SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

EB-2011-0268 - HYDRO ONE NETWORKS - MOTION FOR REVIEW

On December 23, 2010, the Ontario Energy Board ("Board") issued its Decision with Reasons determining the 2011 and 2012 Transmission revenue requirement for Hydro One Networks Inc. ("HON"), and by a subsequent rate order dated January 18, 2011, set the Ontario Uniform Transmission Rates , effective January 1, 2011.

On July 15, 2011, HON filed a letter and Notice of Motion with the Board seeking to vary the Decision. In that Motion HON informed the Board that it had sought approval from the Ontario Securities Commission ("OSC") to utilize United States Generally Accepted Account Principles ("US GAAP") as the basis for preparing its financial statements for public securities filings beginning January 1, 2012 and terminating January 1, 2015. OSC approval was granted on July 21, 2011. The Motion sought to vary the December 23, 2011 Decision, permitting HON to use US GAAP for rate application filings, and regulatory accounting reporting, and to adjust the 2012 revenue requirement to reflect the use of US GAAP rather than the International Financial Reporting Standards ("IFRS").

The effect of the change from IFRS to US GAAP is to reduce the approved revenue requirement by $195.3 million. In addition, the change increases the 2012 capital expenditures by $200 million with a corresponding increase to rate base (Ex. A/T2/S1/p. 2). The bill impact for a typical residential customer, which under the approved rate order was 2%, would be reduced to .9% if the approvals requested by HON were granted by the Board (Ex. I/T1/S2). In addition to the changes to the 2012 revenue requirement, HON sought acknowledgement and approval that, if US GAAP is adopted to establish the revenue requirement for rates for HON Transmission, it is appropriate for HON to also do so for HON Distribution.

In its Decision, Notice of Hearing and Procedural Order No. 1, dated August 25, 2011, the Board ruled that HON's motion did not satisfy the review requirements of Rules 44 and 45 of its Rules of Practice and Procedure. However, the Board commenced its own motion to consider adjustments to HON's 2012 Transmission Revenue Requirement and other adjustments and variance accounts that may be necessary should HON move to US GAAP. The Board indicated its intent to restrict its consideration of the 2012 Transmission revenue requirement and transmission rates to adjustments consequent on the adoption of US GAAP by HON.

These are the submissions of the Consumers Council of Canada ("Council") regarding the Board's Motion.

HON's evidence is that there is significant value to both ratepayers and it shareholders in using US GAAP for regulatory purposes. HON cites the following:

1. Use of a consistent financial accounting framework for both internal/external financial reporting and regulatory accounting and reporting preserves the existing link between audited financial statements and financial information and documentation utilized in rate applications and regulatory reports;

2. Use of a consistent accounting framework for financial and regulatory reporting reduces HON's costs from what they otherwise would be if different frameworks were used. The alternative would require dual reports and reconciliations, parallel transaction processing and dual IT systems and ledgers;
3. HON would also benefit from a consistent accounting methodology by having a better ability to present economic consequences of regulatory matters in its audited external financial statements;
4. Ratepayers are also expected to benefit materially as a result of the retention of two specific accounting policies which cannot be retained under IFRS. IFRS prohibits the capitalization of certain overheads and indirect costs. Retaining existing capitalization policies avoid a significant rate increase driven by the specific requirements of IFRS. In addition, US GAAP allows the continued use of group depreciation methods. This results in depreciation rates and annual depreciation expenses that will be lower over the long run and which more closely reflects the average service life of all in-service assets;
5. The adoption of US GAAP will improve HON's ability to benchmark with other large North American utilities and other entities adopting US GAAP. (Ex. C/T1/S1/pp. 1-4)

The Council supports HON's decision to move to US GAAP for accounting purposes rather than to transition to IFRS. HON has filed evidence setting out clear benefits to its ratepayers and shareholders that will arise if approval is granted. The Council has no reason the challenge that evidence. Rate increases over the next several years will be dampened and real cost reductions achieved. The Council submits that the 2012 Transmission revenue requirement should be adjusted to reflect this change.

With respect to request to approve US GAAP for HON Distribution made by HON in its original motion the Council is not clear as to whether or not the Board is considering that issue as part of its own motion. It is logical to assume that if the Board deems it appropriate for HON to move to US GAAP for its Transmission business then it is also logical to assume that it should move to US GAAP for its Distribution business, as it is effectively one corporation, sharing many functions. Having said that, the Council submits that it will be up to the 2012-2013 HON Distribution rate panel to decide that issue.

October 17, 2011