March 7, 2012

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Ms. Walli

Re: Espanola Regional Hydro Distribution Corporation's (ERHDC) 2012 Cost of Service Electricity Distribution Rate Application EB-2011-0319

On February 15, 2012, ERHDC filed its 2012 cost of service rate application. The Board has assigned File Number EB-2011-0319 to this matter. On March 2, 2012 the Board issued an acknowledgement of receipt letter and determined the application was incomplete until certain information was filed with the OEB. ERHDC has addressed the issues and provided additional information.

In the event of any additional information, questions or concerns, please contact Jennifer Uchmanowicz, Rate and Regulatory Affairs Officer, at Jennifer.Uchmanowicz@ssmpuc.com or (705) 759-3009.

Sincerely,

Jennifer Uchmanowicz

____

Jennifer Uchmanowicz
on behalf of Espanola Regional Hydro Distribution Corporation
Rates and Regulatory Affairs Officer
PUC Services
Email: jennifer.uchmanowicz@ssmpuc.com
Phone: 705-759-3009

Issue #1

A copy of the capitalization policy. As stated in the Report of the Board: Transition to International Financial Reporting Standards (EB-2008-0408) (the "Board Report"), on pages 16 -17, "the utility will file a copy of its capitalization policy, identifying any updates to the policy, as part of its first cost of service rate filing after IFRS adoption."

ERHDC Response

A revised capitalization policy after ERHDC has adopted IFRS is included below.

GROSS ASSETS – PROPERTY, PLANT, EQUIPMENT AND ACCUMULATED DEPRECIATION

CAPITALIZATION POLICY

ERHDC follows Generally Accepted Accounting Principles, in particular the CICA Handbook *IAS 16 Property, Plant and Equipment* and the *OEB Accounting Procedure Handbook.*

A capital expenditure is defined as any significant expenditure incurred to acquire or improve land, buildings, plant, engineering structures, machinery and equipment used in providing services to customers. Improvement or "betterment" includes increasing capacity, reliability, efficiency or economy of operation or extending the useful life of a previous capital expenditure. It includes electric plant, vehicles, office furniture, computer equipment and other equipment. A capital expenditure normally provides a benefit lasting beyond one year and results in the acquisition of or extends the life of a fixed asset.

Components of PP&E are determined and depreciation is calculated separately for each significant component or part. Component accounting is required if the useful life and/or depreciation method for the component is different from the remainder of the asset.

Depreciation is based on the asset costs (or revalued cost) less its residual value over the estimated useful life. Estimates of residual values reflect prices at the reporting date given the condition the asset is expected to be in at the end of the useful life. Inflationary effects are not taken into account when determining the residual value. Estimates of useful life and residual value, and the method of depreciation, are reviewed at least each annual reporting date or where expectations differ from previous estimates.

The depreciation method selected is one that most closely reflects the pattern in which the assets future economic benefits are expected to be consumed by the entity over its estimated useful life.
Directly attributed costs should be included in measuring the initial cost of an asset recognized in property, plant and equipment. General overhead and administrative costs are specifically excluded from the cost of the asset.

Expenditures for repairs and/or maintenance designed to maintain an asset in its original state is not a capital expenditure but should be charged to an operating account.

	Definition	Accounting Treatment
Capital Expenditure	An expenditure to acquire or add to a capital asset – an expenditure yielding enduring benefits	Capitalize if above the materiality limit
Improvement	An expenditure made for the purpose of enhancing a fixed asset and which is an addition to the cost of the asset	Capitalize if above the materiality limit
Maintenance	The cost of keeping a property in efficient working condition	Current operations expense
Repair	The cost of replacement of parts or other restoration of plant and machinery, designed to restore normal working efficiency	Current operations expense

The following are materiality limits for the listed category of assets. Items with a cost less than the materiality levels as listed below should be charged to operations whether they are of a capital nature or of a repairs/maintenance nature.

Account #	**Description**	**Limit**
	Electric Distribution	
1705, 1805, 1905	Land	All

1706, 1806, 1906	Land Right	$1,000
1708, 1808, 1908	Buildings	$1,000
1715, 1815	Transformer Station Equipment	$1,000
1820, 1825	Distribution Station Equipment	$1,000
1720, 1725, 1830	Poles, Towers and Fixtures	$1,000
1730, 1835	Lines & Feeders – O/H	$1,000
1735, 1840	Conduit – U/G	$1,000
1740, 1845	Lines & Feeders – U/G	$1,000
1850	Distribution Transformers	$1,000
1850	Distribution Transformers	$1,000
1855	Services	All
90	Meters	All
1915	General Office Equipment	$1,000
1920, 1925	Computer Equipment	$1,000
1935	Stores Warehouse Equipment	$1,000
1930	Rolling Stock	$1,000
1940, 1945	Miscellaneous Equipment	$1,000
1955	Communication Equipment	$1,000
1980	System Supervisory Equipment	$1,000

Issue #2

Identification of the changes and the impact to Espanola's revenue requirement, if any, related to the PP&E items noted below, as per pages 17-20 of the Board Report:

1. Borrowing costs applied to PP&E
2. Customer contributions received for PP&E
3. Asset reclassification from PP&E to intangible assets
4. Asset retirement obligations
5. Gains and losses on disposition of assets
6. Treatment of asset impairment

ERDHC Response

1. IFRS requires utilities to capitalize carrying charges associated with Construction Work in Progress (CWIP) using actual interest costs incurred as opposed to amounts calculated at rates prescribed by the regulator. ERHDC does not have any CWIP, therefore, there are no changes or impacts to the revenue requirement.

2. IFRS requires customer contributions to be recorded as revenue or deferred revenue (depending on circumstances) instead of as a offset to capital costs. In the 2012 Test year ERHDC projected $16,477 in customer contributions which were offset in capital costs. ERHDC submits that the impact on the revenue requirement would be immaterial whether treated as deferred revenue included as an offset to the rate base and amortized into income or as an offset in capital costs.

3. IFRS requires certain assets to be recorded as intangible assets (e.g. computer software and land rights) that were previously included in PP&E. Utilities shall include such intangible assets in rate base and amortization expense in depreciation expense for determining the revenue requirement. In the 2012 test year ERHDC land rights $3,107. ERHDC included the land rights in the rate base and the amortization expense in the depreciation expense to determine the revenue requirement.

4. IFRS requires that asset retirement obligations include estimates of the cost of certain obligations not required under existing accounting requirements, and revaluation of those obligations during the lives of the assets. For rate setting and reporting purposes, utilities should identify separately the depreciation expense associated with amortizing the asset retirement cost and the accretion expense associated with the amortization of the asset retirement obligation. ERHDC has no planned retirements and has not recognized any liability for asset retirement obligations Therefore, ERHDC has no changes or impacts in revenue requirement due to IFRS and asset retirement obligations.

5. Where a utility for financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or a credit to income, for reporting and rate application filings the utility shall reclassify such gains and losses as depreciation expense and disclose the amount separately. ERHDC has not accounted for any gains or losses on the retirement of assets in the cost of service rate application. Therefore, there are no changes or impact to ERHDC's revenue requirement.

6. Where for financial reporting purposes under IFRS a utility has recorded an asset impairment loss, for rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates. ERHDC has not recorded any asset impairment losses in the cost of service application. Therefore, there are no changes or impacts to ERHDC's revenue requirement.

Issue # 3

OM&A expenses on CGAAP basis for 2011 and 2012 as per the Board's letter dated November 8, 2010, *Transition to IFRS – Amendment to Board Policy*, Appendix 2. Page 43 states that "electricity distributors filing cost of service applications for rates in the year they choose to adopt IFRS for financial reporting must provide the required actual years, the bridge year and the forecasts for the test year(s) in CGAAP based format."

ERHDC Response

ERHDC provided the OM&A expenses on a CGAAP basis for the 2011 Bridge year. In the 2012 Test Year ERHDC provided OM&A expenses on the MIFRS basis. ERHDC did not provide comparative 2012 Test year OM&A Tables on CGAAP basis as the difference was considered immaterial. As noted in Exhibit 6, Tab 2, Schedule 1, page 1, the impact on the revenue requirement due to conversion from CGAAP to MIFRS in the Test year is $6,620. ERHDC operates a combined office/workshop/garage facility. Under CGAAP a portion of the general and administrative costs to operate the combined office/workshop/garage were allocated to PP&E. In the 2012 test year the portion of the costs that would have been allocated to PP&E was $6,620 that under MIFRS is included in OM&A in the 2012 Test Year. ERHDC has no other administrative or general overhead costs that were being allocated to PP&E under CGAAP.

Issue #4

Appendix 2-T regarding account 1592, PILs and Tax Variance for 2006 and Subsequent Years, pursuant to page 47 of *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, dated June 22, 2011. The Filing Requirements state that the distributor should complete and file Appendix 2-T in support of its request to dispose of account 1592.

ERHDC Response

In 2011 the Board began approving disposing of account 1592, PILs and Tax Variances for 2006 and subsequent years on a final basis. The Board expects distributors to file for final disposition in their cost of service application and complete Appendix 2-T. As per the Accounting Procedures Handbook the following items should be recorded in 1592 – PILS and Tax Variances for 2006 and Subsequent Years.

1592 PILs and Tax Variances for 2006 and Subsequent Years

A. For the period starting May 1, 2006, the distributor shall use this account to record the tax impact of any of the following differences:

1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.
2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.
3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
    a) received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or
    b) relating to any tax year ending prior to May 1, 2006.

ERHDC is applying for disposition of $8,443 which is the foregone revenue from May 1, 2009 to August 31, 2009 plus carrying charges for an adjustment to PILs approved and ordered by the Board in decision EB-2009-0056. On February 18, 2008 ERHDC filed an application with the Ontario Energy Board requesting $29,101 be reflected in rates for PILs. On July 31, 2009 the Board issued a decision approving the $29,101 for PILS to be in rates effective May 1, 2009. The Board ordered that the foregone revenue from May 1, 2009 to August 31, 2009 be recorded in deferral account 1592 to be disposed of at a later time. ERHDC is applying for disposition of this amount in its 2012 Cost of Service

Rate application. ERHDC does not have any other tax amounts that are recorded in 1592 deferred PILs. ERHDC did not have Large Corporation Tax in the 2006 EDR application. ERHDC did not pay Ontario Capital Tax in 2006 to 2010 and did not have Ontario Capital Tax in the 2006 EDR application. ERHDC had no impact from the Capital Cost Allocation class changes from 2006 EDR application for 2006 to 2010 recorded in 1592.

Appendix 2-T
Deferred PILs Account 1592 Balances

The following table should be completed based on the information requested below, in accordance with the notes following the table. An explanation should be provided for any blank entries.

Tax Item	Principal as of December 31, 2010
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	$ -
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4/12ths of the approved grossed-up proxy), if not recorded in PILs account 1562	$ -
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	$ -
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	$ -
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	$ -
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	$ -
Capital Cost Allowance class changes from 2006 EDR application for 2006	$ -
Capital Cost Allowance class changes from 2006 EDR application for 2007	$ -
Capital Cost Allowance class changes from 2006 EDR application for 2008	$ -
Capital Cost Allowance class changes from 2006 EDR application for 2009	$ -
Capital Cost Allowance class changes from 2006 EDR application for 2010	$ -
Capital Cost Allowance class changes from any prior application not recorded above. Please provide details and explanation separately.	$ -
EB-2009-0056 forgone revenue from May 1, 2009 to August 31, 2009 for an adjustment to PILs approved by the Board plus carrying charges	$ 8,282
Total	$ 8,282