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January 13, 2012

Ms. Kirsten Walli 15/1/12
Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700, P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

EB-2011-0428 — Revision of Accounting Procedures Handbook for Electricity Distributors - Hydro One Network's Comments

Attached per the Board's direction are two (2) paper copies of Hydro One's comments respecting revisions to the Accounting Procedures Handbook for Electricity Distributors issued on Wednesday December 21, 2011.

Sincerely,

Susan Frank

Susan Frank

Attach.

EB-2011-0428
OEB BOARD SECRETARY
Sub File: 5
TRIM

EB-2011-0428 — Revision of Accounting Procedures Handbook for Electricity Distributors - Hydro One Network's Comments

Hydro One Networks Inc. ("Hydro One") appreciates the opportunity to provide its comments on the Board's draft revisions to its Accounting Procedures Handbook for Electricity Distributors ("APH") issued on December 21, 2011. Hydro One hopes the comments provided will be helpful to the Board as it proceeds to finalize the APH, recognizing Hydro One Transmission has Board approval to use US GAAP for regulatory accounting, reporting and record keeping for the three year period 2012 to 2014, and Hydro One Distribution has an application before the Board for similar approval.

With respect to the Uniform System of Accounts (USoA), Hydro One has one general comment.

On page 3 of the draft article 100, the draft APH says:

> "The accounting procedures and requirements set out in this APH apply to a distributor that prepares its financial accounting records and reporting on the basis of CICA Handbook Part I – International Financial Reporting Standards. Where a distributor prepares its financial accounting records using an alternative accounting framework (e.g. US GAAP or CICA Handbook Part II - Accounting Standards for Private Enterprises), the Board has stated that it will generally not require regulatory reporting and filing in MIFRS from those distributors.......Consequently, in reporting to the Board in the USoA (trial balance), and other specified reporting or filings, the distributor is required to report using the alternative accounting standard, including the accounting procedures or requirements that the Board has stipulated."

Hydro One Networks interprets this as indicating that it should use its best judgement in reporting to the Board on a USoA basis. There will be situations where revisions have been made to the USoA to accommodate MIFRS treatments that are not reflective of US GAAP reporting or financial statement presentation. For example, under MIFRS, customer contributions are reclassified to deferred revenue while, under US GAAP, these amounts would remain as a contra against capital assets. Where possible, Hydro One Networks intends to comply with the USoA requirements in the MIFRS APH. However, there may be cases where this is not appropriate. Hydro One Networks will undertake to inform the Board of any significant differences in USoA classification at the time of making its US GAAP regulatory annual filings.

We have a few specific observations that we trust will be of use to the Board:

Article 410

p. 15 The section of Article 410 covering "Readily identifiable assets" indicates that a gain or loss on retirement should be separately identified for Board review and that it may, with Board approval be deferred. It is unclear how such a deferral will work given that no generic deferral account exists, gains and losses will occur on an ongoing quarterly basis, and actual Board reviews are by necessity intermittent, sometimes falling years apart. We presume that this treatment also applies to material gains and losses resulting from de-recognition of "like assets" but if this is the intent, it is currently not explicit in the guidance.

p. 31 Last paragraph – Hydro One Networks understands that the Kinetrics Report was intended to be a one-time review to assist distributors in deriving their first time IFRS service lives. The existing wording could be interpreted to mean that service lives should be benchmarked to the Kinetrics Report in perpetuity. This could pose a relevance problem as the Board has previously said that it will not necessarily update the Kinetrics Report. Given this, Hydro One Networks would not consider ongoing benchmarking to the Kinetrics Report to be appropriate. The APH should make its intent regarding ongoing use of this report clearer, including rationale if the decision is to retain it.

p. 32 There is a potential logic problem that arises with the discussion of depreciation changes on this page. The discussion supports retention of symmetry between the IFRS financial statements and regulatory reporting for capital assets. However, the article also says that depreciation changes (presumably both methods and underlying depreciation rate parameters) must be Board approved. Additional guidance would be useful to explain how depreciation changes that will result from annual reviews of methods and service lives required under IFRS can be kept in symmetry with Board approved changes when the latter must, by necessity of timing, be made after the fact, sometimes by several years.

Article 470

This article focuses almost entirely on IAS 19 when in fact this standard has already been superseded by IAS 19R. As IAS 19R is to be applied retrospectively, it may be more appropriate to provide guidance based on its requirements. While the Board has determined that it will not provide a generic deferral or variance account for changes or transitional impacts relating to new IFRS standards, Hydro One Networks understands that this decision was predicated on the fact that sufficient lead time of upcoming changes would enable revisions to regulatory guidance in advance. As it is known that IAS 19R has been approved and its requirements are known with certainty now, this APH revision would seem to present an ideal opportunity to provide proactive guidance now.

On page 10, there are two technical amendments to the guidance that should be considered: (1) service cost also includes curtailments and there is currently no reference to this; and (2) the paragraph preceding (d) indicates that the amount capitalized for employee benefit costs includes the appropriate portion of the three components. As capitalization is an accounting policy choice, it would be difficult to conceive a scenario where re-measurements (Category 3) would be capitalized.

Article 525

p. 13 The discussion on this page seems to indicate that 2011 in year impacts resulting from IFRS vs. CGAAP differences should be recorded in opening retained earnings (to the account of the shareholder). This does not appear to be consistent with our interpretation of the Board's

IRM Addendum Report that such differences should be included in a property, plant and requirement deferral account for both cost of service and IRM distributors. Cost of service and IRM distributors adopting MIFRS in 2012 will both have 2011 property, plant and equipment carrying value differences (CGAAP vs. MIFRS) affecting rate base. Hydro One Networks believes that the APH should explicitly state that the property, plant and equipment deferral account would also be used for such 2011 differences experienced by cost of service distributors.