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Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

December 16, 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-2011-0427–Hydro One Remote Communities Inc. ("Remotes") Request for Approval of US GAAP for Rate Setting, Regulatory Accounting & Reporting Purposes

Attached please find Remotes' pre-filed evidence in support of its request to the Board that it grant Remotes approval to use 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 Hydro One Transmission to utilize US GAAP for rate setting, regulatory accounting and reporting as of January 1st, 2012. On December 8, 2011 the Board issued a letter acknowledging receipt of Remotes application for 2012 IRM3 and its request for approval to utilize USGAAP in lieu of MIFRS for regulatory purposes effective January 1, 2012. In that letter the Board stated: "it is of the view that the 2012 IRM3 rate application is not an appropriate forum in which to consider these issues"…"The Board notes that Remotes shares certain unique circumstances with Hydro One Transmission and Hydro One Distribution, including a common shareholder, and should also not be precluded from requesting, in a stand-alone application, approval to use USGAAP for regulatory purposes and authorization for deferral and variance accounts associated with the use of USGAAP for regulatory purposes". This application therefore follows the steps outlined by the Board in its EB-2011-0268 Decision in order to gain similar approval for Remotes.

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 request to establish a variance account, "Impact for US GAAP Account" which will be used to record the 2012 impact of differences between CGAAP and USGAAP.

It is estimated that the 2012 notional Remotes revenue requirement would be $2 million higher if MIFRS were utilized rather than 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.

EXHIBIT LIST

Exhibit	Tab	Schedule	Contents
A			**Administration**
	1	1	Exhibit List
	2	1	Application
	3	1	Summary of Application
	4	1	Procedural Orders, Correspondence, Notice
B			**Documentation**
	1		**OSC Approval**
	1	1	OSC Approval of Hydro One Request To File Under US GAAP
	1	2	Hydro One Request to OSC For Approval To File Financial Statements under US GAAP
	2		**Hydro One Correspondence to OEB Regarding US GAAP**
	2	1	OEB Letter dated December 8, 2011. – Acknowledgement of HORC 2012 IRM3 Rate Application
	3		**OEB Approval of US GAAP for Hydro One Transmission**
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D			**Variance & Deferral Accounts**
	1	1	Regulatory Asset Account Requested Due to the Adoption of US GAAP

IN THE MATTER OF *the Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Remote Communities Inc. ("Remotes") for an Order or Orders approving the utilization by Remotes 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. The Applicant is Hydro One Remote Communities Inc. ("Remotes"), a wholly-owned subsidiary of Hydro One Inc. The Applicant, an Ontario corporation with its head office in Toronto, is an integrated generation and distribution company licensed to generate and distribute electricity within 21 isolated communities in northern Ontario.

2. Remotes 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 Remotes of US GAAP in lieu of MIFRS for 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.

3. Remotes also requests the establishment of an "Impact for USGAAP Account", which will be a variance account to record the 2012 impact of differences between CGAAP and USGAAP.

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

a) the eligibility of Hydro One Inc. under securities legislation to report financial information using US GAAP;
b) the authorization by the Ontario Securities Commission ("OSC") authorizing Hydro One Inc. to use US GAAP for financial reporting purposes;
c) an explanation of the benefits of adoption US GAAP rather than Modified International Financial Reporting Standards ("MIFRS").

5. Remotes, which is exempt from the competitive market, generates electricity at diesel generating stations in certain isolated communities in the far north and distributes the electricity to customers in each community.

6. The written evidence filed with the Board may be amended from time to time prior to the Board's final decision on the Application. Further, the Applicant may seek meetings with Board staff and intervenors in an attempt to identify and reach agreements to settle issues arising out of this Application.

7. The persons affected by this Application are the ratepayers of Remotes and of Rural or Remote Rate Protection. It is impractical to set out their names and addresses because they are too numerous.

8. Remotes requests that a copy of all documents filed with the Board by each party to this Application be served on the Applicant and the Applicant's counsel as follows:

a) The Applicant:

Mr. Pasquale Catalano
Regulatory Coordinator – Regulatory Affairs
Hydro One Networks Inc.

Address for personal service: 8th Floor, South Tower

483 Bay Street
Toronto, ON M5G 2P5

Mailing Address: 8th Floor, South Tower
483 Bay Street
Toronto, ON M5G 2P5

Telephone: (416) 345-5405
Fax: (416) 345-5866
Electronic access: Regulatory@HydroOne.com

The Applicant's counsel:

Michael Engelberg
Assistant General Counsel
Hydro One Networks Inc.

Mailing Address: 15th Floor, North Tower
483 Bay Street
Toronto, Ontario M5G 2P5

Telephone: (416) 345-6305
Fax: (416) 345-6972
Electronic access: mengelberg@HydroOne.com

DATED at Toronto, Ontario, this 16th day of December, 2011.

HYDRO ONE REMOTE COMMUNITIES INC.
By its counsel,

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

SUMMARY OF APPLICATION

Hydro One Remote Communities Inc. ("Remotes") is asking for an Order or Orders, approving the utilization by Hydro One Remotes 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".

On December 8, 2011 the Board issued a letter acknowledging receipt of Remotes application for 2012 IRM3 and its request for approval to utilize USGAAP in lieu of MIFRS for regulatory purposes effective January 1, 2012. In that letter the Board stated: "it is of the view that the 2012 IRM3 rate application is not an appropriate forum in which to consider these issues…The Board notes that Remotes shares certain unique circumstances with Hydro One Transmission and Hydro One Distribution, including a common shareholder, and should also not be precluded from requesting, in a stand-alone application, approval to use USGAAP for regulatory purposes and authorization for deferral and variance accounts associated with the use of USGAAP for regulatory purposes". This application therefore follows the steps outlined by the Board in its EB-2011-0268 Decision in order to gain similar approval for Remotes.

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 them 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, 2011 ("Addendum Report"). The Addendum Report considered, for the first time, the possibility that a utility could adopt US GAAP for regulatory purposes. The Board outlined what information/evidence a utility would need to provide in a cost of service application if adopting 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: Exhibit B, Tab 1, Schedule 2. Hydro One received approval from the OSC to do so on July 21, 2011: Exhibit B, Tab 1, Schedule 1.

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

The Board issued its Decision With Reasons in EB-2011-0268 on November 23, 2011 granting Hydro One Transmission approval to utilize 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. This Decision also noted "as the Board has found that Hydro One transmission rates should be set on the basis of US GAAP, it would generally be inefficient to require the distribution utility to use MIFRS for regulatory reporting and rate making".

On December 8, 2011 the Board issued a letter acknowledging receipt of Remotes application for 2012 IRM3 and its request for approval to utilize USGAAP in lieu of MIFRS for regulatory purposes effective January 1, 2012. In that letter the Board noted: "that Remotes shares certain unique circumstances with Hydro One Transmission and Hydro One Distribution, including a common shareholder, and should also not be precluded from requesting, in a stand-alone application, approval to use USGAAP for regulatory purposes and authorization for deferral and variance accounts associated with the use of USGAAP for regulatory purposes".

2.0 APPROVALS REQUESTED

2.1 Accounting Framework

Remotes seeks approval for the utilization of US GAAP as its framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012 in a manner appropriate for a rate regulated entity.

2.2 Variance Account

Remotes seeks approval to establish the Impact for US GAAP Account as set out in Exhibit D1, Tab 1, Schedule 1.

3.0 BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION

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

a) the eligibility of the utility under applicable securities legislation to report financial information using US GAAP;
b) the authorization by the appropriate Canadian Securities regulator authorizing the utility to use US GAAP for financial reporting purposes;
c) an explanation of the benefits and potential disadvantages of adoption of US GAAP rather than Modified International Financial Reporting Standards ("MIFRS").

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

Hydro One is strongly 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 all stakeholders. The Board in its Decision With Reasons in EB-2011-0268 issued on November 23, 2011 granted approval for Hydro One Transmission to adopt USGAAP and in the Board's December 8, 2011 letter acknowledging receipt of Remotes application for 2012 IRM3 and its request for approval to utilize USGAAP in lieu of MIFRS for regulatory purposes effective January 1, 2012 the Board noted: "that Remotes shares certain unique circumstances with Hydro One Transmission and Hydro One

Distribution, including a common shareholder, and should also not be precluded from requesting, in a stand-alone application, approval to use USGAAP for regulatory purposes.

4.0 IMPACT ON REVENUE REQUIREMENT

It is estimated that the 2012 notional Remote’s revenue requirement would be $2 million higher if MIFRS were not replaced by US GAAP.

PROCEDURAL ORDERS – CORRESPONDENCE – NOTICES

OSC APPROVAL OF HYDRO ONE REQUEST TO FILE UNDER US GAAP

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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.

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

Osler, Hoskin & Harcourt LLP
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416.862.6666 FACSIMILE

PRIVILEGED & CONFIDENTIAL

OSLER

Toronto

Montréal

Calgary

Ottawa

New York

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.

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.

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

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.

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

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.

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

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.

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

OEB LETTER DATED DECEMBER 8, 2011

ACKNOWLEDGEMENT OF REMOTES' 2012 IRM3 RATE APPLICATION

Ontario Energy Board
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Commission de l'énergie de l'Ontario
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Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

December 8, 2011

Pasquale Catalano
Hydro One Remote Communities Inc.
483 Bay Street
8th Floor - South Tower
Toronto ON M5G 2P5

Dear Mr. Catalano**:**

Re: Hydro One Remote Communities Inc. ("Remotes")
Application for Rates
Application Board File Number EB-2011-0175

This letter acknowledges receipt on November 25, 2011 of your 2012 IRM3 rate application. The Board has assigned File Number EB-2011-0175 to this matter. Please refer to this file number in all future correspondence to the Board regarding this matter. All information related to this matter must be filed with the Board Secretary.

As part of this application, Remotes requested approval to utilize USGAAP in lieu of MIFRS for regulatory purposes effective January 1, 2012, as well as approval to file its future cost of service rate applications using USGAAP. Remotes also requested that the Board authorize the use of deferral and variance accounts associated with the use of USGAAP for regulatory purposes.

The Board is of the view that the 2012 IRM3 rate application is not an appropriate forum in which to consider these issues, given the mechanical nature of an IRM application and the limited opportunity for discovery.

The Board notes that the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* stated that the issue of whether using USGAAP is appropriate should be determined in the distributor's cost of service application. In the Board's decision on the same issue with respect to Hydro One Transmission in proceeding EB-2011-0268, the Board noted 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."

The Board notes that Remotes shares certain unique circumstances with Hydro One Transmission and Hydro One Distribution, including a common shareholder, and should also not be precluded from requesting, in a stand-alone application, approval to use USGAAP for regulatory purposes and authorization for deferral and variance accounts associated with the use of USGAAP for regulatory purposes.

Please direct any questions relating to this matter to Suresh Advani, Advisor at +1 (416) 440-7742 or e-mail Suresh.Advani@ontarioenergyboard.ca.

Yours truly,

Original signed by

John Pickernell
Assistant Board Secretary

OEB DECISION WITH REASONS EB-2011-0268

Ontario Energy Board

Commission de l'énergie de l'Ontario

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.

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[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

JUSTIFICATION OF MOVE TO US GAAP

This exhibit outlines how Hydro One meets the Board's specified requirements to adopt US GAAP for regulatory purposes as of January 1, 2012.

1.0 BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION

The Board released its Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment on June 13, 2011 ("Addendum Report"). The Addendum Report considered for the first time, the possibility that a utility could adopt US GAAP for regulatory purposes.

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

a) the eligibility of the utility under applicable securities legislation to report financial information using US GAAP;
b) the authorization by the appropriate Canadian Securities regulator authorizing the utility to use US GAAP for financial reporting purposes;
c) an explanation of the benefits and potential disadvantages of adoption of US GAAP rather than Modified International Financial Reporting Standards ("MIFRS").

2.0 HOW REMOTES SATISFIES BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION

Hydro One Inc. 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 consolidated securities filings effective January 1, 2012. Hydro One received formal OSC approval on August 11, 2011.

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

The formal OSC order was filed with this Board on August 11, 2011, and is attached to this Exhibit as Attachment 1. Provision of this document fulfils the first two requirements outlined in the Addendum to Report of the Board.

Remotes is of the view that there is significant value to both ratepayers and the utility and its shareholder in using US GAAP for regulatory purposes. Use of a consistent financial accounting framework for both external and 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 in audited financial statements prepared under US GAAP where such assets and liabilities cannot be reflected in IFRS statements. It is a benefit to the Board, Remotes, and interested stakeholders to be able to compare financial information provided in the regulatory process to Remotes’ audited financial statements, thereby providing all participants with assurance of the integrity of the information.

The use of a consistent accounting framework for financial and regulatory reporting reduces Remotes' costs from what they otherwise would be if inconsistent frameworks were used. Among 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 financial statements.

Retaining existing capitalization policies benefits customers by avoiding a significant rate increase driven by specific rules found in IAS 16. Allowing Remotes to continue with its current overhead capitalization accounting treatment will reduce future annual revenue requirement compared to the MIFRS alternative as of January 1, 2012, and beyond, because the federal government shares the cost to provide power to the remote north, and this funding agreement was based on the existing capitalization policies, which more fairly distribute costs to the federal government. This is particularly salient in a time when both ratepayers and the Board are expressing heightened concerns about the cost of electricity.

In addition, US GAAP allows continued use of group depreciation methods, whereas IAS 16 does not. If US GAAP is approved as Remotes' regulatory accounting and reporting framework, Remotes 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.

Remotes 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 a cooperative effort, US and international accounting frameworks continue to converge. The use of rate-regulated accounting is one of the few major differences requiring resolution. As the Board noted in its Addendum Report, "Hydro One pointed out that differences between USGAAP and IFRS are concentrated in specific well-defined areas where the potential impacts can be easily understood." Thus, Remotes submits that its use of USGAAP will not lead to the confusion or unmanageable complexity that was previously expressed as a concern.

Note that similar adoption of USGAAP in 2012 by Hydro One's Transmission business was approved by the OEB on November 23, 2011, in its decision with reasons in the EB-2011-0268 proceeding. In that decision the Board agreed that on the basis of the record presented in the application, it may be appropriate for Hydro One to adopt USGAAP for distribution rate applications and regulatory reporting. The Board also stated on page 13 that "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 to regulatory reporting and rate making".

For similar reasons, Remotes submits that its adoption of USGAAP for rate applications and regulatory reporting is in the best interests of the utility and its ratepayers.

REGULATORY ASSET ACCOUNT REQUESTED DUE TO THE ADOPTION OF US GAAP

1.0 INTRODUCTION

Consistent with Remote's request to adopt US GAAP for rate setting, regulatory reporting and regulatory accounting purposes, this Exhibit requests approval to establish, the following regulatory asset:

- Impact for US GAAP Account - establish

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

The need for this account is described in further detail below.

2.0 IMPACT FOR US GAAP ACCOUNT

Hydro One has carried out an initial review of the differences between Canadian and US GAAP to understand how they impact its business. Many differences are disclosure-related while others relate to specialized areas such as pensions and financial instruments. Given that the adoption of US GAAP may result in additional differences from Canadian GAAP, Remotes proposes that a symmetrical variance account should be established to record the 2012 impact of such differences in sufficient detail to allow them to be reviewed for future disposition. This account will be managed in the same manner as existing Hydro One variance accounts. It will be updated monthly and interest applied consistent with the Board-approved rate. Balances will be reported to the Board as part of the quarterly reporting process. The outstanding balances, whether in a debit or credit position, will be submitted for approval by the Board as part of a future Remotes filing.