

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

December 1, 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-2011-0399–Hydro One Networks Distribution Request for Approval of US GAAP for Rate Setting, Regulatory Accounting & Reporting Purposes - Hydro One Evidence

Attached please find Hydro One Inc (Hydro One) pre-filed evidence in support of its request to the Board that it grant its Distribution business approval of the use of US GAAP for rate setting, regulatory accounting and reporting purposes as of January 1st, 2012.

In its Decision With Reasons in Hydro One Transmission’s EB-2011-0268 proceeding, dated November 23, 2011, the Board granted approval to Transmission to utilize US GAAP for rate setting, regulatory accounting and reporting as of January 1st, 2012. The Board Findings also outlined that Hydro One Distribution “should not be precluded from applying to extend the use of the US GAAP accounting standard ... on appropriate terms and conditions, as a standalone application”. On this basis, Hydro One has submitted this application.

To meet the requirements as outlined in the EB-2011-0268 Decision, attached please find:

- The justification of the move to US GAAP as per the page 19 of the Board’s Addendum;
- The decision of the OSC granting Hydro One permission to use US GAAP in its financial statements filed with the OSC for the fiscal year beginning January 1, 2012, as dated July 21, 2011;
- Hydro One’s request to the OSC, incorporating the rationale for its request, that they grant Hydro One permission to use US GAAP in its financial statements filed with the OSC, as dated July 7, 2011;
- The Board’s Decision With Reasons in Hydro One’s EB-2011-0268 proceeding; and
- A summary of the regulatory asset accounts requested, continued and discontinued due to the adoption of US GAAP.

It is estimated that the 2012 notional Hydro One Distribution revenue requirement would be \$166 million higher if MIFRS were utilized rather than US GAAP. MIFRS would result in an approximate rate increase of 14% in 2012 as compared to US GAAP.

At this time, Hydro One is not requesting any change to its approved 2011 or 2012 distribution rates in this application. Rather, Hydro One expects its currently approved 2011 distribution rates to continue into 2012 and all appropriate costs will continue to be tracked in Board approved deferral and variance accounts, including its green energy related expenditures for Smart Grid, Express Feeders and other renewable generation.

As directed in the EB-2011-0268 Decision, in its next cost of service application, Hydro One Distribution will address the potential disadvantage raised by intervenors and Board staff of the increased difficulty in benchmarking Hydro One Distribution to other Ontario LDCs after it adopts US GAAP.

Consistent with the Board's direction in the EB-2011-0268 proceeding, Hydro One requests that this current proceeding be completed by way of a written hearing.

If you have any questions regarding this submission please contact Pasquale Catalano at 416 345-5405.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

- c. EB-2011-0268 Intervenors (electronic)
- EB-2009-0096 Intervenors (electronic)

EXHIBIT LIST

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	1	2	Hydro One Request to OSC For Approval To File Financial Statements under US GAAP
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Exhibit	Tab	Schedule	Contents
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			Variance & Deferral Accounts
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			Regulatory Asset Accounts Requested, Continued and Discontinued Due to the Adoption of US GAAP
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IN THE MATTER OF *the Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Networks Inc.
For an Order or Orders approving the utilization by Hydro One Distribution
of US Generally Accepted Accounting Principles (“US GAAP”) as its
approved framework for rate setting, regulatory accounting and regulatory
reporting commencing January 1, 2012 in a manner appropriate for a rate
regulated entity.

APPLICATION

1. Hydro One Networks Inc. (“Hydro One Networks”) is a subsidiary of Hydro One Inc. and is an Ontario corporation with its head office in Toronto. It carries on the business, among other things, of owning and operating transmission and distribution facilities in Ontario. The distribution business of Hydro One Networks will be referred to as “Hydro One Distribution”. The transmission business of Hydro One Networks will be referred to as “Hydro One Transmission”.
2. Hydro One Networks hereby requests that the Ontario Energy Board (the “Board”), pursuant to a hearing under section 78 of the Ontario Energy Board Act, 1998, issue an Order or Orders, approving the utilization by Hydro One Distribution of US Generally Accepted Accounting Principles (“US GAAP”) as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012 in a manner appropriate for a rate regulated entity.

1 3. Hydro One Networks seeks approval to: discontinue the Impact for Changes in IFRS
2 Account, continue with the IFRS Incremental Transition Costs Account (with revised scope)
3 and to establish the Impact for US GAAP Account.

4
5 4. The evidence to be filed with the Board includes:

6 a) the eligibility of Hydro One Networks under securities legislation to report financial
7 information using US GAAP;

8 b) the authorization by the Ontario Securities Commission (“OSC”) authorizing Hydro One
9 Networks to use US GAAP for financial reporting purposes;

10 c) an explanation of the benefits of adoption US GAAP rather than Modified International
11 Financial Reporting Standards (“MIFRS”).

12
13 5. The persons affected by this Application are the ratepayers of Hydro One’s distribution
14 business. It is impractical to set out their names and addresses because they are too
15 numerous.

16
17 6. Hydro One Networks requests that a copy of all documents filed with the Board by each
18 party to this Application be served on the Applicant and the Applicant’s counsel as follows:

19 a) The Applicant:

20
21 Mr. Pasquale Catalano
22 Regulatory Coordinator – Regulatory Affairs
23 Hydro One Networks Inc.

24
25
26 Address for personal service: 8th Floor, South Tower
27 483 Bay Street
28 Toronto, ON M5G 2P5

29
30 Mailing Address: 8th Floor, South Tower
31 483 Bay Street
32 Toronto, ON M5G 2P5
33

1 Telephone: (416) 345-5405
2 Fax: (416) 345-5866
3 Electronic access: Regulatory@HydroOne.com
4
5

6 b) The Applicant's counsel:

7
8 D.H. Rogers, Q.C.
9 Anita M. Varjacic
10 Rogers Partners LLP
11

12 Address for personal service: 100 Wellington Street West
13 Suite 500, P.O. Box 255
14 Toronto, ON M5K 1J5
15

16 Mailing Address: 100 Wellington Street West
17 Suite 500, P.O. Box 255
18 Toronto, ON M5K 1J5
19

20 Telephone: (416) 594-4500
21 Fax: (416) 594-9100
22 Electronic access: don.rogers@rogerspartners.com
23 anita.varjacic@rogerspartners.com
24
25

26 DATED at Toronto, Ontario, this 1st day of December, 2011.
27

28 HYDRO ONE NETWORKS INC.

29 By its counsel,
30

31 ORIGINAL SIGNED BY ANITA VARJACIC
32 ON BEHALF OF DON ROGERS
33

34 D.H. Rogers, Q.C.

SUMMARY OF APPLICATION

Hydro One Networks (“Hydro One” or “Hydro One Distribution”) is asking for an Order or Orders, approving the utilization by Hydro One Distribution of US Generally Accepted Accounting Principles (“US GAAP”) as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012 in a manner appropriate for a rate regulated entity. Such approval was granted by the Board for Hydro One Transmission in its Decision With Reasons in EB-2011-0268 issued on November 23, 2011. This Decision also noted “as the Board has found that Hydro One transmission rates should be set on the basis of USGAAP, it would generally be inefficient to require the distribution utility to use MIFRS for regulatory reporting and rate making”. This application follows the steps outlined by the Board in its EB-2011-0268 Decision in order to gain similar approval for Hydro One Distribution, where it also acknowledged such an application could be made on a stand-alone application.

This summary provides a brief description of the chronology leading to the approvals being sought and the reasons behind them.

1.0 HISTORY LEADING TO HEARING

In May 2011 it became known that there was an option for rate regulated entities to apply to its securities regulator for an exemption to permit use of US GAAP for the preparation of financial statements. On May 31, 2011, Hydro One wrote to the Board to advise the Board that it was evaluating the option of adopting US GAAP in lieu of MIFRS in 2012: Exhibit B, Tab 2, Schedule 1.

The Board released its Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment on June 13,

1 2011 (“Addendum Report”). The Addendum Report considered, for the first time, the
2 possibility that a utility could adopt US GAAP for regulatory purposes. The Board
3 outlined what information/evidence a utility would need to provide in a cost of service
4 application if adopting US GAAP.

5
6 Hydro One filed its official application with the OSC on July 7, 2011 seeking approval to
7 utilize US GAAP as the basis for preparing its periodic public securities filings effective
8 January 1, 2012: Exhibit B, Tab 1, Schedule 2. Hydro One received approval from the
9 OSC to do so on July 21, 2011: Exhibit B, Tab 1, Schedule 1.

10
11 In the interim, Hydro One notified the Board on July 15, 2011 that it intended to utilize
12 US GAAP for its Distribution Business effective January 1, 2012: Exhibit B, Tab 2,
13 Schedule 2.

14
15 On July 15, 2011, Hydro One also applied to the Board for an order to vary its decision in
16 EB-2010-0002 to adopt US GAAP for regulatory reporting purposes and rate setting
17 effective January 1, 2012 and for necessary adjustments to its revenue requirement. The
18 Board denied that request and on its own motion commenced a hearing under section 78
19 by Decision, Notice of Hearing and Procedural Order No. 1 dated August 25, 2011,
20 assigning the proceeding number EB-2011-0268. Hydro One submitted its evidence for
21 this proceeding to the Board on September 6, 2011.

22
23 The Board issued its Decision With Reasons in EB-2011-0268 on November 23, 2011
24 granting Hydro One Transmission approval to utilize US GAAP as its approved
25 framework for rate setting, regulatory accounting and regulatory reporting commencing
26 January 1, 2012 in a manner appropriate for a rate regulated entity. This Decision also
27 noted “as the Board has found that Hydro One transmission rates should be set on the
28 basis of US GAAP, it would generally be inefficient to require the distribution utility to

1 use MIFRS for regulatory reporting and rate making”. In this Decision, the Board Panel
2 acknowledged that a Hydro One Distribution application seeking approval for use of US
3 GAAP in place of MIFRS could be made on a stand-alone application rather than as part
4 of a cost of service proceeding.

5 6 **2.0 APPROVALS REQUESTED**

7 8 **2.1 Accounting Framework**

9
10 Hydro One Distribution seeks approval for the utilization of US GAAP as its framework
11 for rate setting, regulatory accounting and regulatory reporting commencing January 1,
12 2012 in a manner appropriate for a rate regulated entity.

13 14 **2.2 Variance Accounts**

15
16 Hydro One Networks seeks approval to: discontinue the Impact for Changes in IFRS
17 Account, continue with the IFRS Incremental Transition Costs Account (with revised
18 scope) and to establish the Impact for US GAAP Account as set out in Exhibit D1, Tab 1,
19 Schedule 1.

20 21 **3.0 BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION**

22
23 In the Addendum Report, the Board stated that if a utility was filing a cost of service
24 application following adoption of US GAAP, it would need to include the following
25 information:

- 26 a) the eligibility of the utility under applicable securities legislation to report financial
27 information using US GAAP;

- 1 b) the authorization by the appropriate Canadian Securities regulator authorizing the
2 utility to use US GAAP for financial reporting purposes;
3 c) an explanation of the benefits and potential disadvantages of adoption of US GAAP
4 rather than Modified International Financial Reporting Standards (“MIFRS”).
5

6 Hydro One has provided the specified information in this evidence as outlined in Exhibit
7 C, Tab 1, Schedule 1.
8

9 Hydro One is strongly of the view that its adoption of US GAAP for both financial
10 accounting and regulatory accounting and reporting purposes is in the best interests of all
11 stakeholders. Further as noted by the Board in its Decision With Reasons in EB-2011-
12 0268 issued on November 23, 2011 where it granted such approval for Hydro One
13 Transmission: “as the Board has found that Hydro One transmission rates should be set
14 on the basis of USGAAP, it would generally be inefficient to require the distribution
15 utility to use MIFRS for regulatory reporting and rate making”.

16 17 **4.0 IMPACT ON REVENUE REQUIREMENT** 18

19 It is estimated that the 2012 notional Hydro One Distribution revenue requirement would
20 be \$166 million higher if MIFRS were not replaced by US GAAP. MIFRS would result
21 in an approximate rate impact of +14% in 2012 as compared to US GAAP. It is further
22 estimated that over a five year period from 2012 to 2016, if MIFRS were used rather than
23 US GAAP, Hydro One Distribution revenue requirement would be about \$700 million
24 higher in total.

25 Details are provided in Exhibit C1, Tab 1, Schedule 2.

1

PROCEDURAL ORDERS – CORRESPONDENCE – NOTICES

2

**OSC APPROVAL OF HYDRO ONE REQUEST TO FILE UNDER US
GAAP**

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

August 11, 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 Requirement - US GAAP Considerations Update

In my letter of July 15, 2011, I indicated a copy of the Ontario Securities Commission's (OSC) approval to adopt US GAAP for securities will be provided to the Board. The OSC Decision approving the filing of Hydro One's financial statements in accordance with US GAAP for the financial years commencing on or after January 1, 2012 but before January 1, 2015 and the interim periods therein has been publicly disclosed on August 11, 2011.

The OSC Decision is attached and since it has now been publically disclosed, confidential treatment of the Decision is not required.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

Date: July 21, 2011

IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
HYDRO ONE INC.
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from the requirements under section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* (**NI 52-107**) that financial statements be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises (the **Exemption Sought**) to permit the Filer to prepare its financial statements in accordance with U.S. GAAP for its financial years that begin on or after January 1, 2012 but before January 1, 2015.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System* (**MI 11-102**) is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (the **Passport Jurisdictions**); and
- (c) the decision of the principal regulator automatically results in an equivalent decision in the Passport Jurisdictions.

Interpretation

Terms defined in National Instrument 14-101 - *Definitions*, MI 11-102 and NI 52-107 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer.

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The Filer is a reporting issuer or equivalent in the Jurisdiction and each Passport Jurisdiction and is not in default of securities legislation in any such jurisdiction.
3. The Filer is not an SEC issuer.
4. The Filer has "activities subject to rate regulation", as defined in the Handbook.
5. As a "qualifying entity" for the purposes of section 5.4 of NI 52-107, the Filer is permitted to prepare its financial statements for its financial year commencing January 1, 2011 and ending December 31, 2011 in accordance with Canadian GAAP - Part V of the Handbook.
6. Were the Filer an SEC issuer, it would be permitted by section 3.7 of NI 52-107 to file financial statements prepared in accordance with U.S. GAAP, which accords treatment of "activities subject to rate regulation" similar to that under Canadian GAAP - Part V of the Handbook.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

7. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that:
 - (a) for its financial years commencing on or after January 1, 2012 but before January 1, 2015 and interim periods therein, the Filer files its financial statements in accordance with U.S. GAAP; and
 - (b) information for comparative periods presented in the financial statements referred to in paragraph (a) is prepared in accordance with U.S. GAAP.
8. The Exemption Sought will terminate in respect of the Filer's financial statements for annual and interim periods commencing on or after the earlier of:
 - (a) January 1, 2015; and

- (b) the date on which the Filer ceases to have "activities subject to rate regulation" as defined in the Handbook as at the date of this decision.

CMZ

**HYDRO ONE REQUEST TO OSC FOR APPROVAL TO FILE
FINANCIAL STATEMENTS UNDER US GAAP**

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8
416.362.2111 MAIN
416.862.6666 FACSIMILE

PRIVILEGED & CONFIDENTIAL

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July 7, 2011

Michael Innes
Direct Dial: 416.862.4284
minnes@osler.com
Our Matter Number: 1126590

SENT BY COURIER AND ELECTRONIC MAIL

Ontario Securities Commission
19th Floor, 20 Queen Street West
Toronto, Ontario
M5H 3S8

Attention: David Mattacott, Applications Administrator

Dear Sirs/Mesdames:

Passport application under section 5.1 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* (NI 52-107) pursuant to National Policy 11-203 - *Process for Exemptive Relief Applications in Multiple Jurisdictions* (NP 11-203)

We are counsel to Hydro One Inc. (the **Filer**) and are filing this passport application (as defined in NP 11-203) on its behalf for a decision granting exemptive relief (the **Exemption Sought**) from section 3.2 of NI 52-107, which requires the Filer to prepare its financial statements in accordance with accounting principles generally accepted in Canada applicable to publicly accountable enterprises. The Exemption Sought would permit the Filer to prepare its financial statements in accordance with accounting principles generally accepted in the United States (**US GAAP**) for financial years that begin on or after January 1, 2012 but before January 1, 2015, without requiring the Filer to become an "SEC issuer" (as defined in NI 52-107).

Prior to filing this application, the Filer sent to the Ontario Securities Commission (the **OSC**) a pre-filing letter dated April 28, 2011 addressed to Cameron McInnis, Chief Accountant, Chief Accountant's Office. The pre-filing letter outlined the Filer's intention to file an application to permit the Filer to prepare and report its financial statements in accordance with US GAAP without requiring the Filer to qualify as an SEC issuer. We understand that representatives of the Filer and staff of the OSC held a discussion in respect of the pre-filing letter. We understand that on May 10, 2011, staff of the OSC advised the Filer to file a formal application in respect of the relief sought following the issuance of a decision in respect of a similar application made by an unnamed applicant, later revealed to be Enbridge Income Fund (**Enbridge**). Enbridge was granted the requested relief on June 3, 2011.

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The OSC is identified as the principal regulator for the purposes of this passport application under section 3.6(3)(b) of NP 11-203 on the basis that the head office of the Filer is located in the Province of Ontario. Pursuant to section 5.2(1)(a)(v) of NP 11-203, notice is hereby given that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System (MI 11-102)* is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

Given the fact the Exemption Sought is material to the Filer in the context of the presentation of its future financial statements, the Filer requests that this application and any supporting materials be held in confidence during the application review process in accordance with Section 5.4(1) of NP 11-203.

If the Exemption Sought is granted, the Filer expects to apply to the Ontario Energy Board (the **OEB**) to allow the Filer to use US GAAP for OEB rate setting purposes. A copy of this letter is also expected to be shared with the OEB on a confidential basis.

I. FACTS

A. Background to the Filer

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The authorized share capital of the Filer consists of an unlimited number of common and preferred shares. As at July 6, 2011, the Filer had 12,920,000 preferred shares and 100,000 common shares outstanding, all of which were owned by the Province of Ontario.
3. As at July 6, 2011, the Filer had approximately \$7.8 billion aggregate principal amount of senior unsecured medium term notes and debentures outstanding (none of which are convertible into equity securities of the Filer or any other issuer), which the Filer has issued pursuant to various prospectus offerings.
4. The Filer is a reporting issuer in each province of Canada and is not in default of any requirement of securities legislation in any such province.
5. The Filer is a holding company which, through its subsidiaries:
 - (a) distributes electricity and engages in electricity conservation and demand management activities; and
 - (b) transmits electricity to local distribution companies (**LDCs**) and non-LDC customers throughout the Province of Ontario.

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6. The bulk of the Filer's business is subject to rate regulation by the OEB, which has broad powers relating to the licensing, standards of conduct and service and the regulation of rates charged by the Filer and other electricity distributors and transmitters in the Province of Ontario.

B. Financial Statements of the Filer

7. The consolidated financial statements of the Filer have historically been prepared in accordance with Canadian generally accepted accounting principles (**CGAAP**), which permits the use of specific rate-regulated accounting treatments consistent with Part V of the Handbook of the Canadian Institute of Chartered Accountants (the **CICA Handbook**). Further, these specific rate-regulated accounting treatments are supported by specific regulatory decisions and treatments prescribed by the OEB consistent with its "Accounting Procedures Handbook for Electric Distribution Utilities" (the **AP Handbook**). Under Part V of the CICA Handbook, rate regulated utilities are obliged to record regulatory assets and/or liabilities to reflect the economic substance of OEB rate making policies, decisions and mechanisms.
8. Pursuant to Part 3 of NI 52-107, effective for fiscal years beginning on or after January 1, 2011, most reporting issuers that are neither "foreign issuers" (as defined in NI 52-107) nor SEC issuers are required to prepare and report their financial statements in accordance with CGAAP applicable to publicly accountable enterprises, which is equivalent to International Financial Reporting Standards ("**IFRS**").
9. Section 5.4 of NI 52-107 defers the application of Part 3 of NI 52-107 to "qualifying entities" for a period of one year until fiscal years beginning on or after January 1, 2012. A "qualifying entity" is defined in section 5.4(2) of NI 52-107 as a person or company that has activities subject to rate regulation, as defined in Part V of the CICA Handbook, and is permitted under CGAAP to apply Part V of the CICA Handbook.
10. The Filer is a "qualifying entity" for the purposes of section 5.4 of NI 52-107. As a "qualifying entity", the Filer is preparing its financial statements for its fiscal year commencing on January 1, 2011 and ending December 31, 2011 in accordance with CGAAP applying Part V of the CICA Handbook.
11. Section 3.7 of NI 52-107 permits an SEC issuer to prepare and report its financial statements in accordance with US GAAP.
12. An "SEC issuer" is defined in section 1.1 of NI 52-107 as an issuer that (a) has a class of securities registered under section 12 of the U.S. Securities Exchange Act of 1934, as amended (the **1934 Act**) or is required to file reports under section

OSLER

15(d) of the 1934 Act, and (b) is not registered or required to be registered as an investment company under the *Investment Company Act of 1940* of the United States of America, as amended from time to time.

13. The Filer is not an SEC issuer because it does not have a class of securities registered under section 12 of the 1934 Act and is not required to file reports under section 15(d) of the 1934 Act.
14. The Exemption Sought would permit the Filer to prepare its financial statements in accordance with US GAAP for financial years that begin on or after January 1, 2012 but before January 1, 2015 without becoming an SEC issuer.

C. Transition from CGAAP to IFRS

15. The transition by the Filer from CGAAP to IFRS required by section 3.2 of NI 52-107 for fiscal years beginning on or after January 1, 2012 would have serious consequences for the Filer and its customers.
16. As noted above, CGAAP permits the use of specific rate-regulated accounting treatments consistent with Part V of the CICA Handbook. These specific rate-regulated accounting treatments are supported by specific regulatory decisions and treatments prescribed by the OEB consistent with its AP Handbook. Under Part V of the CICA Handbook, rate regulated utilities are obliged to record regulatory assets and/or liabilities to reflect the economic substance of OEB rate-making policies, decisions and mechanisms.
17. The OEB has the general power to include or exclude costs, revenues, losses or gains in customer rates in respect of a specific period, potentially resulting in a change in the timing of accounting recognition from what would have applied in an unregulated company. Such a change in timing may result in the recognition of regulatory assets or liabilities.
18. The Filer's regulatory assets represent certain amounts receivable from future customers or costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The Filer's regulatory liabilities represent amounts for expenses incurred in different periods than would have been the case had the Filer been unregulated or amounts received from customers that are subject to future refund. The Filer's regulatory assets and liabilities are currently recorded, consistent with the provisions of Part V of the CICA Handbook, based on underlying OEB mechanisms and treatments. As at March 31, 2011, the Filer reported \$1,081 million of regulatory assets and \$623 million of regulatory liabilities.

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19. IFRS does not currently permit the recognition of rate-regulated assets or liabilities.
20. The Filer's transition from CGAAP to IFRS will result in significant de-recognition of its regulatory assets and liabilities which will be charged to its retained earnings. As further detailed in its MD&A for the three-month period ended March 31, 2011, the Filer expects that the effect of adopting IFRS will be a charge of approximately \$1.9 billion to retained earnings which, when considered with an additional 2011 IFRS transition adjustment, would reduce the Filer's retained earnings as at December 31, 2010 from approximately \$2.3 billion to approximately \$0.2 billion.
21. In addition to the derecognition of existing regulatory assets, IFRS will require a substantial change to the Filer's capitalization policy that will be mirrored for rate-setting purposes. As a result of its inability to capitalize certain overhead and indirect costs under IFRS, the Filer expects that the OEB will approve an increase in customer rates to permit the Filer to recover non-capitalizable overhead as a current period charge. The Filer estimates that the annual increases in electricity rates as a result of this change to the Filer's capitalization policy under IFRS will be approximately 15% with respect to the Filer's transmission business and 14% with respect to the Filer's distribution business. As a whole, the annual increase to the Filer's ratepayers related to adopting to the changes to the Filer's capitalization policy under IFRS is expected to be approximately 6%.
22. The use of IFRS will also distort the portrayal of the economic substance of the financial results of the Filer on a going-forward basis. The Filer's inability to record regulatory assets and liabilities on its balance sheet, as prepared under IFRS, is expected to significantly increase the earnings volatility in the Filer's statement of comprehensive income that is not reflective of underlying cash flows and would be inconsistent with the true economic performance of the Filer in the applicable reporting period.

D. US GAAP and becoming an SEC Issuer to use US GAAP

23. Unlike IFRS, but similar to Part V of the CICA Handbook, US GAAP accords specific accounting treatment to "activities subject to rate regulation". Under ASC 980, *Regulated Operations* (formerly Statement of Financial Accounting Standards #71), US GAAP provides for treatment of regulatory assets and liabilities that is consistent with that provided under Part V of the CICA Handbook.
24. A number of Canadian utilities are becoming, or have announced their intention to become, SEC issuers so that they may report in US GAAP under NI 52-107 and thereby retain the rate-regulated accounting treatment available under US

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GAAP, including Algonquin Power & Utilities Corp., Enbridge Inc., Emera Incorporated, Fortis Inc. and Nova Scotia Power Incorporated.

25. To become an SEC issuer, the Filer would be required to register its debt securities with the SEC under section 12 of the 1934 Act, and/or register an offering of securities under the U.S. Securities of 1933, as amended (the **1933 Act**).
26. The Filer expects to be able to fund its capital expenditures and other financing requirements from funds generated by its operations and through additional offerings of debt securities in Canada. To the extent the Filer determines it needs to raise capital in the United States, however, it expects to do so in unregistered offerings to “qualified institutional buyers” pursuant to the exemption from registration afforded by Rule 144A under the 1933 Act. Such unregistered offerings would not result in the Filer becoming an SEC issuer.
27. Becoming an SEC issuer and maintaining such status would impose substantial costs on the Filer, including those associated with registering and making filings with the United States Securities and Exchange Commission (**SEC**), as well as the assumption of additional regulatory and audit obligations. In addition, the Filer would be subject to heightened litigation risk in the United States due its more litigious environment.

II. SUBMISSIONS

28. NI 52-107 sets out acceptable accounting principles and auditing standards to be applied by issuers and registrants for financial statements filed or delivered to the Canadian securities regulatory authorities. The purpose of NI 52-107 is to ensure that market participants present their financial statements in a manner that is readily understandable and allows for comparisons among such statements. Under NI 52-107, a domestic registrant must use CGAAP, unless it is also registered with the SEC, in which case, as an SEC issuer, it may use US GAAP. In permitting SEC issuers to use US GAAP in their financial reporting, the Canadian Securities Administrators (**CSA**) have recognized that US GAAP, like IFRS, is an acceptable accounting framework, the use of which satisfies the continuous disclosure and investor protection objectives of NI 52-107.
29. The Filer does not believe that NI 52-107 was intended to encourage domestic issuers to become SEC issuers solely to permit them to use US GAAP. Rather, NI 52-107 simply recognizes the fact that US GAAP is an acceptable accounting framework in the eyes of the CSA.

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30. The Filer has no significant business operations or assets located in the United States and, in the absence of section 3.2 of NI 52-107, would be unlikely to make a registered offering of securities in the United States in the foreseeable future.
31. As noted above, because IFRS does not permit the Filer to record rate-regulated assets and liabilities, the adoption of IFRS will result in the distortion of the economic substance of OEB rate-regulated treatments in the context of the Filer's financial statements. US GAAP better represents the economic realities of the Filer's rate regulated business, providing a well recognized, accepted and comprehensive basis of accounting and financial reporting.
32. As noted above, the adoption of IFRS effective January 1, 2012 will result in a sizeable de-recognition of the Filer's existing regulatory assets and liabilities and a write-off of the net amount to January 1, 2010 retained earnings. In addition to the significant adverse impact on the Filer's retained earnings, the adoption of IFRS is expected to lead to significant electricity rate increases due to the required adjustments to the Filer's capitalization policy. Such increases will only result from an accounting change, not, for example, from an attempt to raise funds to build critical infrastructure. These increases would not result were the Filer to adopt US GAAP, which would permit the Filer to retain its current capitalization policy, as permitted under Part V of the CICA Handbook.
33. In considering its accounting principles, the Filer has also considered its future funding requirements. The Filer competes for debt financing in North America with other major electrical and natural gas utilities in Canada and the United States, as well as other major corporations. The Filer believes that in determining whether to invest in the securities of a utility company, a potential purchaser of debt securities will analyze a number of factors relating to the issuer and its comparable peer group, including financial results, earnings coverage ratios, debt-to-capital ratios and debt ratings. Were it to adopt IFRS, the Filer expects, at minimum, to have to provide a significant and extensive MD&A supplement to current reporting to explain the economic repercussions of the rate-setting process and its effects on its related cash flows, given that this would no longer be apparent from reported regulatory assets and liabilities in the financial statements. In addition, the Filer would come under pressure to provide supplemental financial metrics and other non-GAAP measures. A similarly situated issuer reporting in US GAAP would not be required to provide such disclosure. It is not reasonable to expect debt investors to take the time and expend the effort required to evaluate the accounting effect of IFRS on regulated utilities when this information is not clearly set forth in the financial statements themselves. The effort necessary to undertake such an analysis is significant and unlikely to be sustained on an ongoing basis. This will put the Filer as well as other Canadian utilities that report under IFRS at a significant competitive disadvantage in terms

OSLER

of being able to raise funds in the debt capital markets, as compared to issuers who report in US GAAP.

34. In contrast to the adoption of IFRS, the adoption of US GAAP will improve the ability of investors to analyze the Filer's financial position. Since US GAAP is very similar to Part V of the CICA Handbook, if the Filer is permitted to report under US GAAP, its financial results will be more comparable to the Filer's current results than would be the case were it to adopt IFRS. US GAAP would also enhance comparability with many of the Filer's industry peers who report or are planning to report their financial statements using US GAAP.
35. There should be little concern from a policy standpoint that permitting the Filer to use US GAAP, a mature, proven and appropriate set of financial reporting standards for rate-regulated entities, will create confusion in the marketplace. Generally speaking, US GAAP is well understood by investors and analysts in Canada. The Canadian securities regulatory authorities already accept financial statements of US issuers reporting in US GAAP without requiring their reconciliation to CGAAP. This regulatory stance reflects an awareness that Canadian investors can appreciate, understand and rely on US GAAP. Moreover, we understand that a number of debt analysts have expressed a clear preference for US GAAP over IFRS for rate-regulated utilities such as the Filer. They believe that the reporting of the effects of rate regulation on the Filer's financial statements under US GAAP promotes transparency and consistency and thereby facilitates financial analyses.
36. The issues surrounding the adoption of IFRS without regard to rate-regulated accounting and the inconsistencies between IFRS and rate-regulated accounting have been extensively discussed amongst industry professionals, issuers and regulators alike. Indeed, section 5.4 of NI 52-107 itself recognizes that rate-regulated entities are subject to specific considerations that would have made it inappropriate to require them to comply with section 3.2 of NI 52-107 at the same time as other issuers. It is respectfully submitted that there is no shortage of oversight or understanding by users of US GAAP financial statements. Should the Filer be permitted to adopt US GAAP without becoming an SEC issuer, there would be no reduction in the accuracy and completeness of the Filer's financial reporting. On the contrary, the relevance of the Filer's financial reporting would be improved compared to the alternative of adopting IFRS.
37. It is respectfully submitted, however, that it is not in the public interest to require the Filer to incur the compliance costs, liability risks and other expenses associated with becoming and remaining an SEC issuer solely for the purpose of enabling it to present its financial statements using US GAAP. This is particularly



the case given the significance of the Filer's place in the electricity market in the Province of Ontario.

38. The Exemption Sought would permit the Filer to use US GAAP for three financial years, commencing on January 1, 2012. This will allow the securities regulatory authorities to assess the consequences of granting the Exemption Sought in light of subsequent developments, including the potential for express recognition of rate regulated accounting under IFRS coincident with the adoption of IFRS in the United States. It would be unfortunate, to say the least, were the Filer to incur the substantial costs of becoming an SEC issuer for the sole purpose of adopting US GAAP, only for rate regulated accounting to subsequently become permissible under IFRS. In short, the proposed sunset provision in the Exemption Sought provides not only the securities regulatory authorities, but also the Filer, with time to evaluate alternatives and determine the best way to proceed in light of the significant ramifications for the Filer of adopting IFRS, as currently formulated.
39. We note that similar relief has been granted in *Re Enbridge Income Fund*, 2011 ABASC 314 and *Re Fortis Inc. et al*, 2011 OSCB 6705 on substantially similar facts as are being presented by the Filer in this application.

III. OTHER MATTERS

In connection with this application we enclose:

- (a) an authorization and verification statement of the Filer, authorizing us to make and file this application and verifying the truth of the facts contained herein;
- (b) a draft form of decision; and
- (c) a cheque in respect of the applicable filing fees.

The application and the draft decision document will also be sent to you via electronic mail under separate cover.

OSLER

Please contact me at the number above with any questions concerning this application.

Yours very truly,



Michael Innes

AH:

Enclosures

c: Laura Formusa, President and Chief Executive Officer, *Hydro One Inc.*

Sandy Struthers, Executive Vice-President and Chief Financial Officer, *Hydro One Inc.*

Ali Suleman, Vice President and Treasurer, *Hydro One Inc.*

Joe Agostino, General Counsel, *Hydro One Inc.*

Rod Crown, Assistant General Counsel, *Hydro One Networks Inc.*

Karen Newman, Vice President, Corporate Controller, *Hydro One Networks Inc.*

Frank D'Andrea, Director, Corporate Accounting and Reporting, *Hydro One Networks Inc.*

Steven Smith, *Osler, Hoskin & Harcourt LLP*

Anna Huculuk, *Osler, Hoskin & Harcourt LLP*

AUTHORIZATION AND VERIFICATION STATEMENT

We authorize Osler, Hoskin & Harcourt LLP to make and file the passport application dated July 7, 2011 on behalf of Hydro One Inc. and verify the truth of the facts stated therein.

DATED at Toronto, Ontario this 7th day of July, 2011.

HYDRO ONE INC.

By: 

Sandy Struthers
Executive Vice President and Chief
Financial Officer

Citation: ●

●

IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
HYDRO ONE INC.
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from the requirements under section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards (NI 52-107)* that financial statements be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises (the **Exemption Sought**) to permit the Filer to prepare its financial statements in accordance with U.S. GAAP for its financial years that begin on or after January 1, 2012 but before January 1, 2015.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System (MI 11-102)* is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (the **Passport Jurisdictions**); and
- (c) the decision of the principal regulator automatically results in an equivalent decision in the Passport Jurisdictions.

Interpretation

Terms defined in National Instrument 14-101 - *Definitions*, MI 11-102 and NI 52-107 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer.

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The Filer is a reporting issuer or equivalent in the Jurisdiction and each Passport Jurisdiction and is not in default of securities legislation in any such jurisdiction.
3. The Filer is not an SEC issuer.
4. The Filer has “activities subject to rate regulation”, as defined in the Handbook.
5. As a “qualifying entity” for the purposes of section 5.4 of NI 52-107, the Filer is permitted to prepare its financial statements for its financial year commencing January 1, 2011 and ending December 31, 2011 in accordance with Canadian GAAP - Part V of the Handbook.
6. Were the Filer an SEC issuer, it would be permitted by section 3.7 of NI 52-107 to file financial statements prepared in accordance with U.S. GAAP, which accords treatment of “activities subject to rate regulation” similar to that under Canadian GAAP - Part V of the Handbook.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

7. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that:
 - (a) for its financial years commencing on or after January 1, 2012 but before January 1, 2015 and interim periods therein, the Filer files its financial statements in accordance with U.S. GAAP; and
 - (b) information for comparative periods presented in the financial statements referred to in paragraph (a) is prepared in accordance with U.S. GAAP.
8. The Exemption Sought will terminate in respect of the Filer’s financial statements for annual and interim periods commencing on or after the earlier of:
 - (a) January 1, 2015; and

- (b) the date on which the Filer ceases to have “activities subject to rate regulation” as defined in the Handbook as at the date of this decision.

“●” (Name of signatory for the principal regulator)

● (Title)

Ontario Securities Commission

Filed: December 1, 2011
EB-2011-0399
Exhibit B
Tab 2
Schedule 1
Page 1 of 3

**EB-2011-0215 – HYDRO ONE NETWORKS’ 2012-2013 ELECTRICITY
DISTRIBUTION REVENUE REQUIREMENTS – US GAAP
CONSIDERATIONS**

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-2011-0215 – Hydro One Networks’ 2012-2013 Electricity Distribution Revenue Requirements – US GAAP Considerations

Further to my letter of April 29, 2011 regarding Hydro One Networks Inc.’s (Hydro One) intention to file a two-year Distribution Cost of Service Rate Application in late 2011, I am writing 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. If Hydro One decides to proceed to adopt US GAAP, and if any application made to the Ontario Securities Commission (“OSC”) is made and approved by the OSC, then Hydro One would file our 2012/13 Distribution Cost of Service Rate Application on a basis that reflects the adoption of US GAAP for rate making and financial reporting purposes beginning in 2012. The context and details are outlined below.

Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will transition to IFRS by January 1, 2012. 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 CGAAP. This will facilitate investor benchmarking to other large North American utilities.
- 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 we were to adopt US GAAP, then in our 2012/13 CO S filing we would clearly identify that the basis is US GAAP and provide work program variance analysis on that basis. Our application will identify both continuing and new capital projects such as the Customer Information System and provide evidence supporting the need and benefits of such capital expenditures.

Over the course of the summer we will prepare evidence for the 2012/13 filing. As is our custom we will arrange for stakeholder review sessions at appropriate times during the evidence development process. Also, we anticipate that there may be a need to request interim rates to allow for items such as the continuation of riders associated with Green Energy projects related to Distributed Generation.

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.

**HYDRO ONE DISTRIBUTION BUSINESS UTILIZATION OF US
GAAP AS OF JANUARY 1, 2012, DATED JUL 15, 2011**

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

July 15, 2011

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

Dear Ms. Walli:

Hydro One Networks Distribution Business: Utilization of US GAAP as of January 1, 2012

This is further to my letter of May 31, 2011. As the Board is aware, Hydro One Networks Inc. (Hydro One) was evaluating its option of adopting US General Accounting Principals (US GAAP) in lieu of IFRS. I can advise the Board that Hydro One has now opted to proceed in that fashion.

Hydro One requests that the Board make the following orders with regards to its Distribution Business: an order approving the utilization of US GAAP in lieu of modified international financial reporting standards (MIFRS) for regulatory accounting and reporting purposes as of January 1, 2012; and, an order approving Hydro One's use of US GAAP in lieu of MIFRS for its future Distribution Cost of Service Rate Applications. These requests are discussed below.

Adoption of US GAAP

Hydro One filed its official application with the Ontario Securities Commission (OSC) on July 7, 2011, seeking approval to utilize US GAAP as the basis for preparing its periodic public securities filings effective January 1, 2012. Hydro One anticipates receiving formal OSC approval to do so by the end of July 2011 and perhaps sooner.

In anticipation of that approval, Hydro One intends on utilizing US GAAP for regulatory accounting and reporting purposes as of January 1, 2012 and filing any future Distribution Cost of Service Rate Applications on a basis which reflects the adoption of US GAAP for ratemaking and financial reporting purposes beginning in 2012.

In its Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment, EB-2008-0408, the Board indicated that it will require utilities to explain the use of any accounting framework other than modified

international financial reporting standards (MIFRS) for regulatory purposes. In doing so, the Board noted that a utility would need to demonstrate its eligibility under the relevant securities legislation to report external financial information using that framework, would need to include a copy of the authorization to use the alternative framework from the appropriate Canadian Securities Regulator and to set out the benefits and potential disadvantages to the utility and its ratepayers.

As noted, Hydro One filed its application to the OSC on July 7, 2011. That application sets out the requirements under the formal securities legislation and outlines how Hydro One meets those requirements. A copy of this submitted application, subject to any subsequent changes requested by the OSC, is attached as a “Privileged and Confidential” document. Of course, once the formal order is received from the OSC, Hydro One will file that with this Board as well. Provision of these two documents fulfils the first two requirements outlined in the Addendum to Report of the Board.

Hydro One is of the view that there is significant value to both ratepayers and the shareholder in using US GAAP for regulatory purposes. Use of a consistent financial accounting framework for both external/internal 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. The impacts of Board rate Decisions can be clearly reflected as regulatory assets, liabilities or accounting policy treatments under US GAAP. It is a benefit to the Board, Hydro One, and interested stakeholders to compare financial information provided in the regulatory process to Hydro One’s audited financial statements. This provides all participants with assurance of the integrity of the information.

The use of a consistent accounting framework for financial and regulatory reporting reduces Hydro One’s costs from what they otherwise would be if inconsistent frameworks were used. Amongst other things, the alternative would be to have dual reports and reconciliations, parallel transaction processing, and dual IT systems and ledgers. The cost savings is a direct benefit to ratepayers. The utility also benefits from a consistent accounting methodology by having a better ability to present economic consequences of rate regulation in its audited external financial statements. This provides more meaningful and reliable information regarding the economic substance of Hydro One’s business and operations to its external investors and analysts.

In addition, ratepayers are expected to benefit materially as a result of the retention of two specific accounting policies which cannot be retained under IFRS due to the specific requirements of IAS 16, “Property, Plant and Equipment”. IAS 16 prohibits the capitalization of certain overheads and indirect costs that currently qualify for capitalization under both Canadian and US GAAP. Hydro One capitalizes these expenditures based on causality and benefit based studies performed by an expert external consultant. These studies are filed as part of Hydro One’s cost of service applications. The resulting overhead allocation and capitalization rates support the direct attribution of overheads to capital assets, including self-constructed fixed and intangible assets. Under US GAAP, Hydro One would retain its existing capitalization policies with respect to overheads and indirects.

Retaining existing capitalization policies benefits customers by avoiding a significant rate increase driven by specific rules found in IAS 16. Allowing Hydro One to continue with its

current overhead capitalization accounting treatment will reduce future annual distribution revenue requirement compared to the MIFRS alternative as of January 1, 2012 and beyond. This is particularly salient in a time where ratepayers and the Board are both expressing heightened concerns about the cost of electricity.

In addition, US GAAP allows continued use of group depreciation methods. IAS 16 does not. If US GAAP is approved as Hydro One's regulatory accounting and reporting framework, Hydro One will continue its existing depreciation accounting policies, including the use of group depreciation. This results in depreciation rates and annual depreciation expenses that will be lower than those available under MIFRS. Over the long run these rates will more closely reflect the average service life of all in-service assets. This will avoid future rate increases that would accompany the use of item depreciation, which does not take into consideration the dispersion of asset expected service lives within a group. The use of group depreciation rates also relieves the utility of the risk of not recovering unforecast or unforecastable premature asset retirement losses.

Hydro One is aware that the Board favours consistency in accounting methodology across local utilities. Hydro One acknowledges that its transition to US GAAP will not facilitate comparison with other local distribution companies. However, the adoption of US GAAP will improve Hydro One's ability to benchmark with other large North American utilities and other entities that are retaining or adopting US GAAP. In the future, once appropriate normalization adjustments have been made, local benchmarking can still take place.

Hydro One notes that those who are involved in setting standards for US and international accounting are working closely together, and expect to do so more significantly in the future. As a result of this cooperative effort, US and international accounting frameworks continue to converge. The use of rate-regulated accounting remains as one of the few major differences requiring resolution. As the Board noted in its Addendum Report, "Hydro One pointed out that differences between US GAAP and IFRS are concentrated in specific well-defined areas where the potential impacts can be easily understood." Thus, Hydro One remains of the view that its use of US GAAP will not lead to the confusion or unmanageable complexity that was previously expressed as a concern.

Note that similar adoption of US GAAP in 2012 by the HON Transmission business would also result in a material benefit to ratepayers for all the same reasons and such a request has been submitted recently to the OEB in a Motion To Vary the Board's Decision in the EB-2010-0002 proceeding. Further, this Board's approval of US GAAP for ratemaking and financial reporting purposes beginning in 2012 for both Hydro One's Distribution and Transmission businesses would ensure that cost efficiencies will be maintained through consistency of approach.

For the foregoing reasons, Hydro One remains of the view that its adoption of US GAAP for both financial accounting and regulatory accounting and reporting purposes is in the best interests of the utility and its ratepayers.

Accordingly, Hydro One asks for this Board's approval to utilize US GAAP in lieu of MIFRS for regulatory accounting and reporting purposes as of January 1, 2012 as well as proceed to file its future Distribution Cost of Service Rate Applications utilizing US GAAP.

I trust the foregoing is satisfactory. If the Board has any questions or concerns, please do not hesitate to contact me.

Yours very truly,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Enc.

Privileged and Confidential

Hydro One Submission to OSC dated July 7, 2011

REDACTED

OEB DECISION WITH REASONS EB-2011-0268

**Ontario Energy
Board**

**Commission de l'énergie
de l'Ontario**



EB-2011-0268

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

**2012 TRANSMISSION REVENUE REQUIREMENT AND
RATES**

**Request to adopt USGAAP for rate application filings, regulatory
accounting and regulatory reporting commencing January 1, 2012.**

DECISION WITH REASONS

November 23, 2011

Background

Hydro One Networks Inc. (“Hydro One”) is a licensed Ontario electricity transmitter.

On December 23, 2010, the Ontario Energy Board issued its EB-2010-0002 Decision with Reasons (the “Decision”) determining Hydro One’s 2011 and 2012 transmission revenue requirement. The Decision included a provision for the company to begin using Modified International Financial Reporting Standards (“MIFRS”) for rate setting, regulatory accounting and reporting starting in the 2012 rate year.

The Board issued a rate order on January 18, 2011, which set the Ontario Uniform Transmission Rates effective January 1, 2011. The Hydro One transmission revenue requirement for 2012 and the 2012 Uniform Transmission Rates will be updated to reflect the Board’s fall 2011 Cost of Capital parameters.

The Motion

On July 15, 2011, Hydro One filed a Notice of Motion with the Board seeking to vary the Decision. The Motion sought to review and vary the Decision to permit Hydro One to use United States Generally Accepted Accounting Principles (“USGAAP”) as the basis for rate application filings, regulatory accounting and regulatory reporting commencing January 1, 2012.

The Motion also sought to adjust the 2012 revenue requirement previously approved by the Board and to adjust the variance accounts approved in the Decision, to reflect the adoption of USGAAP rather than MIFRS for regulatory purposes. This would have the effect of reducing the 2012 transmission revenue requirement by \$195 million, from \$1,657.6 million to \$1,462.3 million.

The Motion was copied to all intervenors in the EB-2010-0002 proceeding. In the Motion, and by letter dated August 11, 2011, Hydro One informed the Board that it had sought, and on July 21, 2011 received, approval from the Ontario Securities Commission (“OSC”) to use USGAAP as the basis for preparing its financial statements for public securities filings beginning January 1, 2012 and terminating January 1, 2015.

On August 25, 2011, the Board issued a Decision, Notice of Hearing and Procedural Order No. 1. The Board determined under Rule 45 of the Rules of Practice and Procedure that the matter ought not to be considered as a review of the Decision.

However, the Board did determine that on its own motion, it would commence a hearing under section 78 of the *Ontario Energy Board Act, 1998* to consider adjustments to Hydro One's 2012 transmission revenue requirement and other adjustments to variance accounts that may be necessary should Hydro One use USGAAP rather than MIFRS for regulatory purposes.

The Board indicated that it would restrict its consideration of the 2012 transmission revenue requirement and transmission rates to adjustments related to the adoption of USGAAP by Hydro One.

The Proceeding

The Board assigned File No. EB-2011-0268 to the proceeding. The Board also granted intervenor status to all intervenors in the previous Hydro One transmission proceeding (EB-2010-0002).

Procedural Order No. 1 provided for the submission of additional evidence by Hydro One, and for interrogatories and responses. Hydro One filed additional evidence on September 6, 2011 which included the following requests:

- Approval to utilize USGAAP as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012 in a manner appropriate for a rate regulated entity.
- Acknowledgement and approval that if USGAAP is adopted to establish the revenue requirement and rates for Hydro One Transmission, it is appropriate for Hydro One Networks to do so for Hydro One Distribution.
- A reduction to the base revenue requirement from \$1,657.6 million to \$1,462.3 million for 2012.
- Approval of an increase in the 2012 capital expenditures from \$781.3 million to \$981.3 million.
- Approval of an increase in the 2012 rate base from \$8,726.3 million to \$8,774.4 million.

- Approval to discontinue the Impact for Changes in IFRS Account (2012 only), the IFRS – Gains and Losses Account (2012 only), and the IFRS Capitalization Policy Variance Account (2012 only).
- Approval to continue, with a revised scope, the IFRS Incremental Transition Costs Account.
- Approval to establish a new Impact for USGAAP Account (2012 only).

The Board's *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* (EB-2008-0408) (the "Addendum") issued on June 13, 2011, sets out the Board's expectations regarding proposals to use USGAAP:

A utility, in its first cost of service application following the adoption of the new accounting standard, must demonstrate the eligibility of the utility under the relevant securities legislation to report financial information using that standard, include a copy of the authorization to use the standard from the appropriate Canadian securities regulator (if applicable) showing any conditions or limitations, and set out the benefits and potential disadvantages to the utility and its ratepayers of using the alternate accounting standard for rate regulation.

The Board cautions utilities that the adoption of USGAAP as a short term solution may be counter-productive. If a utility is required to transition to IFRS for financial reporting purposes a few years after adopting USGAAP, certain transitional issues may not have been avoided, but delayed, and additional costs may be incurred if the utility changes its accounting standard twice. The Board will carefully scrutinize the costs incurred to accomplish two successive transitions if the utility seeks to recover these costs from ratepayers.¹

Hydro One filed the approval from the Ontario Securities Commission to adopt USGAAP and also filed Ontario Regulation 395/11 under which Hydro One Inc. is required to prepare its financial statements in accordance with USGAAP, beginning January 1, 2012.

¹ *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* (EB-2008-0408) (the "Addendum") June 13, 2011, page 19

Submissions were filed by Board staff, the Power Workers Union, London Property Management Association, Canadian Manufacturers and Exporters, Consumers Council of Canada, School Energy Coalition (“SEC”), Association of Major Power Consumers of Ontario (“AMPCO”) and Vulnerable Energy Consumers Coalition on October 17, 2011 and reply submissions were filed by Hydro One on October 25, 2011.

Positions of the Parties

Adoption of USGAAP for Hydro One Transmission

Intervenors and Board staff generally supported Hydro One’s request to utilize USGAAP as the regulatory accounting and rate setting framework for the company’s transmission business and the proposed adjustments to 2012 transmission revenue requirement and rate base. All parties were satisfied that the transition to USGAAP instead of MIFRS would be of substantial benefit to ratepayers and stakeholders. The parties cited the following benefits from adopting USGAAP:

- Reduced revenue requirement and rate impacts;
- Increased rate stability as USGAAP is very similar to Canadian GAAP; currently being used by Hydro One, and deferral and variance accounts can continue to be used if rate smoothing is needed;
- Higher retained earnings (estimated at \$2 billion);
- Reduced regulatory compliance costs since Hydro One will not have to duplicate transactional accounting in two sets of books and reconcile them;
- Alignment of the accounting frameworks used for external financial reporting and rate making providing a clearer and more understandable relationship between the accounting basis used to set rates and that used to report results; and
- Improved ability to benchmark Hydro One against other large North American transmission utilities and other regulated entities which are retaining or adopting USGAAP.

AMPCO submitted that Hydro One did not provide sufficient evidence on the potential disadvantages. AMPCO highlighted three areas of concern:

- The possibility that Hydro One will be required to switch to IFRS for financial reporting in 2015, and that there may be cost issues. The resulting transitional issues represent a potential disadvantage that needs to be evaluated.

- Allowing Hydro One to use a different accounting standard than the other Ontario utilities adds a new layer of complexity to regulation that is not desirable and may not allow for a meaningful comparison with other utilities
- Under USGAAP Hydro One would be able to accumulate assets and grow at a faster pace than other utilities under MIFRS, due to differences in capitalization. As a result, Hydro One could potentially have an unfair advantage over other utilities and the Board should consider whether this represents equitable treatment for all utilities or unduly favours Hydro One.

Hydro One replied that it is unclear what the alleged disadvantages are. Hydro One pointed out that the need to cease the use of USGAAP in 2015 is not a certainty and Hydro One would always have the option to issue debt in the United States and become a U.S. Securities and Exchange Commission issuer.

Deferral and Variance Accounts

Parties also did not oppose the discontinuation of certain previously approved Deferral and Variance Accounts: Impact for Changes in IFRS Account, the IFRS – Gains and Losses Account and the IFRS Capitalization Policy Variance Account.

Board staff expressed concern over the establishment of the Impact for USGAAP Account, indicating that insufficient evidence was provided to support the creation of this account. Board staff submitted that the main justification for the adoption of USGAAP by Hydro One is the elimination or reduction of differences between CGAAP and IFRS that would have large impacts on the utility and its revenue requirement. If the Board agrees to adjust rates to reflect the adoption of USGAAP in preference to MIFRS, it should be able to rely on Hydro One's evidence that the impacts of a transition to USGAAP will be minimal. Board staff invited Hydro One to provide further justification of the need for this account in its reply submission.

SEC supported the proposed Impact for USGAAP Account, but submitted that it should be re-characterized as "Impact of Changes in USGAAP Account". In SEC's view, this is consistent with the Decision, where the Board said:

The Impact for Changes in IFRS Account is approved to record the impact on revenue requirement of changes in IFRS arising between those IFRS standards in force at the date of the company's application and those in force at the time of their next application, i.e. IFRS to IFRS changes. The Board considers it reasonable that Hydro One be allowed to record the effects from changes that

might arise under IFRS after the date of their application for consideration in a future proceeding. This account is not for use in recording differences between Canadian generally accepted accounting principles and IFRS. [Decision, p. 58]

SEC submitted that the same reasoning applied to USGAAP. Hydro One is proposing a change to that accounting standard, and must be presumed to have reviewed all of the impacts of that change. In SEC's view, all such impacts should be included in the application, and the company should be at risk if they are not. SEC noted that under the Board's rules, Hydro One is allowed to make accounting changes approved by the Board, which in this case would be limited to the change in capitalization policy requested. In the event that Hydro One discovers further differences between CGAAP and USGAAP, SEC submitted that the company must either make a separate application to reflect those differences, or wait until its next rate case to implement them.

Hydro One responded that it is proposing a symmetrical variance account to track any yet to be identified differences which could arise from the transition to USGAAP from the current accounting framework. Hydro One submitted that the requested account is generally consistent with previous IFRS accounts approved by the Board when a rate application was submitted prior to completion of an accounting change project.

With respect to the IFRS Incremental Transition Costs Account, SEC submitted that Hydro One elected late in the process to go with USGAAP instead of IFRS. SEC submitted that there will likely be a duplication of expenditures, which should not be to the account of ratepayers. SEC referred to page 19 of the Addendum, which makes clear that costs of two transitions may not be recoverable from ratepayers.

SEC submitted that the IFRS Incremental Transition Costs Account should be changed to "USGAAP Incremental Transition Costs Account", and that only USGAAP transition costs should be eligible for that account. Where there are costs that were incurred for IFRS transition, but are also applicable for USGAAP, those costs should also be eligible. The rest of the IFRS transition costs, including those already included in 2011 and 2012 rates, should not be recoverable in SEC's view.

Adoption of USGAAP by Hydro One Distribution

There was general support from intervenors for the concept that if Hydro One Transmission is granted approval to use USGAAP then it is also appropriate for Hydro One Distribution to use the same accounting standard.

Some intervenors, though, took the view that this was a decision that is more appropriately made by the Board panel that adjudicates the next Hydro One Distribution rates case.

There were also some concerns expressed with respect to the implications of the adoption of USGAAP by the distribution business. Board staff submitted that it would increase the difficulty in benchmarking Hydro One Distribution with other Ontario electricity distribution utilities. While Hydro One's evidence showed that benchmarking between its Distribution business and other Ontario distributors can still take place once normalization occurs, and that any required adjustments could reasonably be made on a top-down basis, Board staff invited Hydro One to address in its reply submission whether there are any specific accounting standards and practices that must be uniform among all Ontario distribution utilities to allow robust benchmarking to occur. Staff also requested Hydro One to provide an example of a reconciliation to effectively compare Hydro One Distribution, with rates set on a USGAAP basis, to other Ontario electricity distribution utilities, with rates set on a MIFRS basis.

Hydro One responded that it will continue to be able to benchmark with other distributors. In the company's view, OM&A cost comparisons can still be made between Hydro One's Distribution Business, operating under USGAAP, and other Ontario distributors subject to MIFRS following the application of appropriate top-down adjustments to Hydro One's actual OM&A costs to adjust them to an MIFRS basis. Hydro One submitted that it has a good understanding of how its OM&A costs would be impacted by a move to MIFRS and which costs disallowed for capitalization under MIFRS would have to be added.

Hydro One agreed that total cost benchmarking presents more of a challenge over time due to the inclusion of depreciation expense in total costs. Hydro One allowed that calculating a top-down adjustment for depreciation expense would be difficult due to multiple accounting differences affecting property, plant and equipment balances that are subject to different capitalization policies under USGAAP versus MIFRS. Further, benchmarking depreciation for distributors will present substantial challenges for the

Board in any event as all utilities are now free to select their own asset componentization and depreciation rates under MIFRS as long as they are considered reasonable by the Board.

Hydro One concluded that no matter what adjustments are made, it would not resolve the historical difficulties inherent in benchmarking Hydro One's essentially rural distribution business with other Ontario distributors that primarily operate urban systems. Hydro One pointed out that the Board's own consultant, Pacific Economics Group, when establishing benchmarking of costs amongst all Ontario power distributors, indicated that unit cost appraisal on Hydro One cannot be done due to the lack of comparably-scaled Ontario peers. Hydro One therefore submitted that it does not believe that there is a need to modify its financial information to allow comparison between Hydro One using USGAAP with other Ontario distributors using MIFRS.

Capitalization

SEC noted the concern expressed by the Board in the Decision that Hydro One's approach to overhead capitalization was "at the high end of accepted practice under Canadian GAAP". SEC submitted that the Board should require Hydro One to conduct a full review of its overhead capitalization policies for filing with the next rate case. The Canadian Manufacturers and Exporters supported this proposal. SEC maintained that the review should include not only an analysis of the rationale for Hydro One's current policy, but also comparisons to other large transmission and distribution utilities in Canada and the United States. SEC suggested that the review should be prepared for the next Transmission rates application, but that it should be made available to the Board as early as possible in Hydro One's 2012-2013 distribution rates proceeding.

Hydro One responded that it capitalizes overheads based on independent external studies, applying causality and benefit principles that are subject to Board review and approval. Hydro One noted that in the prior and past transmission applications the company has filed studies by external consultants supporting its capitalization methodology. Hydro One indicated that it will continue to file such studies as part of its cost of service applications which are available for review.

Hydro One submitted that it is not necessary for it to conduct a benchmarking study to support its capitalization policy because the overhead capitalization policy has to be specific to each utility based on how the business carries out its work activities. Hydro One concluded that utility specific studies are the most appropriate.

Board Findings

Over the last several years the Board has worked with the full range of stakeholders to consider the implications of the apparent global adoption of International Financial Reporting Standards (“IFRS”). This culminated in the production of the *Report of the Board, Transition to IFRS* in July 2009 and subsequently the issuance in June 2011 of the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*.

These consultations resulted in guidance from the Board to the effect that it expected the regulated utilities to use modified IFRS for the purposes of reporting to the Board and preparing rate applications.

This approach is consistent with the global adoption of IFRS as a reporting standard for corporations, while recognizing that the regulatory environment has some special attributes and requirements unavailable in unmodified IFRS. These differences centered primarily on the recognition of regulatory assets, such as deferral accounts, depreciation accounting, and capitalization practice. As expressed in its Report and the Addendum, for the Board's purposes IFRS was modified to enable regulated utilities to take into account the normal incidents of the regulated environment in a way that was functional and fair to all interests.

The Board's decision in EB–2010–0002 was consistent with the Board's general guidance to the regulated community in its adoption of MIFRS for Hydro One's transmission business.

It should be noted that the Board does not regulate the accounting system adopted by any regulated utility for general financial reporting purposes. Unless otherwise constrained by other regulatory requirements, utilities are free to adopt whatever accounting system they choose for such purposes. The Board's primary concern with respect to the choice of financial reporting accounting systems relates to its consideration of any additional costs that may be incurred as the result of maintaining two separate books of account for two separate accounting regimes.

The Board continues to be convinced that the adoption of modified IFRS for regulatory purposes is the most appropriate step for the utilities it regulates. The Addendum report noted, however, that if a utility can make a convincing case that another approach is

more appropriate for its circumstances it is free to apply to adopt it. The report explicitly acknowledged that the transition to USGAAP may be an option favoured by a utility.

The Board is satisfied that Hydro One has made a case for its transition to USGAAP for its transmission business, effective January 1, 2012. The Board takes this view in light of the particular circumstances presented by this applicant at this time. Among these considerations is the fact that the transition will enable the company to reduce its revenue requirement by a significant amount. This reduction is attributable largely to the varying treatment of capitalization as between MIFRS and USGAAP. This effect is not expected to be universal among regulated utilities, and variations which are not as significant as the one occasioned by this application may not be sufficient to justify deviation from the Report's guidance which indicates that it is desirable to have consistency and uniformity across utilities. The Board "will require utilities to explain the use of an accounting standard other than MIFRS for regulatory purposes."

But in this case the variation is significant.

This effect formed the basis of the support for the proposal of the applicant from a widely diverse group of intervenors. Virtually all of the intervenors regarded the reduction in revenue requirement as an extremely attractive and compelling reason to permit the company to transition to USGAAP.

In addition, the Board notes that the government has passed a regulation which requires the company to conduct its financial reporting in the USGAAP format. This means that if the Board were to insist on the use of modified IFRS, for regulatory purposes, the company would necessarily incur additional expense in maintaining two separate sets of books, reflecting two separate accounting regimes.

The Board also notes that the company has procured an exemption from the securities regulator, the Ontario Securities Commission, to enable it to conduct its financial reporting in the USGAAP format.

AMPCO expressed concern that the exemption granted by the OSC is time-limited and that if Hydro One switches to MIFRS in 2015, additional costs could be incurred. Hydro One has indicated, however, that the exemption could be extended. The Board further notes that it has articulated its policy with respect to the costs of two transitions in the Addendum Report, which clarifies that the costs of two transitions may not be

recoverable from ratepayers. The Board therefore considers the risk of additional costs being recovered from ratepayers due to two transitions to be minimal.

With respect to the concern that meaningful comparisons with other entities will be difficult if Hydro One is on USGAAP and others are on MIFRS, the Board notes that Hydro One Transmission does not have entities in Ontario that can serve as meaningful comparators. Moving to USGAAP may offer advantages in enabling more meaningful benchmarking possibilities.

In summary, the advantages of Hydro One transitioning to USGAAP argue in favour of granting the applicant's request to use USGAAP for regulatory purposes. The Board therefore approves all the resulting adjustments to the 2012 transmission base revenue requirement, capital expenditures and rate base as identified by Hydro One is its evidence.

The Board agrees that the three existing accounts should be discontinued, namely, the Impact for Changes in IFRS Account, the IFRS – Gains and Losses Account and the IFRS Capitalization Policy Variance Account. All three of these accounts have zero balances and cannot be increased under USGAAP. The Board therefore finds they are no longer required.

The Board will also approve creation of a new deferral account entitled “USGAAP Incremental Transition Costs”, which can be used to track costs associated with the transition to USGAAP, but which shall not include any costs attributable to the heretofore planned transition from CGAAP to IFRS. The exception would be those costs that were required for the transition to MIFRS and that are still required for the transition to USGAAP.

The Board also approves the establishment of an “Impact for USGAAP Account”, which will be a symmetrical variance account to record the 2012 impact of differences between CGAAP and USGAAP. Upon request for disposition of this variance account, the Board will take into account whether Hydro One adequately reviewed in its application all of the impacts of the accounting changes associated with the transition, which in this case have been identified as only changes in capitalization policies.

The Board does have one concern with respect to the transition to USGAAP.

The Board has an interest in ensuring that capitalization practices among the utilities it regulates are as consistent with each other as possible, or that the differences between them can be appropriately normalized and accounted for. Some commentators have suggested that one of the primary virtues of the IFRS accounting format is a degree of regularization of capitalization practice.

In its submissions, SEC argues that Hydro One's capitalization policies to date have tended to be aggressive. While the company attempted to rebut this suggestion in its reply submission, the Board considers it appropriate to require Hydro One to conduct a critical review of its current and proposed capitalization practices. This review shall not be a benchmarking study per se, but should include information with respect to what other U.S. transmitters typically capitalize and the capitalization methodologies used by other transmitters with a view to comparing these to Hydro One's capitalization policies. This review should be available in time for the company's next rate application. While the Board will not require Hydro One to do so, the company is encouraged to engage the intervenors in the development of the terms of reference for the review, to ensure that it is appropriately directed.

Considerable comment was provided by the intervenors respecting the application of USGAAP not just for the transmission side of the applicant's business, but also for its distribution business.

The Board agrees that on the basis of the record presented in this application, it may be appropriate for Hydro One to adopt USGAAP for distribution rate applications and regulatory reporting. This finding is consistent with the Board's policy in its Addendum Report, which reaffirmed the principle in the original Report of the Board: that to require a utility to file and report in MIFRS when that utility is performing financial reporting under a different accounting standard is generally not desirable. In addition, as the Board has found that Hydro One transmission rates should be set on the basis of USGAAP, it would generally be inefficient to require the distribution utility to use MIFRS for regulatory reporting and rate making.

However, Hydro One must address this issue on the record of its next distribution rate application. The current application has been structured so as only to address the revenue requirement of the transmission business and the consequential Uniform Transmission rates. The Board will require Hydro One Distribution to file the information required on page 19 of the Board's Addendum, and particularly to address the potential

disadvantage raised by intervenors and Board staff of the increased difficulty in benchmarking Hydro One Distribution to other Ontario distributors if Hydro One uses the USGAAP accounting standard.

The Board notes that its policy states that a cost-of-service application is required for approval to transition to USGAAP. However, given the unique circumstances of Hydro One Transmission and Hydro One Distribution, the Board does not believe this applicant should be precluded from applying to extend the use of the USGAAP accounting standard to the Distribution business on appropriate terms and conditions, as a stand-alone application. That application would, of course, have to be considered on its own merits if and when it is made.

IMPLEMENTATION MATTERS AND COST AWARDS

Implementation

This decision will result in a modification of the Board's EB-2001-0002 Transmission Revenue Requirement and Rates Decision issued on December 23, 2010.

The Board directs Hydro One to file with the Board and all intervenors of record, a draft exhibit showing the final revenue requirement to reflect the Board's findings in this Decision. The exhibit should reflect the relevant aspects of the Board's original EB-2010-0002 decision, as appropriate. This filing should also include the update of the Board's Cost of Capital parameters issued on November 10, 2011.

Ontario Uniform Transmission Rates

Transmission rates in Ontario have been established on a uniform basis for all transmitters in Ontario since April 30, 2002. The revenue requirements for each of the three rate pools for each of the four transmitters are added to calculate the total transmission revenue requirement for each pool. The totals for each pool are divided by the charge determinant applicable for the pool to derive the uniform transmission rate.

The transmission revenues collected by the Independent Electricity System Operator are allocated by the System Operator to each of the four transmitters on the basis of revenue allocators approved by the Board. The revenue allocators are calculated by taking the percentage of the revenue for each transmitter and dividing it by the total

combined revenue of all the transmitters. The Board's findings in this proceeding will change both the charges for the three pools and the revenue allocators for each of the transmitters.

As noted above, the Board has directed Hydro One to file with the Board and all intervenors of record, a draft exhibit showing the final 2012 revenue requirement to reflect the Board's findings in this Decision.

In addition, at the same time, Hydro One shall file an exhibit showing the calculation of the uniform transmission rates, and revenue shares resulting from this Decision. This exhibit should include the most recent approved 2012 revenue requirements and pool load forecasts for each of the other Ontario transmitters including the most recent decisions for Great Lakes Power Transmission Inc., Canadian Niagara Power Inc. and Five Nations Energy Inc.

Hydro One shall file these exhibits no later than 21 calendar days after the issuance of this Decision. Hydro One should provide a clear explanation of all calculations and assumptions used in deriving the amounts used in these exhibits. Intervenors and Board staff shall have 7 calendar days to comment on Hydro One's exhibits. The Board notes that all three of the remaining Ontario transmitters are approved intervenors in this proceeding.

Hydro One should respond as soon as possible to any comments by intervenors or Board staff, but not later than 7 days after the deadline for comments from intervenors. If any specific matter has not been dealt with for purposes of drafting the rate order to implement the new rates or dispose of the deferral/variance accounts, Hydro One shall clearly identify these in its filing.

Cost Awards

A number of intervenors were deemed eligible for cost awards in the previous Hydro One transmission EB-2010-0002 proceeding. On August 25, 2011, the Board issued its Decision, Notice of Hearing and Procedural Order No. 1 and among other items, granted intervenor status for the USGAAP proceeding to all intervenors in the EB-2010-0002 proceeding. Accordingly, the Board will receive cost claims from eligible intervenors for the EB-2011-0268 proceeding and will issue a cost awards decision after the steps set out below are completed.

1. Intervenors eligible for cost awards shall file with the Board and forward to Hydro One their respective cost claims within 35 days from the date of this Decision.
2. Hydro One may file with the Board and forward to intervenors eligible for cost awards any objections to the claimed costs within 40 days from the date of this Decision.
3. Intervenors, whose cost claims have been objected to, may file with the Board and forward to Hydro One any responses to any objections for cost claims within 47 days of the date of this Decision.

Hydro One Networks Inc. shall pay the Board's costs of and incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2011-0268**, be made through the Board's web portal at, www.errr.ontarioenergyboard.ca and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: Boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (toll free)
Fax: 416-440-7656

DATED at Toronto, November 23, 2011

ONTARIO ENERGY BOARD

Original Signed By

Cynthia Chaplin
Presiding Member

Original Signed By

Paul Sommerville
Member

Original Signed By

Marika Hare
Member

1 outlines Hydro One's eligibility requirements for the exemption sought. The application
2 and the approval can be found at Exhibit B, Tab 1, Schedules 2 and 1 respectively. This
3 satisfies the first two Board filing requirements specified in the Addendum Report.

4
5 The final filing requirement is to set out the benefits and potential disadvantages to the
6 utility and the ratepayers.

7
8 Hydro One is of the view that there is significant value to both ratepayers and its
9 shareholder in using US GAAP for regulatory purposes. Use of a consistent financial
10 accounting framework for both external/internal financial reporting and regulatory
11 accounting and reporting preserves the existing link between audited financial statements
12 and financial information and documentation utilized in rate applications and regulatory
13 reports. The impacts of Board rate Decisions can be clearly reflected as regulatory assets,
14 liabilities or accounting policy treatments under US GAAP. It is a benefit to the Board,
15 Hydro One, and interested stakeholders to compare financial information provided in the
16 regulatory process to Hydro One's audited financial statements. This provides all
17 participants with assurance of the integrity of the information.

18 In addition, the use of a consistent accounting framework for financial and regulatory
19 reporting reduces Hydro One's costs from what they otherwise would be if different
20 accounting frameworks were used. Amongst other things, the alternative would be to
21 have dual reports and reconciliations, parallel transaction processing, and dual IT systems
22 and ledgers. Further, as Hydro One Transmission has received approval from the OEB to
23 utilize US GAAP for rate setting and regulatory reporting and accounting purposes,
24 further duplication of efforts and complexities would result if Hydro One Distribution
25 were required to utilize MIFRS. The cost savings is a direct benefit to ratepayers. The
26 utility also benefits from a consistent accounting methodology by having a better ability
27 to present economic consequences of regulatory matters in its audited external financial
28 statements. This provides more meaningful and reliable information regarding the

1 economic substance of Hydro One's business and operations to its external investors and
2 analysts.

3 Ratepayers are also expected to benefit materially as a result of the retention of two
4 specific accounting policies which cannot be retained under IFRS due to the specific
5 requirements of IAS 16, "property, plant and equipment". IAS 16 prohibits the
6 capitalization of certain overheads and indirect costs that currently qualify for
7 capitalization under Canadian and US GAAP. Hydro One capitalizes these expenditures
8 based on causality and benefit based studies performed by an expert external consultant.
9 These studies are filed with Hydro One's cost of service applications. The resulting
10 overhead allocation and capitalization rates support the direct attribution of overheads to
11 capital assets, including self-constructed fixed and intangible assets. Under US GAAP,
12 Hydro One would substantially retain its existing capitalization policies with respect to
13 overheads and capitalization.

14 Retaining existing capitalization policies benefits customers by avoiding a significant rate
15 increase driven by specific rules found in IAS 16. That is why Hydro One is requesting
16 approval in this proceeding to continue with its current overhead capitalization
17 accounting treatment. This reduces the notional 2012 distribution revenue requirement
18 by approximately \$170 million.

19 Continuing the use of current overhead capitalization methodology and accounting
20 treatment is significant for ratepayers and removes a significant permanent increase in the
21 revenue requirement solely due to an accounting change of adopting MIFRS. This is
22 particularly salient in a time where ratepayers and the Board are both expressing
23 heightened concerns about the cost of electricity.

24 In addition, US GAAP allows continued use of group depreciation methods. IAS 16 does
25 not. If US GAAP is approved as Hydro One's regulatory accounting and reporting
26 framework, Hydro One will continue its existing depreciation accounting policies,

1 including the use of group depreciation. This results in depreciation rates and annual
2 depreciation expenses that will be lower over the long run and which more closely reflect
3 the average service life of all in-service assets. This will avoid future rate increases that
4 would accompany the use of item depreciation which does not take into consideration the
5 dispersion of asset expected service lives within a group.

6 Hydro One is aware that consistency in accounting methodology across local utilities is
7 desirable. Hydro One acknowledges that its transition to US GAAP will not facilitate
8 this comparison with other local utilities. However, the adoption of US GAAP will
9 improve Hydro One's ability to benchmark with other large North American utilities and
10 other entities which are retaining or adopting US GAAP. In the future, once appropriate
11 normalization adjustments have been made, local benchmarking can still take place.
12 Further, as directed by the Board in its EB-2011-0268 Decision With Reasons of
13 November 23, 2011, in its next cost of service application, Hydro One Distribution will
14 address the potential disadvantage raised by intervenors and Board staff of the increased
15 difficulty in benchmarking Hydro One Distribution to other Ontario LDCs after it adapts
16 US GAAP.

17 Hydro One notes that those who are involved in setting standards for US and
18 international accounting are working closely together, and expect to do so more
19 significantly in the future. As a result of this cooperative effort, US and international
20 accounting frameworks continue to converge. The use of rate-regulated accounting
21 remains as one of the few major differences requiring resolution.

22 Hydro One is strongly of the view that its adoption of US GAAP for both financial
23 accounting and regulatory accounting and reporting purposes is in the best interests of all
24 stakeholders. This position is also supported by the Board in its Decision With Reasons
25 in EB-2011-0268, issued on November 23, 2011, where the Panel stated "as the Board
26 has found that Hydro One transmission rates should be set on the basis of USGAAP, it

1 would generally be inefficient to require the distribution utility to use MIFRS for
2 regulatory reporting and rate making”.

3

1 **SUMMARY OF FINANCIAL IMPACT OF MOVE TO US GAAP**

2

3 **1.0 REVENUE REQUIREMENT IMPACT**

4

5 As outlined in Attachment 2 of this Exhibit (originally filed in EB-2011-0268 as Exhibit
6 I, Tab 1, Schedule 3), Hydro One estimates that a notional 2012 distribution Revenue
7 Requirement impact of using MIFRS in place of US GAAP is \$166 million. Adopting
8 MIFRS would result in an approximate rate impact of +14% in 2012 as compared to US
9 GAAP.

10

11 It is further estimated that over a five year period from 2012 to 2016, if MIFRS were used
12 in place of US GAAP, Hydro One Distribution revenue requirement would be in the
13 range of about \$700 million higher in total. Details are provided in Attachment 3 of this
14 Exhibit (originally filed in EB-2011-0268 as Exhibit I, Tab 3, Schedule 5).

15

16 **2.0 CUSTOMER BILL IMPACT OF DISTRIBUTION REVENUE**
17 **REQUIREMENT CHANGE**

18

19 As noted above, the notional 2012 Distribution base rates would increase by 14% if
20 MIFRS were utilized rather than US GAAP. If all other items on the current customer bill
21 stay the same, for Distribution, the utilization of MIFRS rather than US GAAP would
22 result in an increase of \$6.59/month or 5.0% on total bill in the 2012 Total Bill for a
23 typical residential customer (R1) consuming 800 kWh per month. Details are provided in
24 Attachment 1 of this Exhibit (originally filed in EB-2011-0268 as Exhibit I, Tab 1,
25 Schedule 2).

26

SUMMARY OF FINANCIAL IMPACT OF MOVE TO US GAAP

Attachment 1: OEB Interrogatory Response Exhibit I, Tab 1, Schedule 2 & Attachment 1

Attachment 2: OEB Interrogatory Response Exhibit I, Tab 1, Schedule 3

Attachment 3: AMPCO Interrogatory Response Exhibit I, Tab 3, Schedule 5

Ontario Energy Board (Board Staff) INTERROGATORY #2 List 1

Interrogatory

Ref: Exhibit A/Tab2/Sch1/p.2

With reference to the proposed reduction in 2012 revenue requirement, please provide an estimated bill impact change (as provided in previous transmission rate cases). Please include all assumptions and appropriate detail.

Response

Customer Bill Impact of Transmission Revenue Requirement Change

The estimated average increase on total customer bill in 2012 was 2.0% per the approved Rate Order in EB-2010-0002¹, and is estimated to be 0.9% based on the reduction in Rates Revenue Requirement requested in this EB-2011-0268 proceeding.

For a typical residential customer consuming 800 kWh per month, the estimated increase in the customer's total monthly bill in 2012 was \$2.48 per the approved Rate Order in EB-2010-0002¹, and is estimated to be \$1.07 based on the reduction in Rates Revenue Requirement requested in this application.

Estimated Impact of Transmission (Tx) Revenue Requirement Increase on Total Bill:

		<u>per EB-2010-0002</u>		<u>per EB-2011-0268</u>
		<u>Rate Order¹</u>		<u>Proceeding</u>
		<u>2011</u>	<u>2012</u>	<u>2012</u>
Rates Revenue Requirement		1,299.5	1,626.8	1,431.5 ²
2012 increase over 2011	A		25.2%	10.2%
Load Reduction % impact	B		1.2%	1.2%
Total Tx Rate Impact	A+B		26.4%	11.4%
Tx as a % of Total Bill	C		7.5%	7.5%
Total Bill Impact	(A+B)xC		2.0%	0.9%

¹ Per Transmission Rate Order approved in EB-2010-0002 [submitted in EB-2011-0268 evidence as C1-2-1]. Please note that as per the OEB Decision in EB-2010-0002, the 2012 Cost of Capital is to be updated in the Fall of 2011 to reflect OEB approved parameters, 2011 actual debt issuances and updated forecast 2012 third-party long-term debt rates.

² Per Exhibit C1, Tab 1, Schedule 2, Table 1

1 **Estimated Monthly Increase in Retail Transmission Service Rate (RTSR) Charges**
 2 **on Total Bill for Typical Residential Customer Consuming 800 kWh per month:**

		EB-2010-0002	EB-2011-0268
		Rate Order²	Application
2010 Monthly RTSR Charge (1.049 ¢/kWh x 868 kWh) ¹	A	\$9.11	\$9.11
Hydro One Tx Share of Uniform Transmission Rates ²	B	0.96611	0.96611
2011 Tx Rate Impact ²	C	7.0%	7.0%
RTSR Charges in 2011	D=A _x (1+C _x B)	\$9.72	\$9.72
2012 Tx Rate Impact	E	26.4%	11.4%
RTSR Charges in 2012	F=D _x (1+E _x B)	\$12.20	\$10.79
Increase in 2012 RTSR Charges	F-D	\$2.48	\$1.07

3 ¹ Per 2010 Distribution Rate Schedule for Medium Density (R1) Residential Customer approved in EB-
 4 2009-0096.

5 ² Per Transmission Rate Order approved in EB-2010-0002 [submitted in EB-2011-0268 evidence as C1-2-
 6 1]. Please note that as per the OEB Decision in EB-2010-0002, the 2012 Cost of Capital is to be updated
 7 in the Fall of 2011 to reflect OEB approved parameters, 2011 actual debt issuances and updated forecast
 8 2012 third-party long-term debt rates.
 9

10 **Customer Bill Impact of Distribution Revenue Requirement Change**

11 As outlined in Exhibit I, Tab 1, Schedule 3, the use of US GAAP in place of MIFRS will
 12 also result in a significant decrease in Hydro One Networks' Distribution revenue
 13 requirement. Specifically, the 2012 Distribution base rates would increase by 14% if
 14 MIFRS were utilized rather than US GAAP. If all other items on the current customer
 15 bill stay the same, for Distribution, the utilization of MIFRS rather than US GAAP would
 16 result in an increase of \$6.59/month or 5.0% on total bill in the 2012 Total Bill for a
 17 typical residential customer (R1) consuming 800 kWh per month. The calculations are
 18 provided as Attachment1.

Hydro One Medium Density (R1) Residential Customer Charges as of May 1, 2011				
kWh Consumption				800
Total Loss Factor				1.085
Wholesale kWhrs				868
<u>Bill calculation</u>	<u>Tariff</u>	<u>Units</u>	<u>Determinant</u>	
1. Commodity Charge	6.80	¢/kWh	868 kWhrs	\$59.02
2. Dx Charges				
volumetric charge - base	3.317	¢/kWh	800 kWhrs	\$26.54
Volumetric charge - riders	-0.050		800	(\$0.40)
fixed charge - base	\$19.72			\$19.72
fixed charge - adders/riders	\$4.27			\$4.27
Transmission (RTSR)	\$1.05		868 kWhrs	\$9.11
3. Other Regulated Charges				
WMSC	0.52	¢/kWh	868 kWhrs	\$4.51
RRRP	0.13	¢/kWh	868 kWhrs	\$1.13
SSS	\$0.25			\$0.25
Debt Retirement Charge	0.70	¢/kWh	800 kWhrs	\$5.60
4. Total Charge excluding HST				\$129.75
5. HST				<u>\$16.87</u>
6. Total Charge including HST				\$146.61
7. OCEB				\$14.66
8. TOTAL BILL				\$131.95

Hydro One Medium Density (R1) Residential Customer Charges as of May 1, 2011 assuming an increase in Distribution base rates of 14%				
kWh Consumption				800
Total Loss Factor				1.085
Wholesale kWhrs				868
<u>Bill calculation</u>	<u>Tariff</u>	<u>Units</u>	<u>Determinant</u>	
1. Commodity Charge	6.80	¢/kWh	868 kWhrs	\$59.02
2. Dx Charges				
volumetric charge - base	3.781	¢/kWh	800 kWhrs	\$30.25
Volumetric charge - riders	-0.050		800	(\$0.40)
fixed charge - base	\$22.48			\$22.48
fixed charge - adders/riders	\$4.27			\$4.27
Transmission (RTSR)	\$1.05		868 kWhrs	\$9.11
3. Other Regulated Charges				
WMSC	0.52	¢/kWh	868 kWhrs	\$4.51
RRRP	0.13	¢/kWh	868 kWhrs	\$1.13
SSS	\$0.25			\$0.25
Debt Retirement Charge	0.70	¢/kWh	800 kWhrs	\$5.60
4. Total Charge excluding HST				\$136.22
5. HST				<u>\$17.71</u>
6. Total Charge including HST				\$153.93
7. OCEB				\$15.39
8. TOTAL BILL				\$138.54

	\$ increase	% increase
	\$6.59	5.0%

Ontario Energy Board (Board Staff) INTERROGATORY #3 List 1

Interrogatory

Ref: Exhibit A/Tab2/Sch1/p.2

Hydro One seeks acknowledgement and approval that if US GAAP is approved for Hydro One Transmission rates, that it is appropriate for Hydro One to also use US GAAP for Distribution rates. Please provide an estimate of how a notional Hydro One distribution revenue requirement will be affected by replacing MIFRS with US GAAP. Please provide a detailed impact on Capital Expenditures, OM&A levels, Rate Base, PILs and Revenue Requirement.

Response

Please find below the estimate of how a notional Hydro One Distribution revenue requirement will be affected by replacing MIFRS with US GAAP. Directionally the impact on Hydro One Distribution of this change in accounting principles is the same as it is for Hydro One Transmission; specifically Distribution Revenue Requirement and rates go down substantially if MIFRS is replaced by US GAAP.

2012

Difference Between USGAAP and MIFRS [M\$]

USGAAP is higher/(lower) versus MIFRS

OM&A	(170)
Depreciation	3
Return on rate base	3
PILs	(2)
Annual Revenue Requirement–US GAAP	<u>(166)</u>

Capital Expenditures	170
Rate Base	33

A change to US GAAP would result in an approximate rate impact of -14% in 2012 as compared to MIFRS.

The total customer bill impact in 2012 of this change is provided as the second part of Exhibit 1, Tab 1, Schedule 2.

Association of Major Power Consumers in Ontario (AMPCO) INTERROGATORY #5

List 1

Interrogatory

Reference: General

Please provide a projection of revenue requirement impacts over the next 5 years for USGAAP vs IFRS, complete with a statement of assumptions.

Response

The following table summarizes the revenue requirement impacts over the next 5 years of using US GAAP in place of IFRS for Hydro One Transmission and Hydro One Distribution. The same annual impact upon OM&A and capital expenditures was assumed for each.

USGAAP vs IFRS	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Distribution					
OM&A	(170)	(170)	(170)	(170)	(170)
Depreciation	3	8	13	19	24
Return on rate base	3	11	19	26	36
PILs	(2)	(3)	(2)	(1)	(2)
Annual Revenue Requirement-US GAAP	<u>(166)</u>	<u>(154)</u>	<u>(140)</u>	<u>(126)</u>	<u>(112)</u>
Capital Expenditures	170	170	170	170	170
Rate Base	33	138	237	331	451
Transmission					
OM&A	(200)	(200)	(200)	(200)	(200)
Depreciation	2	5	8	11	14
Return on rate base	3	14	23	32	40
PILs	(1)	(1)	(2)	(2)	(2)
Annual Revenue Requirement-US GAAP	<u>(195)</u>	<u>(183)</u>	<u>(171)</u>	<u>(159)</u>	<u>(147)</u>
Capital Expenditures	200	200	200	200	200
Rate Base	48	175	290	402	511
Assumptions					
Tx Long Term Debt	5.5%	5.6%	5.7%	5.8%	5.9%
Dx Long Term Debt	5.5%	5.6%	5.7%	5.8%	5.9%
Short Term Debt	5.2%	6.2%	6.8%	6.8%	6.8%
ROE	10.4%	10.3%	10.4%	10.5%	10.5%
Tax	26.25%	25.5%	25.0%	25.0%	25.0%

1 **REGULATORY ASSET ACCOUNTS REQUESTED, CONTINUED**
2 **AND DISCONTINUED DUE TO THE ADOPTION OF US GAAP**

3
4 **1.0 INTRODUCTION**

5
6 Consistent with Hydro One Distribution's request to adopt US GAAP for rate setting,
7 regulatory reporting and regulatory accounting purposes, this Exhibit requests approval to
8 establish, continue or discontinue regulatory assets as follows:

- 9
10 • Impact for Changes in IFRS Account - discontinue
11 • IFRS Incremental Transition Costs Account – continue (with revised scope)
12 • Impact for US GAAP Account - establish

13
14 Hydro One Transmission was granted approval for similar treatment of regulatory assets
15 in the Board's Decision With Reasons in the EB-2011-0268 proceeding dated November
16 23, 2011.

17
18 The need for these accounts is described in further detail in the remainder of this exhibit.

19
20 **2.0 IMPACT FOR CHANGES IN IFRS ACCOUNT**

21
22 This account was approved in the EB-2009-0096 Distribution proceeding to record the
23 aggregate impact on revenue requirement resulting from any changes to existing IFRS
24 standards or changes in the interpretation of such standards. With the adoption of US
25 GAAP in place of MIFRS for 2012 and subsequent years, there is no longer a need for
26 this account.

1 **3.0 IFRS - INCREMENTAL TRANSITION COSTS ACCOUNT**

2
3 This account was a continuation of the account established in 2009, as per the Board's
4 guidance in the Accounting Procedures Handbook (APH) FAQ, October 2009. As per
5 the APH FAQ, the Board approved a variance account to use in circumstances where
6 there are Board-approved amounts designated for one-time IFRS transition costs already
7 included in rates.

8
9 As approved in the EB-2011-0268 Proceeding for Hydro One Transmission, Hydro One
10 Distribution proposes to continue the account under US GAAP and to track for future
11 review and approval any variances between the actual incremental IFRS and US GAAP
12 transition costs incurred, and the estimated incremental IFRS costs approved by the
13 Board as part of 2011 Distribution Rates. Hydro One Distribution will track IFRS and
14 US GAAP transition costs separately. Given the proposed change in the account's scope,
15 Hydro One Distribution also proposes that for Hydro One Distribution, the account's
16 name should be changed to "US GAAP – Incremental Transition Costs Account".

17
18 **4.0 IMPACT FOR US GAAP ACCOUNT**

19
20 Hydro One has carried out an initial review of the differences between Canadian and US
21 GAAP to understand how they impact its business. Many differences are disclosure-
22 related while others relate to specialized areas such as pensions and financial instruments.
23 Given that the adoption of US GAAP may result in additional differences from Canadian
24 GAAP, Hydro One proposes that a symmetrical variance account should be established to
25 record the 2012 impact of such differences in sufficient detail to allow them to be
26 reviewed for future disposition.

1 **5.0 ACCOUNTING AND CONTROL PROCESS**
2

3 These accounts requested above will be managed in the same manner as existing Hydro
4 One Distribution variance and deferral accounts. They will be updated monthly and
5 interest applied consistent with the Board-approved rate. Balances will be reported to the
6 Board as part of the quarterly reporting process. The outstanding balances, whether in a
7 debit or credit position, will be submitted for approval by the Board as part of a future
8 Hydro One Distribution filing.
9