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BY COURIER

April 16, 2010

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON.
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**EB-2009-0096 – Hydro One Networks 2010 and 2011 Distribution Rate Application –
Hydro One Actions Regarding Variance Accounts and Directives**

The Board decision included a number of specific directions related to studies, variance accounts, and other items requested of the Company. The following provides a summary of the Company's response to these directions:

Studies and Other Board Directions

- i) Hydro One undertakes to complete a study that will investigate the effects of CDM on the Load Forecast. Hydro will file this study as part of its next Cost of Service application.
- ii) Hydro One will track the differences between its annual 2010 and 2011 CDM forecast volumes and the "actual" amount of CDM which can be reasonably demonstrated to have been effected in each of those years. Hydro One will make its best efforts to determine the "actual" CDM impacts resulting from programs initiated by the Company or other agencies such as the OPA, federal and provincial governments, and resulting from conservation actions initiated by its customers on their own.

An analysis similar to that conducted in the report "The Net Load Impact Analysis of Conservation and Demand Management", included in Exhibit H, Tab 12, Schedule 2 will be required to determine the "actual" CDM amounts. Despite the challenge to the assumptions during the hearing process (Transcript Vol. 10, pgs. 13-22), Hydro One believes the analysis used in this report for determining the total CDM impacts is the most appropriate, subject to any modifications that may arise from the CDM study.

- iii) Hydro One will examine potential improvements to its cost allocation methodology to consider VECC identified issues as part of the pre-filed evidence at its next Cost of Service application.
- iv) Hydro One will comply with the Board's prior direction regarding the completion of a Density study giving due regard as to how best to complete the next phase of the study taking into consideration timing, feasibility and cost.

- v) Hydro One will attempt to track, and prepare an analysis of, the dollar value of variances between the Board approved losses recovered in rates and actual line losses commencing January 1, 2010, so that this issue may be further examined by the Board at the Company's next Cost of Service application. Hydro One confirms that the analysis of loss variances will be based on an estimated value of losses determined on a best effort basis.
- vi) Hydro One will inform the Board when it has sufficient information underpinning the need for, and the location of, the express feeders approved by the Board. The Board will then determine when this expansion of Hydro One's distribution system should occur, which the Board may do with or without a hearing.
- vii) Hydro One will identify both the direct and indirect costs of its Green Energy Plan as part of its evidence to be filed in its next distribution Cost of Service application.
- viii) Hydro One will grandfather the time-of-use (TOU) rate structure for Hopper Foundry and will recover the revenue shortfall from its General Service Demand (GSd) billed customers.
- ix) Hydro One will prepare evidence on the revenue to cost ratio for unmetered scattered load (USL) customers for its next cost of service application by treating USL as a separate customer class.
- x) If a sale of the Milton LV assets is not completed in advance of its next cost of service proceeding, Hydro One will come forward at that proceeding with a proposed resolution of this issue.

Accounting for Deferral/Variance Accounts

The Boards' Decision directed the Company to establish a number of deferral/variance accounts and specified the costs that are to be recorded in these accounts. Hydro One will establish these accounts as directed and provides in Attachment 1, the accounting entries that will be used to record the approved deferral/variance accounts.

Sincerely,

Susan Frank

Attach.

c. EB-2009-0096 Intervenor (electronic only)

ACCOUNTING TREATMENT FOR APPROVED DEFERRAL/VARIANCE ACCOUNTS

Express Feeders

Express feeder capital expenditures were approved, provided that construction does not commence until a time mandated by the Board. Expenditures are to be recovered through a rate rider. The revenue requirement amounts for each test year related to the express feeders will be split between Hydro One ratepayers and provincial ratepayers. A variance account will be established to track the difference between actual expenditures and amounts collected through the rate rider. Sub accounts will be established to track the differential for each revenue stream.

Hydro One will track revenue recovered and expenditures incurred related to the subject express feeders. Where expenditures recovered through the rate rider are higher than actual expenditures incurred, the entry will be:

DR. Distribution Services Revenue (4080)

CR. Other Regulatory Liabilities: Sub Account Express Feeders (2405)

Where expenditures recovered through the rider are less than the actual expenditures incurred, the opposite entry would apply.

Smart Grid

The proposed smart grid expenditures were approved. Capital and OM&A expenditures are to be recovered through a rate rider, with a variance account to track the difference between actual expenditures and amounts recovered through the rate rider.

Hydro One will track revenue recovered and expenditures incurred related to smart grid. Where expenditures recovered through the rate rider are higher than actual expenditures incurred, the entry will be:

DR. Distribution Services Revenue (4080)

CR. Other Regulatory Liabilities: Sub Account (2405)

Where expenditures recovered through the rider are less than the actual expenditures incurred, the opposite entry would apply.

Remaining Renewable Generation Expenditures

The Board approved a funding adder for 67% of the remaining (those other than express feeder) expenditures for renewable generation, with actual capital and OM&A expenditures to be captured in deferral accounts.

Hydro One will track OM&A renewable generation connection expenditures in a specific sub-account of USofA 1532 and will track related capital expenditures in a specific sub-account of USof A 1531.

In addition, consistent with the established accounting model used for Smart Meters, Hydro One will track actual adder amounts, both from its own and provincial rate payers, as debits in two separate sub-accounts of USofA 1533. Both of these sub-accounts will be credited with appropriate amounts based on the calculated revenue requirement from these investments.

Hydro One will report its connection cost and related revenue sub-account balances to the Board on a quarterly basis.

OEB Cost Differential Account

The Board approved this account to track the difference between actual costs in 2010 and 2011, and Board-approved amounts for OEB's cost assessments.

Where OEB costs assessments recovered in rates are higher than actual OEB cost assessments, the entry will be:

DR. Distribution Services Revenue (4080)
CR. Other Regulatory Assets (1508): Sub Account OEB Costs

Where OEB cost assessments recovered in rates are less than actual OEB cost assessments, the opposite entry would apply.

Pension Cost Differential Variance Account

The Board approved this account to track the difference between the actual pension costs booked using the actuarial assessment provided by Mercer and the estimated pension costs approved by the Board as part of this filing.

Where pension costs recovered in rates are higher than actual pension costs, the entry will be:

DR. Distribution Services Revenue (4080)
CR. Other Regulatory Assets (1508) - Sub Account Pension Cost Differential

Where pension costs recovered in rates are less than the actual pension costs incurred, the opposite entry would apply.

Impact From Changes in IFRS Account

The Board approved the creation of an IFRS deferral account to capture the aggregate impact of the 2011 revenue requirement resulting from any changes to existing IFRS standards and changes in to the interpretation of such standards.

Hydro One considers the interpretation of such standards to encompass post-submission changes that originate with the IASB, within the accounting profession or from the Board's own clarifications of its EB-2008-0408 Report, "Transition to International Financial Reporting Standards."

Where costs recovered in rates are higher than actual costs, the entry will be:

DR. Distribution Services Revenue (4080)
CR. Other Regulatory Assets (1508): Sub Account Impact for Changes in IFRS

Where costs recovered in rates are less than the actual costs incurred, the opposite entry would apply.

Fixed Charge for Micro-Generators Variance Account

The account is intended to record revenue collected from the new fixed meter charge that will be applied to micro-generators. This revenue will be tracked in a variance account to be refunded in future to customers.

The entry to track the amount owing to customers will be:

DR. Distribution Services Revenue (4080)
CR. Other Reg. Accounts (1508): Sub Account Fixed Chg for Micro-Generators

Bill Impact Mitigation Account

The account is meant to record any revenue foregone and any incremental costs associated with implementing any additional mitigation measures that might be required as a result of the rate harmonization process. The Board approved the continuance of this account to record rate mitigation amounts to complete the rate harmonization process.

The entry to track the amount owing to customers will be:

DR. Distribution Services Revenue (4080)
CR. Other Regulatory Accounts (1508) – Sub Account Bill Impact Mitigation

Harmonized Sales Tax Deferral Account

Hydro One will track the estimated savings driven by the harmonization of provincial sales tax and goods and services tax, with the revenue requirement impact tracked in a variance account.

The entry to track the revenue requirement impact will be:

DR. Distribution Services Revenue (4080)

CR. PILs and Tax Variance (1592)

Interest Accretion on All Accounts

Simple interest will be calculated on the monthly opening principal balance in all regulatory accounts, using the Board prescribed interest rate.