

March 12, 2012

**Filed on RESS and Sent by Courier**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 2700  
2300 Yong Street  
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On January 1, 2012, Macleod Dixon joined  
Norton Rose OR to create Norton Rose Canada.

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EB-2011-0271

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Dear Ms. Walli:

**Halton Hills Hydro Inc.  
Distribution Rates 2012 (EB-2011-0271)**

We are counsel to Halton Hills Hydro Inc. ("HHH") in the above-captioned matter.

In accordance with Procedural Order No. 4, please find enclosed HHH's updated evidence with respect to HHH's PP&E Account (as referenced in section 11.1 of the Partial Settlement Agreement filed with the Board on February 29, 2012).

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

*"Signed"*

John Beauchamp

JB/mnm

Enclosure

Cop(y/ies) to: All Intervenors in EB-2011-0271  
Art Skidmore (HHH)  
David Smelsky (HHH)

DOCSTOR: 2376007\1

**HALTON HILLS HYDRO INC.  
2012 Distribution Rates  
PP&E Deferral Account**

As noted in section 11 of the Settlement Agreement filed with the Board on February 29, 2012, HHH is filing updated evidence with respect to HHH's PP&E Deferral Account, which tracks the amounts attributable to the difference between CGAAP and IFRS calculations of net fixed assets as at the end of 2011.

HHH is proposing to amortize its PP&E Deferral Account over a period of twenty (20) years. In HHH's view, this amortization period closely matches the average remaining useful life of the underlying assets. HHH also proposes to calculate the return on rate base on a modified declining balance, adjusted every four years to coincide with each rate rebasing period. This approach will result in an annual reduction in the revenue requirement in the amount of:

- \$161,569 in Years 1 through 4;
- \$143,430 in Years 5 through 8;
- \$125,291 in Years 9 through 12;
- \$107,152 in Years 13 through 16; and
- \$89,013 in Years 17 through 20.

The resulting Net Present Value ("NPV") cash flow impact is (\$1,510,158).

IFRS is an evolving set of accounting standards. In the area of regulatory deferral and variance accounts, HHH is of the view that the regulatory accounting and reporting requirements established by the Board should first and foremost be based on sound principles of rate regulation – including fairness to customers and the utility, minimizing intergenerational inequities in rate-setting, and minimizing rate volatility.

The Board has provided policy guidance on the transition to IFRS in *Report of the Board, Transition to IFRS* dated July 28, 2009 ("Report"). On July 11, 2011, the Board also released an Addendum to *Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* (the "Addendum"). The Addendum sets out additional regulatory policy regarding the transition to IFRS in the circumstances where utilities rates are rebased using cost of service rate-setting methods and where rates are subsequently set for a period of years using an IRM. In Appendix A of the Addendum (under Issue 2), the Board authorizes the creation of a generic IFRS transition PP&E Deferral Account to record differences arising as a result of accounting policy changes caused by the transition from CGAAP to MIFRS, and provides policy guidance with respect to said deferral accounts

The proposed PP&E Deferral Account is intended to cover differences arising only as a result of the accounting policy changes caused by the transition from CGAPP to MIFRS. The amount of the cumulative adjustment up or down (unamortized balance of the deferral account) will be recorded as a balance to be recovered from or refunded to, ratepayers and as an adjustment to rate base in the year of rebasing (with rate base calculated on a MIFRS basis).

The Board requires the utility to reflect an adjustment to MIFRS calculated rate base going forward and amortize that adjustment over a period of time approved by the Board.

As per Appendix A to the Addendum, the Board will determine the period of time for amortization on a case-by-case basis and will be guided primarily by such considerations as the:

- impact on rates;
- implications of any other IFRS transition matters; and
- any requirements for rate mitigation.

The rate impact to HHHI is a cumulative adjustment down to rate base to be refunded to ratepayers in the amount of \$1,462,823. Amortizing over a short period (e.g., four years, as some utilities have done based on a sample in a Board Staff submission of March 31, 2011 (Appendix A)), would result in an annual reduction in the revenue requirement of \$456,401. This is a significant revenue requirement reduction and would cause significant cash flow impacts to HHH. The Net Present Value (NPV) cash flow impact is (\$1,574,261).

Further, amortizing over a shorter period would not correspond to the remaining useful lives of the assets underpinning the Account. Consequently, an amortization period of 20 years is more appropriate from a regulatory perspective. It is fair to HHH in terms of not imposing undue cash flow impacts on the utility, and it is more appropriate from an intergenerational equity perspective and rate volatility perspective.

Halton Hills Hydro Inc.  
PP& E Deferral Account  
Proposal

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Option</b>																					
<b>1</b>	<b>NPV of HHHI's 20 year amortization - Adjusted every four years to coincide with rate rebasing</b>																				
<b>Net Present Value:</b>	<b>(\$1,510,158)</b>																				
Opening		1,462,823	1,389,682	1,316,541	1,243,400	1,170,258	1,097,117	1,023,976	950,835	877,694	804,553	731,412	658,270	585,129	511,988	438,847	365,706	292,565	219,423	146,282	73,141
Amortization		73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141
Closing		1,389,682	1,316,541	1,243,400	1,170,258	1,097,117	1,023,976	950,835	877,694	804,553	731,412	658,270	585,129	511,988	438,847	365,706	292,565	219,423	146,282	73,141	0
Average		1,426,252	1,353,111	1,279,970	1,206,829	1,133,688	1,060,547	987,406	914,264	841,123	767,982	694,841	621,700	548,559	475,417	402,276	329,135	255,994	182,853	109,712	36,571
	Accum Total																				
Return	1,042,993	88,428	88,428	88,428	88,428	70,289	70,289	70,289	70,289	52,150	52,150	52,150	52,150	34,011	34,011	34,011	34,011	15,872	15,872	15,872	15,872
Amortization	1,462,823	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141
Total	2,505,816	161,569	161,569	161,569	161,569	143,430	143,430	143,430	143,430	125,291	125,291	125,291	125,291	107,152	107,152	107,152	107,152	89,013	89,013	89,013	89,013
<b>2</b>	<b>NPV of HHHI's 20 year amortization - Declining Balance Approach</b>																				
<b>Net Present Value:</b>	<b>(\$1,437,233)</b>																				
Opening		1,462,823	1,389,682	1,316,541	1,243,400	1,170,258	1,097,117	1,023,976	950,835	877,694	804,553	731,412	658,270	585,129	511,988	438,847	365,706	292,565	219,423	146,282	73,141
Amortization		73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141
Closing		1,389,682	1,316,541	1,243,400	1,170,258	1,097,117	1,023,976	950,835	877,694	804,553	731,412	658,270	585,129	511,988	438,847	365,706	292,565	219,423	146,282	73,141	0
Average		1,426,252	1,353,111	1,279,970	1,206,829	1,133,688	1,060,547	987,406	914,264	841,123	767,982	694,841	621,700	548,559	475,417	402,276	329,135	255,994	182,853	109,712	36,571
	Accum Total																				
Return	906,950	88,428	83,893	79,358	74,823	70,289	65,754	61,219	56,684	52,150	47,615	43,080	38,545	34,011	29,476	24,941	20,406	15,872	11,337	6,802	2,267
Amortization	1,462,823	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141	73,141
Total	2,369,773	161,569	157,034	152,499	147,965	143,430	138,895	134,360	129,826	125,291	120,756	116,221	111,687	107,152	102,617	98,082	93,548	89,013	84,478	79,943	75,409
<b>3</b>	<b>NPV of OEB Approach</b>																				
<b>Net Present Value:</b>	<b>(\$1,574,261)</b>																				
Opening		1,462,823	1,097,117	731,412	365,706																
Amortization		365,706	365,706	365,706	365,706																
Closing		1,097,117	731,412	365,706	-																
	Accum Total																				
Return	362,780	90,695	90,695	90,695	90,695																
Amortization	1,462,823	365,706	365,706	365,706	365,706																
Total	1,825,603	456,401	456,401	456,401	456,401																