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**Date: October 6, 2010**

**Subject: Revisions to the 2011 Business Plan and Financial Summary and 2011 Rate Application**

**Submitted by:**

**Approved for Submission to the Board by:**

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Jamie Gribbon  
Vice President  
Finance & Administration

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Remy Fernandes  
President and Chief Executive Officer

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### **RECOMMENDATION**

THAT the Board of Directors of Hydro One Brampton Networks Inc. approve the amendments to the business plan and rate application that would remove IFRS related items as outlined below and in addition request a variance account for unforeseen pension cost increases.

### **KEY HIGHLIGHTS**

- On June 9th, 2010 the 2011 Business Plan and Financial Summary prepared on an IFRS basis of accounting, was approved by the Board of Directors. In addition, on June 30th, 2010 Hydro One Brampton filed its 2011 Cost of Service application to the Ontario Energy Board (OEB) for approval.
- Since those dates, there was a significant development regarding the transition to IFRS. The Accounting Standards Board (AcSB) is proposing to delay the implementation of IFRS for rate regulated entities [REDACTED]
- It is anticipated that an amendment to a standard will be approved permitting this deferral and Hydro One Brampton supports such a deferral.

## EXECUTIVE SUMMARY

### 1. Strategic Significance

As a result of the AcSB's proposed standard amendment, Hydro One Brampton is requesting the removal of IFRS related impacts from its 2011 Business Plan and Financial Summary, reverting to a Canadian Generally Accepted Accounting Principles (CGAAP) basis. This revised Business Plan and Financial Summary will be filed with the OEB to form the basis for the 2011 rate application. The table below compares the revised Business Plan (CGAAP for 2010 - 2011 and IFRS for 2012 - 2015) with the previously approved IFRS version.

		Version	2010	2011				
Net Income (M\$)		2011 CGAAP	11.6	13.3				
		/IFRS						
		2011 IFRS	14.2	13.6				
Plan-over-plan difference			(3.6)	(0.3)				
Regulatory ROE (%)		2011 CGAAP	9.1	9.92				
		/IFRS						
		2011 IFRS	11.00	9.92				
Plan-over-plan difference			(1.9)	-				
Capital Expenditures (M\$)		2011 CGAAP	35.8	25.2				
		/IFRS						
		2011 IFRS	32.2	22.1				
Plan-over-plan difference			3.6	3.1				
OM&A (M\$)		2011 CGAAP	20.5	22.3				
		/IFRS						
		2011 IFRS	24.1	25.4				
Plan-over-plan difference			(3.6)	(3.1)				

The Scorecard will be revised to reflect the above.

In addition, subsequent to filing the rate application, Hydro One Brampton was informed that there would be temporary increases to pension premium costs which were not included in the application and accordingly we are requesting approval to have these costs tracked in a variance account for consideration in a future proceeding. This is consistent with past practice in accounting for costs of this nature.

## **2. Purpose**

These changes were not anticipated at the time of the original approval. The above table reflects the changes to the Business Plan of reverting back to a CGAAP basis for 2011.

## **3. Cost Estimate and Recovery**

The impact of the IFRS changes to the revenue requirement in the Rate Application is a reduction of the revenue requirement of \$3.5M.

The additional pension cost is estimated at \$1.1M over the three year period but will not impact the revenue requirement until these costs are included in rates.

## **4. Regulatory**

The Business Plan is the foundation for the Company's 2011 cost of service rate application. These changes result in an amendment to the 2011 rate application resulting in a decrease to the revenue requirement of \$3.5M.

## **5. Risk Analysis**

[REDACTED]  
[REDACTED]  
[REDACTED] There is also a risk that the amendment to the standard discussed above will not be approved and then these costs may have to be included in the revenue requirement.

With respect to the additional pension costs, there is a risk that the OEB will not approve the recovery of the balance in the variance account at a future date.