



EB-2011-0399

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an order or orders approving a
distribution revenue requirement and rates and other
charges for the distribution of electricity;

AND IN THE MATTER OF a request by Hydro One
Networks Inc. for approval for the use of the USGAAP
accounting standard for rate setting, regulatory
accounting and regulatory reporting, as of January 1,
2012, in its Distribution business.

BEFORE: Paul Sommerville
Presiding Member

Ken Quesnelle
Member

ACCOUNTING ORDER

May 17, 2012

Hydro One Networks Inc. Distribution ("Hydro One Distribution") is a licensed Ontario electricity distributor.

On November 23, 2011, the Ontario Energy Board (the "Board") issued its EB-2011-0268 Decision with Reasons granting approval for Hydro One Networks Inc. Transmission to utilize United States Generally Accepted Accounting Principles ("USGAAP") as the basis for rate application filings, regulatory accounting and regulatory reporting commencing January 1, 2012.

In its findings in the EB-2011-0268 proceeding, the Board noted that "...its policy states that a cost-of-service application is required for approval to transition to USGAAP. However, given the unique circumstances of Hydro One Transmission and Hydro One Distribution, the Board does not believe this applicant should be precluded from applying to extend the use of the USGAAP accounting standard to the Distribution business on appropriate terms and conditions, as a stand-alone application."

On December 1, 2011, Hydro One Distribution filed an application requesting approval to utilize USGAAP for rate setting, regulatory accounting and reporting as of January 1, 2012, for its distribution business. The Board assigned file number EB-2011-0399 to the application.

The Board issued its EB-2011-0399 Decision and Order on the application on March 23, 2012, approving the Hydro One Distribution's USGAAP request. In the Decision and Order, the Board ordered Hydro One to file a draft Accounting Order reflecting the Board's findings.

Hydro One Distribution filed a draft Accounting Order on March 28, 2012. Board staff filed comments on the draft Accounting Order on April 4, 2012. Hydro One Distribution did not file a reply to the Board staff comments. The Board has reviewed the draft accounting order submitted by Hydro One Distribution and the comments submitted by Board staff.

The Board agrees with Board staff's comments that when Hydro One Distribution brings forward the USGAAP Incremental Transition Costs Variance Account for clearance in a future rate proceeding, Hydro One Distribution should provide in its pre-filed evidence a breakdown of the costs recorded in the account relating to USGAAP incremental transition costs and the costs relating to IFRS incremental transition costs and clearly indicate the amount that Hydro One Distribution will be seeking for clearance.

Regarding the Impact for USGAAP Variance Account, the Board notes that in its draft Accounting Order, Hydro One Distribution was silent on limiting the amounts to be recorded in the account to the impacts on the 2012 revenue requirement. The Board agrees with Board staff's submission that the impacts to the revenue requirement relating to years prior to 2012 or beyond 2012 should not be recorded in this account and the amounts should relate only to the 2012 revenue requirement. This corresponds to the Board's Decision and Order, that the account will be limited to potential impacts

on the 2012 revenue requirement, and not relate to balances incorporated into the audited financial statements.

Further, the Board also agrees with the Board staff comment that Hydro One Distribution did not submit evidence that this account should include “impacts from new pronouncements coming into effect in 2012.” This issue was not addressed in the proceeding, nor in the Board’s Decision and Order. The Board supports the staff assertion that if Hydro One Distribution discovers differences between CGAAP and USGAAP from new pronouncements or other matters, Hydro One Distribution should make a separate application and bring the issue to the Board to address those differences, if any.

THE BOARD ORDERS THAT:

1. The Accounting Order set out in Appendix “A” of this Order is approved effective January 1, 2012.

DATED at Toronto, May 17, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

APPENDIX A

TO ACCOUNTING ORDER

**Hydro One Networks Inc.
Distribution**

EB-2011-0399

DATED: May 17, 2012

Hydro One Networks Inc. Distribution Accounting Order EB-2011-0399

- A)** Hydro One Networks Inc. Distribution (“Hydro One Distribution”) shall discontinue the following deferral account effective January 1, 2012:

Impact for Changes in IFRS Variance Account

Hydro One Distribution shall discontinue the use of the Impact for Changes in IFRS Variance Account. This account was approved in the EB-2009-0096 Hydro One Distribution proceeding to record the aggregate impact on 2011 revenue requirement resulting from any changes to existing IFRS standards and changes in the interpretation of such standards. With the adoption of USGAAP in place of MIFRS for 2012 and subsequent years, there is no longer a need for this account. The account balance was \$nil as at December 31, 2011. As such, Hydro One Distribution shall not make any future request for disposition with respect to this account.

- B)** Hydro One Distribution shall establish the following variance accounts:

1. USGAAP Incremental Transition Costs Variance Account

Hydro One Distribution shall establish a USGAAP Incremental Transition Costs variance account. The adoption of USGAAP may result in incremental costs being incurred on transition and these costs shall be captured in sufficient detail by Hydro One Distribution to be reviewed by the Board for prudence and future disposition at the next cost of service application. This account shall be used to track costs associated with the transition to USGAAP, but shall not include any costs attributable to the previously planned transition from CGAAP to IFRS. The exception shall be those costs that were required for the transition to MIFRS and that are still required for the transition to USGAAP.

When Hydro One Distribution brings forward the USGAAP Incremental Transition Costs Variance Account for clearance in a future rate proceeding, Hydro One Distribution shall provide in its pre-filed evidence a breakdown of the costs recorded in the account relating to USGAAP incremental transition costs and the costs relating to IFRS incremental transition costs and clearly indicate the amount that Hydro One Distribution will be seeking for clearance.

The account shall be established as Account 1508, Other Regulatory Assets, Sub-account ‘USGAAP Incremental Transition Costs Variance Account’.

Hydro One Distribution shall record interest on any balance in the variance account using the interest rates set by the Board from time to time pursuant to its interest rate policy. Simple interest shall be calculated on the opening monthly balance of the account until the balance is fully disposed.

2. Impact for USGAAP Variance Account

Hydro One Distribution shall establish a symmetrical Impact for USGAAP Variance Account to reflect the aggregate revenue requirement impact of any differences between legacy Canadian GAAP and USGAAP. The account shall be limited to potential impacts on the 2012 revenue requirement, and not relate solely to balances incorporated into the audited financial

statements. These variances shall be captured in sufficient detail for them to be reviewed for prudence and future disposition following Hydro One Distribution's next cost of service application.

If Hydro One Distribution discovers differences between CGAAP and USGAAP from new pronouncements or other matters, Hydro One Distribution shall make a separate application and bring the issue to the Board to address those differences, if any.

The account shall be established as Account 1508, Other Regulatory Assets, Sub-account 'Impact for USGAAP Variance Account'.

Hydro One Distribution shall record interest on any balance in the variance account using the interest rates set by the Board from time to time pursuant to the Board's interest rate policy. Simple interest shall be calculated on the opening monthly balance of the account until the balance is fully disposed.