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BY EMAIL and RESS

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Our File No. 20110428

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2011-0428 – Accounting Procedures Handbook

We are counsel for the School Energy Coalition. We have been working diligently in our review of the draft Accounting Procedures Handbook, but have been unable to complete that task within the time, and budgeted hours, stipulated by the Board. We are therefore writing this letter to seek the Board's guidance on what we should do in this case.

Our problem stems from four elements:

1. The APH is a document of more than 500 pages, and just reading through it takes longer than the 16 hours budgeted for this activity by the Board.
2. While some parts of the new draft rely on the existing APH, the Board has not been able to provide a blacklined version so that it is possible to focus on the changes only. The whole document must be reviewed as if it were drafted from scratch.
3. The new provisions to the APH do not just include changes arising out of the Board's decisions relating to IFRS. There are numerous places in which Board Staff have added IFRS guidance that does not appear to have been considered in the Board's review of the new accounting standard. In addition, Board Staff have made a number of changes that appear to be solely editorial in nature, or changes that do not relate to IFRS issues. We are unable to find sources of most of these changes in approved Board policies.



Jay Shepherd Professional Corporation

4. Few of the changes have references or citations, so even where changes are identified it is not readily apparent why they have been made, or their foundation in Board policy.

By way of example, Article 230 is one of the easiest to review. This Article, setting out Definitions and Instructions, is described in the Board's December 21, 2011 letter as follows:

"Definitions and instructions added, deleted or revised to address recording requirements in the Uniform System of Accounts:

1. *New regulatory accounting requirements.*
2. *New IFRS accounting requirements."*

The following are some of the changes in this ten-page Article, none of them with any explanation as to the rationale behind the change:

- The definition of "amortization" removes the general description of the concept, and splits it between PP&E and intangible assets. This appears to be editorial in nature.
- The definition of control is removed, apparently because it is obsolete, although it would still apply to the definition of "subsidiary".
- The definition of "book cost" is limited to PP&E, and the application of this definition to intangible assets is said to be "where applicable", which is new. Different cost rules for PP&E and intangibles was not an issue considered by the Board in the IFRS transition process.
- On page 3, a phrase "as the same item frequently appears in more than one list" appears to be editorial in nature, but it implies that the stated rule does not apply to items that are not on more than one list. It is not clear whether this was intended.
- Items 4 through 10 have been renumbered.
- Item 6 appears to include asset retirement obligations in the initial cost of a constructed asset. This is not consistent with other parts of the APH, nor with the Board's consideration of this issue in the IFRS process.
- Item 6 also adds, at the end, what appears to be a prudence-related restriction on "waste". It is not apparently related to IFRS, and the reason for its inclusion is unclear. The prudence rule is already known, and there does not seem to be a particular reason to include it here and not everywhere else any expense is discussed.
- Item 7 changes the term "property" to "electric plant" in a number of places, apparently for consistency. It is not clear whether the change is intended to narrow the application of the affected rules.
- Item 9 appears to define "buildings and fixtures" to apply only to those structures that house or safeguard persons or "electric plant". The former definition used "property", a



Jay Shepherd Professional Corporation

broader term that would include structures for computer systems, records storage, and a number of other types of property. The narrowing of the definition, if intentional, is not explained.

- The definition of “buildings and fixtures” also fails to consider the IFRS requirements of componentization, and in fact, in broadening “fencing” from its former term “original fencing”, the change may imply that componentization is not allowed by the Board. This is not consistent with Board policy as we understand it.
- Item 10 adds C and D. These are not related to IFRS.

All of the above changes may be good ones, but some of them raise questions, and the process of going through each one to find its genesis and/or rationale is time-consuming and inefficient.

Another, more difficult, example is Article 320. Some of the issues that appear to arise are the following:

- The section on Changes in Accounting Policies appears to provide advice on when IFRS requires retrospective rather than prospective application of an accounting change, but in general the Board has not allowed such changes without an appropriate adjustment to ensure that rates remain fair. This is not mentioned.
- The section on Changes in Accounting Estimates appears to allow distributors to change the useful lives of depreciable assets at any time, without notice to or approval by the Board. In the example given, the distributor is clearly told that, while rates include \$10 per year for the asset, depreciation can and should be reduced to \$7.50 per year for that asset without Board review or approval. This could have the effect of unilaterally increasing net income beyond the fair return standard.
- The section on Correction of Errors appears to instruct distributors to make retrospective accounting changes to correct errors without notifying the Board or getting Board approval.
- The “Regulatory Treatment” section is similar to the existing section, but with notable changes. Under the existing rules, distributors can, on their own, make accounting changes as long as they do not impact rate-relevant costs. For anything that could impact rates, distributors can only make changes that are directed by the Board. Under the proposed new rule, if the Board has stated a policy on a particular change, the distributor must follow it. In any other case, even if rates would be impacted, the distributor can make the change unilaterally. For example, the Board has not mandated detailed rules on capitalization of expenses. Under the proposed wording of the APH, a distributor can have rates set on one capitalization policy, then change it the next year and capitalize more, thus increasing rate base and profits.

Article 320 – only five pages long - has many other changes that are less important, but still need to be considered.



Jay Shepherd Professional Corporation

Other examples that highlight our concerns are Articles on Inventory, Leases, Foreign Currency, and Joint Ventures, all of which appear to deal with subjects that have not been considered by the Board in the IFRS context. Due to time limitations, we have not been able to do a detailed review of these Articles, but the explanations in the Board's letter suggest that new policies are being promulgated in these sections.

These are all just examples. Our initial review suggests that there are many other aspects of the APH that have similar issues to be addressed.

SEC understands that the Accounting Procedures Handbook is a tool for explaining the Board's policies and expectations to a diverse group of distributors, and in that respect it plays a valuable role.

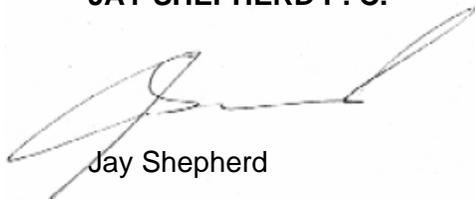
However, we are very concerned that the new APH not create a situation such as that experienced by the Board in the case of Account 1562, in which guidelines and policies that had not actually been considered by the Board were communicated to distributors. In that case, the Board years later determined – in fairness to the distributors – that actions taken by the distributors in reliance on Board communications were to be considered acceptable, even if those actions were not in fact the result of policies considered and determined by the Board.

We therefore believe that, before this new APH becomes a live document, and distributors make decisions in reliance on its provisions, a more thorough review of its contents may be required than the one contemplated in this consultation.

For this reason, we ask the Board to provide guidance as to how much further we should go in our review. We would also ask that the Board consider whether some further steps are appropriate - for example the distribution of a blacklined and annotated version of some or all of the document – before we spend further time on this analysis.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties