

Hydro One Networks Inc.

8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

May 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 – US GAAP Considerations

Hydro One Networks Inc. (Hydro One) wishes to provide the Ontario Energy Board (the Board) with advance notice that Hydro One is evaluating the option of adopting U.S. Generally Accepted Accounting Principles (US GAAP) in lieu of IFRS in 2012. If Hydro One decides to proceed to adopt US GAAP, and if any application is made to the Ontario Securities Commission (“OSC”) and subsequently approved by the OSC, then, Hydro One would shortly thereafter file a Motion To Vary with the Board respecting its EB-2010-0002 Decision With Reasons to reflect the adoption of US GAAP for rate making and financial reporting purposes beginning in 2012. The context and details on such follow below.

In its Decision with Reasons dated December 23, 2010 in the EB-2010-0002 proceeding, the Board directed Hydro One to reflect the adoption of IFRS effective January 1, 2012. This resulted in the shifting of approximately \$200 million of capital related expenditures to operations resulting in a similar increase in the annual revenue requirement for the 2012 test year.

The adoption of US GAAP for financial reporting purposes in 2012 is anticipated to:

- Provide financial results more reflective of the underlying economic substance of rate regulation as regulatory assets/ liabilities are recognized (whereas under IFRS they are not).
- Make financial reporting more comparable with current results since US GAAP is very similar to Canadian GAAP. This will facilitate investor benchmarking to other large North American utilities.

- Lower the 2012 approved transmission revenue requirement by approximately \$200 million and increase 2012 capital expenditures by the same \$200 million (resulting in an approximate 15% net rate reduction in total).
- Allow increased financing flexibility by making it easier to access the US Dollar debt market as required given Hydro One's growing capital program.
- Result in the continuation of deferral and variance account recognition. This would include transactions related to items such as incremental IFRS conversion costs.

If you have any questions regarding this submission please contact Allan Cowan at 416 345-6219.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

FORWARD-LOOKING STATEMENTS AND INFORMATION

This document contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and include beliefs and assumptions made by the management of our company. Words such as "expect", "would" and "will" are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. We do not intend, and we disclaim any obligation to update any forward-looking statements, except as required by law.