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VIA E-MAIL AND COURIER

December 21, 2007

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Hydro Ottawa Limited;
2007 Capitalized Overhead Variance Account;
Board File No. EB-2007-0770**

I am writing on behalf of Hydro Ottawa Limited ("Hydro Ottawa") to provide the Board, through you, with Hydro Ottawa's reply submission on its application for its proposed 2007 Capitalized Overhead Variance Account. The following is the text of the first paragraph of Hydro Ottawa's letter application for ease of reference:

Hydro Ottawa ... hereby requests the Board to issue an accounting order that would authorize Hydro Ottawa to establish a variance account – to be called the 2007 Capitalized Overhead Variance Account – and to record in it the variance between (a) one-quarter (1/4) the Board-approved amount of capitalized overhead in the 2007 service revenue requirement and (b) the actual amount of capitalized overhead in the last quarter (October-December) of 2007.

Hydro Ottawa has received submissions from Board Staff, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition. Each of them claims, in one way or another, that the proposed variance account does not comport with the Board's 2nd Generation Incentive Regulation Mechanism. Board Staff also "suggests that the effective date of the capitalization policy implementation could have been January 1, 2008 to align with the start of its 2008 financial reporting year." Such an implementation date would also align with Hydro Ottawa's test year in its EB-2007-0713 Application.

Hydro Ottawa is hereby withdrawing its application, in any event, because the pending opinion of PricewaterhouseCoopers (“PwC”) on the accounting change is that it is a change in accounting policy. Hydro Ottawa’s initial discussions with various accounting professionals suggested that the accounting change was a change in accounting estimate. Hydro Ottawa engaged PwC to render an opinion on whether its capitalization policy is in accordance with GAAP and to confirm that the accounting change is a change in accounting estimate to be applied prospectively. PwC’s work involved consulting Hydro Ottawa’s current external auditors (Ernst & Young) and its past external auditors (Deloitte & Touche). The consensus of professional opinion suggests that a change in accounting policy is more appropriate than a change in accounting estimate. PwC expects to complete its opinion in January 2008. Hydro Ottawa expects that the opinion will provide a more comprehensive analysis and discussion on the accounting change and its appropriate implementation date.

Section 1506.14 of the CICA Handbook permits changes in accounting policy if the change “(a) is required by a primary source of GAAP or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.” Since this change in accounting policy cannot be considered a change required by a primary source of GAAP currently, the change must result in reliable and more relevant financial information. Section 1506.15 of the CICA Handbook states that “[u]sers of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows.”

To provide “reliable and more relevant financial information” the change in accounting policy should be applied prospectively and implemented on January 1, 2008 so as to align with Hydro Ottawa’s fiscal year and the test year in Hydro Ottawa’s 2008 EDR Application (EB-2007-0713). This treatment would be consistent with Board Staff’s suggestion that I quoted earlier.

Board Staff went on, though, to make the following submission on pending changes to accounting standards:

Hydro Ottawa asserts that the accounting change was outside their control by virtue of its arising from changes in generally accepted accounting principles. Board staff is not aware of any change in accounting standards in the CICA Handbook that could have caused Hydro Ottawa’s change to capitalization policy and cost allocation procedure. Any known changes to accounting standards will affect 2011, if the utility is considered to be subject to International Financial Accounting Standards (IFRS). The changes to Canadian accounting standards for rate-regulated operations that come into effect on January 1, 2009 affect the accounting for income taxes and do not effect capital asset costs. The application of Section 3061 of the CICA Handbook on property, plant and equipment, including capitalization of interest/allowance for funds used during construction, has not changed.

Hydro Ottawa does not believe that Board Staff has considered all of the implications of the pending changes to accounting standards. Hydro Ottawa will address this matter in the EB-2007-0713 proceeding.

Yours very truly,

(signed) J. H. Farrell

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cc: Ms. Lynne Anderson
Hydro Ottawa Limited

EB-2005-0381 Intervenors

EB-2007-0544 Intervenors

EB-2007-0713 Intervenors