] = High (> $50m)

Effort: [ ] = Low (< 50 hrs)  [ ] = Medium (50 hrs → 200 hrs)  [ ] = High (> 200 hrs)
### Executive Summary - Assess Phase DRAFT

**Intangible assets**

<table>
<thead>
<tr>
<th>Required Changes</th>
<th>Actions</th>
<th>B&amp;G Affected</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Change</td>
<td>Develop accounting policies (classification, useful lives) for clearing costs and rights of way.</td>
<td>Corp</td>
<td>Field</td>
<td>O &amp; G</td>
<td>E &amp; C</td>
</tr>
<tr>
<td>Accounting change on adoption of CICA HB 3064</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting change on adoption of IFRS</td>
<td>Reclassify items between tangible, intangible and other assets, as appropriate.</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Identify items currently included in intangible assets that no longer meet criteria of intangible assets under CICA HB 3064 / IFRS.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop IFRS-compliant policies to treat research and development phases in respect to internally generated intangible assets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reconstruct the historical cost, accumulated depreciation and net book value of intangible assets still classified as such under IFRS 3064 (excluding borrowing costs) as at April 1, 2009, including comparatives as at April 1, 2008.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop intangible assets disclosures, including comparatives, for fiscal 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting change on transition to IFRS disc.</td>
<td>Revise policy for capitalization of borrowing costs: qualifying projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revise policy for capitalization of borrowing costs: composition of borrowing costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Major Decisions and Judgments

<table>
<thead>
<tr>
<th>Topic</th>
<th>Possibilities under consideration</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Classification of clearing costs</td>
<td>Attach to rights of way</td>
<td>Reallocate and reclassify clearing costs in Distribution from tangible assets to intangible assets.</td>
<td>Attach to related tangible asset</td>
<td>Projected challenges to segregate clearing costs in Distribution.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Attach to tangible assets</td>
<td>Reallocate clearing costs in Transmission from intangibles to tangible assets. Change useful lives of Transmission clearing costs to be consistent with useful life of related asset</td>
<td></td>
<td>Continuity of treatment of clearing costs in Transmission, Distribution, Corporate.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Outstanding Questions / Issues

<table>
<thead>
<tr>
<th>Overall BS Impact</th>
<th>Overall Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10</td>
<td></td>
</tr>
</tbody>
</table>

### KEY:

- **Quantum:**
  - Low (< $5m) = Green
  - Medium ($5m - $50m) = Yellow
  - High (> $50m) = Red

- **Effort:**
  - Low (< 50 hrs) = Green
  - Medium (50 hrs - 200 hrs) = Yellow
  - High (> 200 hrs) = Red
**BC Hydro - IFRS Conversion**

**Financial Instruments**

**Executive Summary - Assess Phase**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Use of fair value hedge accounting</td>
<td>Refer to Appendix I</td>
<td>Refer to Appendix I</td>
<td>Abandon fair value hedge accounting</td>
<td>Refer to Appendix I</td>
<td>Refer to Appendix I</td>
<td></td>
</tr>
<tr>
<td>2 IFRS 1 Election - Designation of previously recognized financial instruments.</td>
<td>Apply election to financial assets and financial liabilities or apply full retrospective application of IAS 39.</td>
<td>Election allows entities to designate financial asset or financial liability as fair value through profit or loss (provided they meet certain criteria).</td>
<td>Designate the long-term debt in hedging relationships as held-for-trading.</td>
<td>Refer to Appendix I</td>
<td>Refer to Appendix I</td>
<td></td>
</tr>
<tr>
<td>3 Use of cash flow hedge accounting</td>
<td>Refer to Appendix I</td>
<td>Refer to Appendix I</td>
<td>Continue cash flow hedge accounting</td>
<td>Refer to Appendix I</td>
<td>Refer to Appendix I</td>
<td></td>
</tr>
</tbody>
</table>

**Required Changes**

**Accounting change**

- **Notional amount** - Under IFRS, the definition of a derivative does not require the existence of a notional amount, and the lack of a notional amount does not result in an exception from treatment of the contract as a derivative.
- **Normal purchase and sale (own use)** - Under IFRS, the NPNS exemption is not an election and if a non-closely related embedded derivative exists in the host contract, the host contract is accounted for using the NPNS exemption and the derivative is separately accounted for.
- **Hedge effectiveness testing** - Under IFRS, the critical terms and short cut methods are not acceptable for assessing hedge effectiveness and measuring hedge ineffectiveness and an appropriate long haul method must be implemented. Also, hedge relationships must be de-designated and re-designated upon adoption. Therefore, additional compliance costs, effort and risk results. Anticipated continuation of existing cash flow hedge accounting.
- **Highly probable** - Under IFRS, anticipated transactions must be 'highly probable' (considered ->90%) to be eligible for hedge accounting. Under Canadian GAAP, anticipated transactions need only be 'probable' (->70-75%) to be eligible for hedge accounting.
- **Search for embedded derivatives** - Must review contracts that existed prior to April 1, 2003.

**Impact of Discussion Paper** - Fair value measurement guidance which is expected in 2010.

**Quantum**

- Quantum assessment unknown at this point
- Generally, involves power purchase arrangements
- Generally, involves the hedge of debt and debt related items.
- Quantum assessed initially as low but is dependent on findings.

**Outstanding questions/ issues**

- Impact of Discussion Paper - Fair value measurement guidance which is expected in 2010.

**Overall impact (excluding notional issue)**

**On adoption B/S Near term I/S Effort**

**KEY:**

- Quantum: Low (< $5m) Medium ($5m - $50m) High (> $50m)
- Effort: Low (< 50 hrs) Medium (50 hrs - 200 hrs) High (> 200 hrs)
# BC Hydro - IFRS Conversion

## Financial Instruments

### Executive Summary - Appendix 1 - Hedge Accounting

#### Hedge Accounting Policy Choices and Decisions

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative 1</td>
<td>Continue to apply hedge accounting (fair value and cash flow hedging)</td>
</tr>
<tr>
<td>Alternative 2</td>
<td>Discontinue hedge accounting (fair value and cash flow hedging)</td>
</tr>
<tr>
<td>Alternative 3</td>
<td>Discontinue hedge accounting and apply the IFRS 1 election to designate certain financial instruments as held for trading (fair value hedging)</td>
</tr>
</tbody>
</table>

#### Analysis of the Alternatives

<table>
<thead>
<tr>
<th></th>
<th>Alternative 1</th>
<th>Alternative 2</th>
<th>Alternative 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair Value Hedging</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantum (US$ Volatility)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs associated with using a long-haul method for effectiveness testing as IFRS does not allow the short cut method (qualitative method only).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs associated with de-designation and re-designation on adoption of IFRS. Ineffectiveness and risk of hedge accounting failure. Hedge accounting application risk (i.e. risks associated with misapplication of hedge accounting standards).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinuation of hedge accounting will create economic statement volatility as the related hedged item would no longer be fair valued, creating a mismatch between the measurement of the hedging instrument and the hedged item. Consideration of maintaining hedging instrument as an economic hedge.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash Flow Hedging</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantum (US$ Volatility)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance costs associated with using a long-haul method for effectiveness testing as IFRS does not allow the critical term match method (qualitative method only).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs associated with de-designation and re-designation on adoption of IFRS. Ineffectiveness and risk of hedge accounting failure. Hedge accounting application risk (i.e. risks associated with misapplication of hedge accounting standards).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forecasted transactions must be 'highly probable' under IFRS rather than 'probable' under Canadian GAAP to be eligible for hedge accounting.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinuation of hedge accounting will create economic statement volatility as the fair value changes on hedging instruments would no longer be deferred in AOCI. For March 31, 2009 financial statements income would have increased by $76 million if cash flow hedge accounting was not applied.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation and Rationale</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fair Value Hedging - Alternative 3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attention hedge accounting and apply the IFRS 1 election to the hedged items.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduces compliance costs and hedge accounting application risk of applying hedge accounting while not increasing income statement volatility.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Flow Hedging - Alternative 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continue to apply hedge accounting.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinuation of cash flow hedge accounting creates significant income statement volatility, with no IFRS 1 election relief.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### KEY:

- **Quantum:**
  - Low (< 50%)
  - Medium (50% → 250%)
  - High (> 250%)

- **Effect:**
  - Low (< 50 hrs)
  - Medium (50 hrs → 200 hrs)
  - High (> 200 hrs)
### BC Hydro - IFRS Conversion Employee Benefits

#### Executive Summary - Assess Phase

#### Accounting Policy Choices and Decisions

<table>
<thead>
<tr>
<th>Option</th>
<th>Implications</th>
<th>Recommendation</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial election - Actuarial gains/losses (IFRS 1 Election)</td>
<td>Election to recognise all cumulative actuarial gains and losses at the date of transition to retained earnings&lt;br&gt;Or Full retrospective application - cumulative amounts re-built under IAS 19</td>
<td>Consider implication on rate regulated accounting (i.e. how to recover from rate-payers) Consider what position cumulative amounts are in (gain vs loss). At 3/31/08 balance is $500 million in unamortised losses. Consider labour involved in re-building cumulative amounts under IAS 19</td>
<td>Apply election assuming regulatory mechanism for recovery is in place. Re-building cumulative gains/losses under IAS 19 considered very labour intensive and information may not be available</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>On-going policy choice - Actuarial gains/losses</td>
<td>Application of corridor method, recognition of gains and losses in profit or loss, recognition of gains and losses in profit or loss at a faster pace, or full recognition in equity</td>
<td>See Policy Choice attachment</td>
<td>See Policy Choice attachment</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>Initial election - Disclosures</td>
<td>Election to disclose the amount required by paragraph 120Ap of IAS 19 as the amounts are determined for each accounting period prospectively from the date of transition to IFRSs, or Apply full retrospective disclosures</td>
<td>If election taken, not required to present disclosures for current and previous 4 years for defined benefit obligations, plan assets and surplus or deficit. Allows entity to provide disclosures on transition date and prospectively.</td>
<td>Apply election</td>
<td>N/A</td>
<td>medium</td>
</tr>
</tbody>
</table>

### Required Changes

<table>
<thead>
<tr>
<th>Accounting change</th>
<th>BU Affected</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constructive obligations - The application of constructive obligation concept is much broader under IFRS. Must be considered how to capture all constructive obligations in employee benefit obligations. Measurement dates - Resolve process with actuaries and investment mg (BCIMC) to arrive at March 31 measurement dates and valuations with &quot;sufficient frequency&quot;. Standard labour rates - standard labour rate need to be constructed to include full post employment benefits cost, not just current service cost. Disclosure - Refer to Disclosure matrix for changes required.</td>
<td>BCH PEX PTEC CHC</td>
<td>low</td>
<td>low</td>
<td>Apply process changes to incorporate sign-offs. Not yet assessed.</td>
</tr>
</tbody>
</table>

### Outstandings questions / issues

1. Monitor on-going developments:
   - Discussion Paper released - Preliminary Views on Amendments to IAS 19 Employee Benefits
   - ED expected to be released in 2009, IFRS expected in 2011 with effective date of 2012

**KEY:**

- **Quantum**:
  - low = Low (< $5m )
  - medium = Medium ($5m - $30m)
  - high = High (> $30m)

- **Effort**: low = Low (< 50hrs)
  - medium = Medium (50 hrs - 200 hrs)
  - high = High (> 200hrs)

**On adoption B/S Near term IFS Effort**

**B/S Impact**

- S: <5m 5-50m 50+ m hrs: <50 50-200
## Provisions, Contingent Liabilities and Contingent Assets, excluding Dismantling and Decommissioning Obligations

### Executive Summary - Assessment Phase DRAFT

### Topic

1. **IAS 37 will change current wording of project of IASB.**
   - **Impact**: New IAS 37 is expected to be issued late 2019 or early 2020. It is uncertain whether it will be
     effective prior to BC Hydro's adoption of IFRS 17 on April 1, 2018.
   - **To consider**: Work on implementation based on current text of the Standard.
   - **Comments**: Risk of change in definitions (e.g., constructive obligation), measurement (e.g., stand-alone principle). Updated implementation efforts until final standard is released (late 2019 or early 2020).
   - **Recommemend**: Work on implementation based on current text. Identify key sensitive to revenue changes.

### Next Steps/Current Actions

- Constructive obligation
- Measurement (amount of stand-alone principle introduced in exposure draft of new IAS 37)
- Recognition of impairment of assets
- Current status

### Accounting Changes to current Standard is reduced

<table>
<thead>
<tr>
<th>Accounting Changes in current Standard is reduced</th>
<th>BC Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> Provisions for constructive obligations</td>
<td>Corp</td>
</tr>
<tr>
<td>- Duties &amp; rights to obligations exist</td>
<td>✔</td>
</tr>
<tr>
<td>- Duties &amp; rights to obligations exist</td>
<td>✔</td>
</tr>
<tr>
<td>- Duties &amp; rights to obligations exist</td>
<td>✔</td>
</tr>
<tr>
<td>- Duties &amp; rights to obligations exist</td>
<td>✔</td>
</tr>
</tbody>
</table>

### Overall Impact

- **On adoption B/S**: 
  - **Near term B/S**
  - **Effect**

### Appendix D

IAS 37 is a current working project of IASB. Work on the project continues in 2019, initially as part of the IASB's convergence project.

In June 2019, the Board issued an Exposure Draft, The current period for the exposure draft ended on October 30, 2019.

The transition phase began in February 2018, in November and December 2018, the Board held five round table discussions to hear principal views on the tentative codification. Active developments on the project are continuing.

The final standard is expected to be released in second half of 2019. Beginning of 2020. The effective date of new standard is not known yet. Work on the changes in near standard, effective dates and early adoption, if possible.

**KEY**

- **Occurrence**: Low (<$5M), Medium ($5M -> $50M), High (> $50M)
- **Effect**: Low (< 30 hrs), Medium (30 hrs -> 200 hrs), High (> 200 hrs)
Service Concession Arrangements (IFRIC 12, SIC 29)

Executive Summary - Assessment Phase (DRAFT)

**Service Concession Arrangements (USCA 4) in scope of IFRIC 12 and SIC 29:**
- This interpretation applies to arrangements where a private sector entity (an operator) constructs infrastructure to provide a public service that has been granted by a public sector entity (a grantor). Such arrangements are often described as public-private-partnerships (P3s).
- Public policy is for the services related to the infrastructure to be provided to the public, irrespective of the identity of the party that operates the services (i.e., toll road).
- The service arrangement customarily obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:
  - (a) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.
  - (b) the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
  - (c) the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
  - (d) the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.
- IFRIC 12 is believed to be narrowly applied to public-private service concession arrangements. IFRIC 12 applies to accounting by operator (i.e., private party in the arrangement).
- As a crown corporation, BC Hydro would likely act as the public sector entity (the grantor) in any service concession arrangement.
- IFRIC 12 does not address all forms of infrastructure service arrangements, and does not address accounting by grantors.

**Major arrangements analyzed for scope of IFRIC 12 / SIC 29**

<table>
<thead>
<tr>
<th>Arrangement analyzed</th>
<th>Why was concluded to be out of scope</th>
<th>Further analysis of the arrangement performed as part of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 BC Hydro as a whole</td>
<td>Based on understanding of the legislative framework (Hydro and Power Authority Act), BC Hydro has legal title to the tangible and intangible assets recorded on its books</td>
<td>Leases</td>
</tr>
<tr>
<td>2 New Westminster sub-station</td>
<td>BC Hydro has legal ownership of the sub-station, operated by the City. IFRIC 12 does not apply to accounting by grantor.</td>
<td>Revenue / Significant Contracts / PP&amp;E (Government Grants, CIA)</td>
</tr>
<tr>
<td>3 Royal #2 sub-station</td>
<td>BC Hydro does not own the sub-station and is not the primary operator</td>
<td>Water Use Plans are further analyzed as part of intangible assets.</td>
</tr>
<tr>
<td>4 Columbia River Treaty</td>
<td>BC Hydro owns and operates assets related to Columbia River Treaty. There is no grantor-operator relationship in this arrangement.</td>
<td>Revenue / Significant Contracts / PP&amp;E (Government Grants, CIA)</td>
</tr>
<tr>
<td>5 Non-commercial obligations in Water Use Plans (&quot;WUP&quot;)</td>
<td>BC Hydro is required to construct / maintain non-commercial (recreational) facilities surrounding the reservoir as part of certain WUPs. There are no related assets in the ownership of municipalities, which would be operated by BC Hydro.</td>
<td>Consolidation / Significant Contracts Monitor BCTC’s conclusion with respect to BCTC’s assets (IFRIC 12 scope, ownership title).</td>
</tr>
<tr>
<td>6 Skagit agreement</td>
<td>BC Hydro owns and operates assets related to Skagit agreement. There is no grantor-operator relationship in this arrangement.</td>
<td>Leases (service concession arrangements are to be included in Leases template)</td>
</tr>
<tr>
<td>7 Arrangement with BCTC</td>
<td>BC Hydro has legal ownership of the transmission assets, operated by BCTC. IFRIC 12 does not apply to accounting by grantor.</td>
<td>Provisions</td>
</tr>
<tr>
<td>8 Power Purchase Agreements</td>
<td>Generally, IPPs are not public enterprises. IFRIC 12 does not apply to accounting by grantor.</td>
<td></td>
</tr>
<tr>
<td>9 First Nation agreements</td>
<td>BC Hydro constructs assets (recreational facilities, community centers) and transfers ownership to the communities. BC Hydro neither operates nor retains significant residual interest in these assets after they are transferred to communities. There is no grantor-operator relationship that would be in scope of IFRIC 12.</td>
<td></td>
</tr>
</tbody>
</table>

**Summary of accounting treatment under IFRIC 12:**
- Infrastructure (assets) within the scope of IFRIC 12 are not recognized as PP&E of the Operator.
- Operator measures and recognizes revenue in accordance with IAS 11, Construction Contracts and IAS 18, Revenue for the services it performs.
- Operator accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11, Construction Contracts.
- Consideration received or receivable for construction or upgrade services are recognized initially at fair value. The consideration may be rights to a financial asset or an intangible asset.
- Operator shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash, or another financial asset from or at the direction of Grantor for the construction services.
- Operator shall recognize an intangible asset to the extent that it receives a right (a licence) to charge users of the public service.
# Appendix D

## BC Hydro - IFRS Conversion

### Leases - IAS 17, IFRIC 4

#### Executive Summary - Assessment Phase - Final

### 1. Lease Classification Approach

<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lease Classification Approach</td>
<td>1) Apply management determined quantitative factors in lease classification process&lt;br&gt;2) Do not apply quantitative factors (i.e. fully substance approach)</td>
<td>Management determined factors/considerations may reduce the amount of effort and judgement in the business groups</td>
<td>Option 1 - Apply pre-determined factors in lease classification assessment</td>
<td>Less labour intensive, versus</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

### 2. IFRS 1 Transitional election - IFRIC 4

| Option 3 available in the Exposure Draft, Additional Exemptions for First-time Adopters - Proposed amendments to IFRS 1 and is not yet effective. | If election under current IFRS 1) is not applied would need to assess facts and circumstances of arrangements retrospectively | Arrangements assessed under IFRIC 150 are not reassessed under IFRIC 4 | Arrangement previously grandfathered under IFRIC 150 will need to be reassessed against FRIC 4. | Less labour intensive. versus | 1 | 2 |

### Required Changes / Main Activities

#### Accounting change

<table>
<thead>
<tr>
<th>Accounting change</th>
<th>BI Affected</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lease Classification Criteria - Lease classification under Canadian GAAP is based on bright line tests (as condition). If one is met, the lease is capital (or finance). Under IFRS the bright line tests are replaced with indicators which are to be considered within a framework of primary (on line with those under Canadian GAAP) and subsidiary importance.</td>
<td>Corp&lt;br&gt;Field&lt;br&gt;Care&lt;br&gt;ERG&lt;br&gt;C&amp;L&lt;br&gt;Trans.</td>
<td>M</td>
<td></td>
<td>Review of energy purchase contracts and other arrangements that were not assessed under IFRIC 150 to be covered in the Financial Instruments section.</td>
</tr>
<tr>
<td>2. Enhancing whether an arrangement contains a lease - IFRIC 150 contains transitional provisions for arrangements effective after April 1, 2005. These grandfathered arrangements will need to be assessed under IFRIC 4. As well, IFRIC 4 places more emphasis on multi-element arrangements where there are one-lease components that need to be addressed under other IFRICs.</td>
<td></td>
<td>M</td>
<td></td>
<td>In calculating MLPs, include all executory costs that are to be ultimately assured by DCH.</td>
</tr>
<tr>
<td>3. Costs included in calculation of minimum lease payments (MLPs) under C&amp;L GAAP, MLPs exclude all executory costs such as insurance, maintenance and taxes. IFRS fully excludes costs that are paid by or reimbursed by the lessee.</td>
<td></td>
<td>M</td>
<td></td>
<td>In calculating MLPs, not the interest rate implicit in the lease or, if this is not practicable to determine, the lease's incremental borrowing rate may be used.</td>
</tr>
<tr>
<td>4. Discount rate used in calculation of MLPs - under C&amp;L GAAP, the discount rate would be the lower of the interest rate implicit in the lease or the lessee's incremental borrowing rate. Under IFRS, the interest rate implicit in the lease is used.</td>
<td></td>
<td>M</td>
<td></td>
<td>The fair value of the lease is based on the relative fair values of the components. Under IFRS, the MLPs are amortised on a fair value of the lease component basis.</td>
</tr>
</tbody>
</table>

#### Operational and transitional issues

<table>
<thead>
<tr>
<th>Exposure Draft, Additional Exemptions for First-time Adopters - Proposed amendments to IFRS 1</th>
<th>Comments to be received by January 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>On adoption BIS</td>
<td>Effort</td>
</tr>
<tr>
<td>&lt;Low (&lt; 5.5m)</td>
<td>&lt;Low (&lt; 5 hrs)</td>
</tr>
<tr>
<td>Medium (5.5m - 55m)</td>
<td>Medium (50 hrs - 200 hrs)</td>
</tr>
<tr>
<td>High (&gt; 55m)</td>
<td>High (&gt; 200 hrs)</td>
</tr>
</tbody>
</table>

### OVERALL RATING

<table>
<thead>
<tr>
<th>BIS Impact</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;Low (&lt; 5m)</td>
<td>&lt;Low (&lt; 5 hrs)</td>
</tr>
<tr>
<td>Medium (5.5m - 55m)</td>
<td>Medium (50 hrs - 200 hrs)</td>
</tr>
<tr>
<td>High (&gt; 55m)</td>
<td>High (&gt; 200 hrs)</td>
</tr>
</tbody>
</table>

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**KEY:**
- Low (< 5m)
- Median (5.5m - 55m)
- High (> 55m)
- Effort:
- Low (< 5 hrs)
- Medium (50 hrs - 200 hrs)
- High (> 200 hrs)

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## BC Hydro - IFRS Conversion
### Revenue - IAS 18, IAS 11
#### Executive Summary - Assessment Phase FINAL

### Accounting Policy Choices and Decisions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale / comment</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>No significant accounting policy choices or decisions. Effort will revolve around the interpretation of new requirements.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Develop the process to continue to meet regulatory requirements</td>
</tr>
</tbody>
</table>

### Required Changes / Major Actions

<table>
<thead>
<tr>
<th>Accounting change</th>
<th>Corp</th>
<th>Field</th>
<th>ERG</th>
<th>CC&amp;C</th>
<th>Trans'n</th>
<th>PWX</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Review components of miscellaneous revenue for proper classification (e.g., gross vs. net presentation). Consideration should be given to changes impacting regulatory accounts (e.g., COEI).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Consideration to be given to nature of items included in miscellaneous revenues and whether they should be considered as revenue or expense items for classification purposes.</td>
</tr>
<tr>
<td>2. Determine proper financial statement presentation of cost recoveries from DCTC (e.g., allocate to individual expense accounts or adjust as one line item).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>To be addressed in Presentation workshop</td>
</tr>
<tr>
<td>3. Review accounting of revenue for construction contracts and determine if current accounting practice is different from IFRS (e.g., contract with Fortis to construct a substation, and also construction services performed by Field Operations).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Determine whether any differences exist between current accounting practice and IFRS.</td>
</tr>
<tr>
<td>4. Review presentation of income received from IPPs relating to rate violations and cancellation penalty charges - determine if policy choice exists to present as revenue or other income.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Requirements to be incorporated with review of EIPAs in Financial Instruments workshop.</td>
</tr>
<tr>
<td>5. Determine accounting for funds received under Columbia River Treaty - as government grant vs. shareholder contribution.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Considered as part of Significant Contracts review.</td>
</tr>
<tr>
<td>6. Review contributions in aid (CIA) implications in certain arrangements. Contributions may need to be recognized as revenue upon receipt. If classified as revenue, determine appropriate recognition mechanism (recognize immediately vs. defer and amortize).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The analysis is performed as part of Property, Plant and Equipment workshop and CIA.</td>
</tr>
</tbody>
</table>

### Outstanding Questions / Issues

1. The IASB and the FASB are working on a joint project, the objective of which is to develop a comprehensive set of principles for revenue recognition. The resulting standard would replace IAS 11 and IAS 18. A discussion paper is expected in the fourth quarter of 2009. No document has been exposed to public yet. Continue monitoring potential changes, impacts and effective dates.

2. Proposed discussion paper D24 introduces new interpretations for accounting for contributions in aid of construction. In accordance with proposed interpretations, certain contributions in aid of construction may have to be accounted for as revenue upon receipt. The discussion paper will be reviewed by IFRIC in March 2009. Monitor developments of D24, Customer Contributions, including proposed interpretations and effective dates.

### Key

- **Quantum**: Low (< $5m) | Medium ($5m - $50m) | High (> $50m)
- **Effort**: Low (< 50 hrs) | Medium (50 hrs - 200 hrs) | High (> 200 hrs)

### Overall Impact

- **Overall Impact**: S0
- **Overall Effort**: S0
### BC Hydro - IFRS Conversion
#### Significant Contracts
#### Executive Summary - Assessment Phase FINAL

**Objectives**

- The workshop covers significant arrangements which are within the scope of multiple IFRSs.
- Separating Significant Contracts into a separate workshop.
- Ensures proper accounting treatment when an arrangement is within the scope of several standards (ensuring proper interaction between different standards).
- Maximizes the efficiency of contract analysis.
- The purpose of the workshop was to identify the significant arrangements requiring separate analysis, outside of specific workshops, and to determine the timing of such analysis. Detailed analysis of the arrangements, including proposed IFRS treatment, will be performed within specified timeframes.

### Major Arrangements Overview

<table>
<thead>
<tr>
<th>Arrangement analyzed</th>
<th>Applicable IFRS / IAS</th>
<th>Timeline for the analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. BC Transmission Corporation – Asset Management Agreement (&quot;AMA&quot;)</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>3. Service Level Agreements (&quot;SLAs&quot;)</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>8. Indexed purchase arrangements (Powertex)</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>11. Power Smart – agreements with customers regarding estimated benefits to be delivered by the customer through Power Smart installations</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>15. Safe of energy and renewable energy certificates to LA department of water and power</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>17. WAPA – banking arrangements</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
<tr>
<td>20. VITR – Home Purchase Offer Program (HPOP)</td>
<td>Leases</td>
<td>AOC on January 29, 2008</td>
</tr>
</tbody>
</table>

---

**Page 12 of 19**
## BC Hydro - IFRS Conversion
### Consolidation
#### Executive Summary - Assessment Phase - Final

<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rationale</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transition date approach to cumulative translation differences for subsidiary with functional currency different from that of a Parent.</td>
<td>Reconstruct historical cumulative translation differences</td>
<td>Significant effort required to reconstruct historical cumulative translation differences.</td>
<td>Use of IFRS 1.22 optional election exempting from reconstruction of cumulative translation differences.</td>
<td>Use of IFRS 1.22 optional election</td>
<td>Reduces time and effort at transition date</td>
</tr>
</tbody>
</table>

2. In current interpretation of applicability of GAAP by Public Sector Accounting Board, IFRS will apply to government business enterprises (GBEs) and governmental business-type organizations (GBTOs). However, this position is currently being reviewed and is subject to potential changes.

- If a subsidiary of BC Hydro meets the definition of a GBE or GTO, IFRS will be applicable accounting framework and full set of IFRS financial statements will have to be prepared.
- For subsidiaries that do not meet the definition of a GBE or GTO, preparation of IFRS financial statements will be optional.
- If no stand-alone IFRS financial statements are required, a subsidiary would have to prepare only trial balances under IFRS, for consolidation purposes.

### Required Changes / Major Actions

#### Accounting Changes

<table>
<thead>
<tr>
<th>Corp</th>
<th>Field Op.</th>
<th>EARG</th>
<th>C&amp;C</th>
<th>Trans'n</th>
<th>PWX</th>
<th>Quantum</th>
<th>Effort</th>
<th>Impact / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Uniform accounting policies: Review accounting policies of significant subsidiaries and ensure that the accounting policies of these subsidiaries and the Parent are uniform for consolidation purposes.</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>A subsidiary can use accounting policies different from that of a Parent for its stand-alone financial statements. However, for consolidation purposes the policies have to be uniform.</td>
</tr>
<tr>
<td>2 Develop approach for consolidation of a subsidiary having functional currency different from that of a Parent.</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>Consider impact on intercompany transactions.</td>
</tr>
<tr>
<td>3 Determine whether there are any special purpose entities requiring consolidation.</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>The work is performed as part of analysis of Significant Contracts.</td>
</tr>
</tbody>
</table>

### Overall Impact

- **On adoption B/S**
- **Near term I/S**
- **Effort**

#### KEY:
- **Quantum:**
  - Low (< $5m)
  - Medium ($5m - $50m)
  - High (> $50m)

- **Effort:**
  - Low (< 50 hrs)
  - Medium (50 hrs - 200 hrs)
  - High (> 200 hrs)

The Public Sector Accounting Board (PSAB) is in the process of reviewing the applicability of IFRS for government business enterprises and government business-type organizations. PSAB has scheduled a meeting to deliberate on this issue in January, 2009.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Options to consider</th>
<th>Implications</th>
<th>Recommend</th>
<th>Rate/Needs</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td>Under IAS 1 the entities income statement can be presented by nature or function. A narrative view presentation would include line items such as sales, depreciation, energy costs, water licence costs, etc. A functional view presentation would include line items such as cost of sales, general and administrative costs, etc.</td>
<td>The dialect only impacts presentation and thus is a business judgement decision. However, the BCUC may have a preference as to whether they want the income statement to be presented by nature or function. The presentation format selected would be difficult for the public financial statements and the regulator. If a functional presentation is adopted, the company is required to disclose the nature of certain costs (i.e. depreciation, employee benefits) in the notes to the financial statements. Present expenses in the income statement according to their nature.</td>
<td>Under a functional view, significant ongoing effort would be required in identifying the proper level of disaggregation of operating functions and allocation of costs to these functions. If operational changes in the future (i.e., reorganizations), the functional view would likely require further modification. The narrative view allows for a simplified presentation of expenses.</td>
<td>N/A</td>
<td>either</td>
<td></td>
</tr>
<tr>
<td><strong>Statement of cash flows</strong></td>
<td>Under IFRS, the company can prepare a separate statement of income or statement of comprehensive income, or combine the two statements into one combined statement of comprehensive income. Only reclassification of the number of statements included in the financial statements. Present - Combined statement of income and comprehensive income.</td>
<td>The current discussion paper on IAS 1, Presentation of Financial Statements, is proposing to eliminate the alternatives of presenting separate income statements. A combined statement is proposed, no change will be required with respect to the proposal when it is passed by the IASB. A single combined statement also allows for a simplified presentation overall.</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow statement</strong></td>
<td>Presentation of the cash flow statement either directly or indirectly method. Indirect - Preferred. There are some further clarification requirements under IFRS to consider but no other substantive changes. Direct - The direct method of reporting cash flow is complicated to administer and would require more data to be collected on each transaction. Continued presentation of cash flows under the indirect method.</td>
<td>The current Canadian GAAP presentation format uses the indirect method and this method is also the predominant format used by utility companies and public accounting entities. The use of the direct method requires significant data work and would result in significant impact to current processes and systems used to prepare the cash flow statement. While the most recent discussion paper on IAS 1 proposes the adoption of the direct method, such a proposal is currently a long way from facilitation and potential changes resulting will be contemplated, if and when, sound guidance is approved.</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow statement (BC Hydro and Powerco)</strong></td>
<td>Presentation of interest and dividends received as either an operating or investing activity. Presentation of interest and dividends paid as either an operating or financing activity. The decision will ultimately impact the classification of the Company's cash flows. Cash flows from operating activities are discussed in the Company's MD&amp;A. Classify interest received and paid as operating activity, and dividends paid as financing activity.</td>
<td>Retain existing classification.</td>
<td>Classification only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Segmented Reporting (optional)</strong></td>
<td>The entity is not required to report segment results in it does not have publicly traded equity or debt. However, the Company may have the option to voluntarily choose to adopt IFRS - Segment Reporting.</td>
<td>Choosing to adopt IFRS - Segment Reporting may impact the SAP implementation process as information may need to be collected in the accounting system to be able to meet the disclosure requirements.</td>
<td>Under Canadian GAAP, financial results that were previously reported on a segmented basis were not found to be meaningful by financial statement users and thus such reporting was discontinued. Moreover additional processes would need to be introduced to facilitate the reporting format.</td>
<td>N/A</td>
<td>If adopted</td>
<td></td>
</tr>
<tr>
<td>Step</td>
<td>Description</td>
<td>Quantum</td>
<td>Effort</td>
<td>Impact / Comments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
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<td>--------</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Develop approach for consolidation of a subsidiary (Powerex) having a different functional currency from that of BC Hydro</td>
<td>M/N/A</td>
<td>L/M/N/A</td>
<td>The translation of Powerex's financial results to the Canadian dollar reporting currency of BC Hydro is addressed in the consolidation workshops.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Develop IFRS compliant set of financial statements.</td>
<td>N/A</td>
<td>M/N/A</td>
<td>The changes in the financial statements are being explained in a set of &quot;how-to&quot; financial statements that are being prepared and continually updated to reflect decisions made in all workshops. Significant differences include: presentation of a new asset of changes in equity, increased accounting policy disclosures, additional disclosure in the notes to the financial statements, in particular, providing continuity schedules for property, plant and equipment, intangibles, and provisions in separate respective summaries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Develop IFRS compliant transitional disclosures for the interim and year end financial statements</td>
<td>N/A</td>
<td>M/N/A</td>
<td>Reconciliations during the initial year of adoption will include: reconciliation of Canadian GAAP equity to IFRS as at transition date and end of comparative annual period. Reconciliation of Canadian GAAP equity to IFRS as at comparative interim balance sheet date. Reconciliation of Canadian GAAP comprehensive income (CI) to IFRS CI for the comparative quarter and YTD. Reconciliation of Canadian GAAP CI to IFRS CI for comparative annual period.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Determine system requirements to support information needs for ongoing disclosure requirements and disclosures in the year of adoption</td>
<td>N/A</td>
<td>M/N/A</td>
<td>This work is ongoing with SAP conversion team.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Determine presentation of cash and recoveries with respect to transactions with BCTC</td>
<td>N/A</td>
<td>M/N/A</td>
<td>This work is ongoing with BCTC.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Outstanding Issues / Focuses

- Relevant Exposure drafts / Discussion Papers / IFRIC drafts (open to comment)
  - Financial Statement Presentation joint project between the FASB and IASB
    - Discussion paper released mid-October 2008
    - Exposure draft expected to be issued in 2010
    - Final document expected to be issued in 2011

### Proposed Impacts

- Classification of tax changes in the PS into business, financing, equity, income tax sections, presentation of cash flows from operating activities using the direct method, and requirement to reconcile cash flows to comprehensive income.
## IFRS 1 First time adoption of IFRS - Available Exemptions

### Executive Summary - Assessment Phase (Draft)

Upon transition to IFRS, entities are required to report their financial results as though they had always adopted IFRS. However, IFRS provides two categories of exceptions to the principle that an entity's opening IFRS financial statements shall comply with IFRS. These exceptions are separated between those that are optional and those that are mandatory.

<table>
<thead>
<tr>
<th>#</th>
<th>Exception</th>
<th>IFRS Ref</th>
<th>BCH</th>
<th>Powerex</th>
<th>Noted in Individual Workshop</th>
<th>Synopsis</th>
<th>Recommend Adoption?</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business combinations</td>
<td>IFRS 1.15</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td>Optional exemption allows grandfathering past business combinations.</td>
<td>N/A</td>
<td>BC Hydro and Powerex were not involved in business combination transactions in the past.</td>
</tr>
<tr>
<td>2</td>
<td>Fair value or revaluation as deemed cost</td>
<td>IFRS 1.16-19</td>
<td>X</td>
<td>Y - PP&amp;E</td>
<td>Fair value of PP&amp;E can be used as a deemed cost on transition date. Election available on an asset-by-asset basis.</td>
<td>Yes</td>
<td>BC Hydro: Yes Powerex: No</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Employee benefits</td>
<td>IFRS 1.20-20A</td>
<td>N/A</td>
<td>Y - Employee benefits</td>
<td>Recognize all cumulative actuarial gains and losses at the date of transition to IFRS.</td>
<td>Yes</td>
<td>Minimizes volatility and transitional effort.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Cumulative translation differences</td>
<td>IFRS 1.21-22</td>
<td>N/A</td>
<td>Y - Consolidation</td>
<td>The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS.</td>
<td>Yes</td>
<td>Reconstruction of cumulative translation differences on a very time-consuming basis. Optional election can minimize transitional effort.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Compound financial instruments</td>
<td>IFRS 1.23</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td>N/A</td>
<td>BC Hydro and Powerex do not have compound financial instruments.</td>
</tr>
<tr>
<td>6</td>
<td>Investments in subsidiaries, jointly controlled entities, and associates</td>
<td>IFRS 1.23A-23B</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td>N/A</td>
<td>BC Hydro does not prepare separate financial statements. Powerex does not have investments into subsidiaries, jointly controlled entities or associates.</td>
</tr>
<tr>
<td>7</td>
<td>Assets and liabilities of subsidiaries, associates and joint ventures</td>
<td>IFRS 1.24-25</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td>N/A</td>
<td>BC Hydro does not have subsidiaries with IFRS adoption date later than the Parent. The exemption does not apply in the instances of IFRS adoption date of a subsidiary being earlier than the Parent (CIC).</td>
</tr>
<tr>
<td>8</td>
<td>Designation of previously recognized financial instruments</td>
<td>IFRS 1.25A</td>
<td>X</td>
<td>Y - Financial Instruments</td>
<td>BCNI to discontinue fair value hedge accounting and apply the election to debt under a hedging relationship (i.e., designate the debt as a financial asset or financial liability at fair value through profit or loss).</td>
<td>Yes</td>
<td>Minimizes transitional and ongoing effort.</td>
<td></td>
</tr>
<tr>
<td>Exemption</td>
<td>IFRS Ref</td>
<td>BCH</td>
<td>Powerex</td>
<td>Noted in individual workplan</td>
<td>Synopsis</td>
<td>Recommendation to elect?</td>
<td>Rationale</td>
<td></td>
</tr>
<tr>
<td>-----------</td>
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<td></td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td>IFRS 1259-25c</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Exemption from applying IFRS 2, Share-based Payment Transactions to equity instruments granted on or before November 7, 2002.</td>
<td>N/A</td>
<td>BC Hydro and Powerex do not grant stock-based awards.</td>
<td></td>
</tr>
<tr>
<td>Insurance contracts</td>
<td>IFRS 1250</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Exemption applies to the first-time adopters of IFRS 4, Insurance Contracts</td>
<td>N/A</td>
<td>BC Hydro does not issue insurance contracts and does not hold re-insurance contracts, and is therefore does not apply IFRS 4.</td>
<td></td>
</tr>
<tr>
<td>Decommissioning liabilities included in the cost of property, plant and equipment</td>
<td>IFRS 125e</td>
<td>¥</td>
<td>¥</td>
<td>¥</td>
<td>¥ - ARO</td>
<td>Yes</td>
<td>Selecting this election minimizes the transitional efforts, as BC Hydro will not be required to re-create quarterly historical changes in ARO.</td>
<td></td>
</tr>
<tr>
<td>Leases</td>
<td>IFRS 125f</td>
<td>¥</td>
<td>¥</td>
<td>¥</td>
<td>¥ - Leases</td>
<td>Yes</td>
<td>Minimizes the transitional efforts</td>
<td></td>
</tr>
<tr>
<td>Fair value measurement of financial assets or financial liabilities at initial recognition</td>
<td>IFRS 125g</td>
<td>N/A</td>
<td>N/A</td>
<td>¥ - Financial Instruments</td>
<td>Allows prospective application of valuation techniques described in IAS 39, Ag 76 and Ag G76A in the instruments for which no market exists to transactions entered into after October 25, 2002 or January 1, 2004.</td>
<td>N/A</td>
<td>IAS 39, Ag 76, and Ag G76A are not applicable for BC Hydro and Powerex.</td>
<td></td>
</tr>
<tr>
<td>Service concession arrangements</td>
<td>IFRS 125h</td>
<td>N/A</td>
<td>N/A</td>
<td>¥ - Service Concession Arrangements</td>
<td>The optional election allows to evaluate service concession arrangements existing only at the start of the initial period presented, as opposed to reviewing all historical arrangements.</td>
<td>N/A</td>
<td>Based on preliminary analysis, no service concession arrangements were identified.</td>
<td></td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>IFRS 125i</td>
<td>N/A</td>
<td>N/A</td>
<td>¥ - Borrowing costs memo (IFRS12)</td>
<td>A first-time adopter may apply the transitional provisions of IAS 23R, if the application of revised Standard constitutes a change in accounting policy. In that case, the transitional provision would allow the Company to apply IAS 23R to the qualifying assets for which the commencement date for capitalization is on or after the transition date.</td>
<td>N/A</td>
<td>Since BC Hydro was capitalizing the borrowing costs, adoption of IAS 23R does not represent a change in accounting policy and this optional election is not available.</td>
<td></td>
</tr>
</tbody>
</table>

**Mandatory exemptions:**

<table>
<thead>
<tr>
<th>Exemption</th>
<th>IFRS Ref</th>
<th>BCH</th>
<th>Powerex</th>
<th>Noted in individual workplan</th>
<th>Synopsis</th>
<th>Recommendation to elect?</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of financial assets and financial liabilities</td>
<td>IFRS 1257-27a</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>IAS 39, Financial Instruments, is applied prospectively for transactions entered into on or after January 1, 2004, except for derecognition requirements, which may be applied retrospectively, from the date of an entity's choosing.</td>
<td>Yes</td>
<td>Mandatory exemption</td>
</tr>
<tr>
<td>Hedge accounting</td>
<td>IFRS 1258-30</td>
<td>¥</td>
<td>¥</td>
<td>¥</td>
<td>¥ - Financial Instruments</td>
<td>A first-time adopter may apply the transitional provisions of IAS 39, if the application of revised Standard constitutes a change in accounting policy. In that case, the transitional provision would allow the Company to apply IAS 23R to the qualifying assets for which the commencement date for capitalization is on or after the transition date.</td>
<td>Yes</td>
</tr>
<tr>
<td>#</td>
<td>Exception</td>
<td>IFRS Ref</td>
<td>BCH</td>
<td>Powers</td>
<td>Noted in individual workshy</td>
<td>Synopsis</td>
<td>Recommendation to elect?</td>
</tr>
<tr>
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<td>--------------------------</td>
</tr>
<tr>
<td>18</td>
<td>Estimates</td>
<td>IFRS 1.31-34</td>
<td>✓</td>
<td>✓</td>
<td>Within individual workshops, as applicable</td>
<td>An entity's estimates under IFRSs as the date of transition to IFRSs shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.</td>
<td>Yes</td>
</tr>
<tr>
<td>19</td>
<td>Assets classified as held for sale and discontinued operations</td>
<td>IFRS 1.34A-34B</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Requirement to apply IFRS 5, Non-current Assets Held for Sale and Discontinued Operations retrospectively, if entity's adoption date is after January 1, 2009 (as opposed to prospective application requirement in IFRS 5)</td>
<td>Yes</td>
</tr>
<tr>
<td>20</td>
<td>Non-controlling interests</td>
<td>IFRS 1.34C</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>BC Hydro does not have non-controlling interest, as it holds 100% ownership and control in its consolidated subsidiaries.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Legends:
- N/A - not applicable
- X - not elected
- ✓ - elected
### Income Taxes

<table>
<thead>
<tr>
<th>Accounting change</th>
<th>Options to consider</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classification of deferred taxes: Under IFRS, deferred taxes are always classified as non-current. Under IFRS, deferred income tax assets are recognized when more likely than not that the deferred taxes will be realized.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### DEC Summary - Assess Phase

<table>
<thead>
<tr>
<th>Impact</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near term IS</td>
<td>Effect</td>
</tr>
</tbody>
</table>

#### DEC Summary - Assess Phase

<table>
<thead>
<tr>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium ($2m - $20m)</td>
<td>Effect</td>
</tr>
<tr>
<td>High ($20m - $75m)</td>
<td>Effect</td>
</tr>
<tr>
<td>Very high ($75m +)</td>
<td>Effect</td>
</tr>
</tbody>
</table>

#### DEC Summary - Assess Phase

<table>
<thead>
<tr>
<th>Value</th>
<th>Quantum</th>
<th>Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (&lt; $2m)</td>
<td>Effect</td>
<td></td>
</tr>
<tr>
<td>Low (&lt; $10m)</td>
<td>Effect</td>
<td></td>
</tr>
<tr>
<td>Medium ($2m - $20m)</td>
<td>Effect</td>
<td></td>
</tr>
<tr>
<td>Medium ($10m - $75m)</td>
<td>Effect</td>
<td></td>
</tr>
<tr>
<td>High ($20m - $75m)</td>
<td>Effect</td>
<td></td>
</tr>
<tr>
<td>Very high ($75m +)</td>
<td>Effect</td>
<td></td>
</tr>
</tbody>
</table>

#### DEC Summary - Assess Phase

<table>
<thead>
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Appendix

E

IFRS, A Summary of Anticipated Impacts of Transition to IFRS by Rate Regulated Utilities in British Columbia
International Financial Reporting Standards (IFRS):

A Summary of Anticipated Impacts of Transition to IFRS on Rate Regulated Utilities in British Columbia

10 June 2009
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 Appendix A:  The CICA’s Guide to IFRS in Canada
1.0 Introduction

1.1 Background

The financial records of publicly accountable utilities in British Columbia that are regulated by the British Columbia Utilities Commission (Commission) are maintained in accordance with Generally Accepted Accounting Principles (GAAP) and are audited by independent public accounting firms. As GAAP moves from Canadian standards to IFRS, those utilities will adapt their financial records to meet the requirements of the new standards. There are a number of differences between IFRS and current Canadian GAAP which could have material impacts on the accounting values reported in those financial records. In addition, since IFRS, like Canadian GAAP, is principles-based, how specific utilities interpret and implement the standards may differ.

These impacts can be summarized under three categories. With the exception of the third category, the changes from Canadian GAAP to IFRS do not affect total costs to be recovered from ratepayers, but the standards do change the timing of when those costs might be recovered in rates.

(a) Transitional adjustments

For financial statement purposes, the transition to IFRS will result in adjustments to a utility’s opening retained earnings. The impact of those adjustments on future rates needs to be determined.

(b) Ongoing differences

Ongoing differences in the timing of recognition of certain transactions under IFRS will result. This could give rise to short-term volatility in rates and/or earnings, depending on the use of deferral accounts.
Appendix E
Rate Regulated Utilities of BC

(c) Additional costs

Costs will arise in connection with the conversion itself and may include
additional internal resources, external consulting and IT systems costs. In
addition, ongoing compliance costs may increase due to additional
reconciliation and assurance requirements, including external audit fees due to
assurance over new disclosure and the duplicate audit opinion required for
2010 (includes Canadian GAAP opinion in 2010 and IFRS opinion for current and
comparative 2010 year for 2011).

IFRS adoption will be required for publicly accountable utilities for the first fiscal
period beginning on or after January 1, 2011, with comparative amounts for the prior
year restated to be compliant with IFRS. As a result, utilities will only be able to
provide regulatory schedules prepared under IFRS for this comparative year and
going forward. The availability of the 2010 comparative IFRS financial statements will
vary among utilities. At a minimum, the 2010 comparatives will be available in 2011
as required. There will also be transitional adjustments to meet the requirements of
IFRS 1 First Time Adoption of IFRS. The timing of when utilities may seek to recover
these differences may vary depending on the timing of their own revenue
requirements applications and the materiality of each item to each utility.

1.2 Purpose

The purpose of this report is to provide a summary of those differences between
Canadian GAAP and IFRS that have been identified by the Utilities IFRS Working
Group (described below) as having the most significant impact on regulatory
accounting and rate making. This summary could then be referred to by the utilities
in their various filings and related discussions on IFRS accounting impacts.

The Utilities IFRS Working Group was created as a venue for discussion of IFRS issues,
evaluation of alternatives, and how those alternatives could be implemented in the
financial systems, accounting practices, and regulatory practices of the member

1.3 Limitations

This report should only be used for the purpose set out above, and is intended for use as information by the accounting, financial and regulatory personnel of the utilities in the Utilities IFRS Working Group, Commission staff, and intervenors or other interested parties. It should be noted that the individual utilities in the Utilities IFRS Working Group may not adopt all interpretations in this document.

The following matters have been specifically excluded from the report:

(a) Recommendations by the Utilities IFRS Working Group on which IFRS alternative is preferred;

(b) Discussion of how these IFRS changes may be implemented in revenue requirements applications and other filings;

(c) A comprehensive discussion of all IFRS changes, many of which may have an impact on some utilities. See Appendix A for an extract from the website of the Canadian Institute of Chartered Accountants, which compares IFRS to Canadian GAAP and includes a listing of the individual standards and interpretations.

As with all accounting standards, IFRS will continue to evolve over time, whereas this document has been prepared as of the date specified on the cover title page and each section will be updated as required. For pending changes to standards and major projects, the International Accounting Standards Board (IASB) has prepared a work plan outlining its estimate of document publication dates. See the table below for a summary of those standards and interpretations expected to change in the next two years.
Table 1. Summary of Standards and Interpretations Expected to Change in the Next Two Years

<table>
<thead>
<tr>
<th>Changes Likely To Be Available Before the End of 2009</th>
<th>Changes Likely To Be Available In 2010 - 2011</th>
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<td>10.</td>
<td>Leases (2011)</td>
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<td>12.</td>
<td>Revenue Recognition (2011)</td>
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This document will be updated periodically to reflect the issuance of new standards or interpretations, but cannot be assumed to reflect current IFRS at any point in time.

The following sections summarize the IFRS impacts that are relevant to those items that are generally included in the rate-setting methodology. Some utilities earn a return based on capital structure, while others earn a return on rate base. Depending on the rate-setting methodology of the individual utility, the application of accounting standards under either Canadian GAAP or IFRS could have different impacts.

Throughout this document references are made to applicable Canadian GAAP and IFRS sections. Canadian GAAP and IFRS references should be read as the section followed by the paragraph number. For example, “CICA 3061.16” should be read as section 3061, paragraph 16, of the CICA Handbook. It should be noted that the IFRS references include “IFRS”, “IAS” and “IFRIC” sections. These three should be read in
a similar format as Canadian GAAP with the standard or interpretation number
followed by the paragraph number. For example, “IAS 23.8” should be read as
standard number 23, paragraph 8, of the International Accounting Standards.

International Accounting Standards (IAS) were issued by the predecessor body of the
IASB, the International Accounting Standards Committee (IASC) prior to 2002. Since
that time, the IASB has issued IFRSs, although both have the same authority.
Interpretations issued by the International Financial Reporting Interpretation
Committee (IFRIC) are essentially additional guidance or interpretations provided on
newly identified financial reporting issues not specifically addressed in IASB
Standards. IFRICs are analogous to interpretations issued by the Emerging Issues
Committee (EIC) under Canadian GAAP.
2.0 Regulatory Assets and Liabilities (Deferral Accounts) (updated 30 April 2009)

The use of deferral accounts is a recognized component of rate making, allowing costs and revenues to be matched and streamed to ratepayers over the period to which they relate, to allow for reduced exposure to volatility in rates, and to neutralize or dampen the impacts of forecast error on items that the utility has little or no control over.

2.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Effective January 1, 2009, Canadian GAAP was revised to remove a temporary exemption from applying Canadian GAAP to the recognition of assets and liabilities resulting from rate regulation (CICA 1100.32B). In the absence of guidance available under Canadian GAAP, rate regulated utilities in Canada are permitted to apply US Statement of Financial Accounting Standards No. 71 Accounting for the Effects of Certain Types of Regulation, which allows the recognition of rate regulated assets and liabilities under the following circumstances.

(a) The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers;

(b) The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products;

(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in
levels of demand or competition during the recovery period for any capitalized costs.

### 2.2 International Financial Reporting Standards

*Exposure Draft expected: July 2009*

*Rate-regulated Activities final standard expected: During 2010*

Currently, IFRS do not explicitly recognize the economic effect of rate regulation through the existence of deferral and variance accounts, unlike US standards. Instead, individual accounts should be assessed under the International Accounting Standards Board’s Conceptual Framework to determine if they meet the definition of an asset or a liability.

However, in July 2009, the International Accounting Standards Board (IASB) is expected to issue an Exposure Draft on Rate-regulated Operations, which if issued as a standard would allow recognition of these deferral and variance accounts under certain circumstances. There are a number of steps for the Exposure Draft to go through before it becomes a Standard, as illustrated in the following table. The publication of the final standard is not expected until June 2010, and until that time any of the recommendations included in preliminary discussions or drafts will be subject to change.

**Table 2. Project Milestones**

<table>
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<tr>
<td>April 2009</td>
<td>Major decisions finalised</td>
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<td>May 2009</td>
<td>Pre-ballot draft provided to Board members</td>
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<tr>
<td>June 2009</td>
<td>Board meeting to discuss remaining technical issues and any other sweep issues</td>
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<tr>
<td>July 2009</td>
<td>Publication of Exposure Draft with 120-day comment period</td>
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<td>November 2009</td>
<td>Comment Letter due date</td>
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<tr>
<td>January 2010</td>
<td>Begin re-deliberation of Comment Letter analysis</td>
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<tr>
<td>June 2010</td>
<td>Publication of final standard</td>
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<td>January 2011</td>
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The Exposure Draft would be confined to those rate-regulated entities that meet the following criteria:

(a) Where an authorized body is empowered to establish rates that bind customers;

(b) Where the rate regulation takes the form of cost-of-service regulation.

Further, for a cost to be included in the determination of rates, it must be “allowable”. Allowable costs are usually defined as actual or estimated costs for which revenue is intended to provide recovery. Allowable costs include interest costs and a reasonable return on shareholders’ investments (Allowance for Funds Used During Construction).

At the Board meeting in April, the Board discussed recognition and measurement, presentation and disclosure and additional scope issues of this project. The following is an extract of the meeting summary from the IASB website.

“Recognition and measurement

The Board tentatively decided that assets and liabilities recognized as a result of rate regulation should be excluded from the scope of IAS 38 Intangible Assets and IAS 37 Provisions, Contingent Liabilities and Contingent Assets respectively. Once the entity has determined that its activities are in the scope of the project, the effects of rate regulation should be recognized, therefore there is no requirement for specific recognition criteria.

The Board decided tentatively that a probability-weighted average of possible future cash flows should be used to measure assets and liabilities recognized as a result of rate regulation both on initial recognition and at each subsequent reporting date.
Presentation and disclosure

The Board decided tentatively that regulatory assets and liabilities should not be offset in the statement of financial position. Additionally, when an entity presents a classified statement of financial position, it should distinguish between current and non-current assets and liabilities recognized as a result of rate regulation.

Additional scope considerations

The Board agreed tentatively with the staff recommendation that the standard should include guidance on the application of the scope criteria.”
3.0 Property, Plant and Equipment - Valuation (updated 30 April 2009)

Amounts recognized as Property, Plant and Equipment (PP&E) under IFRS can differ from current Canadian GAAP both at the time of initial adoption and after transition to IFRS.

3.1 Initial Adoption of IFRS

*Based on standards issued as of: April 30, 2009*

*Exposure Draft Additional Exemptions for First-time Adopters issued: September 2008*

*IFRS 1 final amendments expected: Q3 2009*

First time adoption of IFRS generally requires that a company restate its results as if IFRS accounting policies have always been applied (IFRS 1.10, IFRS 1.11). For most utilities that have been providing service to customers for many years, it would be an extremely costly and time-consuming, if not impossible, task to restate as many as fifty or sixty years of transactions to be compliant with IFRS. For this reason, there are exemptions to this requirement under IFRS 1, specifically for items of PP&E:

(a) On transition to IFRS, a utility may elect to measure PP&E at its fair value and use that as its deemed cost (IFRS 1.30, IFRS 1 D5).

(b) A proposed exemption, that a rate regulated utility may use historical carrying value of property, plant and equipment as its deemed cost on transition, if it is impracticable to determine the fair value or to restate historical costs for IFRS. This exemption may be extended to apply to those intangible assets that had been classified as PP&E prior to adoption of the IFRS-compliant Handbook Section 3064. (Exposure Draft issued September 2008 Additional Exemptions for First-time Adopters)
Table 3. On Transition PP&E: Alternatives and Implications

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Implications for Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Historical Cost</td>
<td>No conversion activities necessary</td>
</tr>
<tr>
<td>2</td>
<td>Availability dependent on meeting the requirements of the final</td>
</tr>
<tr>
<td></td>
<td>IFRS 1 exemption which is not yet approved</td>
</tr>
<tr>
<td>3 Retrospective Restatement</td>
<td>Significant time and effort required to identify and</td>
</tr>
<tr>
<td></td>
<td>segregate the non-compliant historical costs</td>
</tr>
<tr>
<td>4</td>
<td>Transition differences to be addressed</td>
</tr>
<tr>
<td>5 Fair Value</td>
<td>Significant time and effort required to determine fair value</td>
</tr>
<tr>
<td>6</td>
<td>Transition difference to be addressed</td>
</tr>
</tbody>
</table>

Although most utilities would elect to use historical carrying value as deemed cost on transition if possible, the current wording of the proposed exemption is problematic. Comments have been provided back to the standard setters on two issues. One is to seek clarification of the word “impracticable” and the other is to determine if the proposed exemption would extend to items that were previously recognized as PP&E under Canadian GAAP but have since been classified as Intangible Assets (items such as computer software, rights of way).

On transition utilities will be required to perform an impairment test and record any impairment losses that may exist at that date.

3.2 After Transition to IFRS

3.2.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Under Canadian GAAP, PP&E is recorded based on actual historical costs (CICA 3061.16), which at any point in time represents many years of capitalized costs and applied depreciation policies.

3.2.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*
Under IFRS, a company has the option of choosing either the cost model or the revaluation model for valuation of property, plant and equipment (IAS 16.29). Under the cost model, PP&E is carried at cost less accumulated depreciation and accumulated impairment losses. Under the revaluation model, where the fair value of PP&E can be measured reliably, that item can be carried at fair value less any subsequent accumulated depreciation. The appropriate method of measuring fair value may require the use of professionally qualified valuators.

Table 4. PP&E Valuation: Alternatives and Implications

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Implications for Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cost model</td>
<td>Status quo</td>
</tr>
<tr>
<td>2 Fair value model</td>
<td>Effort to maintain and update fair value records</td>
</tr>
<tr>
<td>3</td>
<td>Difficulties in determining fair value</td>
</tr>
<tr>
<td>4</td>
<td>Increased volatility in rate base and reported earnings</td>
</tr>
<tr>
<td>5</td>
<td>Possible multiple sets of books</td>
</tr>
</tbody>
</table>
4.0 Property, Plant and Equipment - Capitalization (updated 30 April 2009)

4.1 Capitalization of Overhead Costs

4.1.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Currently, utilities report PP&E based on cost plus an element of general and administrative expenses (CICA 3061.20), some of which is applied to PP&E through an overhead capitalization rate, and some of which is directly charged to capital through internal accounting processes.

4.1.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009

In the future, IFRS requires that additions to PP&E continue to be recorded at cost, but has further defined cost to include only items that are directly attributable to the asset (IAS 16.16b). Therefore, costs related to administration and general overhead would be excluded (IAS 16.19d).

Utilities will be required to evaluate all costs that are currently capitalized to determine if they meet the definition of “directly attributable”.

4.2 Capitalization of Borrowing Costs

4.2.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Under current GAAP, carrying costs, such as interest, that are directly attributable to the construction of an asset may be capitalized (Interest During Construction or IDC) (CICA 3061.23). Utilities are alternatively allowed to capitalize an allowance for funds used during construction (AFUDC) (CICA 3061.23).
4.2.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009

Under IFRS, borrowing costs that are incurred in relation to an asset that takes a substantial period of time to get ready for use, are required to be capitalized (substantial period of time being a subjective definition and will likely vary across utilities) (IAS 23.8). AFUDC is not allowed to be capitalized, since it contains an equity component (IAS 23.6). However, it appears that AFUDC may be allowed to be recognized under the proposed Exposure Draft on Rate-regulated Operations.

4.3 Other Capitalization Differences

Canadian GAAP allows judgment and policy choices in the capitalization of certain costs. In contrast, IFRS is more explicit and specifically requires the capitalization of a number of other items, which include:

(a) Capitalization of depreciation on assets used in construction (IAS 16.49);

(b) Capitalization of the current service cost component of pensions and employee future benefits (IAS 16.17a);

(c) The point where capitalization stops, being when an asset is available for use rather than put into use (IAS 16.55). See section 7.2(a) for further details on commencement of depreciation, definition of available for use, and additions to plant.
5.0 Property, Plant and Equipment - Other Items (updated 30 April 2009)

There are a number of aspects of PP&E that are afforded different treatment under IFRS than under Canadian GAAP. These primary differences are:

(a) Gains and losses on disposal of assets;

(b) Customer contributions;

(c) Asset retirement obligations.

5.1 Gains and Losses on Disposal of Assets

5.1.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Under Canadian GAAP, rate-regulated utilities are allowed to defer any gain or loss arising on disposal of assets if it is to be considered in the determination of future rates charged to customers. The gain or loss is deferred, either through accumulated depreciation or a deferral account, and not immediately recognized in the income statement (CICA 3475.26).

5.1.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009

IFRS requires that gains and losses on disposal of assets be recognized immediately in income, and cannot be charged or credited to accumulated depreciation for recovery in future depreciation rates (IAS 16.68).
5.2 Customer Contributions

5.2.1 Canadian GAAP

Utilities in British Columbia show contributions in aid of construction as contra assets (a credit to PP&E) or as a deferred credit, and amortize them as a reduction of depreciation over the life of the related item of PP&E.

5.2.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009

Under IFRS, the customer contribution received is recognized as revenue in accordance with the obligation to the customer that underlies that transaction (IFRIC 18.13). The contribution is recognized as revenue either immediately or over a period of time such as a contract period or the life of the underlying asset (IFRIC 18.18 – 18.20). Contributions not yet recognized as revenue are shown as liabilities (IAS 18.13).

5.3 Asset Retirement Obligations

5.3.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Under Canadian GAAP, an asset retirement obligation is recorded if a utility has a legal obligation to incur an expenditure in the future associated with the retirement of an asset currently in use (CICA 3110.03a).

5.3.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009
Exposure Draft Liabilities issued: June 2005
Liabilities final amendments expected: Q4 2009

Under IFRS, asset retirement obligations (decommissioning and restoration obligations) are recognized for both legal and constructive obligations at the best estimate to settle the present obligation (IAS 37.25). Further information on the
recognition and measurement of these obligations is contained in Section 6,
Provisions, Legal and Constructive Obligations.
6.0 Provisions, Legal and Constructive Obligations (updated 30 April 2009)

6.1 Legal and Constructive Obligations

6.1.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Under Canadian GAAP, liabilities arise from predominantly legal or constructive obligations. These may relate to contractual arrangements, those derived from legal or statutory requirements, or inferred from the facts in a particular situation (CICA 1000.34).

6.1.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*

Exposure Draft Liabilities issued: June 2005

Liabilities final amendments expected: Q4 2009

Under IFRS, liabilities can also arise from legal and also constructive obligations (IAS 37.14a). Constructive obligations arise where through an established pattern of past practice, policy, or specific statement, an entity has indicated to other parties that it will accept certain responsibilities (IAS 37.10). If a valid expectation is created whereby other parties expect the entity to discharge these responsibilities, then a liability will need to be recognized. IFRS also distinguishes a provision from other liabilities such as trade payables and accruals. The difference is related to the existence of uncertainty about the timing or amount of the future expenditure required to settlement of a provision (IAS 37.11). The concept of provisions under IFRS encompasses a wider range of circumstances that require recognition of liabilities than Canadian GAAP.

IFRS also discusses the concept of an onerous contract. These are arrangements where the unavoidable costs of meeting an obligation under the contract exceed the economic benefits to be received under it (IAS 37.10). For example, a Company is leasing an office building and decides to relocate to a new building. The lease on the
old office building continues for the next four years and it cannot be cancelled and
the Company cannot sublet it to another user. In this case a provision is recognized
for the best estimate of the unavoidable lease payments.

These concepts of provisions and onerous contracts may potentially result in
additional liabilities being recognized under IFRS.

6.2 Criteria for Recognizing a Provision

6.2.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Under Canadian GAAP, the probability threshold for recognizing a liability is whether
the underlying event giving rise to the liability is likely to occur (CICA 3290.09)
(commonly interpreted as 70% or greater).

6.2.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009
Exposure Draft Liabilities issued: June 2005
Liabilities final amendments expected: Q4 2009*

Under IFRS, the probability threshold for recognizing a liability or provision is
whether the underlying event giving rise to the liability or provision is probable (IAS
37.14b) (commonly interpreted as greater than 50%) (IAS 37.23).

This is noticeably lower than the “likely” threshold under Canadian GAAP and could
lead to additional provisions being recognized under IFRS.

6.3 Measurement of a Provision

6.3.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Under Canadian GAAP, liabilities are to be measured at management’s best estimate
to settle. For contingent liabilities, a reasonable estimate is based on the most likely
outcome of the ultimate loss. If no estimate is more likely than any other, then the
low end of the range is used for estimating the potential loss (CICA 3290.13).

6.3.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009
Exposure Draft Liabilities issued: June 2005
Liabilities final amendments expected: Q4 2009

Under IFRS, liabilities and provisions are also measured at management’s best
estimate to settle (IAS 37.36). Estimates subject to a range of possibilities are derived
on an expected value basis. If no estimate is more likely than any other, then the
mid-point of the range is used for estimating the potential loss (IAS 37.40). Under
IFRS, the presumption that an estimate cannot be made is expected in only
extremely rare circumstances (IAS 37.26).

As indicated in the timetable in Section 1.3, the IFRS standard on Liabilities is
expected to be revised in the next two years.
7.0 Depreciation (updated 30 April 2009)

7.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Depreciation under Canadian GAAP follows these guidelines:

(a) Depreciation must be recognized in a rational and systematic manner over the estimated useful life of the asset (CICA 3061.28);

(b) Depreciation is allocated to the periods of service of an asset (CICA 3061.29). Canadian GAAP does not provide guidance on when the “period of service” begins to commence depreciation, however, a common policy choice is to commence depreciation on an asset when it is placed into service or is in use;

(c) The depreciation methods and estimates of the life and useful life are reviewed on a regular basis (CICA 3061.33), however, Canadian GAAP does not specify the frequency of a “regular basis”;

(d) If an item of PP&E is made up of significant separable component parts, its cost must be allocated to the parts when practicable and when estimates can be made of the lives of the separate components (CICA 3061.30);

(e) Common practice to group assets and amortize them such that the combined cost of the assets is amortized over their estimated useful life (group depreciation method) (CICA 3061.31).

7.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*

IFRS requirements are largely the same as Canadian GAAP requirements, with the following exceptions:
(a) IFRS specifically requires that depreciation of assets, including spare parts, commences when the asset is available for use rather than put in use, “Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.” (IAS 16.55). Once an asset is determined to be available for use, capitalization of costs ceases (see also 4.3(c) above), the asset is added to plant, and depreciation commences;

(b) Reviews of depreciation methods and estimates are to be conducted at each financial year end, at a minimum (IAS 16.61);

(c) IFRS does indicate that where a significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item, such parts may be grouped in determining the depreciation charge (IAS 16.45). However, common group accounting practices employed by utilities will need to be reviewed to determine if they comply with IFRS.

The major differences in IFRS are that accounting for components is more vigorously followed than under Canadian GAAP, and that non-physical components of assets are also recognized.

(a) To the extent asset classes include components with different lives that would materially impact depreciation, these components must be separately depreciated (IAS 16.43). This requirement will require utilities to analyze each asset class and determine if further componentization is required, and may lead to additional asset classes that do not currently exist;

(b) The recognition of both physical and non-physical components means that costs of major overhauls (IAS 16.13) or inspections (IAS 16.14) embodied in a capital asset may need to be split out and depreciated over a shorter period of
life than the actual physical asset. Under Canadian GAAP, these costs would
have been expensed as incurred.
8.0 Income Taxes (updated 30 April 2009)

8.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Currently, utilities in British Columbia that are taxable use the taxes payable (flow-through) method to calculate income tax for regulatory purposes, under which income tax expense is recognized only for taxes that are currently payable to Federal and Provincial governments. In addition, many utilities treat their deferral accounts in their regulatory records on a net-of-tax basis, to allow for differences in the timing of income taxes payable or receivable in rate-setting.

Although the taxes payable method is used for regulatory purposes, Canadian GAAP requires taxes to be recorded using the liability method, which includes the recognition of future income tax expense (CICA 3465.102). To reconcile the differences between the liability method and the taxes payable method, there is a second step permitted under Canadian GAAP. This second step requires the utility to assess whether future income taxes may be expected to be recovered from future customers, and where this is true, to recognize an asset for that expected future revenue (CICA 3465.103).

8.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009
Exposure Draft on Income Taxes issued: March 2009
Income Taxes final amendments expected: During 2010

Although IFRS is largely consistent with Canadian GAAP, the second step of recording a regulated future income tax asset or liability is not permitted in the IFRS section on income taxes (IAS 12.15). However, depending on the outcome of the proposed Exposure Draft on Rate-regulated Operations, to the extent this resulting asset or liability meets the recognition criteria under the new standard, the current treatment may continue.
As indicated in the table in Section 1.3, the IFRS standard on Income Taxes is expected to be revised in the next two years.
9.0  Pension and Employee Future Benefit Costs (updated 30 April 2009)

There are a number of differences that will result from adopting IFRS for defined

benefit plans. A number of components that make up the cost of defined benefit

plans, described under Sections 9.2 to 9.4 below, may be recognized on a different

basis than under Canadian GAAP. As indicated in Table 1 in Section 1.3, the standard

on Pension and Employee Future Benefit Costs is expected to be revised in the next
two years.

9.1  Initial Adoption of IFRS

Based on standards issued as of: April 30, 2009

On transition, utilities may choose to recalculate historical amounts following
International Financial Reporting Standards, or they may make a one-time choice to
recognize all cumulative actuarial gains and losses not previously recognized in the
financial statements as part of the pension asset or liability, with an offsetting entry
to retained earnings (IFRS 1 D10).

Table 5. On Transition Pension and Employee Future Benefit Costs:
Alternatives and Implications

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Implications for Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Restatement of historical amounts under IFRS</td>
<td>Significant time and effort required to identify and</td>
</tr>
<tr>
<td></td>
<td>segregate the non-compliant historical costs</td>
</tr>
<tr>
<td>2</td>
<td>Information may not be available for accurate</td>
</tr>
<tr>
<td></td>
<td>restatement</td>
</tr>
<tr>
<td>3</td>
<td>Transition differences to be addressed</td>
</tr>
<tr>
<td>4 Recognize cumulative gains and losses as a</td>
<td>Transitional retained earnings difference to be</td>
</tr>
<tr>
<td>one-time entry</td>
<td>addressed</td>
</tr>
</tbody>
</table>


9.2 Actuarial Gains and Losses

9.2.1 Canadian GAAP

Based on standards issued as of: April 30, 2009

Currently, utilities have a choice in recording actuarial gains and losses. They can be recorded in income immediately (CICA 3461.087), or amortized to income using the corridor method whereby gains and losses are recorded in income on a systematic basis with a minimum amount being amortized in any one year (CICA 3461.088).

9.2.2 International Financial Reporting Standards

Based on standards issued as of: April 30, 2009

Exposure Draft Post-employment Benefits expected: Q3 2009

Post-employment Benefits final amendments expected: During 2011

Under IFRS, utilities will have an additional choice in recording actuarial gains and losses. They may be recorded:

(a) In income immediately (IAS 19.95) or on an accelerated basis (IAS 19.93);

(b) Amortized to income using the corridor method (IAS 19.92);

(c) In equity immediately (additional choice under IFRS) (IAS 19.93A).

A proposed change to the pension and future benefit cost standard may eliminate the option of using the corridor method. Transitional impacts resulting in increased volatility in income or equity will need to be addressed. See transition rules in section 9.1.
Table 6. Actual Gains or Losses: Alternatives and Implications

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Implications for Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Income</td>
<td>Increased volatility in income</td>
</tr>
<tr>
<td>(immediate or accelerated)</td>
<td></td>
</tr>
<tr>
<td>2 Corridor Method</td>
<td>Impacts of gains and losses are smoothed into income</td>
</tr>
<tr>
<td>3</td>
<td>May not be available in future</td>
</tr>
<tr>
<td>4 Equity</td>
<td>Increased volatility in equity</td>
</tr>
</tbody>
</table>

9.3 Past Service Costs

9.3.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Canadian GAAP allows past service costs to be recognized over the remaining service life of the employee group (CICA 3461.079).

9.3.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*

*Exposure Draft Post-employment Benefits expected: Q3 2009*

*Post-employment Benefits final amendments expected: During 2011*

Under IFRS, past service costs must be amortized over the vesting period (when the employee’s right to receive the benefit is not conditional on continued employment) (IAS 19.96). In the majority of cases, past service costs would be already vested and would therefore be recognized immediately in income.

9.4 Return on Plan Assets

9.4.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

Canadian GAAP allows the return on plan assets to be estimated at either fair value or a market-related value (value over a period not exceeding five years) (CICA
3461.067). A market-related value dampens the impact of the volatility of actuarial gains and losses on the return on plan assets.

### 9.4.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*

Exposure Draft Post-employment Benefits expected: Q3 2009

*Post-employment Benefits final amendments expected: During 2011*

Under IFRS, the expected return on plan assets must be estimated using the fair value of assets at the beginning of the period to record investment income which forms part of the pension and employee future benefit expense (IAS 19.106). The use of fair value increases the volatility of actuarial gains and losses on the return on plan assets.

### 9.5 Measurement Date

#### 9.5.1 Canadian GAAP

*Based on standards issued as of: April 30, 2009*

For a defined benefit plan, plan assets and the accrued benefit obligation should be measured as of the balance sheet date, except that they may be measured as of a date not more than three months prior to that date provided the entity adopts this practice consistently from year to year (CICA 3461.044).

#### 9.5.2 International Financial Reporting Standards

*Based on standards issued as of: April 30, 2009*

Exposure Draft Post-employment Benefits expected: Q3 2009

*Post-employment Benefits final amendments expected: During 2011*

Under IFRS, entities should measure the present value of defined benefit obligations, and the fair value of any plan assets, at the balance sheet date. For entities not measuring defined benefit plans at the balance sheet date, the measurement date would need to be changed which could result in an increase in pension expense or “a charge to equity” in the year of the change (IAS 19.56 & 57 and IAS 19.BC15).
9.6 Summary of Pensions and Employee Future Benefits

These changes to the recognition of pensions and employee future benefits may result in the pension and employee future benefit expenses being more volatile depending on the alternatives chosen for the recognition of actuarial gains and losses.
10.0 Conclusion

This document has summarized those differences between Canadian GAAP and IFRS that have been identified by the Utilities IFRS Working Group as having the most significant impacts on regulatory accounting and rate making. Although this summary may be referred to by the utilities in their various filings and related discussions on IFRS accounting impacts, how the changes will be implemented in the utilities’ financial records and rate filings will be discussed in their individual applications to the Commission.
Plan for Benchmarking Policy Choices with other Canadian Utilities
Benchmarking Policy Choices with other Canadian Utilities

BC Hydro collaborates with other Canadian utilities in three forums:

- A peer-utility group which includes senior accounting and regulatory representatives from each of the BCUC-regulated energy utilities; and
- The Canadian Electrical Association Accounting group subcommittee on IFRS issues.
- The E&Y Community of Interest for Utilities, a group of major utilities across Canada that meets quarterly by video conference to share common issues and challenges.

Through these collaborations, BC Hydro initiated an informal survey of significant accounting policy choices or interpretations under IFRS. BC Hydro intends to use this information to assess the reasonableness of its policy choices and IFRS interpretations. Further information regarding the potential impacts of and rationale for BC Hydro’s policy choices is provided in Appendix D.

Please note that survey results must be considered only preliminary or incomplete because IFRS assessments at each entity are still underway. It is anticipated that most entities will review and possibly revise policy choices that may be influenced by the continuation of regulatory accounting (to be addressed by an Exposure Draft at the end of July 2009) as well as an Exposure Draft related to Employee Benefits in late 2009.

BC Hydro has not requested or obtained authorization to distribute information related to each participant’s policy choices or interpretations; therefore, this report provides only general observations.

The survey included the following 11 participants: BC Hydro, BCTC, Terasen, Fortis BC, Pacific Northern Gas, Fortis Inc, Fortis Alberta Inc, AltaLink LP, NB Power, SaskPower, and Hydro Quebec.

The topic areas covered included (with International Accounting Standard references in brackets):

1. Property, Plant & Equipment (IAS 16)
2. Intangible Assets (IAS 38)
3. Impairment (IAS 36)
4. Asset Retirement Obligations (IAS 37)
5. Provisions and Contingent Liabilities (IAS 37)
6. Employee Benefits (IAS 19)
7. Financial Instruments (IFRS 7, IAS 39)
8. Leases (IAS 17, IFRIC 4)
9. Revenue Recognition (IAS 18)
10. Transfer of Assets From Customers (IFRIC 18)
11. Presentation and Disclosure (IAS 1)
12. Related Parties (IAS 24)
13. IFRS Adoption (IFRS 1)
14. Regulatory Accounting (no current standard)

1. Property, Plant & Equipment (PPE) (IAS 16):

Changes in accounting for PPE will drive some of the most significant impacts for Canadian utilities. Generally, the impacts relate to the following:

a. Options for valuation/measurement at the IFRS transition date
b. Componentization
c. Depreciation methods
d. Mass asset retirements
e. Capitalization of overheads and borrowing costs
f. Capital asset in-service date
g. Inspection and overhaul costs

a. Options for valuation at the IFRS transition date and subsequent periods

- Options for measurement at the transition date are
  1. Reconstructing historical cost, and derecognizing historical amounts capitalized that no longer qualify;
  2. Using fair value as deemed cost; or
  3. Electing to use the proposed IFRS 1 exemption (if approved) to use the pre-IFRS conversion carrying cost as deemed cost.

- Most utilities expect the IFRS 1 exemption to be available, and plan to use it. Options 1 or 2 are generally considered only when Option 3 is viewed as not available, with a slight preference for Option 1.

**BC Hydro intends to follow Option 3 at IFRS transition, if it is available, or Option 2 if it is not. Option 1 is not possible for BC Hydro.**

- Options for valuation for subsequent measurement of PPE include the cost method and periodic revaluation.

- Participants generally expect to use the cost method.

**BC Hydro intends to use the cost method.**

b. Componentization

- Componentization generally requires that each part of an item of PPE with a cost significant in relation to the total cost of that item shall be treated separately; therefore, sufficient componentization of assets is required.

- Utilities generally follow a component approach under Canadian GAAP. Under IFRS, it is expected that some further componentization (i.e., new asset categories) will be required but the extent is generally not that significant.
BC Hydro expects that it will require a small number of new components, mainly related to real property and generation assets.

c. Depreciation methods

- IFRS requires that the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed.

- Impacts are expected to be mixed. Some participants do not expect significant impacts while others believe that methods used, or that service lives used for regulatory purposes may not qualify under IFRS.

BC Hydro expects that the current depreciation methods will continue to be acceptable.

d. Mass asset retirements

- IFRS will require that retirements of these assets be reflected as a gain or loss at the time of retirement. Many utilities do not reflect the gains or losses in earnings but rather as adjustments of accumulated depreciation or, otherwise, are not included in earnings.

- Participants generally expect that this change will result in impacts to earnings.

BC Hydro does not currently reflect gains and losses relate to retirements of mass assets. New methods and processes are under development to facilitate recording of mass asset retirements.

e. Capitalization of overheads/support costs and borrowing costs

- Capitalization of costs under IFRS will be significantly impacted compared to current Canadian GAAP, inclusive of regulatory accounting practices. This area will need to be revisited, with significant scope for change depending on the final decisions regarding regulatory accounting which is expected in late-July 2009.

- Under IFRS, only directly attributable costs can be capitalized. Participants generally expect that this will result in less costs being eligible for assignment to capital work. Many participants are currently investigating this issue, including discussions with their auditors regarding the interpretation of “directly attributable.”

BC Hydro expects that this change will result in a significant reduction of support costs that currently are assigned to capital. This expectation may change based on the regulatory accounting exposure draft.

- Under IFRS, qualifying projects - defined as projects that take a “substantial period of time” to complete - attract capitalization of borrowing costs. “Substantial period of time” is not defined so must be determined by management. Most participants are still reviewing this issue, and the major accounting firms that act as IFRS advisors do not necessarily have a common interpretation. Participants have noted periods ranging from one month to one year as reflective of a “substantial period of time.”
BC Hydro has not yet resolved the time period to be applied; however, BC Hydro’s auditor has suggested a reasonable interpretation is “in excess of six months.” This will result in a reduction of interest capitalized to construction.

- Participants are still reviewing the methodology to be applied in establishing a rate to be used to calculate interest during construction. A number of participants also noted a potential need to discontinue use of AFUDC under IFRS.

**BC Hydro is currently investigating whether a change in the method of determining the interest rate is required; however, it will continue to apply interest during construction.**

f. Capital asset in-service date

- Under IFRS, capitalization of cost ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

- Participants did not note major issues but in some cases identified the potential that certain trailing costs may no longer be eligible for capitalization under IFRS.

**BC Hydro generally places assets in-service for the same month that would be required under IFRS. However, in some cases, the in-service date may currently allow for trailing costs. BC Hydro is currently assessing whether the trailing costs must be expensed under IFRS rather than capitalized.**

g. Major Inspection and overhaul costs

- Major asset inspection and overhaul costs that are expensed under Canadian GAAP will be capitalized under IFRS.

- Participants will continue to expense minor inspections and overhauls. Many participants anticipate the need to establish new components, and related new business processes to identify these activities so they can be accounted for correctly under IFRS.

**BC Hydro anticipates that it will need to establish new components for major inspection and overhaul activities, mainly related to its generation assets.**

Intangible Assets (IAS 38):

IAS 38 prescribes the separate identification of intangible assets from PPE. Canadian GAAP is requiring a similar change effective for years commencing in calendar 2009.

Virtually all of the participants have already adopted this change for their current fiscal year.

**BC Hydro adopted this change effective for the first quarter of F2010.**

2. Impairment (IAS 36)

IAS 36 requires the evaluation for impairments occur at the level identified as a cash generating unit (CGU). Generally, entities with a greater number of distinct cash generating units would have a greater likelihood of needing to record a charge for impairment. Most participants identified that their operations represent a single CGU.
BC Hydro has defined its operations as a single CGU, except for those subsidiaries (Powerex and Powertech) that generate independent cash flows.

3. Asset Retirement Obligations (AROs) (IAS 37)

Under IFRS, asset retirement obligations should be identified under the criteria used for Provisions. This differs from the methods that would be applied under Canadian GAAP which generally requires that AROs would be recorded only if a legal obligation exists. Most participants are still assessing this issue but do not anticipate that new AROs will be identified.

**BC Hydro’s preliminary assessment has not identified any new AROs.**

4. Provisions and Contingent Liabilities (IAS 37)

The threshold for recognizing provisions is generally lower under IFRS compared to Canadian GAAP, which may lead to more provisions being recognized under IFRS. For example, IFRS introduces the notion of a constructive obligation and how it may lead to the recognition of a provision.

For measuring provisions, IFRS is more specific than GAAP in providing guidance to estimate an exposure. Where multiple expected outcomes exist, provisions are measured at the mid-point of the range of outcomes anticipated. For provisions of a long-term nature, such amounts will be discounted using a pre-tax rate that reflects the current market assessment of the time value of money (i.e., the rate may change over time, resulting in re-measurement of the provision). This should be reviewed at the end of each reporting period.

- Many of the participants identified the need to establish a definition for how a constructive obligation may be created. This may include a need to consider internal policies regarding public statements, as well as key individuals who may be capable of committing the company to a constructive obligation.

- Most participants are still evaluating this issue, as well as the process for determining the discount rate to be used for ongoing re-measurement of provisions.

**BC Hydro is still assessing this issue, including the impact of public statements. It is also assessing the methods to be used for identifying and measuring its provisions.**

5. Employee Benefits (IAS 19)

IAS 19 will potentially have significant impacts for entities which provide pensions or other post-employments benefits. Significant changes at the transition date and post-conversion include:

- At the transition date, entities may elect (under IFRS 1) to write-off the unamortized actuarial gains and losses. Under Canadian GAAP, these amounts are amortized over the expected average remaining service life of the employee group at the date the amount is measured.
• Post-implementation, there are three potential methods for recognizing actuarial gains and losses. These are:
  1. A corridor approach;
  2. Accelerated/immediate recognition in profit and loss; and
  3. Immediate recognition in equity.

• This area will need to be revisited in late 2009 when a new exposure draft related to Employee Benefits is expected. For the treatment of actuarial gains and losses, it is not clear whether the first option, identified above, will still be allowed.

• Most participants indicated that they would elect (under IFRS 1) to write-off unamortized actuarial gains and losses at the transition date.

• There was no clear preference for either Option 2 or 3 to account for the ongoing actuarial gains and losses.

BC Hydro expects to write off unamortized actuarial gains and losses at the transition date using the election allowed under IFRS 1. BC Hydro has an initial preference to charge any ongoing actuarial gains and losses to equity; however, this election will be reviewed further depending on the recommendations in the Exposure Drafts related to Regulatory Accounting (July 2009) and Employee Benefits (late 2009). BC Hydro intends to pursue a regulatory mechanism to recover any amounts that are charged directly to equity at the transition date. Any ongoing actuarial gains and losses, once finalized, will likely require a regulatory accounting mechanism to allow for recovery of these costs while managing the impact on rates.

6. Financial Instruments (IFRS 7, IAS 39)

The accounting for financial instruments has previously been significantly revised under Canadian GAAP, and this reduces the level of change expected under IFRS.

Similar to BC Hydro, most participants do not currently anticipate significant accounting changes. BC Hydro anticipates that administration for certain transactions that use hedge accounting will increase, although accounting impacts for such transactions are not expected to be material.

7. Leases (IAS 17, IFRIC 4)

• Under IFRS, there will be changes in the calculation of the value of finance lease liabilities with respect to the discount rate used and the definition of minimum lease payments. In addition, the application of IFRIC 4 criteria may result in the identification of arrangements containing embedded leases.

• Most participants identified a need to establish new procedures for identification and assessment of lease arrangements. In addition, some participants identified the potential that existing power purchase agreements may be considered leases when assessed under IFRIC 4 criteria.
BC Hydro will establish new procedures to facilitate the lease evaluation process that incorporate the specific criteria outlined in IAS 17. Based on preliminary analysis, there is significant potential that some of BC Hydro’s power purchase agreements will be considered to contain embedded leases.

8. Revenue Recognition (IAS 18)

Under IFRS, there may be changes in the timing of recognition of insurance proceeds related to damage to assets.

Similar to BC Hydro, participants identified the need to update company policy to reflect the new requirement but did not otherwise identify significant issues.

9. Transfer of Assets from Customers (IFRIC 18)

IFRIC 18 is applicable with respect to the assessment of contributions in aid of construction (CIAC). The new standard may influence the accounting classification of the amounts received, the amortization period, and how the amounts are recognized in earnings.

- Most participants identified that CIAC are currently being recorded as a contra to the related PPE balances. Participants now expect that these amounts will be included as deferred revenue under IFRS.

- Most participants identified the need to consider if the amortization period for these amounts will change; that is, whether they will continue to be amortized over the life of the related asset.

BC Hydro is still assessing this issue but expects that CIAC will be classified as deferred revenue. It is expected that such amounts will be recognized as revenue rather than as a reduction of depreciation, and that the item will generally be recognized more quickly than it is now, either immediately or over time based on a period established under an agreement with the customer, but not greater than the life of the asset.

10. Presentation and Disclosure (IAS 1)

- Most participants intend to issue a single statement that incorporates net income and comprehensive income, rather than separate statements of income and comprehensive income.

- Most participants intend to present a “nature” view rather than a “function” view of expenses. It was noted that there is not necessarily a common understanding among participants of which items would be disclosed when reporting a “nature” view.

BC Hydro intends to prepare a combined statement of income and comprehensive income, and to report using a “nature” view of expenses in the income statement.

11. Related Parties (IAS 24)

Under IFRS, there may be new disclosure related to transactions with related parties. Most participants identified a need to identify which individuals would be considered key
management personnel. Most participants also identified the need for additional
disclosure relating to management compensation, but that the specific related party
disclosure requirements have not yet been fully assessed.

The above comments also apply to BC Hydro.

12. IFRS 1

IFRS 1 provides a number of optional exemptions with respect to the initial adoption of
IFRS. Some of those options have previously been identified in the sections related to
PPE (fair value versus deemed cost) and Employee Benefits (treatment of unamortized
actuarial gains and losses).

The remaining items were identified by most participants as “not applicable.”

13. Regulatory Accounting (no current standard)

It is anticipated that the IASB will issue an Exposure Draft in July 2009 that will consider
whether regulatory accounting is appropriate under IFRS. This issue is of considerable
interest to most of the participants in the BC Hydro survey. It is noted that most
participants will wait for the Exposure Draft before expending significant effort to
determine whether regulatory assets and liabilities can be recognized as assets or
liabilities under the current IFRS Framework.

BC Hydro will assess this issue further when the Exposure Draft is issued. It is
planned that BC Hydro’s implementation of the SAP Financials system will
support separate ledgers for regulatory and external reporting if IFRS does not
allow regulatory accounting.