

March 21, 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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Norton Rose OR to create Norton Rose Canada.

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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.

Please find attached HHH's updated evidence related to the PP&E Deferral Account (previously filed on March 12, 2012). The updates result from recent work done by HHH in preparation for its 2011 audit.

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)

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

HHH is revising its March 12, 2012 evidence in respect of the PP&E Deferral Account. The numbers in the March 12 evidence (and the record to this point in the proceeding) was based on estimated 2011 depreciation figures (CGAAP) as per JT1.3. Since March 12, HHH has undertaken its year-end work in preparation for its 2011 audit and has calculated the 2011 depreciation figures (CGAAP) to be \$2,115,000 (as compared to the estimated \$2,741,106 in JT1.3). Therefore, the amount in the PP&E Deferral Account (CGAAP vs. MIFRS) is adjusted to \$836,717 (from \$1,462,823). HHH is not proposing to alter the amortization period. Changes to the evidence filed on March 12, 2012 are underlined.

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:

- \$92,415 in Years 1 through 4;
- \$82,040 in Years 5 through 8;
- \$71,665 in Years 9 through 12;
- \$61,290 in Years 13 through 16; and
- \$50,914 in Years 17 through 20.

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The resulting Net Present Value ("NPV") cash flow impact is (\$863,792).

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 \$836,717. 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 \$261,056. 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 (\$900,458).

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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.

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Option 1	NPV of HHHI's 20 year amortization - Adjusted every four years to coincide with rate rebasing																				
Net Present Value:	(\$863,792)																				
Opening		836,717	794,881	753,045	711,209	669,374	627,538	585,702	543,866	502,030	460,194	418,359	376,523	334,687	292,851	251,015	209,179	167,343	125,508	83,672	41,836
Amortization		41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836
Closing		794,881	753,045	711,209	669,374	627,538	585,702	543,866	502,030	460,194	418,359	376,523	334,687	292,851	251,015	209,179	167,343	125,508	83,672	41,836	0
Average		815,799	773,963	732,127	690,292	648,456	606,620	564,784	522,948	481,112	439,276	397,441	355,605	313,769	271,933	230,097	188,261	146,425	104,590	62,754	20,918
	Accum Total																				
Return	596,579	50,580	50,580	50,580	50,580	40,204	40,204	40,204	40,204	29,829	29,829	29,829	29,829	19,454	19,454	19,454	19,454	9,078	9,078	9,078	9,078
Amortization	836,717	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836
Total	1,433,296	92,415	92,415	92,415	92,415	82,040	82,040	82,040	82,040	71,665	71,665	71,665	71,665	61,290	61,290	61,290	61,290	50,914	50,914	50,914	50,914
2	NPV of HHHI's 20 year amortization - Declining Balance Approach																				
Net Present Value:	(\$822,080)																				
Opening		836,717	794,881	753,045	711,209	669,374	627,538	585,702	543,866	502,030	460,194	418,359	376,523	334,687	292,851	251,015	209,179	167,343	125,508	83,672	41,836
Amortization		41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836
Closing		794,881	753,045	711,209	669,374	627,538	585,702	543,866	502,030	460,194	418,359	376,523	334,687	292,851	251,015	209,179	167,343	125,508	83,672	41,836	0
Average		815,799	773,963	732,127	690,292	648,456	606,620	564,784	522,948	481,112	439,276	397,441	355,605	313,769	271,933	230,097	188,261	146,425	104,590	62,754	20,918
	Accum Total																				
Return	518,765	50,580	47,986	45,392	42,798	40,204	37,610	35,017	32,423	29,829	27,235	24,641	22,047	19,454	16,860	14,266	11,672	9,078	6,485	3,891	1,297
Amortization	836,717	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836	41,836
Total	1,355,482	92,415	89,822	87,228	84,634	82,040	79,446	76,852	74,259	71,665	69,071	66,477	63,883	61,290	58,696	56,102	53,508	50,914	48,320	45,727	43,133
3	NPV of OEB Approach																				
Net Present Value:	(\$900,458)																				
Opening		836,717	627,538	418,359	209,179																
Amortization		209,179	209,179	209,179	209,179																
Closing		627,538	418,359	209,179	-																
	Accum Total																				
Return	207,506	51,876	51,876	51,876	51,876																
Amortization	836,717	209,179	209,179	209,179	209,179																
Total	1,044,223	261,056	261,056	261,056	261,056																