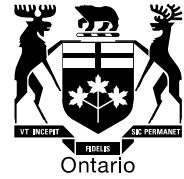


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BY EMAIL

February 3, 2012

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

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
Application for Accounting Order
Board File No. EB-2011-0432**

Pursuant to the Board's Procedural Order No. 1 issued on January 13, 2012, please find attached the Board Staff submission on the accounting order application filed by Ontario Power Generation on December 29, 2011.

Please forward the attached to Ontario Power Generation and parties to this proceeding.

Yours truly,

Original Signed By

Violet Binette
Project Advisor, Applications & Regulatory Audit

ONTARIO POWER GENERATION INC.
APPLICATION FOR ACCOUNTING ORDER

EB-2011-0432

Board Staff Submission

February 3, 2012

Introduction

Ontario Power Generation Inc. (“OPG”) filed an accounting order application with the Ontario Energy Board, (the “Board”) on December 29, 2011 under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B). The application seeks approval to establish a deferral account to record the financial impacts resulting from the transition to and implementation of the Generally Accepted Accounting Principles of the United States (“USGAAP”) from January 1, 2012 to the effective date of the next payment amounts order.

The 2011-2012 payment amounts were established in the EB-2010-0008 proceeding. Those payment amounts were determined on a Canadian Generally Accepted Accounting Principles (“CGAAP”) basis. The current application states that OPG will adopt USGAAP for accounting and financial reporting purposes on January 1, 2012. OPG will apply to the Board for approval to adopt USGAAP for regulatory accounting purposes in the next payment amounts proceeding. OPG is in the midst of an assessment of the differences between CGAAP and USGAAP and proposes that the balance in the account and disposition be reviewed as part of the next payment amounts proceeding. OPG’s current estimate of the amount that would be captured in the proposed account is \$40M related to actuarial gains/losses and past service costs associated with OPG’s long term disability plan.

On January 13, 2012, the Board issued a Notice of Application and Hearing and Procedural Order No. 1 (“PO No.1”). PO No. 1 quoted the requirements, as outlined in the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*, issued on June 13, 2011 (the “Addendum Report”), for the Board’s consideration of the use of USGAAP as an alternative to modified IFRS for rate making purposes. PO No. 1 also acknowledged that OPG recognized the requirements and that OPG would provide the necessary information in the next payment amounts application. As key information will not be available, or will not be confirmed, until the filing of the payment amounts application, the Board was of the view that initiating a discovery process on the request for the deferral account would likely produce unsatisfactory results. The Board stated that it was considering granting the deferral account on the following terms:

- As is the case with all deferral accounts, the approval of the establishment of the deferral account provides no indication at all of recovery of any of the balance;

- Approval of the establishment of the deferral account has no bearing on the Board's determination with respect to the adoption of USGAAP for regulatory accounting purposes in OPG's next payment amounts application; and
- The manner in which OPG will track and record items in the deferral account will be determined in the next payment amounts application.

The Board invited submissions from parties on whether the above proposal is appropriate or whether there is a need for further discovery of OPG's evidence filed in this application. The following is Board staff's submission on the proposal.

Submission

Board staff notes that the Addendum Report stated that,

This Addendum, consistent with the 2009 Report, focuses on electricity distributors and rate-regulated natural gas utilities. However, the Board will have regard to the policy and rationale for the policy in this Addendum when considering similar issues for other regulated entities.¹

Furthermore, Board staff notes that currently the Board is dealing with a similar issue for two regulated natural gas utilities: Union Gas Distribution ("Union") and Enbridge Gas Distribution ("Enbridge"). Similar to OPG, Union and Enbridge, in their 2012 IRM rate applications,² have requested a deferral account to track the accounting differences in relation to Employee Future Benefits upon the transition to USGAAP effective January 1, 2012. Again similar to OPG, Union and Enbridge have requested the account before the request and the Board's determination on USGAAP for rate regulation in their respective 2013 cost of service rate applications.

Board staff observes that in the Board staff submission for the Union case,³ Board staff was opposed to granting Union the deferral account to track the accounting differences arising from the transition to USGAAP in Union's 2012 IRM rate application because the Board does not regulate the utility's internal accounting process or external financial reporting. Board staff noted that the request is directly associated with Union's request for and the Board's determination on Union's proposed transition to USGAAP in its 2013

¹ Board Addendum Report, p.2

² Union 2012 IRM Rate Application EB-2011-0025 & Enbridge 2012 IRM Rate Application EB-2011-0227

³ Board Staff Submission filed for Union EB-2011-0025 on January 24, 2012

cost of service application and that there is no rate implication as the annual amortization has already been included in Union's rates for 2012.

Board staff notes that Enbridge stated in its oral hearing that the establishment of a deferral account is a way of making sure that the regulatory costs and the financial costs match.⁴ Board staff has not yet filed a submission in the Enbridge case.

Board staff submits that the approach noted in the Addendum Report⁵ will allow the Board to apply a consistent practice when the Board considers a similar issue among rate regulated utilities, no matter whether the utilities are rate-regulated gas utilities such as Union and Enbridge or other rate-regulated utilities such as OPG.

As a result of the Board's experience with similar deferral account issues in the Union and Enbridge 2012 IRM rate applications, Board staff submits that there is a need for further discovery of OPG's evidence, including discovery related to causation, materiality and prudence of the proposed deferral account. Without further discovery of OPG's evidence, it is challenging to understand the use of the deferral account and the impact of not establishing the deferral account. Board staff submits that this information will assist the Board in making an informed decision on the request.

In its application, OPG indicated that its assessment of the impact of adopting USGAAP is not complete but that it would file information to support amounts recorded in the proposed deferral account with its next payment amounts application. If OPG believes that it can provide more information in advance of the next payment amounts case, Board staff submits that OPG should propose an appropriate time when this would be possible, and subsequently for parties and the Board to engage in further discovery regarding the request.

That said, if the Board is inclined to establish the account without further evidentiary support, Board staff agrees that the three conditions outlined in PO No. 1 should be applied as conditions to its findings.

- All of which is respectfully submitted -

⁴ Tr. Oral Hearing, Vol 2, p.85-86 Enbridge 2012 IRM EB-2011-0277

⁵ Board Addendum Report, p.2