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October 29, 2008

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street 26th Floor
Toronto, ON M4P 1E4
Attention: IFRS Project Work Plan

Re: EB-2008-0104 IFRS Consultation

In response to your letter of October 7th, 2008, please find below written comments from Hydro Ottawa on the Ontario Energy Board staff's draft International Financial Reporting Standards Transition Project Work Plan ("IFRS Work Plan"). Please note that Hydro Ottawa has started an IFRS conversion project and is currently identifying the gaps between Canadian GAAP and IFRS. As a result, Hydro Ottawa has not identified all potential issues and the answers to the questions below reflect that situation.

1.1 Entities to Which IFRS Reporting Applies

1.1.1 Should the Board require all entities to continue to report information to the Board using Canadian GAAP until December 31, 2010, notwithstanding what may occur with respect to IFRS?

Hydro Ottawa will not be taking advantage of early adoption and therefore does not have a preference in regards to whether the Ontario Energy Board (the "Board") allows early adoption of IFRS.

1.1.2 Should the Board require all such entities to report information to the Board using IFRS beginning January 1, 2011?

Hydro Ottawa is required to transition from Canadian GAAP to IFRS by January 1, 2011. While it is not clear if all LDCs are required to transition to IFRS, we would recommend that the Board only require IFRS statements, and not GAAP statements, after January 1, 2011 from all entities that have transitioned to IFRS.

1.2 Regulatory Assets and Liabilities

1.2.1 Should the Board continue deferral and variance accounts to achieve regulatory objectives?

Hydro Ottawa recommends that the Board establish a principle to align regulatory accounting and IFRS to the fullest extent possible. Any rate impacts due to this alignment should be evaluated and mitigated on a LDC-by-

LDC basis. As such, Hydro Ottawa would anticipate the continuation of deferral and variance accounts. For example, variance accounts would likely be required to manage Cost of Power timing differences.

1.2.2 If so, should Board staff propose definitions for deferral and variance accounts? This could aid the Board in their usage for regulatory purposes and enhance the ability of proposed accounts to meet the definition criteria of an asset/liability under IFRS. These definitions could be an aid for OEB regulators. They could also include a description of the information that must be included in a Board decision for an approved deferral or variance account considered necessary to meet the recognition criteria of an asset or obligation for financial reporting purposes.

If the Board should continue the use of deferral and variance accounts, Hydro Ottawa would support the Board staff's recommendation to enhance the definitions of regulatory deferral and variance accounts. In order to have the ability to record deferral and variance accounts under IFRS, the revised definitions need to formalize the process that rate regulated entities must follow in order to have their variances approved by the Board. It is essential that utilities and their auditors are able to have confidence that deferral and variance accounts will be recovered in a timely and effective manner when the correct process is followed.

1.3 Accounting for Property, Plant and Equipment ("PP&E") on Initial Adoption of IFRS

1.3.1 Should the Board require historic cost/NBV to be used at the date of adoption for regulatory purposes?

In order to answer this question Hydro Ottawa requires more information. Will the Board establish a principle to align regulatory accounting and IFRS to the fullest extent possible? Will the Board align with IFRS as of January 1, 2011 in the capitalization of new capital assets for rate setting purposes? How does the Board recommend dealing with the transition from Canadian GAAP to IFRS in setting future rates?

As well, even though it is outside the Board's control, LDCs need to determine how the opening IFRS balance will be determined for January 1, 2011. Will LDCs be permitted to bring capitalized assets into the opening IFRS balance sheet as NBV per their Canadian GAAP balance sheet?

1.4 Accounting for PP&E on an Ongoing Basis

1.4.1 Should the Board require historic cost/NBV values to continue to be used for regulatory purposes on an ongoing basis?

Hydro Ottawa would anticipate that any new assets added after January 1, 2011 would be at IFRS cost/NBV for rate setting purposes. Therefore indirect costs and overheads that are no longer capitalized under IFRS would flow through expenses in the year that they occur. The impact on rates needs to be determined on an LDC-by-LDC basis to determine if mitigation is required.

Hydro Ottawa would also recommend that the Board review the interest rate for the allowance for funds used during construction to align it to the borrowing for the cost of construction, per IAS 23.

1.5 Application of Depreciation Accounting Under IFRS

1.5.1 Should the Board provide further guidance on depreciation policies and principles (e.g., the level of sub-componentization to be applied to specified asset classes to ensure that depreciation expenses represent a reasonable matching of recoverable costs in rates and the benefits derived by ratepayers from the consumption of the service value of the assets)?

Hydro Ottawa would support an industry-working group to discuss depreciation policies in order to have a common starting point for LDCs. However, each LDC must set their own depreciation and componentization as it applies to their organization, taking into account both unique useful lives and materiality levels.

1.5.2 Should the Board encourage sector-wide depreciation studies by utilities (based on defined policies and principles)? This is especially important for electricity distributors since their current generic depreciation rates have been in effect at least as far back as 1992. There may be benefit in determining asset service lives in common for like assets. This needs to be done recognizing that asset service life is determined by an assessment of physical reality (wear and tear in use, erosion due to the action of the elements, obsolescence, etc), not by the regulator.

Same as 1.5.1

Other Issues

Will delaying the OEB timelines impact decisions on system solution?

It is likely that Hydro Ottawa will have to make system solution decisions, based on our best understanding of the requirements, prior to the Board issuing decisions on key issues. It is not entirely clear to Hydro Ottawa what key decisions will be made by January 31, 2009. If the system solutions we choose do not align with the Board's decisions it will have a significant impact on Hydro Ottawa's IFRS conversion project. If the Board's decisions were delayed this would only serve to exacerbate the problem.

Hydro Ottawa feels that it is essential that a full understanding of the impacts of IFRS on LDCs be reviewed prior to any Board instructions. As such, Hydro Ottawa would recommend that a Technical Conference be organized for the IFRS topic as early as January 2009.

Hydro Ottawa also notes that the current timeline addresses the accounting and reporting issues related to IFRS with little discussion on the impact to a cost of service rate application. It is imperative that the Board review the future impacts on cost of service applications and Hydro Ottawa recommends that members of the Board's Rate Applications group be made part of the process. Hydro Ottawa is concerned that it does not see this aspect in the IFRS Work Plan.

Thank you for this opportunity to provide input on the IFRS Work Plan.

Yours truly,

(Original signed by)

Lynne Anderson
Chief Regulatory Affairs & Government Relations Officer
Hydro Ottawa