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BY COURIER

December 7, 2007

Ms. Kirsten Walli
Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli:

EB-2007-0063 – Combined Proceeding to Determine Issues Related to the Recovery of Costs Incurred by Distributors and Associated with Authorized Discretionary Metering Activities

On August 17, 2007, we submitted a draft accounting order requested by the Board in its Decision of August 8, 2007. This draft specifically provided the accounting entries relating to expenditures incurred and recoveries received prior to May 31, 2007. In response to requests from Board staff, we are providing more detailed commentary including comprehensive illustrative accounting entries. This additional information will inform the Board of how we will meet its requirements as well as the external reporting requirements incumbent on us under generally accepted accounting principles (GAAP) as a public securities filer.

Appendix A outlines Hydro One's accounting for smart meter expenditures, recoveries and revenues, both under GAAP and for OEB record keeping purposes.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Appendix A

Accounting for Smart Meters

Hydro One Networks has proposed generic accounting entries that meet both the requirements of GAAP for external financial reporting and that meet the requirements of the OEB for historical expenditure tracking by expenditure category. The main categories include minimum functionality for the pre-May 2007 and post-May 2007 periods as well as excess functionality for all periods. In addition, the generic entries comply with the Board's order as it applies to expenditures related to replacement and repair of customer owned equipment. Note that some entries are representative. For example, the capital entry shows the addition of capital to the meters Us of A account. Other spending, such as computer hardware and software, is anticipated. However, illustrative entries for all such Us of A accounts have not been shown.

Following the Board's August 8, 2007 Decision, no expenditures are deferred for external reporting purposes on the Balance Sheet. The sole regulatory balance pertaining to smart meters consists of the recoveries sub-account balance. All else being equal, there would be no balance in this account. However, there will usually be a timing difference between revenues recognized on a revenue requirement basis (i.e. debits to the account) and recoveries received (i.e. credits to the account). For Hydro One Networks, these recoveries are currently based on a rate of 93 cents per month per residential customer. A debit balance in the account represents a regulatory receivable for under-collection versus revenue recognized on a revenue requirement basis and a credit is an over-collection that essentially represents an unearned revenue balance. Interest will be applied at the normal rate applied to approved deferral accounts.

For expenditures incurred after May 1, 2007, notional entries are made to the deferral accounts and associated contras to enable comprehensive and cumulative historical expenditure tracking for OEB purposes. This is generally consistent with the model previously provide by the OEB for 3rd phase MARR-funded Conservation and Demand Management expenditures.

GAAP Accounting Entries	Accounting Entries Solely for OEB Information Purposes
Minimum Functionality (Pre-May 2007 Expenditures)	
OM&A Expenditures	
<p>DR 5175 Maintenance of meters CR 2205 A/P <i>Historical entry made to recognize OM&A expense.</i></p> <p>DR 1556 Smart meter OM&A variance CR 5175 Maintenance of meters <i>Previous entry made to defer OM&A as a regulatory asset.</i></p> <p>DR 5175 Maintenance of meters CR 1556 Smart meter OM&A variance - contra <i>Entry to re-recognize OM&A expense and to relieve regulatory asset using contra (leaving a trail for OEB).</i></p>	
OM&A Expenditures – Customer Meter Base	
Not material for Hydro One Networks up to May 2007	
Capital Expenditures	
<p>DR 2055 CWIP - electric CR 2205 A/P <i>Original entry to recognize capital expenditures</i></p> <p>DR 1555 Smart meter capital and recovery offset variance CR 2055 CWIP - electric <i>Previous entry made to defer capital expenditures</i></p> <p>DR 1860 Meters DR 2055 CWIP - electric CR 1555 Smart meter capital and recovery offset variance - contra * <i>Current entry to recognize fixed assets and CIP (depending on in-service status) and to relieve regulatory asset using contra</i></p> <p><i>* Note that clearance of 1555 account for pre-May 1, 2007 expenditures does not include ½ of project management costs as per p. 13 of Board decision.</i></p>	

Capital Expenditures – Customer Meter Base	
Not material for Hydro One Networks up to May 2007	
Revenue & Recoveries	
<p>DR 1100 Customer A/R CR 4080 Distribution services revenue <i>Original entry to recognize recoveries received as revenue</i></p> <p>DR 4080 Distribution services revenue CR 1555 Smart meter capital and recovery offset variance <i>Previous entry to derecognize revenue and defer recoveries</i></p> <p>DR 1555 Smart meter capital and recovery offset variance 1100 Customer A/R <i>Current entry to recognize revenue on a revenue requirement basis leaving a net under or over recovery in recoveries sub account</i></p> <p>DR 1555 Smart meter capital and recovery offset variance CR 6035 Other interest expense <i>To record interest accretion on reg. asset (assumes debit balance)</i></p>	

Minimum Functionality (Post-May 2007)	
OM&A Expenditures	
DR 5175 Maintenance of meters CR 2205 A/P <i>Historical entry made to recognize OM&A expense.</i>	DR 1556 Smart meter OM&A variance CR 1556 Smart meter OM&A variance - contra <i>To track OM&A for OEB.</i>
OM&A Expenditures – Customer Meter Base	
DR 5175 Maintenance of meters CR 2205 A/P <i>To recognize materials costs re. customer meter base.</i>	DR 1556 Smart meter OM&A variance (meter base) CR 1556 Smart meter OM&A variance (meter base) - contra <i>To track OM&A as per OEB decision.</i>
Capital Expenditures	
DR 1860 Meters DR 2055 CWIP - electric CR 2205 A/P <i>Current entry to recognize fixed assets and CIP (depending on in-service status).</i>	DR 1555 Smart meter capital and recovery offset variance CR 1555 Smart meter capital and recovery offset variance - contra <i>To track capital for OEB.</i>
Capital Expenditures – Customer Meter Base	
DR 1860 Meters DR 2055 CWIP - electric CR 2205 A/P <i>Current entry to recognize fixed assets and CIP (depending on in-service status).</i>	DR Regulatory Asset - Capital CR Regulatory Asset - Capital contra <i>To track capital for OEB.</i>
Revenue & Recoveries	
DR 1100 Customer A/R CR 4080 Distribution services revenue <i>Original entry to recognize recoveries received as revenue.</i> DR 4080 Distribution services revenue CR 1555 Smart meter capital and recovery offset variance <i>Previous entry to derecognize revenue and defer recoveries.</i> DR 1555 Smart meter capital and recovery	

<p>offset variance 1100 Customer A/R <i>Current entry to recognize revenue on a revenue requirement basis leaving a net under or over recovery in recoveries sub account.</i></p> <p>DR 1555 Smart meter capital and recovery offset variance CR 6035 Other interest expense <i>To record interest accretion on reg. asset (assumes debit balance).</i></p>	
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Excess Functionality (All Periods)	
OM&A Expenditures	
DR 5175 Maintenance of meters CR 2205 A/P <i>Historical entry made to recognize OM&A expense.</i>	DR 1556 Smart meter OM&A variance CR 1556 Smart meter OM&A variance - contra <i>To track excess functionality OM&A for OEB.</i>
Capital Expenditures	
DR 1860 Meters DR 2055 CWIP - electric CR 2205 A/P <i>Current entry to recognize fixed assets and CIP (depending on in-service status).</i>	DR 1555 Smart meter capital and recovery offset variance CR 1555 Smart meter capital and recovery offset variance - contra <i>To track excess functionality capital for OEB.</i>