



Jay Shepherd

Professional Corporation
2300 Yonge Street,
Suite 806
Toronto, Ontario M4P 1E4

BY EMAIL and RESS

January 31, 2012
Our File No. 20110399

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2011-0399 – Hydro One Dx - USGAAP

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1 in this matter, this letter constitutes SEC's submissions on the Application.

1. **Approval to Transition to USGAAP for Regulatory Purposes.** It is submitted that Hydro One has demonstrated compliance with the Board's requirements to use USGAAP for regulatory purposes, as well as financial presentation purposes.
2. We also note that Hydro One Transmission has already received approval in EB-2011-0268 for the use of USGAAP for regulatory purposes. To require Hydro One to use MIFRS for its distribution business would appear to us to be an inappropriate waste of ratepayer dollars.
3. For these reasons, and subject to our comments below, SEC believes that the Board should approve the Applicant's request to use USGAAP for regulatory reporting in its distribution business.
4. **Overhead Capitalization Policies.** We remain concerned, as we were in the EB-2011-0268 case, that Hydro One appears to have a very high level of overhead capitalized compared to other utilities, even under CGAAP.



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5. The Board in that Decision directed Hydro One to do a comparative analysis of its capitalization policies and report in its “next rate application”. In the interests of clarity, we would ask the Board in its decision in this proceeding to specify that the comparative analysis should apply to distribution as well as transmission, and the report should be filed in the rate applications for both transmission and distribution.
6. **Benchmarking and Comparisons with other LDCs.** The Board in its previous decision directed Hydro One to consider the issue of benchmarking and comparisons with other utilities as it relates to the choice of USGAAP. The fact that Hydro One does not have any preliminary information in this regard yet is disappointing, but not really surprising. It would perhaps have assisted the Board and parties if this Application had been delayed a month or two so that some of those issues could be addressed.
7. We note that, while the issue of benchmarking and comparative analysis is not that critical for the transmission business, whose natural comparators may already be using USGAAP, it is a serious concern for the distribution business. Almost all of Hydro One’s distribution comparators will be using MIFRS. It is in this context that the significant difference in capitalization policies may become a problem, since Hydro One’s OM&A may be relatively lower, but rate base relatively higher, than its peers due only to a difference in accounting methodology, and those variations may be significant.
8. In our view, it would be useful if the Applicant integrated the study of its capitalization policy with its consideration of the benchmarking/comparative analysis issue, as one may be largely driven by the other.
9. **Deferral and Variance Accounts.** In our submission the Decision of the Board in EB-2011-0268 with respect to deferral and variance accounts relating to the accounting change should be followed here as well. In particular, the accounts that are no longer needed should be closed, and a new account, USGAAP Incremental Transition Costs, should be established under the same conditions as are set forth on page 12 of the prior decision. Similarly, a new account, Impact for USGAAP Account, should be established with the same caveat that the Board has described on page 12 of the prior decision.
10. We note that, in its December 1st letter to the Board with this Application, Hydro One says:

“Rather, Hydro One expects its currently approved 2011 distribution rates to continue into 2012 and all appropriate costs will continue to be tracked in Board approved deferral and variance accounts, including its green energy related expenditures for Smart Grid, Express Feeders and other renewable generation.”
11. This Application is limited to the USGAAP issue, and does not appear to seek approval to continue all 2011 deferral and variance accounts into 2012. In our experience Board-approved deferral and variance accounts do not continue beyond their originally intended time period unless the Board so orders. There does not appear to be any evidence in this proceeding on which such an order could be based.



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12. We therefore request that the Board make clear in its decision that it is not, either directly or by implication, approving or consenting to Hydro One's proposal to continue all of its 2011 deferral and variance accounts into 2012.

13. **Conclusion.** SEC submits that it has participated responsibly in this proceeding with a view to assisting the Board, and therefore requests that the Board order payment of SEC's reasonably incurred costs.

All of which is respectfully submitted.

Yours very truly,

JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties