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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs



BY COURIER

March 31, 2011

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

Dear Ms. Walli

**EB-2010-0002 – Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirements – Proposed Accounting Entries for New Deferral and Variance Accounts**

In our Draft Rate Order submission of January 5, 2011, Hydro One stated that it would provide the accounting entries that will be used to record the newly approved deferral and variance accounts. The proposed entries along with an explanation of how the accounts will be used are hereby provided in Appendix A.

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Sincerely,

ORIGINAL SIGNED BY ODED HUBERT FOR SUSAN FRANK

Susan Frank

Attach.

c. EB-2010-0002 Intervenor (electronic)

## **APPENDIX A**

### **ACCOUNTING TREATMENT FOR APPROVED VARIANCE ACCOUNTS**

For new accounts identified in the OEB's EB-2010-0002 Decision with Reasons of December 23, 2010, the following provides the accounting entries that will be used to record the approved variance accounts along with the appropriate decision reference. With the exception of the Property Rights Payment Variance Account, which is effective January 1, 2011, all accounts are effective January 1, 2012.

#### **Property Rights Payments Variance Account (Page 21)**

The Property Rights Payments Variance Account will track the difference between the amount approved for property rights payments in the revenue requirement and the actual payments.

Where expenditures recovered are higher than actual expenditures incurred, the entry will be:

DR. Transmission Services Revenue (4110)  
CR. Other Regulatory Liabilities (2405) - Sub Account – Rights Payments

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

#### **Bruce to Milton Project In-Service Variance Account (Page 28)**

The Bruce to Milton Project Account will track the revenue requirement impact related to the Bruce to Milton Project if it is not placed in service in 2012 as projected.

If the project is not in-service in 2012 as planned the entry will be:

DR. Transmission Services Revenue (4110)  
CR. Other Regulatory Liabilities (2405) - Sub Account – Bruce to Milton Project

#### **Impact for Change in IFRS Account (Page 58)**

The Impact for Changes in IFRS Account was approved to record the impact on revenue requirement of changes in IFRS standards, or external interpretation thereof, arising between the date of Hydro One's application and the time of Hydro One's next application, i.e. IFRS to IFRS changes.

Where changes in IFRS result in a decrease to the approved revenue requirement the entry will be:

DR. Transmission Services Revenue (4110)  
CR. Other Regulatory Assets (1508) - Sub Account – Impact for Changes in IFRS

Where a change in IFRS results in an increase to the approved revenue requirement, the opposite entry would apply.

### **IFRS – Gains & Losses Account (Page 58)**

The IFRS – Gains & Losses Account was approved to record gains and losses on asset sales and asset losses resulting from premature asset retirements. The account will also be credited for any depreciation expense in rates that will not be incurred as a result of premature asset retirements.

Hydro One will track accounting gains and losses on sales and losses from premature asset retirements. Where a loss is recognized on a sale or premature retirement, the loss is initially recorded as part of depreciation expense. To defer the loss the entry will be:

DR. Other Regulatory Assets (1508) – Sub Account – IFRS Gains & Losses  
CR. Depreciation Expense (5705)

Where a gain is recognized on a sale or on a premature asset retirement, the opposite entry would apply.

### **IFRS – Capitalization Policy Variance Account (Page 65)**

The IFRS – Capitalization Policy Variance Account will capture the revenue requirement impact of any changes in the overhead and indirect cost capitalization assumptions between the date of the application and the date upon which its capitalization policy is finalized.

Where changes in the assumptions result in a decrease to the approved revenue requirement the entry will be:

DR. Transmission Services Revenue (4110)  
CR. Other Regulatory Liabilities (2405) – Sub Account – IFRS Capitalization Policy Variance Account.

Where changes in the assumptions result in an increase to the approved revenue requirement, the opposite entry would apply.

### **Interest Accretion on All Accounts**

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