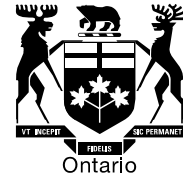


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VIA EMAIL AND WEB POSTING

July 17, 2012

**TO: Licensed Electricity Distributors
All Other Interested Parties**

RE: Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013

This letter serves to provide the Board's regulatory accounting policy direction to electricity distributors on matters arising from the one-year deferral option for the IFRS changeover in 2012. The Board will permit electricity distributors electing to remain on Canadian GAAP ("CGAAP") in 2012 to implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012. The Board however will require that these changes be mandatory in 2013 for all distributors that have not yet made these changes, even if there is a further option to defer IFRS changeover in 2013. A new variance account is created and authorized for distributors to record the financial differences arising from these accounting changes.

Background

The Canadian Accounting Standards Board ("AcSB") announced in March 2012 that it would allow rate-regulated entities a one-year deferral option for the IFRS changeover in 2012. In light of the AcSB's announcement, the Board issued a letter to electricity distributors on April 30, 2012 and provided direction regarding this deferral option. The letter indicated, among other things, that,

- The Board will not require regulatory accounting and reporting for 2012 to be in modified IFRS ("MIFRS") if a distributor is not required to adopt IFRS for financial reporting and opts to remain on CGAAP.
- For those distributors that have transitioned to IFRS or whose rates are set based on MIFRS, the Board expects these distributors to conduct regulatory accounting and reporting for 2012 in MIFRS.

The Board has received numerous inquiries for regulatory accounting direction from distributors requesting to make changes to their depreciation rates (for example, using the *Depreciation Study for Use by Electricity Distributors* (EB-2010-0178), (the “Kinectrics Report”) or own depreciation study) and capitalization policies while still under CGAAP in 2012. Several distributors indicated that they have already completed sufficient detailed accounting work in these areas in their transition to IFRS, and as such, they are positioned and wish to make these accounting changes while still under CGAAP in 2012. They are seeking accounting direction on whether the Board will allow these accounting changes, and if so, what would be the approval process.

Regulatory accounting policy direction regarding Changes to the Depreciation Expense and Capitalization Policies

A key benefit that was expected to be derived from the Board’s established accounting policies under the IFRS accounting framework (“modified IFRS”) was that the changes to the depreciation expense and capitalization policies would be applied uniformly and in the same timeframe by all distributors (with a few exceptions, for example, distributors adopting US GAAP).

There were several distributors that have adopted these and other accounting changes for regulatory purposes including ratemaking in their 2012 cost of service applications which were approved by the Board. The same approach is expected from distributors filing 2013 cost of service rate applications, which are required to be filed on an MIFRS basis. The Board encourages and will permit distributors that have deferred the changeover to IFRS in 2012 to also implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012. The Board however will require that these changes be mandatory in 2013 (i.e., effective on January 1, 2013) for those distributors that do not elect to make these accounting changes in 2012 regardless of whether the AcSB permits further deferrals beyond 2012 for the changeover to IFRS. These accounting changes should be implemented consistent with the Board’s regulatory accounting policies as set out for modified IFRS as contained in the *Report of the Board, Transition to International Financial Reporting Standards*, EB-2008-0408, the Kinectrics Report, and the Revised 2012 *Accounting Procedures Handbook for Electricity Distributors* (“APH”).

The Board will not require distributors to seek Board approval in order to make these accounting changes that otherwise would have been required as specified in the “CGAAP-based” APH (dated July 2007), which is applicable and in force for these distributors still under CGAAP. These accounting changes for adherence to Board requirements for MIFRS and their associated rate impacts will be reviewed as part of a distributor’s next cost of service application.

Account 1576 and Accounting Requirements

The Board has approved a new variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make these accounting changes under CGAAP in 2012 or to make these changes as mandated by the Board in 2013, if applicable.

The account description of Account 1576 and the associated accounting requirements, including an illustrative example, are provided in the July 2012 *Accounting Procedures Handbook – Frequently Asked Questions* (see question and answer #2) posted on the Board's website at www.ontarioenergyboard.ca.

Distributors are expected to reflect these accounting changes in their CGAAP-based financial statements since rate-regulated accounting is recognized in CGAAP.

Any questions regarding the above should be directed to the Market Operations Hotline at 416-440-7604 or by e-mail at market.operations@ontarioenergyboard.ca. The Board's toll free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary