

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c.15 (Schedule B);

**AND IN THE MATTER OF** an application by Hydro One Networks Inc. for an order or orders approving a distribution revenue requirement and rates and other charges for the distribution of electricity;

**AND IN THE MATTER OF** a request by Hydro One Networks Inc. for Approval for the use of the USGAAP accounting standard for Rate Setting, Regulatory Accounting and Regulatory Reporting, as of January 1, 2012, in its Distribution business.

**Submissions of the Builders, Owners and Managers Association Toronto  
("BOMA")**

1. Hydro One Distribution has applied to use USGAAP as its accounting standard for rate setting, regulatory accounting and regulatory reporting, commencing January 1, 2012, in a manner appropriate for a regulated utility. Hydro One Distribution also seeks approval:
  - To discontinue the "Impact for Changes in IFRS" Account;
  - To continue with the "IFRS Incremental Transition Costs Account" (with revised scope) and to establish the Impact for USGAAP Account.
2. BOMA believes that the following facts provide important context for the Board's decision on whether to permit Hydro One Distribution to accept USGAAP for regulatory filing, reporting, and rate making.
  - In EB-2011-0268, the Board allowed Hydro One Transmission to adopt USGAAP for rate applications filings, regulatory accounting, and regulatory reporting commencing January 1, 2012. At page 13 of that Decision, the Board stated:

"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".

- Ontario Regulation 359/11 to the Financial Administration Act required Hydro One Inc. (Hydro One's parent company) to prepare its financial statements in accordance with USGAAP for "any financial year of Hydro One Inc. that began on or after January 1, 2012". Section 2(2) of the Regulation provides that:

"This Section prevails over a requirement of another Act or regulation".

- The OSC approved Hydro One's application to use USGAAP as the basis for preparing its public securities filings effective January 1, 2012, until December 31, 2014. However, it appears that OR 359/11 overrides the sunset date in the OSC decision.
  - The Board stated at page 14 of EB-2011-0268 that Hydro One should not be precluded from applying to the Board prior to its next distribution rates case to move the distribution business to USGAAP.
3. BOMA supports the adoption of USGAAP for Hydro One Distribution for the following reasons:
- (a) Relative to the only available option, changing to IFRS, moving to USGAAP is demonstrably superior, because:

- Retention of existing capitalization policies (as under Canadian GAAP) would result in a decrease in the revenue requirement from reduced OM&A expense of about \$170 million in 2012. Even when modest offsetting increases in depreciation and return on rate base are included, the net reduction in revenue requirements relative to moving to IFRS is estimated at \$166 million (Ex. C, T1, Sch 2, Attachment 3).
- A move to USGAAP would avoid the confusion and incremental cost involved in:

- (i) the allocation of shared costs between Hydro One Transmission and Hydro One Distribution, using two different accounting systems with very different capitalization policies;
- (ii) reconciliation of financial reporting as between Hydro One Inc., which must report on USGAAP, and Hydro One Distribution.

#### 4. Deferral Accounts

##### *(a) Impact for Changes in IFRS Account*

BOMA agrees that this account should be discontinued as it is highly unlikely that IFRS will be adopted anytime in the foreseeable future. If and when IFRS is adopted, the account can be reinstated.

##### *(b) IFRS Incremental Transition Costs Account*

Hydro One proposes to "continue" an account created in EB-2009-0096, entitled IFRS Incremental Transition Costs Account (with revised scope).

The balance in this account as of December 31, 2011 was about \$309K, representing the differential between IFRS transition amounts included in approved revenue requirements and actual IFRS transition expenditures. Moreover, IFRS transition costs included in the revenue requirements approved in EB-2009-0096 (transmission and distribution) totaled \$770K in 2010 and \$255K for 2011 (I, Tab 1, Sch 5, p1).


\$1.334 million has already been spent in IFRS transition costs. Presumably, more of the \$309,000.00 not yet collected in rates, is recoverable from ratepayers unless Hydro One can demonstrate that they were essential to the transition to USGAAP, or, were incurred prior to publication of the Board's "Addendum" on June 13, 2011 (EB-2008-0408).

The account should be continued. However, no further entries should be made in respect of IFRS, consistent with the Board's EB-2011-0268 decision (page 12), in which the Board approves the creation of a new deferral account USGAAP Incremental Transmission Costs, for the transmission business.

(c) *Impact for USGAAP Account*

Hydro One has applied for an account to parallel a similar deferral account the Board approved in EB-2011-0268. BOMA supports the create of this account.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**, this 31<sup>st</sup> day of January, 2012.



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