KH 2.1

Appendix A - Incremental IFRS costs

	2008 Actual	2009 Historical	2010 Bridge	Total
Payroll Costs	-	583,311	1,213,441	1,796,752
External Services[1]	744,000	1,358,963	1,910,051	4,013,014
Contract Services	-	220,214	915,033	1,135,247
Other[2]	-	20,444	110,000	130,444
Total IFRS Costs	**744,000**	**2,182,932**	**4,148,525**	**7,075,457**
Carrying charges				83,530
Total IFRS Costs				**7,158,987**

[1] Amount includes auditor, advisor and actuarial costs.

[2] Includes costs for communication, office supplies, and employee and IT expenses.

INTERROGATORIES OF ONTARIO ENERGY BOARD STAFF

INTERROGATORY 84:

Reference(s): **J1/T1/S2**

THESL is requesting disposition of account 1508, sub-account IFRS costs, which include forecasted costs to the end of 2010 and is an unaudited balance. The usual practice for disposing of variance and deferral accounts is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year.

Please state why the Board should deviate from the usual practice of disposing only the audited balances.

RESPONSE:

Disposition of account 1508, sub-account IFRS costs is being sought in 2011 given the significant amount spent on the IFRS transition project to date. This account has been collecting costs, as shown in Appendix A of the exhibit, since 2008. The amounts estimated to the end of 2010 are significant at $7.2 million. Waiting another year to collect these costs only increases the amount of carrying charges on the balance. THESL is prepared to record any differences between the amounts approved for clearance in this case and the final audited costs to the end of 2010 in a variance account for future disposition of the $7.2 million, 76% or $5,420,437 has been audited or reviewed by the Corporation's external auditors. This approach holds both the Company and ratepayers harmless from any forecast variance, and ensures timely recovery of costs incurred to date.

Appendix A: Detailed Breakdown of IFRS Costs

	2008 Actual	2009 Historical	2010 Actual	Total
New Employees Specific to IFRS	-	583,311	638,581	1,221,892
External Services - IFRS Advisor	744,000	1,204,599	1,138,280	3,086,879
External Services - Auditor	-	102,364	304,349	406,713
External Services - Other[1]	-	52,000	11,200	63,200
Contract Services - Contract/Temporary Staff	-	220,214	941,535	1,161,749
Other[2]	-	20,444	73,804	94,248
	744,000	2,182,932	3,107,749	6,034,681
Carrying charges				69,434
Total IFRS Costs				6,104,115

[1] Includes actuarial costs and recruiting services.
[2] Includes costs for communication, office supplies, employee and IT expenses.

Smart Meters

Smart meter operational and capital costs are included in the revenue requirement for 2011. Operational costs are included in the on-going Metering Services group while capital requirements are included in the Capital Budget for 2011.

IFRS

The application includes projected costs related to the International Financial Reporting Standards ("IFRS") assessment and modifications of key processes. These costs, which include projected IT and Finance costs that can be reasonably estimated given information available at the time the application was prepared, are operational and are included in the revenue requirement for 2011. Related projections will likely need to be revised as IFRS impact assessments are completed. Refer to Exhibit F2, Tab5, Schedule 1 for further details.

Appendix A

Table 1: Finance A&G Expense Breakdown

Col1	Col2	Col3	Col4	Col5
In $ millions	2010 Bridge	2011 Test	Variance	Comments
Controllership	3.4	4.0	0.6	As referred to in Exhibit F2/Tab5/S1/p4, the increase is due to additional resources required to support increasing financial requirements and expanded capital and other operational programs.
External Reporting	2.3	5.5	3.2	As referred to in Exhibit F2/Tab5/S1/p5, the increase is due mainly to IFRS and the increased finance reporting requirements.
Tax & Internal Audit	2.9	3.0	0.1	
Accounts payable & Payroll	1.7	1.8	0.1	
Total	10.2	14.4	4.2	

Table 2: Finance IFRS A&G Costs

Col1	Col2	Col3	Col4
In $ millions	2009 Historical	2010 Bridge	2011 Test
Internal Resources	1.0	1.8	1.3
External Services - IFRS Advisor	1.2	1.5	0.3
External Services - Auditor	0.1	0.3	0.4
External Services - Other[1]	0.1	0.1	1.1
Contract Services	0.2	0.9	-
Other[2]	0.0	0.1	-
Subtotal	2.6	4.8	3.1
Total Regulatory Asset Account 1508 - IFRS Costs[3]	(2.2)	(4.1)	-
Total Finance IFRS A&G Costs	0.5	0.6	3.1

[1] Includes actuarial and recruiting costs in 2009 and 2010. In 2011, these costs relate to implementation of outstanding business process changes, systems development work and implementation of control and governance processes.

[2] Includes costs for communication, office supplies, and employee and IT expenses.

[3] For more details please see Exhibit J1 Tab 1 Schedule 2 Appendix A and Exhibit R1 Tab 1 Schedule 83c Appendix A.

Operational Support teams work closely with all operational groups to ensure that financial transactions are appropriately recorded in financial systems, detailed financial and operational reports are accurate, plans and forecasts are appropriately completed and financial risks with respect to operational processes are managed. The Financial Systems group is responsible for implementing and managing the functions and data that facilitate and underlie financial transactions and data used for reporting. This group works closely with technology experts, financial primes and operational process owners. The Fixed Asset team manages the capitalization and depreciation of energized assets and overall management of the assets under construction.

The following table presents the total A&G costs related to the Controller.

Table 3: Controllership A&G Costs ($ millions)

	2008 Actual	2009 Actual	2010 Bridge	2011 Test
Controllership	2.6	3.0	3.4	4.0

The increase in costs between the Bridge and Test years reflects additional resources required to manage increasing financial requirements and operational support related to the expanded capital program and organizational work force changes. Given the financial and regulatory significance, the year-over-year increasing volumes of the capital program, fixed assets, and remuneration costs require additional management to meet reporting, monitoring and control requirements. Therefore, Finance has increased its focus on related planning, reporting and process management activities. The increased need to manage newly established processes and reporting requirements related to the International Financial Reporting Standards ("IFRS") also contributes to the increased costs in the Test year. In the Bridge and historical years, the incremental IFRS staff and related project costs were deferred to a regulatory asset account. Test year, IFRS costs have been operationalized, that is, treated as normal course of business, and are no longer deferred.

EXTERNAL REPORTING

Responsibilities

The External Reporting department's primary responsibility is to manage the processes supporting the preparation of materials filed with the OSC and the Shareholder. A significant and related activity includes the preparation of annual audited and interim financial statements and disclosures which are publicly filed. These publicly filed documents follow a strict process and are reviewed rigorously to minimize the risk of material error and to ensure that they meet accounting standards requirements. The specific activities and internal controls underlying the financial disclosures and month-end financial close process are reviewed regularly by independent internal and external auditors. As a result, a significant amount of effort is required to maintain documentation to be audited and to support management's attestation of the accuracy of publicly filed information.

The External Reporting department also reviews, documents and communicates all changes to accounting standards as well as assesses the impact to the organization. Over the past few years, this department has led the IFRS project for the organization. The Finance involvement in the IFRS project has been significant (refer to Exhibit Q1, Tab 1). Given that the project is expected to end during the Bridge year, ongoing costs to meet dual accounting standards requirements and to manage the ongoing processes have been operationalized and included in the department's A&G costs. This is the primary reason for the increase in A&G between the Bridge and Test years.

1508--Other Regulatory Assets-Sub-Account Deferred IFRS Transition Costs

Utility	Amount	Carrying Costs	Total Amount	Source	
Seeking Recovery					
Toronto Hydro-Electric Systems Limited	7,075,457	83,530	**7,158,987**	J1/1/2A/p.1 EB-2010-0142	
Hydro Ottawa Limited	511,250	3,032	**514,282**	H/1/2/p.2 EB-2010-0133	
Enbridge Gas Distribution	3,824,400	36,900	**3,861,300**	2010-0042 Rate Order Appendix A p.1	Note: Estimate to be cleared by 6/2011
Not Seeking Recovery					
Horizon Utilities Limited	560,752	4,727	**565,479**	9/1/2/p.2 EB-2010-0131	
Milton Hydro	189,730	1,369	**191,099**	9/p.9 EB-2010-0137	
Waterloo North Hydro			**697,988**	9/p.26 EB-2010-0144	