BOARD STAFF INTERROGATORIES
HYDRO ONE NETWORKS INC.
REMOTES REVENUE REQUIREMENT & RATES (USGAAP)
EB-2011-0427
February 14, 2012

1. Ref: EB-2008-0408 Addendum to Report of the Board, June 13, 2011
EB-2011-0268 Board Staff Interrogatory #11

The Board's Addendum, in Issue 2, makes provision for a Property Plant and Equipment deferral account to capture certain differences arising from the transition to IFRS. The Board notes at page 19 of the Addendum that the account may not be necessary for utilities that adopt USGAAP rather than IFRS.

As per the response to EB-2011-0268 Board staff Interrogatory #11, Hydro One Transmission stated that "Hydro One Networks does not intend to make use of this Property, Plant and Equipment deferral account if USGAAP is adopted for rate making purposes."

i) Please confirm that Hydro One Networks (including Remotes) still intends to not make use of the Property, Plant and Equipment deferral account for rate making purposes.

ii) If this is not the case, please explain why the account is necessary and provide an estimate of the amounts that would be captured in the account.

2. Ref: EB-2011-0399 Board Staff Interrogatory #2
EB-2011-0175, Exhibit A/Tab 3/Schedule 1/Page 4

As per EB-2011-0175, Exhibit A/Tab 3/Schedule 1/Page 4, Hydro One Remotes requested the creation of a new deferral account entitled "USGAAP Incremental Transition Costs." As per the response to EB-2011-0399 Board staff Interrogatory #2, Hydro One Distribution stated:

> "The incremental USGAAP transition costs incurred in 2011 and to be reflected in the "USGAAP Incremental Transition Cost Account" total $75 K. These amounts were incurred for audit-related services in support of Hydro One's successful application to the OSC for approval to adopt USGAAP. Hydro One does not currently expect to incur significant incremental USGAAP transition costs during 2012. Due to the similarities between USGAAP and legacy CGAAP, the transition work can be managed by internal staff."

i) Is Remotes seeking the creation of a new deferral account entitled "USGAAP Incremental Transition Costs" in this application?

ii) If so, what USGAAP incremental transition costs were incurred in 2011 and prior to 2011? What did these costs relate to? Please explain.

iii) Does Remotes expect that the incremental costs will not be significant during 2012? Please explain.

iv) Has there been any IFRS incremental transition costs incurred to date that Remotes is proposing to record in the "USGAAP Incremental Transition Costs" account or another deferral or variance account? Please explain.

v) Please state the amount of any IFRS incremental transition costs embedded in the 2009 revenue requirement approved in EB-2008-0232.

a) Has Remotes recorded the variance between the costs embedded in the 2009 revenue requirement and actual costs incurred in any deferral or variance account? Please explain.

b) Please describe Remotes' intention for recovery of any IFRS incremental transition costs amounts; specifically, how and when are the amounts proposed to be recovered?

3. Ref:Exhibit A/Tab3/Sch1 and Hydro One 3rd Generation IRM application, EB-2011-0175

Hydro One has filed its EB-2011-0175 2012 3rd Generation IRM distribution rate application for Remotes. Is this rate application based on CGAAP or USGAAP? How does Hydro One plan to deal with rate setting in the Remotes business if this USGAAP application is approved?

4. Ref: EB-2011-0175, Exhibit A, Tab 3, Schedule 1, Page 1

In the IRM application, Remotes stated:

> "Remotes conducts its operations under a cost recovery model applied to achieve breakeven results of operations after the inclusion of PILs. Any excess or deficiency in remote rate protection revenues necessary to lead to breakeven results of operations is added to, or drawn from, the RRRP variance account, which was established in 2002 for this purpose."

i) Please confirm that the RRRP variance account is the only deferral/variance account currently approved by the Board for regulatory purposes. If this is not the case, please explain.

ii) Is Remotes proposing to seek continuance of the RRRP variance account in this application?

iii) Please specify the deferral and variance accounts that Remotes is seeking to continue in this application and the new deferral and variance accounts that Remotes is applying for in this application. Please explain.

iv) What is the impact of the transition to USGAAP from CGAAP on the RRRP variance account? Please explain.

v) What would have been the impact of the transition to MIFRS from CGAAP, compared to the impact of the transition to USGAAP from CGAAP, on the RRRP variance account? Please explain.

5. Ref: EB-2011-0399 Board Staff Interrogatory #6 – Pensions and OPEBs

As per the EB-2011-0399 response to Board staff Interrogatory #6 Hydro One stated:

> “Hydro One confirms that, under USGAAP, Hydro One Networks still plans on continuing its external reporting for pension costs on a cash basis, consistent with rate regulated accounting.
>
> Hydro One confirms that, under USGAAP, Hydro One Networks still plans on continuing to recover its pension costs on a cash basis.”

i) Under USGAAP, does Remotes still plan on reporting pension costs on a cash basis externally using rate regulated accounting? If this is not the case, please explain.

ii) Under USGAAP, does Remotes still plan to recover their pension costs on a cash basis? If this is not the case, please explain.

6. Ref: Exhibit D1/Tab1/Sch1/p.1 Impact for US GAAP Account EB-2011-0399 Board Staff Interrogatory #7

i) Hydro One stated in the response to EB-2011-0399 Board staff Interrogatory #7 that Hydro One “has not yet identified any significant differences that would be recorded in this account.”

Please state whether Remotes has now identified any significant differences that would be recorded in this account. Please explain.

ii) Please describe the differences between CGAAP and USGAAP referred to in this section and provide an estimate of the debits and credits that Remotes anticipates will be recorded in this account.

iii) Please confirm that no other deferral and variance accounts are affected by the change to USGAAP from CGAAP.

iv) Has Remotes identified any impact relating to the transition to USGAAP on balances embedded in revenue requirements or deferral/variance account balances approved in EB-2008-0032 or prior decisions specifically relating to employee future benefits and financial instruments?

v) Please describe Hydro One's intention for recovery of amounts in the Impact for USGAAP Account; specifically, how and when are the amounts proposed to be recovered?

7. Ref: Exhibit A/Tab3/Sch1

Hydro One indicates that the 2012 notional Remote's revenue requirement would be $2 million higher if MIFRS were not replace by USGAAP. Please provide the major reasons for this potential increase in revenue requirement and provide a table that provides a detailed breakdown showing which revenue requirement items would increase and by what amount.

8. Ref: Exhibit A/Tab2/Sch1

In the previous Hydro One USGAAP applications for transmission (EB-2011-0268) and distribution (EB-2011-0399) benchmarking comparisons with other transmitters and distributors was raised as an important issue. Has Hydro One considered any benchmarking issues in the case of Remotes converting from CGAAP to USGAAP? Please provide Hydro One's position on the benchmarking issue.

9. Ref: Exhibit A/Tab2/Sch1, EB-2011-0399 Board Staff Interrogatory #11 and EB-2011-0268 Board Staff Interrogatory #14

Board staff Interrogatory #11 in the distribution (EB-2011-0399) USGAAP case and Board staff Interrogatory #14 in the transmission (EB-2011-0268) USGAAP deal with the depreciation implications of adopting USGAAP. Please address the depreciation issues raised in these interrogatories in the context of Remotes. Are there any additional depreciation issues that arise in Remotes?

10. Ref: Exhibit A/Tab2/Sch1 and EB-2011-0268 Decision, page 13

In its EB-2011-0268 Decision concerning adoption of USGAAP for Transmission, the Board required Hydro One to conduct a critical review of its current and proposed capitalization policies.

i) Does Hydro One have the same capitalization policies across Hydro One Networks and therefore for transmission, distribution and Remotes businesses? If not, how or in what ways, do the capitalization policies differ between transmission, distribution and Remotes?

ii) In completing the capitalization study for transmission/distribution, will Hydro One also consider the implications on capitalization policies for Remotes?

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