January 30, 2012

Ms. Kirsten Walli *via RESS and email*
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

Dear Ms. Walli,

RE: EB-2011-0428 - Revision of Accounting Procedures Handbook for Electricity Distributors – CLD Comments

On December 21, 2011, the Ontario Energy Board (the "Board" or the "OEB") issued a proposed new Accounting Procedures Handbook for Electricity Distributors (the "APH") inviting comments from distributors.

This is the submission of the Coalition of Large Distributors (the "CLD"). The CLD consists of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro –Electric System Limited, and Veridan Connections Inc. The CLD appreciates this opportunity to provide comments on the revised APH.

The CLD's detailed comments are included as Appendix – Revision of Accounting Procedures Handbook for Electricity Distributors – CLD Comments to this letter.

The comments have been provided separately for each section within the APH , as noted. The CLD would encourage the Board to consider condensing the APH to only focus on those accounting issues that are different (i.e., regulatory assets and liabilities) from the CICA Handbook Part I – IFRS. The CLD submits this recommendation would address the concern of the CLD that the CICA Handbook Part I – IFRS will be updated on a more frequent basis than the APH and that confusion among all stakeholders will grow when the CICA Handbook Part I – IFRS does not match the APH. If the APH only addressed the regulatory issues, then the APH will remain current on those issues until the Board changes how to address those regulatory issues.

Please contact the undersigned if you have any further questions on this submission at patrickhoey@hydroottawa.com or 1-613-738-5499 ext 7472.

Yours Truly

(Original signed on behalf of the CLD by)

Patrick Hoey
Director, Regulatory Affairs
Hydro Ottawa Limited

Gia M. DeJulio
Enersource Hydro Mississauga Inc
(905) 283-4098
gdejulio@enersource.com

Indy J. Butany-DeSouza
Horizon Utilities Corporation
(905) 317-4765
indy.butany@horizonutilities.com

Patrick J. Hoey
Hydro Ottawa
(613) 738-5499 X7472
patrickhoey@hydroottawa.com

Colin Macdonald
PowerStream
(905) 532-4649
colin.macdonald@powerstream.ca

Colin J. McLorg
Toronto Hydro-Electric System Limited
(416) 542-2513
regulatoryaffairs@torontohydro.com

George Armstrong
Veridian Connections
(905) 427-9870 x2202
garmstrong@veridian.on.ca

APPENDIX - Revision of Accounting Procedures Handbook for Electricity Distributors – CLD Comments

Overall Comments

To improve the ease of use of the APH, the CLD suggests the following enhancements;

- bookmarking the electronic copy of the document.
- providing page numbers for each section or article in the document, and
- including embedded hyperlinks within the Table of Contents.

In addition, the CLD encourages the OEB to use illustrative examples throughout the APH, for specific or prescribed accounting treatment wherever possible.

In the past, many changes to the APH were communicated through FAQ's. The CLD submits that this practice makes it difficult to find the most up-to-date Board expectations on a specific topic. The CLD would recommend that the APH contain a section that would identify revisions since the last release of the APH or alternatively update the APH on a more regular basis as revisions are introduced.

Article 100

- Throughout Article 100, it would appear that the Canadian Institute of Chartered Accountants ("CICA") Handbook Part I – International Financial Reporting Standards ("IFRS") provides the definitive guidance for accounting for electricity distributors except for regulatory treatment under Modified International Financial Reporting Standards ("MIFRS"). It states (page 9, last paragraph) "Regulatory accounting and accounting standards for general purpose financial reporting are not static." Also stated in the same paragraph "However, it is not the Board's intent to update this APH to incorporate new accounting standard pronouncements in the same timeframe as issued by accounting standards-setting bodies." ,

  It is clearly stated (page 9, 2nd paragraph under Effective Date of the Articles in this APH) that "An accounting procedure or requirement remains in force until it is replaced or superseded on the effective date noted at the bottom right corner of the page of the new accounting procedure or requirement."".

  The CLD submits it is not clear which accounting standards are to be followed if the APH does not fully reflect any revisions to CICA Handbook Part I – IFRS. The CLD is of the opinion that this lack of clarity will lead to numerous questions, interrogatories, explanations, reconciliations, etc. and additional work for OEB staff, intervenors and distributors.

  Therefore, the CLD recommends that the CICA Handbook Part I – IFRS be clearly established as the standard for accounting to be followed by electric distributors and that the

APH be condensed to only focus on those accounting issues that are different (i.e. regulatory assets and liabilities) from the CICA Handbook Part I – IFRS.

- Page 9, 1st paragraph after *Effective Date of the Articles in this APH* --- This paragraph indicates the effective date is for "fiscal periods commencing on or after the first month noted at the bottom right" – The CLD interprets this statement to mean that the APH will apply commencing the start of each distributors' fiscal year on or after January 1, 2012. If this interpretation is incorrect, the CLD requests that the OEB clarify when the effective date will be.

Article 210

- No comments

Article 220

- Account 1575, note C, page 32, this article refers to "the cumulative difference between items 1 and 2 above." The CLD notes that items 1 and 2 are not defined and submit that there should be definitions provided for greater clarity. It is unclear whether items 1 and 2 refer to Account 1575 note A and note B.

Article 230

- No comments

Article 315

- Page 8, table, section 2, 2nd last paragraph -- it states "The Board requires use of historical acquisition cost as a basis for reporting capital assets ....."

  The CLD submits that this section should be clarified to indicate that the distributors' use of historical acquisition cost will occur after the initial reconciliation of property, plant and equipment ("PP&E") between CGAAP and IFRS at the transition date.

- Page 9, table, section 8 ----The CLD suggests that an additional account be introduced to specifically record these gains or losses. This will allow for easy identification of the gains or losses.

- Page 10, table, section 9, "Asset Impairment" --- The CLD submits that it is typical for asset impairment to be recorded to the income statement. However, in the description it states "such losses shall be reclassified to PP&E" .The CLD would suggest that such losses shall be reclassified to depreciation expense instead of PP&E.

Article 320

- No comments

Article 330

- This article outlines various balance sheet accounts that should be used to record Board approved regulatory debits and credits. At page 12 it states *"Account 1562, Deferred*

Payments In Lieu of Taxes. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 from smart meter adders."

The CLD suggests that the reference of *"the PILS proxy amount determined for 2002 from smart meter adders"* is incorrect and should be revised.

- Page 18, last two paragraphs ---

> *"The following income statement accounts should be used to record non rate-regulated revenues and expenses as provided in the USoA:*
>
> *"Sub-accounts shall be established for each activity in the above-noted accounts to capture details of and to separately disclose the various non rate-regulated activities."*

The CLD would submit that the specific account numbers that are referred to in the above paragraphs should be listed and identified.

<u>Article 340</u>

- This article outlines the use of clearing accounts such as those used for payroll burdens, stores and rolling stock operations, engineering and joint costs. On page 9, it states *"As more fully detailed in Article 410-Property, Plant and Equipment and Intangible Assets, IFRS and regulatory accounting specify that certain expenditures are not part of the cost of an item of property, plant and equipment and intangible assets. Such expenditures include costs of staff training and administration and other general overhead costs. Therefore, when using clearing accounts, a distributor should exercise care so as to avoid the inadvertent capitalization of such expenditures."*

  From this paragraph, a distributor would likely interpret that training and other general overhead costs are not to be included in clearing accounts used to allocate overhead costs to PP&E and intangible assets.

  On page 10, in explaining items to be recorded in payroll burden clearing accounts, it states "*Items to record in the account for employees whose time may be split between capital, maintenance, recoverable work and burden include vacations, statutory holidays, sick leave and other leaves of absence, sick leave costs, employee training, safety programs, unproductive labour, small tools, clothing, etc."*

  This paragraph appears to prescribe the inclusion of employee training in a clearing account for use in allocating employee time to capital work and by extension to the cost of items of PP&E and intangible assets. This paragraph appears to be contradictory to the intent of the previous paragraph from page 9 which advises distributors to avoid inadvertent capitalization of such expenditures.

The CLD suggests that these paragraphs should be reviewed and reworded to provide consistent direction to distributors in the matter of capitalization of employee training costs through payroll burden clearing accounts.

- There are a number of expenses that were previously allocated to clearing accounts for vehicles, stores, purchasing, engineering, etc. that will be directly allocated to OM&A under IFRS. There is very little guidance on where these costs should be allocated in the chart of accounts going forward under IFRS.

The CLD submits that it would be helpful for consistency purposes if the APH provided more specific direction as to which account should be used (i.e. that all purchasing expenses not directly allocated to specific accounts, be recorded in account XXXX).

Article 410

- The CLD would request that additional guidance be provided from the Board with reference to Asset Retirement Obligations. At this time, it is unclear to the CLD about the requirements for Asset Retirement Obligations.

- With respect to capital contributions, the CLD submits that a significant amount of effort is required to maintain details on capital contributions by specific asset type. A distributor would be required to maintain its capital contributions by asset type (i.e. contributions related to poles compared to overhead lines, etc.). In addition, capital contributions by asset type (i.e. poles segregated between concrete and wooden poles) would need to be split in accordance with the level of componentization in the distributor's PP&E subledger. Depending upon the flexibility of each distributor's PP&E subledger, time, effort and resources will vary in maintaining details on capital contributions by specific asset type.

- The APH should clarify that impacts to customer contributions upon derecognition may be estimated based on a reasonable approach given the level of detail available.

- Page 5, table, Vintage basis of deprecation -- The CLD submits that the definition explicitly indicate that the basis for deprecation is the straight line method. This will avoid any confusion with the term "vintage basis of deprecation" which has referred to other methods of deprecation.

- Page 15 --- It states that "*Where a distributor for general financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate application filings for review by the Board.*" The CLD submits that without a generic deferral account, it is unclear how a distributor will separately keep track of these amounts, how the amounts will be reported to the OEB and when the amounts will be reported to the OEB. Therefore, the CLD would suggest de-recognition losses be subject to deferral/variance account treatment until the next cost-of-service. This approach would be desirable until such time as these costs can be reasonably estimated and included in the cost-of-service for recovery.

Article 420

- No comments

Article 425

- At page 2, second paragraph, it states "The following has been excluded from the scope of this Article, since it's not likely that electricity distributors will have such transactions and/or arrangements:" regarding IFRIC 4 & SIC-27

  The CLD does not agree with this statement as an IFRIC 4 analysis could be required for very common types of agreements that do not take the legal form of a lease, such as licensing, rental and certain fixed-price electricity supply contracts. Although the CLD does not think Article 425 necessarily needs to go to the depth of IFRIC 4, it may be worth noting in the APH that these areas are of higher complexity than included in the scope of this article.

- At page 3, second paragraph, it states "Under an operating lease, the lessee recognizes the lease payments as income or expense over the lease term." --- The CLD submits that this statement should be adjusted to recognize that a lessee will always recognize the expense under an operating lease as the lessee is the party obtaining the right of use. At the same time, only the lessor would recognize income from an operating lease.

- At page 6, middle paragraph (the example) --- The CLD is of the opinion that the example is confusing. The example states that Distributor A will recognize the prepayment as a finance lease asset (and it reads as if there are no other options), but then it states that "Land Rights" may be recognized and presented as an Intangible Asset. Therefore, it is not clear whether the prepayment could apply to both.

- At page 7, under "Regulatory Treatment Considerations" --- The CLD is unable to determine where finance lease revenue should be recorded.

Article 430

- Page 6, paragraph 3 and page 7 last paragraph --- The CLD is of the opinion that these two paragraghs cause some confusion and would suggest additional clarification. Specifically should the depreciation expense be offset by the amortization of the contributions in aid of construction?

Article 435

- No comments

Article 440

- Page 9 outlines the accounts for use in recording current taxes. Page 10 outlines the accounts for use in recording deferred taxes.

  The CLD notes that the descriptions of Accounts 3081 - Deferred Taxes – Shareholders' Equity, Account 6115 – Provision for Deferred Taxes – Income Statement and Account

7025 – Deferred Taxes – Other Comprehensive Income all include reference to "current and deferred" taxes. The CLD submits that these descriptions may be in error and should only include "deferred" taxes.

Article 450
- No comments

Article 455
- No comments

Article 460
- No comments

Article 470
- Page 12, second paragraph, item d)

  The CLD submits that this paragraph is not required in this article as it does not relate to Employee Benefits.

- Page 9 --- This article provides detailed guidance on the requirements of IAS 19 but provides a summary of the June 2011 amendments made to key provisions relating to accounting for Employee Benefits. Given that the amendments to IAS 19 will need to be applied retrospectively and that the revisions have been approved by the International Accounting Standards Board, it may be useful to provide more proactive and detailed guidance pertaining to the revised amendments.

- Page 10, note c) --- The service cost component should also include curtailments.

- Page 10, note c) -- It states, "*any post-employment benefit costs included in the cost of assets include the appropriate proportion of these three components of defined benefit cost.*" The CLD would like to note that the re-measurements (Category 3) would not be capitalized as it is recorded in OCI and not recorded in the P&L. The cost of assets would therefore only include the first two components provided in note c).

Article 475
- No comments

Article 490
- No comments

Article 510
- Overall comment --- The CLD's understanding is that a general proposition of the OEB has been for distributors to maintain only one set of accounting books. However, throughout Article 510 there are many references to booking accounting entries for

regulatory purposes as at January 1, 2012 while for accounting purposes those entries will need to be booked as at January 1, 2011, January 31, 2011, February 28, 2011, and March 31, 2011 and so on. Effectively both sets of books will end up at the same place with certain exceptions such as regulatory assets, etc. However, by stating a January 1, 2012 requirement so explicitly, it appears that the OEB is implying that distributors need to be maintaining two sets of accounting books. The OEB should be aware that some distributors will require additional time and effort in order to enhance the design of their accounting systems to allow for this type of flexibility. This dual accounting system requirement has not been highlighted in any of the previous reports of the OEB.

- Page 3, it states "All distributors that adopt IFRS must continue to report information to the Board using previous Canadian GAAP until and including the fiscal year prior to the year in which the distributor has chosen to adopt IFRS for financial reporting (fiscal 2011 for most distributors)."

  The CLD submits that the statement is vague and requests greater detail on the information the OEB is requesting to be filed by distributors.

- Page 13 --- It states that *"For any difference in carrying amount that exists at the changeover date, a distributor must record a journal entry such that the resulting balance recorded in the regulatory accounts contained in the USoA conforms to IFRS. The offset to this adjustment entry should be recognized in opening retained earnings."* --- It is the CLD's opinion that the 2011 differences should not be recorded to opening retained earnings and should instead be recognized in the property, plant, and equipment deferral account.

- Page 13 and 14 --- There is reference to a pro-ration of the decommissioning liabilities and refers to an illustrative example below. However, the illustrative example does not specifically discuss prorating decommissioning liabilities. The CLD would appreciate more details in this area or alternatively, add an example to the illustrative example.

- Pages 15 through 19 provide an illustrative example of some of the accounting requirements for regulatory treatment of transitional adjustments. In particular, the use of Account 1575 – IFRS-CGAAP Transitional PP&E Amounts. This example clearly outlines the use of the account for the transitional adjustments.

  The CLD suggests that further guidance is required for distributors on the use of the accounts beyond January 1st, 2012. The CLD understands that this account is to be used beyond the transition date and until a distributor's first rebasing on a MIFRS basis. It may be appropriate for further guidance to be provided in the format of a FAQ, rather than within the APH itself but the Board is encouraged to issue such guidance in a timely fashion, in which ever format they deem appropriate.

- Page 15, second paragraph --- In several places throughout the APH, there is reference that the amortization of the deferred revenue should be appropriately adjusted on an ongoing basis.

  The CLD would appreciate further explanation and details. It is the CLD's understanding that the deferred revenue will be associated with specific asset classes which have new useful lives under IFRS and this deferred revenue will have the same corresponding new useful life as the asset, but it would not be adjusted on an ongoing basis.

- Page 15, table, --- The CLD submits that it would be more appropriate to split the customer contributions amount of 100 between gross customer contributions and amortized customer contributions or at the very least indicate that the amount in the table is unamortized.

- Page 16 and 17, Table,

  - CGAAP column for customer contributions --- The CLD submits that another line should be added between "amortization of contributions received during 2011" and "Customer contribution offset at Dec 31,2011" to show the amortization of opening customer contributions.

  - The CLD submits that the "amortization of customer contributions received during 2011" under CGAAP should not be the same number as the amortization of the deferred revenue under IFRS, since the customer contributions under IFRS will have a different amortization period than under CGAAP. The CLD would suggest using (1) for the Amortization of contributions received during 2011 for MIFRS in the example. .
    The CLD would appreciate further explanation of how the employee future benefit liability at December 31, 2011 of $520 under CGAAP and $580 under IFRS were calculated. As well, further explanation of footnote # 8 would be appreciated.

  - The CLD submits under footnote #4, the incorrect account number is referenced for Contributions and Grants-Credit. The account referenced is 1905 and the CLD submits the correct account number should be 1995.

  - The CLD submits that footnote #5 is unclear as to whether the amortization of contribution in aid of construction should be offset to depreciation expense under MIFRS. Please refer to the CLD's comments on Article 430.

- Page 20, 1st bullet point --- IFRS 1 requires the reconciliation between CGAAP and IFRS, and there are two additional reconciliations suggested in the document (1) IFRS to MIFRS and (2) CGAAP to MIFRS. The CLD is unclear as to why both additional reconciliations are necessary. The CLD submits that a reconciliation of CGAAP to MIFRS is not required when the other 2 reconciliations provide all required information.

- Page 20, 2nd paragraph 1st bullet pointt, --- the CLD would appreciate clarification as to whether the level of detail required by IFRS 1 in the external financial statements is sufficient.

Article 525

- No comments