

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
CANADIAN MANUFACTURERS & EXPORTERS ("CME")
Re: HONI Dx Request for Approval to use USGAAP**

1. In a Decision with Reasons dated November 23, 2011, the Board approved the request of Hydro One Networks Inc. ("HONI") to use United States Generally Accepted Accounting Principles ("USGAAP") as the basis for its Transmission Rate Application filings commencing January 1, 2012 (the "HONI Tx Decision"). With respect to the possibility that HONI would seek Board approval for the use of USGAAP in its Distribution Rate filings, the Board stated as follows:

"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.

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."

2. In this Application, HONI seeks approval to use USGAAP as the basis for its Distribution Rate Application filings commencing January 1, 2012. The specific relief requested in the Application is for "... an Order or Orders approving the utilization by HONI Distribution of US Generally Accepted Accounting Principles ("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 utility."
3. As noted above, in authorizing HONI Distribution to make a stand-alone application for approval of its use of USGAAP commencing January 1, 2012, the Board directed HONI as follows:

*"...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."*³

4. In the current Application, HONI has not provided any information in response to the benchmarking requirement of that directive. To the contrary, HONI states that it will not provide such information until its next Cost of Service Application.
5. Moreover, in its response to Board Staff Interrogatory #10, HONI confirms that it does not even have any preliminary findings or information on the benchmarking issues that the Board directed it to address.
6. CME sought clarification as to when HONI Distribution would be presenting its next Cost of Service Application, and by extension, the required benchmarking evidence. More specifically, CME asked whether HONI is proposing to bring a Cost of Service Application during 2012. HONI's response is that it is currently assessing its options regarding its distribution business' 2012 revenue requirement and rates, and no firm decision has been taken at this time. Consequently, it is possible that no benchmarking evidence will be filed in 2012.⁴
7. Consequently, the Board is being asked to approve the use by HONI Distribution of USGAAP without any of the information pertaining to benchmarking that the Board directed HONI to provide in support of such a proposal. This is exacerbated by the fact that HONI cannot confirm when it plans to **submit its next Cost of Service Application**.
8. The December 1, 2011 letter accompanying the Application by HONI Distribution to transition to USGAAP also reveals that, as a corollary of the approvals requested, HONI

¹ Decision with Reasons dated November 23, 2011, EB-2011-0268, Hydro One Networks Inc. 2012 Transmission Revenue Requirement and Rates ("HONI Tx Decision"), pp. 13-14.

² Exhibit A, Tab 2, Schedule 1, page 1.

³ HONI Tx Decision, pp. 13-14.

⁴ CME IR #1(a).

contemplates that its currently approved 2011 deferral and variance accounts will continue to operate through 2012 in conjunction with the operation of its currently approved 2011 distribution rates.

9. This "deferral account continuance" feature of HONI's Application is of concern to CME, particularly if there are large debit balances in existing deferral accounts and the likelihood that further significant debits will accrue in those deferral accounts during 2012.
10. In this connection, CME sought information from HONI pertaining to the deferral account balances at the end of 2011 and the likely changes to those deferral account balances during 2012, assuming HONI operates in 2012 under the auspices of USGAAP.⁵ HONI declined to provide the information requested on the basis that it is "out of scope" of the current proceeding. As a result, there is no information available to enable the Board to determine whether HONI's proposal to refrain from clearing 2011 deferral account balances and to continue to accumulate amounts in those deferral accounts throughout 2012 is appropriate.
11. The end result of these information deficiencies is that the Board has before it no information pertaining to the benchmarking item that HONI Distribution was specifically required to address in its Application for approval of its proposal to transition to USGAAP. Moreover, as already noted, the Board has no information to enable it to determine the appropriateness of HONI's implicit proposal to refrain from clearing 2011 deferral account balances and to continue to operate under the auspices of 2011 deferral accounts throughout 2012.
12. In these circumstances, we question whether there is sufficient evidence to enable the Board to respond to the Application.
13. That said, despite the absence of evidence from HONI with respect to benchmarking, there is some evidence in another proceeding before this Board that may assist the Board with respect to this benchmarking issue. In an Application by Enbridge Gas Distribution Inc. ("EGD") for Board approval of its proposal to transition to USGAAP effective January 1, 2012, EGD stated in response to a Board Staff Interrogatory that:

"There appear to be many Canadian regulated utilities which are adopting USGAAP or considering adopted USGAAP. Examples of such companies include MRF, Fortis, BC Alta Gas, TransCanada PipeLines, Union Gas Limited and Hydro One. This would facilitate benchmarking with peer companies which will benefit EGD and its stakeholder.

EGD is of the view that a complete harmonization of IFRS with USGAAP is not likely to occur in the foreseeable future. There continues to be strong resistance to adopting IFRS by rate regulated entities due to the fact that it does not contain any special treatment for rate regulated operations accounting. By allowing EGD to file under USGAAP, there

⁵CME IR # 1 (d).

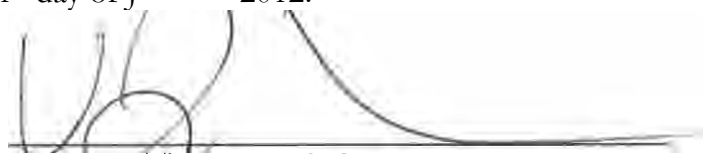
would be the consistency in reporting which would continue to permit benchmarking and other comparative analysis. --

14. This information may provide the Board with sufficient comfort with respect to benchmarking issues to justify an Order permitting HONI to elaborate on this issue in a later proceeding. We leave it to the Board to fashion an appropriate response to HONI's failure to respond to the specific directive calling for the provision of information on benchmarking in conjunction with its request to transition its distribution business to USGAAP.
15. To this end, apart from the absence of specific evidence from HONI with respect to benchmarking, the evidence before the Board strongly supports the issuance of an Order approving HONI's request to transition its distribution business from CGAAP to USGAAP. The evidence that has been filed indicates that, for HONI, a transition from CGAAP to USGAAP is far less disruptive than a transition from CGAAP to Modified International Financial Reporting Standards ("MIFRS").
16. With respect to the implicit request of HONI for Board approval to carry on in 2012 under the auspices of Board approved deferral accounts for 2011, we are concerned that there may be large amounts accumulating in those deferral accounts. We urge the Board to refrain from countenancing HONI's refusal to provide current and estimated deferral account balances. We request that the Board direct HONI to provide that information before the Board implicitly authorizes an action plan that would allow large amounts to be accumulated in those accounts to December 31, 2012. Once HONI has provided the balances in deferral accounts as of December 31, 2011, and estimated the balances for December 31, 2012, interested parties should be allowed an opportunity to make submissions as to whether existing December 31, 2011 balances in the accounts should be cleared, now, rather than being allowed to accumulate interest for another twelve (12) months along with additional 2012 charges to these accounts.

Costs

17. CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

All of which is respectfully submitted this 31st day of J 2012.



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⁶ EB-2011-0277 proceeding, Exhibit I, Tab 1, Schedule 13, page 5.