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Proposed Supplementary Settlement Agreement

EB-2011-0054

Issues related to Modified International Financial Reporting Standards ("MIFRS")

This Proposed Supplementary Settlement Agreement incorporates Parts I through VI of the Settlement Agreement filed with the Board on November 1, 2011. This Proposed Supplementary Settlement Agreement is severable in full or in part.

Hydro Ottawa and Intervenors ("the Participating Parties") agree on the following issues related to modified IFRS (Issue 11).

1. ***Transition of PP&E.*** IFRS requires that accumulated depreciation be closed out to gross fixed assets, so that on the commencement of IFRS (i.e. the year prior to the actual conversion, usually January 1, 2011) the opening gross fixed assets is equal to the former net book value, and the opening accumulated depreciation is zero. Consistent with the Board's IFRS report, utilities would for regulatory purposes be required to retain the former gross fixed assets amount (closing amount on December 31, 2010, usually) as the opening gross fixed assets, and retain the old accumulated depreciation amount in the same way.

   Intervenors understand that Ottawa has now filed on this modified basis, and the Participating Parties propose that be the basis on which the Board approve the final numbers.

2. ***Contributions and Grants.*** Some utilities are closing out contributions and grants to the individual asset items (getting a net GFA and net accumulated depreciation). Others are not. Some are treating contributions and grants "depreciation" as Other Revenues.

   The Participating Parties agree that contributions and grants remain in PP&E as separate line items, and be depreciated at the same rate as the assets to which they relate. Any negative depreciation would be an offset to the depreciation figure, rather than separately reported in Other Revenues.

3. ***Opening Rate Base.*** Consistent with the Board's IFRS report, each utility including Ottawa should calculate their opening 2012 rate base on CGAAP, and as proposed (i.e. IFRS). The difference is an increase or decrease in rate base that is not reflected in their prior rates. For utilities that convert as of January 1, 2012, it will be made up primarily of their CGAAP/IFRS depreciation and capitalization differences for 2011. For ones like Guelph that

converted January 1, 2011, it will be made up primarily of those two factors for both 2010 and 2011.

The Participating Parties agree that the general rule should be that the balance in that account should be paid to the ratepayers, or collected from the ratepayers, over the four year IRM period (depending on the amount, of course). It should be allocated using the same factors as depreciation expense. This is fully consistent with what Hydro Ottawa is proposing and the Participating Parties agree to Hydro Ottawa's calculation of Opening Rate Base.

4. ***OPEBs and Pension.*** Most utilities will revalue their OPEB liability (and some pensions as well) as of the conversion, although they were in fact required to do this under CGAAP anyway. If their liability has gone down, this means they have collected more from ratepayers than they needed, and this would otherwise increase their retained earnings. If their liability has gone up, this means they have under collected, and this would otherwise decrease their retained earnings.

   The Participating Parties agree with Hydro Ottawa's proposal to establish a deferral account for these amounts and amortize the amount over the average remaining expected lives of the employees (For Hydro Ottawa that is 13.3 years Exhibit K11-1-13(2)) . Three years from now (for 2016 rates), when Hydro Ottawa does its next valuation, a further adjustment (if required) will be made, and the net balance in the deferral account will be recalculated. The amortization will then also be recalculated (if required) at that time. The effect is to smooth the adjustments over a long time.