

Ontario Energy Board (Board Staff) INTERROGATORY #92 List 1

Interrogatory

Issue 6.2 Are the proposed new Deferral and Variance Accounts appropriate?

Ref: Exhibit F1/Tab1/Sch2/p1-5

Hydro One is requesting approval to continue or establish seven new deferral accounts.

Impact for Changes in IFRS Account (2012 only)

- a) What account number does Hydro One propose to use in the USoA for this account?
- b) What are the journal entries to be recorded?
- c) Please provide Hydro One's estimate of the costs that would be recorded in this account.
- d) Is there any new or additional information since the May 19, 2010 filing of this application that would assist the Board in assessing this request?

IFRS – Gains and Losses Account (2012 only)

- e) Please provide an estimate of the costs that would be recorded in this account in 2012.
- f) Please provide an estimate of the impact on revenue requirements going forward indicating at a minimum the directional impact, based on historical experience and other analysis.
- g) If the costs are not known, what is the basis for the approval to record these amounts in a deferral account?
- h) What account number does Hydro One propose to use in the USoA for this account?
- i) What are the journal entries to be recorded?
- j) Is there any new or additional information since the May 19, 2010 filing of this application that would assist the Board in assessing this request?

IFRS Incremental Transition Costs Account

- k) What amount is currently in the revenue requirements for these costs?
- l) How much variance was in this account as of December 31, 2009?
- m) How much does Hydro One expect to record in this account in 2011 and 2012?
- n) What is the current balance in this account?
- o) Why does Hydro One require the continuing use of this account in 2011 and 2012, given that the implementation date for IFRS is January 2011 and it is reasonable to expect Hydro One to have incurred the majority of the transition costs by the implementation date?
- p) What account number does Hydro One propose to use in the USoA for this account?

- 1 q) What are the journal entries to be recorded?
2 r) Is there any new or additional information since the May 19, 2010 filing of this
3 application that would assist the Board in assessing this request?
4

5 *OEB Cost Differential Account*

6 On page 4, lines 15 – 22, Hydro One has stated that this account is a continuation of
7 the account accepted in EB-2008-0272. However, the description of the account
8 that was approved for continuation (Decision With Reasons, Table
9 Deferral/Variance Accounts Balances as of June 30, 2009 on page 55) is “OEB
10 Cost Assessment Differential” and not “OEB Cost Differential Account”. The
11 former is strictly for recording OEB Cost Assessment differential, while the latter
12 (i.e. the proposed account) will also track differences in intervenor cost awards, and
13 costs associated with OEB-initiated studies.
14

15 In two other recent Hydro One Distribution decisions (EB-2007-0681, and EB-
16 2009-0096) the Board denied Hydro One’s request for the same account that is
17 being requested in this application, stating the following:
18

19 “The Board does not consider it reasonable in this case to exempt
20 HydroOne from the Board’s current policy not to authorize an
21 OEB costvariance account to distributors.” (EB-2007-0681); and
22

23 “The Board concurs with Board staff and the intervenors. The
24 extended coverage sought by Hydro One is not available to other
25 distributors, and no compelling reason has been provided for why
26 Hydro One should be treated differently.” (EB-2009-0096)
27

- 28 s) What is the reasoning for Hydro One to continue to accrue amounts in OEB
29 Cost Assessment account in 2011 and 2012? (According to Article 220 of the
30 APH: “This account shall be used to record the difference between OEB costs
31 assessments invoiced to the distributor for the Board’s 2004/05 and 2005/06 (up
32 to April 30, 2006) fiscal years and OEB costs assessments previously included
33 in the distributor’s rates.”)
34
35 t) Does Hydro One agree that the account being requested will record costs that
36 are in addition to what was approved for continuation in EB-2008-0272?
37
38 u) Does Hydro One agree that the account description approved in EB-2008-0272
39 is different from what is being proposed by Hydro One in this application?
40
41 v) Can Hydro One provide any reasons as to why the Board should allow this
42 account in the form proposed by Hydro One, given that the Board has
43 disallowed the expanded coverage for recording costs in this account in EB-
44 2007-0681, and EB-2009-0096?

1 w) Is there any new or additional information since the May 19, 2010 filing of this
2 application that would assist the Board in assessing this request?
3
4

5 *Response*
6

7 *Impact for Changes in IFRS Account (2012 only)*
8

- 9 a) Hydro One would use Account 1508 Other Regulatory Assets, Sub Account Impact
10 of Changes in IFRS.
11
12 b) Hydro One cannot reasonably predict specific entries that would result from future
13 changes in IFRS accounting standards or from changes in external interpretations of
14 IFRS standards. In general, increases in revenue requirement attributable to such
15 changes would be debited to the account and decreases would be credited.
16
17 c) Given that the account is meant to capture the impact of unforeseeable accounting
18 changes, Hydro One does not currently have any reasonable basis to estimate possible
19 impacts.
20
21 d) Yes, on July 28, 2010, the Canadian Accounting Standards Board (AcSB) issues an
22 exposure draft proposing that publicly accountable entities that are required to adopt
23 IFRS be given the option of deferring adoption for 2 years until 2013. Hydro One
24 would likely take advantage of this delay if it is approved. If the Board reconsiders its
25 IFRS implementation date as a result, this account would not be required for 2012.
26

27 *IFRS – Gains and Losses Account (2012 only)*
28

- 29 e) Hydro One has requested this account because it cannot reasonably forecast the losses
30 to be incurred upon premature asset retirements under IFRS. Please see Exhibit I, Tab
31 1, Schedule 90 for more information on the reasons for this.
32
33 f) While the amount of losses cannot reasonably be quantified or estimated within a
34 range, Hydro One does expect to incur significant net losses (after inclusion of gains
35 on sale). These losses would be recorded in this proposed account to allow for future
36 review and recovery from customers.
37
38 g) In the absence of an approved deferral account to record premature asset losses, all
39 such losses that were not included in revenue requirement on a forecast basis would
40 be charged to the shareholder. This would unfairly burden the shareholder with
41 accounting losses that Hydro One is not reasonably able to predict or in some cases
42 control. For example, assets retired as a result of storm activity or customer upgrade
43 requests can retire earlier than expected, thus resulting in accounting losses under

1 IFRS. Losses on premature retirement need to be recovered to ensure full capital
2 recovery of prudently installed fixed and intangible assets.

3
4 h) Hydro One would use Account 1508 Other Regulatory Assets, Sub Account Net
5 Losses on Asset Premature Retirements.

6
7 i) If a loss is recorded in the IFRS Statement of Operations:

8
9 Debit: 1508 Net Losses on Asset Premature Retirements
10 Credit: 4360 Loss on Disposition of Utility and Other Property

11
12 If a gain is recorded in the IFRS Statement of Operations:

13
14 Debit: 4355 Gain on Disposition of Utility and Other Property
15 Credit: 1508 Net Losses on Asset Premature Retirements

16
17 j) Consistent with Hydro One's response to (g) above, this account would not be used in
18 2012 if IFRS is deferred. See also discussion at Exhibit I, Tab 1 Schedule 90.

19
20 *IFRS Incremental Transition Costs Account*

21
22 k) The amount that is the transmission revenue requirement, for 2010, is approximately
23 \$0.9 million.

24
25 l) The balance in this account as at December 31, 2009 was a credit of \$19,602. |

26
27 m) In light of the Canadian Accounting Standards Board's July 29, 2010 proposal to
28 require the adoption of IFRS by qualifying rate-regulated entities effective January 1,
29 2013, Hydro One is re-assessing its transition plan and inherently the costs related to
30 that plan. As such, it is difficult to provide an expectation of the amounts to be
31 recorded in 2011 and 2012, hence the continued need for the variance account.

32
33 n) The balance in this account as at June 30, 2010 is a debit of approximately \$170k. |

34
35 o) Please refer to response in part m) above.

36
37 p) The account is a continuation of the account established in 2009, as per the Board's
38 guidance in the Accounting Procedures Handbook (APH) FAQ, October 2009.
39 Consistent with the new accounts approved in the APH FAQ, Hydro One proposes to
40 use a sub-account of account 1508.

41
42 q) Where incremental IFRS transition costs recovered in rates are lower than actual
43 costs, the journal entry to be recorded will be:

1 Debit: IFRS Incremental Transistions Costs Account (1508)
2 Credit: Revenue(4080)
3

4 Where incremental IFRS transition costs recovered in rates are higher than actual
5 costs, the opposite entry would apply.
6

7 r) Please refer to response in part m) above.
8

9 *OEB Cost Differential Account*
10

11 s) Hydro One inadvertently included the title and scope of the account from the last
12 Distribution submission. That was not intended. Hydro One meant to request
13 continuance of the existing account with no changes to account title or scope. Hydro
14 One regrets any confusion caused.
15

16 Hydro One's request to continue to track the differential between approved and actual
17 annual OEB cost assessments in this account for 2011 and 2012 is completely
18 consistent with the existing account and with the discussion and Board Findings in
19 the Board's Decision with Reasons for EB-2008-0272 (pages 55 - 56).
20

21 t) No – Please see Hydro One's response to (s) above.
22

23 u) No – Please see Hydro One's response to (s) above.
24

25 v) Please see Hydro One's response to (s) above.
26

27 w) Please see Hydro One's response to (s) above.
28