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BY COURIER

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

EB-2008-0408 – OEB Consultation on Transition to International Financial Reporting Standards – Hydro One Networks Comments on KPMG Report on the Transition to IFRS

In response to Board Staff's request, we have provided some high level questions on KPMG's March 4, 2009 report for their consideration prior to the March 24, 2009 Q&A session. While we have views on several of the report's findings, we offer a few areas where additional clarification is needed.

1. There are several references in the report to the potential future need for distributors to maintain two sets of books, one regulatory and the other IFRS-based. The report suggests the need for reconciliations between these two different reporting bases. How long does KPMG foresee that such reconciliations would have to be prepared after IFRS transition (2 years? 10 years? In perpetuity?). Has KPMG done any analysis regarding the scale of costs that would be incurred in carrying such reconciliations? Has KPMG considered any alternatives that would also meet the Board's requirements such as some type of Audits?

2. The paper provides a discussion of fair value in the regulatory context, both for initial transition of rate base and for future additions. Then the paper goes on to discuss various valuation methods that could derive fair value. The paper does not address the fact that fair value would equate to net book value for a rate regulated enterprise, which is an approach utilities often look to. Is there a reason that this concept was not included in the paper?

3. The paper addresses the continued use of variance and deferral accounts. In doing so, it deals with the concept of regulation in an environment where deferral or variance accounts are no longer used by the regulator. Can KPMG ever envision a case where variance and deferral accounts would not be used? In the absence of using such traditional mechanisms and presuming there is no retroactive rate

making, how would KPMG suggest that forecast uncertainty, rate smoothing and intergenerational equity issues of rate regulation be addressed?

4. As KPMG's report indicates, recent standard setting initiatives have the potential to affect the Board's recommendations, notably the Public Sector Accounting Board's process to review which government entities should report under IFRS. While there are some early indications on how this will be resolved for some companies, if the final result indicates that some distributors must use IFRS while others should not, how does KPMG suggest that the Board ensure a level playing field for all distributors while ensuring cost efficiency and maintaining regulatory simplicity?

We are pleased to receive the KPMG report and look forward to the next steps, including the Q&A session and stakeholder conference. Given the importance of developing appropriate regulatory, business and IT solutions, we would emphasize the importance of moving ahead as quickly as possible. One avenue that should be considered is levering off the principles and general framework recently adopted in Alberta and adjusting from there to deal with Ontario specific concerns and issues. As the Alberta approach has buy-in from both distributors and other stakeholders, we believe that there is potentially a great deal of value in using that final structure to gain synergies in this process.

Finally, we recognize that despite best efforts from all concerned, and no matter which framework is adopted, change is inevitable as more information becomes available and experience is gained about the effects of IFRS on Ontario rate regulated distributors. In addition, it must be recognized that the actual IFRSs standards are subject to constant change. For this reason, we believe it is of primary importance to design an interim mechanism to accommodate the impact of such changes in a manner that is fair for both distributors and their customers.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank