Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

February 23, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700,
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

EB-2011-0427–Hydro One Remote Communities Inc. ("Remotes") Request for Approval of US GAAP for Rate Setting, Regulatory Accounting & Reporting Purposes – Remotes' Responses to Interrogatory Questions

Please find attached an electronic copy of responses provided by Hydro One Remote Communities to Interrogatory questions. Hard copies will be couriered to the Board shortly.

An electronic copy of the Interrogatories have been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Ontario Energy Board (Board Staff) INTERROGATORY #1 List 1

Interrogatory

Reference: 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.

Response

i). Remotes does not expect to make use of the Property, Plant and Equipment deferral account. As Remotes is currently in a CGAAP IRM, it expects that the recommendations of the EB-2008-0408 Addendum Report will still technically apply to it, with the clarification that US GAAP would be used instead of MIFRS in determining the need for, and quantum of, entries to be made in the Property, Plant and Equipment deferral account. However, at this time, no significant Canadian GAAP versus US GAAP differences have been identified that would require such an entry to be made in this account. The Property, Plant and Equipment deferral account is not currently expected to be used for Networks' two regulated businesses (i.e. Transmission and Distribution) as these businesses do not currently have rates established under IRM for 2012 and no significant 2011 accounting differences have been identified that affect rate base.

ii). N/A.

Ontario Energy Board (Board Staff) INTERROGATORY #2 List 1

Interrogatory

Reference: EB-2011-0399 Board Staff Interrogatory #2
EB-2011-0175, Exhibit A/Tab3/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?

Response

i). As noted in Remotes' last IRM application (EB-2011-0175, Exhibit A, Tab 2, Schedule 1), it is seeking approval for a new deferral account entitled "USGAAP

Incremental Transition Costs." This continues the analogous IFRS account required under the FAQs to the Board's Accounting Procedures Handbook.

ii). Remotes did not incur US GAAP transition costs in 2011. Nor were any such costs included in the 2011 revenue requirement.

iii). Remotes' does not currently expect to incur any incremental US GAAP conversion costs in 2012.

iv). See v) below.

v). Remotes included $40,000 in its 2009 revenue requirement for incremental IFRS transition costs. A Corporate Finance cost was also charged by Hydro One Networks through approved service level agreements.

a) Remotes incurred $110,000 in actual incremental IFRS conversion charges in 2009. The $70,000 variance was not recorded in the IFRS cost variance account. However, the after tax impact of this under-recovery is reflected in the RRRP variance account.

b) See a) above.

Ontario Energy Board (Board Staff) INTERROGATORY #3 List 1

Interrogatory

Reference: 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?

Response

Hydro One has filed its EB-2011-0175 2012 3rd Generation IRM distribution rate application for Remotes based on CGAAP. If the use of US GAAP is approved by the Board, it will be used in future cost of service applications (see EB-2011-0175, Exhibit A, Tab 3, Schedule 1, Page 4 of 4). However, Remotes is not currently expecting any impacts on its rate base or revenue requirement from the adoption of US GAAP. If any differences arise in future within the existing IRM period, they would be accounted for consistent with the recommendations of the Board's IFRS Addendum Report and would be recorded in the appropriate regulatory accounts.

Ontario Energy Board (Board Staff) INTERROGATORY #4 List 1

Interrogatory

Reference: 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.

Response

i). Remotes confirms that the RRRP variance account is the only deferral/variance account that is currently approved by the Board for regulatory purposes.

ii). Yes, as the breakeven business model is being continued.

iii). Remotes is seeking to continue the RRRP variance account and to establish the Impact for US GAAP Account variance account which would be used to record the 2012 impact of any yet to be identified differences between CGAAP and USGAAP. This account is consistent with the requests made by Hydro One Networks Transmission and Distribution in the EB-2011-0268 and EB-2011-0399 proceedings respectively.

iv). Remotes does not expect any direct US GAAP impact on the RRRP variance account.

v). As noted in Hydro One’s cover letter to its EB-2011-0427 application, had MIFRS been adopted, Remotes would have experienced a reduction in its rate base and an increase in its annual revenue requirement of approximately $2 million per annum as a result of adopting a MIFRS-compliant cost capitalization policy. This impact will be avoided through the approval of US GAAP for rate setting purposes as the continuance of the previous CGAAP capitalization policy would be allowed. If MIFRS is adopted then the resulting increase in revenue requirement would occur at the next rebasing and there would be no direct impact on the RRRP variance account. The RRRP account would still be used to adjust revenue to achieve a break-even operating result.

Ontario Energy Board (Board Staff) INTERROGATORY #5 List 1

Interrogatory

Reference: 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.

Response

i). Confirmed.

ii). Confirmed.

Ontario Energy Board (Board Staff) INTERROGATORY #6 List 1

Interrogatory

Reference: 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?

Response

i). Consistent with Hydro One Networks Transmission and Distribution businesses, Remotes has not identified any significant differences that would be recorded in this account.

ii). Please refer to i) above. It is premature at this point for Hydro One to anticipate whether it will make any specific entries to this account, or the nature of any such future entries. As such, no estimates of anticipated debits and credits in this account can be provided.

iii). Remotes' confirms that no other deferral and variance accounts are affected by the change to US GAAP from CGAAP.

iv). Hydro One has not identified any such impacts.

v). Consistent with past practice and OEB requirements, at its next cost of service proceeding, Remotes would seek recovery or refund of all audited deferral and variance account balances as of the end of the most recent historical year if applicable. This would include the “Impact for US GAAP Account”.

Ontario Energy Board (Board Staff) INTERROGATORY #7 List 1

Interrogatory

Reference: 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.

Response

Consistent with the Transmission and Distribution Businesses of Hydro One Networks, Remotes is proposing to retain its legacy capitalization policy for overheads and other indirect costs if use of a US GAAP framework is approved by the Board. The shift of approximately $2 million of expenditures from OM&A to capital was estimated on a basis consistent with the Transmission and Distribution impacts previously communicated to the Board. This amount reflects the impact of applying US GAAP rather than MIFRS given that, unlike IAS 16, US GAAP has no explicit prohibition against the capitalization of certain overhead and indirect costs. With the adoption of US GAAP in 2012, Remotes proposes to continue with the same capitalization policy for overhead and indirect costs that was approved by the Board in previous cost of service proceedings.

The area most impacted by the revision of a US GAAP capitalization policy would be Shared Services (Other). Compared to MIFRS, use of a US GAAP capitalization policy for overheads would result in a revenue requirement reduction from what would otherwise be required of about $400 thousand for corporate shared functions and services. Overhead costs are capitalized as part of capital projects and programs using an allocation methodology accepted in previous cost of service applications.

The remainder of the estimated impact includes the same indirect cost components as described in EB-2010-0002, Exhibit 1, Tab 1, Schedule 20, page 2. For example, other non-capitalizable indirect costs under IAS 16 include travel, training and safety costs of about $160 thousand, indirect supervision costs of about $200 thousand, and fleet costs of about $150 thousand. These indirect costs would be capitalized under US GAAP.

Ontario Energy Board (Board Staff) INTERROGATORY #8 List 1

Interrogatory

Reference: 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.

Response

Hydro One has not considered benchmarking issues in the case of Remotes converting from CGAAP to USGAAP. Remotes is not comparable to other Ontario utilities as it provides generation and distribution to a small customer base in isolated, off-grid communities scattered over large distances. The lack of comparators in Ontario was recognized in the "Comparators and Cohorts Study for 2006 EDR" undertaken for the consideration of the Board. That report states: "For regulatory purposes, HORC's circumstances and operating environment mean that rate-setting is handled differently than that of most utilities.

There are eight utilities offering off-grid service in Canada: Hydro Quebec, Newfoundland and Labrador Hydro, Manitoba Hydro, BC Hydro, ATCO Electric, North West Territories Power and Quilliq Power (Nunavut). Benchmarking against these utilities is difficult due to different regulatory and tax regimes, different subsidy structures, different geography and different types of customers.

Ontario Energy Board (Board Staff) INTERROGATORY #9 List 1

Interrogatory

Reference: 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?

Response

The depreciation implications of adopting US GAAP are identical for Hydro One Networks Transmission, Distribution and Hydro One Remotes. There are no additional depreciation issues for Remotes.

Ontario Energy Board (Board Staff) INTERROGATORY #10 List 1

Interrogatory

Reference: 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?

Response

i). Yes, Hydro One has consistent cost capitalization policies across all of its regulated businesses, including Hydro One Networks' two businesses (transmission and distribution) and Hydro One Remote Communities.

ii). Hydro One expects that the transmission/distribution capitalization study's conclusions will be equally applicable to Remotes.