Appendix 2: Summary of Board Policy

1. Principles

1.1 The methodologies used by the Board to establish just and reasonable rates have not always been the same as those used for external financial reporting purposes. The Board has and will retain the authority to establish regulatory accounting and regulatory reporting requirements. While IFRS accounting requirements are an important consideration in determining regulatory requirements, the objective of just and reasonable rates will continue to be the primary driver of such requirements.

1.2 Future regulatory accounting and regulatory reporting requirements established by the Board will continue to be based on sound regulatory principles. These principles include fairness, minimizing intergenerational inequity and minimizing rate volatility.

1.3 Future regulatory accounting and regulatory reporting requirements established by the Board will, in taking into account IFRS requirements, balance the effects on both customers and shareholders.

1.4 Future regulatory accounting and regulatory reporting requirements established by the Board will be aligned with IFRS requirements as long as that alignment is not inconsistent with sound regulatory rate making principles.

1.5 Future regulatory accounting and regulatory reporting requirements established by the Board will be universal and standardized for all utilities, while recognizing that utility-specific issues can be addressed through a utility's applications. The Board will not require modified IFRS filing and reporting requirements for utilities that are not otherwise required to adopt IFRS for financial reporting purposes.

Major Points of Departure between Existing Regulatory Accounting and Rate Making as Compared to IFRS

2. Regulatory Assets and Liabilities

2.1 The Board will continue to use deferral and variance accounts for rate making in appropriate circumstances, whether or not these accounts are recognized under IFRS.

2.2 The Board will continue to apply the existing approach in the use and establishment of deferral and variance accounts at this time. The Board may consider the review and adjustment of its existing approach when the rulings from the International Accounting Standards Board are received and the interpretation of IFRS becomes clearer.

3. Property, Plant and Equipment

3.1 The Board will require regulated net book value to be used as the basis for setting opening rate base values and reporting to the Board at the time of the first report to the Board or rate application for periods subsequent to the adoption of IFRS. To establish continuity of historic cost, the statement of opening value for regulated net book value includes providing gross capital cost and accumulated depreciation, subject to additional breakout of amounts as necessary to support the regulatory accounting requirements stated below.

3.2 The Board will require the use of historical acquisition cost as the basis for reporting PP&E for regulatory purposes.

3.3 The Board will require utilities to adhere to IFRS capitalization accounting requirements for rate making and regulatory reporting purposes after the date of adoption of IFRS. The utility will file a copy of its capitalization policy, identifying any updates to the policy, as part of its first cost of service rate filing after IFRS adoption. Revenue requirement impacts of any change in capitalization policy must be specifically and separately quantified.

3.4 The Board will require utilities to adhere to IFRS accounting requirements for items related to PP&E for rate application filings and for reporting to the Board after the date of adoption of IFRS, except where specifically noted below.

- Borrowing costs applied to PP&E (as opposed to deemed interest or AFUDC)

  The Board will continue to publish interest rates for CWIP as it does now. Where incurred debt is acquired on an arms length basis, the actual borrowing cost should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm's length basis, the actual borrowing cost may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, the distributor should use the Board's published rates.

- Customer contributions received for PP&E

  For regulatory reporting and rate making purposes, customer contributions will be treated as deferred revenue to be included as an offset to rate base and amortized to income over the life of the facilities to which they relate. Distributors should confirm in the introduction to their first rates application after the IFRS transition that the amortization period is being adjusted on an ongoing basis.

- Asset reclassifications from PPE to intangible assets

  Where IFRS requires certain assets to be recorded as intangible assets that were previously included in PP&E (e.g. computer software and land rights), utilities shall include such intangible assets in rate base and the amortization expense in depreciation expense for determining revenue requirement.

- Asset retirement obligations

  Utilities shall identify separately in their rate applications the depreciation expense associated with amortizing asset retirement costs and the accretion expense associated with the amortization of the asset retirement obligations. The Board will assess these costs independently of other amortization costs to determine the portion, if any, of these costs that should be recovered in revenue requirement.

- Gains and losses on disposition of assets

  Where a utility for financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the utility shall reclassify such gains and losses as depreciation expense and disclose the amount separately. Where a utility for financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate filings for review by the Board.

- Treatment of asset impairment

  Where for financial reporting purposes under IFRS a utility has recorded an asset impairment loss, for rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates.

4. Depreciation

4.1 Utilities should continue to use the straight line method of depreciation for regulatory accounting purposes.

4.2 The Board will undertake a depreciation study for electricity distributors. Until the study is completed and the resulting asset service lives are modified or adopted by the Board, electricity distributors may continue to use their existing service lives for rate setting purposes.

Any electricity distributor retains the option of demonstrating, through a well-founded depreciation study, that the Board should approve specific depreciation methodologies and rates for that distributor.

Gas utilities may submit a utility-specific depreciation study, which should include their proposed treatment of items unique to the gas industry.

5. Other Issues

5.1 Inventory valuation

The Board expects the gas utilities to bring forward proposals for inventory valuation in their rates cases, and provide sufficient evidence to justify their proposals.

5.2 PILs

For electrical utilities, the Board will continue with the current practice of using estimated taxes (the tax or the PILs proxy) in revenue requirement for rate-setting purposes. Similarly, for gas utilities, the Board will continue with the current practice of using estimated taxes for rate setting. Tax or PILs related costs as incurred in the future may be recovered in rates when approved in a future rate proceeding.

5.3 Pension and other post-employment benefit costs

For gas utilities, the Board will continue to review pension and other post-employment benefit costs in the utilities' rate applications.

For electrical utilities, the current practice approved by the Board will continue for pension and other post-employment benefit costs. Any changes to current practice may be sought through an application to the Board.

6. External Uncertainties

6.1 The Board is proceeding with this consultation on the intersection of regulatory accounting and IFRS in the absence of final decisions from accounting standard-setting bodies, as it believes that distributors need early guidance on the Board's regulatory accounting and rate application filing requirements. The Board's approach may need to be modified if an unanticipated ruling is received.

Impacts

7. Rate impacts

7.1 Distributors must specifically identify financial differences and any resulting revenue requirement impacts that result from the adoption of IFRS requirements in the distributor's first cost of service application after adoption. Revenue requirement impacts of any change in capitalization policy must be specifically and separately quantified.

7.2 Rate impacts should be considered in aggregate to determine the significance of the cumulative effect. Distributors must provide specific information regarding the individual cost drivers making up the aggregate impact.

7.3 Utilities must provide a proposal for a rate mitigation mechanism if the impact is material and mitigation appears to be required.

8. Utility and shareholder impacts

8.1 Prudently incurred incremental administrative costs directly related to the ongoing compliance with IFRS will be recovered from ratepayers on the same basis as other current operating costs.

8.2 The Board will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS. This account is exclusively for necessary, incremental transition costs, and is not to include ongoing compliance costs or impacts on revenue requirement arising from changes in the timing of the recognition of expenses. Any distributor that has IFRS related costs already approved in rates must record in a variance account the variances between the previously approved costs and actual costs of transitioning to IFRS. The Board, in determining the disposition of these accounts, will consider the criteria of causation, materiality and prudence.

8.3 Not used.

8.4 The cost consequences of changes in accounting for rate base and operating costs may be sought to be included in revenue requirement in a similar fashion to cost consequences arising from other events. Recovery from customers of such costs will be subject to the usual testing for accuracy and prudence, and rate mitigation mechanisms as necessary.

Filing and Reporting Requirements

> ***Note:*** **Sections 9 and 10 were amended by the Board on November 8, 2010 to reflect changes in the transition date published by the Canadian Accounting Standards Board on September 10, 2010 such that rate-regulated enterprises in Canada are now permitted to delay adoption of IFRS for financial reporting for up to one year (as at the date of this amendment), i.e., to no later than fiscal years beginning on or after January 1, 2012. To view changes see Board letter of November 8, 2010 posted on the Board's website.**

9. Filing Requirements for Rate Applications

Note: Policy statements in this section are organized by sector, not by issue.

9.1 Electricity distributors (See Table 1 below)

9.1.1 Electricity distributors making cost of service applications in 2009 for 2010 rates (or in 2010 for 2011 rates if they have elected to delay IFRS adoption until January 1, 2012) should file using existing CGAAP based regulatory accounting. Such applicants may also file modified IFRS financial data if they so choose, with reconciliations between CGAAP results and modified IFRS results.

9.1.2 Electricity distributors filing cost of service applications for rates in the year they choose to adopt IFRS for financial reporting must provide the required actual years, the bridge year and the forecasts for the test year(s) in CGAAP based format. An electricity distributor may choose to present modified IFRS based forecasts for the bridge and test years, if the distributor seeks to have rates set on the basis of modified IFRS. If the distributor is seeking rates based on modified IFRS accounting, the distributor must identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting.

9.1.3 Electricity distributors filing cost of service applications for rates in the year subsequent to the year they choose to adopt IFRS for financial reporting must file information for the year prior (i.e., the historic year) to the year they choose to adopt IFRS for financial reporting in both CGAAP and modified IFRS format, and provide the bridge year and the forecasts for the test year(s) information in modified IFRS. The years required to be filed prior to the historic year may be provided in CGAAP only. In addition, the distributor must identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting.

9.1.4 Electricity distributors filing for rates to be implemented two or more years subsequent to the year in which they choose to adopt IFRS for financial reporting are expected to be required to provide results for the year preceding the year of adoption in both CGAAP and modified IFRS, and identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting. Once a distributor has received an order from the Board with rates approved based on modified IFRS, succeeding applications filings are expected to be made in accordance with modified IFRS.

Table 1

Regulatory Accounting Principles to Use in Electricity Cost of Service Applications

For Electricity Distributors Adopting IFRS January 1, 2011 for Financial Reporting Purposes

Year in Which Application Made	Rate Year for Which Application Made (Test Year)				
	2011	**2012**	**2013**	**2014**	**2015**
2010	CGAAP for H, B & T **or** CGAAP for H and MIFRS for B & T				
2011		CGAAP for H and MIFRS for H, B & T			
2012			MIFRS for H, B & T		
2013				MIFRS for H, B & T	
2014					MIFRS for H, B & T

For Electricity Distributors Adopting IFRS January 1, 2012 for Financial Reporting Purposes

Year in Which Application Made	Rate Year for Which Application Made (Test Year)				
	2011	**2012**	**2013**	**2014**	**2015**
2010	CGAAP for H, B & T **or** CGAAP for H, B & T and MIFRS for T **or** CGAAP for H & B and MIFRS for B & T				
2011		CGAAP for H, B & T **or** CGAAP for H and MIFRS for B & T			
2012			CGAAP for H and MIFRS for H, B & T		
2013				MIFRS for H, B & T	
2014					MIFRS for H, B & T

Legend:

H = Historic Year financial information (last full year of actual historical information)
B = Bridge Year regulatory financial information
T = Test Year regulatory financial information
} Years in a Cost of Service Application

CGAAP - Canadian Generally Accepted Accounting Principles
MIFRS - International Financial Reporting Standards modified by the Ontario Energy Board for regulatory purposes consistent with the *Report of the Board on Transition to IFRS,* July, 2009, amended November, 2010
= Year in which both CGAAP and MIFRS information required

9.2 Gas utilities

9.2.1 Gas utilities must provide the following information in rate applications for 2013 rates at a minimum.

- Historical year actual information (up to and including the year they choose to adopt IFRS for financial reporting) presented in CGAAP-based accounting.
- Actual results for the year they choose to adopt IFRS for financial reporting presented using modified IFRS.
- Actual and forecasts of results for the year following the year they choose to adopt IFRS for financial reporting and forecasts for succeeding years presented using modified IFRS, and
- A detailed comparative analysis identifying financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting.

9.2.2 With respect to reporting for the earnings sharing mechanism, annual results under this mechanism must continue to be provided under the same basis of accounting as that under which the earnings sharing mechanism was approved (CGAAP).

10. Electricity Distributor and Gas Utility Reporting and Record-Keeping Requirements (RRR)

> ***Note:*** **Sections 9 and 10 were amended by the Board on November 8, 2010 to reflect changes in the transition date published by the Canadian Accounting Standards Board on September 10, 2010 such that rate-regulated enterprises in Canada are now permitted to delay adoption of IFRS for financial reporting for up to one year (as at the date of this amendment), i.e., to no later than fiscal years beginning on or after January 1, 2012. To view changes see Board letter of November 8, 2010 posted on the Board's website.**

10.1 The Board will require all electricity distributors and gas utilities that are required to adopt IFRS by accounting standard setting bodies to report information to the Board using modified IFRS for regulatory accounting values and IFRS for audited financial statements beginning with the year in which the electricity distributor or gas utility has chosen to adopt IFRS for financial reporting. For those few utilities not required to adopt IFRS for financial reporting, the Board will require that they report information to the Board using the form of generally accepted accounting principles approved by their external auditors as being applicable to them as regulated utilities.

10.2 The Board will require all electricity distributors and gas utilities to continue to report information to the Board using Canadian GAAP until and including the fiscal year prior to the year in which the electricity distributor or gas utility, as applicable, has chosen to adopt IFRS for financial reporting.

10.3 The RRR will require reconciliations between financial reporting under IFRS and regulatory accounting information as follows:

For the fiscal year prior to the year in which the electricity distributor or gas utility chose to adopt IFRS for financial reporting, reconciliations between:

- IFRS for financial reporting and modified IFRS for regulatory accounting (i.e. financial accounting based on IFRS, with the modifications and exceptions for regulatory accounting identified by the Board in this consultation)
- CGAAP results and modified IFRS.

For fiscal years beginning with the year in which the electricity distributor or gas utility chose to adopt IFRS for financial reporting, reconciliations between IFRS for financial reporting and modified IFRS.

10.4 Utilities under incentive regulation are required to include in their annual RRR filing a reconciliation of reported annual performance to the same basis of accounting as that upon which the incentive framework was approved.

10.5 The RRR will include a requirement for supplementary audit assurance regarding regulatory accounting values reported on an annual basis where they differ from IFRS reported values in audited financial statements and that are not otherwise audited, including for example deferral and variance accounts. The supplementary audit assurance will involve audit of regulatory accounting values by a third party auditor in accordance with generally accepted auditing standards.