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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs



BY COURIER

March 12, 2012

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

Dear Ms. Walli

**EB-2011-0427–Hydro One Remote Communities Inc. Request for Approval of US GAAP for Rate Setting, Regulatory Accounting & Reporting Purposes – Reply Argument**

Hydro One Remote Communities (“Remotes”) is pleased to file its reply argument in relation to its application for an order or orders approving Remotes’ utilization of US Generally Accepted Accounting Principles (“US GAAP”) as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 12, 2012, in a manner appropriate for a rate regulated entity.

There were no intervenors in this proceeding and only OEB staff provided a submission regarding Remotes’ request to move to US GAAP. Remotes notes OEB staff’s overall support for their request. Below please find Remotes’ comments regarding the Board staff’s two concerns.

**Deferral and Variance Accounts**

As Remotes stated in its response to Board staff interrogatory #2, the IFRS variance between the approved transition costs included in Remotes’ 2009 revenue requirement (and included in IRM rates in 2010 and 2011) and actual IFRS transition costs incurred in 2009 has not been recorded in the IFRS Transition Costs Variance Account. Instead, the variance was reflected within the RRRP Variance Account. Neither Remotes’ net income nor the substances of its regulatory accounting for any of the years from 2009 to 2011 have been adversely impacted using this approach.

In its response to Board Staff interrogatory #2, Remotes stated that it had incurred a debit \$70,000 variance in 2009 resulting from the difference between \$110,000 actual incremental IFRS conversion charges in 2009 and the \$40,000 included in Remotes’ 2009 revenue requirement for incremental IFRS

transition costs. As Remotes noted, a Corporate Finance cost was also included in revenue requirement in 2009. For the Board's information, this charge was approximately \$23,000.

Remotes agrees that the recording of variances in the RRRP Variance account does not imply Board approval for disposition. Remotes understands that clearance of all deferral and variance accounts is subject to future Board review.

### **Capitalization Policies**

As Board staff submitted, a capitalization review is underway and will be reported on in Hydro One Networks' transmission cost of service application. Results of this review and the applications of the corporate capitalization policies for transmission will be applied consistently to the Remotes business.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank