Hydro One Inc.
483 Bay Street
15th Floor North Tower
Toronto, Ontario, Canada
M5G 2P5

August 21, 2013

Attention: Mr. Hans Hoogervorst
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Mr. Hoogervorst:

Submitted electronically through the IFRS Foundation website (www.ifrs.org)

Re: Exposure Draft ED/2013/5 Regulatory Deferral Accounts

Hydro One Inc. (Hydro One) is pleased to provide its response to the International Accounting Standards Board's (IASB's) Exposure Draft *Regulatory Deferral Accounts* (Draft).

Hydro One supports the proposals contained in the Exposure Draft. We agree that the recommendations found in the Draft meet the objective of enhancing the comparability of financial reporting by reducing barriers to the first time adoption of IFRS by entities with rate-regulated activities. The recommendations found in the Draft provide reasonable interim accounting and disclosure guidance until a final accounting standard is developed through the comprehensive Rate-Regulated Activities project.

Please find attached in 'Appendix A' our responses to the specific questions in the invitation to comment.

Hydro One is wholly owned by the Province of Ontario, Canada and consolidates the following three subsidiaries which are rate regulated utilities;

- Hydro One Networks Inc. (Networks) is engaged in the transmission and distribution of electricity.
    - Networks' transmission system is an integrated transmission network, which is one of the largest in North America, and which is linked to five adjoining jurisdictions through 26 interconnections. In total, this system includes 287 transmission stations and approximately 29,000 kilometers of transmission lines.

    - Networks' distribution system is the largest in the Province of Ontario. It spans roughly 75% of the province and serves approximately 1.4 million rural and urban customers as well as 440 large user customers. Networks' distribution system includes 1,007 distribution and regulating stations and approximately 122,000 kilometers of distribution lines.
- Hydro One Brampton Networks Inc. is an urban distribution utility located in the city of Brampton, Ontario, where it services approximately 140,000 customers.
- Hydro One Remote Communities Inc. operates small, regulated generation and distribution systems in a number of remote communities across northern Ontario. These communities are not connected to Ontario's electricity grid.

Each of these utilities is rate regulated by the Ontario Energy Board (OEB), an agency of the Government of Ontario. Each utility is subject to the regulations and rulings put in place by the OEB. A fourth consolidated telecommunications subsidiary is not rate regulated.

If you have any questions, or require any further information, with respect to our comments, please contact me at +1 (416) 345-6140 or by email Sandy.Struthers@HydroOne.com.

Yours sincerely,

Sandy Struthers, CPA, CA
Chief Administration Officer and Chief Financial Officer
Hydro One Inc.

Appendix A - Responses to Invitation to Comment

Exposure Draft ED/2013/5 Regulatory Deferral Accounts

Question 1
The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

Hydro One agrees with the scope restriction.

We recognise that the restriction to first-time adopters is consistent with the objective of removing barriers to first-time adoption. The non-recognition of regulatory assets and liabilities under IFRS has been a significant barrier to the adoption of IFRS by the Canadian rate-regulated utilities. The proposed interim Standard will remove a barrier for those entities that currently use Canadian or US GAAP, making it more appealing for them to adopt IFRS. This will have the effect of enhanced comparability, at least amongst rate regulated utilities which fall within the proposed scope. The draft interim Standard will allow such entities to continue to reflect the economic effects of rate-regulation in their balance sheets and in their results of operations upon transition to IFRS, at least until guidance can be developed through the comprehensive project.

Question 2
The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:

(a) an authorised body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and
(b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7 -8 and BC33-BC34).

Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

Hydro One agrees with the scope criteria provided in the Exposure Draft (Draft). We believe that these criteria will generally restrict the application of the Draft to those rate-regulated entities that are subject to the direction of a rate regulator which bind the company and its customers to rates that create, or have created assets and liabilities with real economic substance. Irrespective of the outcome of the Rate Regulated Activities project, we believe that the interim Standard should continue to provide recognition and measurement criteria that do not differ too widely from the historic criteria found under the entity's relevant national GAAP. We have concluded that the Draft meets this need. As a result, we believe that the criteria in the proposed interim Standard will allow the Draft to be adopted by almost all Canadian utilities that are regulated on a cost of service or incentive regime.

Question 3

The Exposure Draft proposes that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. If an eligible entity chooses to apply it, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope. If an eligible entity chooses not to adopt the [draft] interim Standard, it would derecognise any regulatory deferral account balances that would not be permitted to be recognised in accordance with other Standards and the Conceptual Framework (see paragraphs 6, BC11 and BC49).

Do you agree that adoption of the [draft] interim Standard should be optional for entities within its scope? If not, why not?

Hydro One agrees with the options included in the interim Standard. Providing options for Canadian rate-regulated utilities will make it more likely they will adopt the proposed interim standard on first time adoption of IFRS and this will enable those utilities to continue to recognise regulated assets and liabilities. We believe that by their nature, most interim standards of this type should be optional. While this introduces the possibility of less comparability between entities that meet the scope requirements to adopt the standard, we expect the inconsistency would be relatively short lived and that compensating disclosures included in the Draft will alert the reader to the fact that the proposals found in the Draft have either been applied or not applied.

Question 4

The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. An entity that has rate-regulated activities but does not, immediately prior to the application of this [draft] interim Standard, recognise regulatory deferral account balances shall not start to do so (see paragraphs 14–15 and BC47–BC48).

Do you agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so? If not, why not?

Hydro One agrees that entities that currently do not recognise regulatory deferral balances should not start to do so. Due to the interim nature of the Standard, it may not fit within the intention or objective of the interim standard to allow organisations that have already adopted IFRS, and possibly already derecognised Regulatory asset and liability balances to bring those balances back into the statement of financial position or to begin recognising balances that are created since the issue date of this interim standard. By its nature, the interim Standard does not include sufficient recognition and measurement guidance to allow entities that have not previously recorded such accounts, or which have previously derecognized them to record them anew. Those entities would provide comparable and useful information through maintaining current policies and disclosure practices until final comprehensive guidance has been developed and issued. To include entities that have not yet recorded such balances in the scope would pre-judge the eventual outcome of the Rate Regulated Activities project and amplify the impact on retained earnings if the final decision is that such assets and liabilities cannot be recorded. To require companies that have previously derecognized these amounts to recognize them with a risk of derecognition again at some future date would not seem prudent.

Question 5
The Exposure Draft proposes that, in the absence of any specific exemption or exception contained within the [draft] interim Standard, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards (see paragraphs 16–17, Appendix B and paragraph BC51).

Is the approach to the general application of other Standards to the regulatory deferral account balances appropriate? Why or why not?

Hydro One believes that the approach to the general application of other Standards is appropriate. It seems a reasonable approach, in the absence of any specific rate-regulated Standard, to apply the existing framework and Standards to determine the treatment of regulatory deferral and variance account balances.

Question 6
The Exposure Draft proposes that an entity should apply the requirements of all other Standards before applying the requirements of this [draft] interim Standard. In addition, the Exposure Draft proposes that the incremental amounts that are recognised as regulatory deferral account balances and movements in those balances should then be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?

Hydro One believes that it is appropriate for all other issued Standards to be consulted and applied prior to applying this interim Standard. It is logical that the other issued Standards rank ahead of any interim Standard prior to the completion of the project and issuance of a final outcome and standard. Furthermore, we believe the presentation proposed will highlight the impact of recognizing such regulatory assets and liabilities and will create more comparability between entities for all other items on the balance sheet and statement of comprehensive income, even if the recognition of regulatory deferral account balances effectively reverses or adjusts the impact of an accounting treatment reflected elsewhere in the financial statements. Through the inclusion of such balances in an entity's financial statements, the IASB's objectives to assist countries which have not yet adopted IFRS are met. The interim Standard will highlight the impact of retaining legacy regulatory treatments and the standard will provide a reasonable compromise until the final project is complete, allowing for comparability as well as the portrayal of specific assets and liabilities arising from the economic effects of rate regulation.

Question 7
The Exposure Draft proposes disclosure requirements to enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities and to identify and explain the amounts of the regulatory deferral account balances that are recognised in the financial statements (see paragraphs 22–33 and BC65).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the [draft] interim Standard.

Hydro One agrees that the proposed requirements do provide decision-useful information. By providing detailed qualitative information along with a single financial table that reconciles all regulatory account balance movements for the period, we believe the objective of disclosing useful information is achieved. The enhanced requirements and structure will focus users on the impacts that rate regulated accounting has had on the financial position and comprehensive income of the organisation. In addition, the "below the line" net presentation of regulatory deferral accounts, with the required supplementary disclosures, enhances the comparability of the core IFRS disclosures and presentation made above these balances in the financial statements. We do not believe any requirements should be removed or added to the proposed interim Standard.

Question 8
The Exposure Draft explicitly refers to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements (see paragraphs 22–24 and BC63–BC64).

Is this approach appropriate? Why or why not?

In keeping with the objective of providing useful and information which is reflective of the operations of the rate-regulated entity to users of financial statements, Hydro One agrees that appropriate judgment, together with dollar materiality thresholds, should be used when determining what should be disclosed in relation to regulatory deferral accounts. This is consistent with any other disclosure in the financial statements.

Question 9
The Exposure Draft does not propose any specific transition requirements because it will initially be applied at the same time as IFRS 1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

Hydro One agrees that the transition approach is appropriate. The proposed interim Standard should be applied at the same time as the deemed cost option provided in IFRS 1, as this is consistent with the IASB's intention for that issued standard. We do not believe that there will be a lot of overlap in the mechanical application of IFRS 1 and the application of the proposed interim Standard.

Question 10
Do you have any other comments on the proposals in the Exposure Draft?

Hydro One is of the opinion that the issuance of an interim Standard is highly important and of great significance to removing a significant barrier to the adoption of IFRS amongst North American and other international entities that are subject to rate regulation. We believe the proposed interim Standard will meet the IASB's objective of providing assistance to entities who have not yet adopted IFRS due to concerns about derecognition of material regulatory deferral balances having economic substance and the introduction of artificial volatility in their results of operations.

The required separation of these balances and impacts on results of operations results in better comparability of an entity's financial position and operations based on IFRS without consideration of the interim Standard's effects. This has the advantage of highlighting the economic substance of the reported assets and liabilities for the reader, particularly on the results of operations. Increased relevance, comparability and consistency are all objectives of the IASB in providing users with an accounting and disclosure framework that provides information that will help users to better understand the nature, amounts, expected timing and any uncertainties of future cashflows in respect of these balances.