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BY COURIER

May 31, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Ms. Walli

EB-2011-0215 – Hydro One Networks’ 2012-2013 Electricity Distribution Revenue Requirements – US GAAP Considerations

Further to my letter of April 29, 2011 regarding Hydro One Networks Inc.’s (Hydro One) intention to file a two-year Distribution Cost of Service Rate Application in late 2011, I am writing to provide the Ontario Energy Board (the Board) with advance notice that Hydro One is evaluating the option of adopting U.S. Generally Accepted Accounting Principles (US GAAP) in lieu of IFRS. If Hydro One decides to proceed to adopt US GAAP, and if any application made to the Ontario Securities Commission (“OSC”) is made and approved by the OSC, then Hydro One would file our 2012/13 Distribution Cost of Service Rate Application on a basis that reflects the adoption of US GAAP for rate making and financial reporting purposes beginning in 2012. The context and details are outlined below.

Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will transition to IFRS by January 1, 2012. The adoption of US GAAP for financial reporting purposes in 2012 is anticipated to:

- Provide financial results more reflective of the underlying economic substance of rate regulation as regulatory assets/ liabilities are recognized (whereas under IFRS they are not)
- Make financial reporting more comparable with current results since US GAAP is very similar to CGAAP. This will facilitate investor benchmarking to other large North American utilities.
- Allow increased financing flexibility by making it easier to access the US Dollar debt market as required given Hydro One’s growing capital program.
- Result in the continuation of deferral and variance account recognition. This would include transactions related to items such as incremental IFRS conversion costs

If we were to adopt US GAAP, then in our 2012/13 COS filing we would clearly identify that the basis is US GAAP and provide work program variance analysis on that basis. Our application will identify both continuing and new capital projects such as the Customer Information System and provide evidence supporting the need and benefits of such capital expenditures.

Over the course of the summer we will prepare evidence for the 2012/13 filing. As is our custom we will arrange for stakeholder review sessions at appropriate times during the evidence development process. Also, we anticipate that there may be a need to request interim rates to allow for items such as the continuation of riders associated with Green Energy projects related to Distributed Generation.

If you have any questions regarding this submission please contact Allan Cowan at (416) 345-6219.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

FORWARD-LOOKING STATEMENTS AND INFORMATION

This document contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and include beliefs and assumptions made by the management of our company. Words such as “expect”, “would” and “will” are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. We do not intend, and we disclaim any obligation to update any forward-looking statements, except as required by law.