hydro One

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January 23, 2009

Robert Garnett
Chairman
International Financial Reporting Interpretation Committee
30 Canon Street
London EC4M 6XH

Dear Mr. Garnett:

IASB Exposure Draft – Additional Exemptions for First Time Adopters

Hydro One is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft concerning proposed amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. As Hydro One will transition to IFRS effective January 1, 2011, any amendments to these standards are of interest to our company, particularly where they could have a significant impact on the future rates for our customers.

Hydro One owns and operates one of the largest electricity transmission and distribution systems in North America. We are wholly owned by the Province of Ontario in Canada and our transmission and distribution businesses are regulated by the Ontario Energy Board (OEB). We are obligated to provide service to our customers and the rates that we are allowed to charge are set by the OEB. These are based upon a cost-recovery model plus an allowed rate of return. We are a public issuer with over $5.7 billion in long term notes.

Given that we would satisfy the definition of a rate-regulated entity under the proposed exemption, our comments are focused in response to question 3.

We support the proposed deemed cost option for entities with operations subject to rate regulation. However, we are concerned that the hurdle to satisfy the requirements necessary to qualify is too high for most rate regulated entities to be able to avail themselves of this option.

- The amendment proposes that the exemption would only be available "if both retrospective restatement and using fair value as deemed cost are impracticable". However, the premise of IFRS 1 in general is to consider implementation on a cost/benefit basis, not impracticability. As impracticability was the basis for the proposed exemption as noted in BC 10 of the

Exposure Draft, to require a hurdle of demonstrating impracticability would be redundant. Retroactive restatement of asset values for rate-regulated entities would be impracticable to all entities in the industry. As explained in the Basis of Conclusions, it is likely that under previous GAAP items may have been capitalized that would not qualify under IFRS. Over time, these amounts would not have been tracked separately and given the age of the assets involved, this information would likely no longer be available. As a result, it would be extremely difficult to retrospectively restate the value of these assets. Given the certain universality of this situation it does not seem necessary to include this as a requirement for qualification for this exemption. This additional hurdle does not exist for any other IFRS 1 exemption.

- The amendment proposes that the exemption from IFRS 1 asset valuation would only be available "if both retrospective restatement and using fair value as deemed cost are impracticable". Again, aside from having to demonstrate the additional hurdle of being impracticable, the current IFRS 1 exemption on fair value is an election, meaning that it is a choice and is not compulsory. We believe that rate-regulated entities should be afforded the same optionality on fair value as other entities. We do not believe that a rate-regulated entity should have to demonstrate that it would not otherwise qualify for the fair value option. The Basis of Conclusions already assumes that using fair value is impracticable given the lack of qualified independent valuations. We believe that the cost of having fair value assessment of each "item" of a rate–regulated entity's property, plant and equipment would be exorbitant.

- Once impracticability has been demonstrated for both retrospective restatement and the ability to use fair value as deemed cost, a rate regulated entity must then test for impairment under IAS 36. This poses two concerns. Firstly, IAS 36 paragraph 9 requires an entity to assess for impairment where there are indicators of such impairment. As well, no other IFRS 1 exemption requires a specific impairment test to be undertaken in accordance with IAS 36. Secondly, impairment must be performed on an item by item basis, where the term "item" is not defined under IAS 16. As noted above, because fair value would have otherwise already been demonstrated to be impracticable, the default under IAS 36 would be to use "value in use". This is challenging for a utility where the whole system is physically connected and acts in unison to deliver electricity. Again this could result in widely different views, and ensuing applications of the standard, as to whether an individual component constitutes an item or whether the whole connected structure is a single item. Thus we question how relevant such an impairment test will be across rate regulated entities. Further, given that a rate regulated entity is one whose rates are established for the purposes of recovering cost (as described in paragraph 19B), the concept of "fair value" in its traditional sense is largely irrelevant for a rate regulated entity. Similar views have been expressed by credit rating agencies. In this environment, it is the regulator who establishes what the rate regulated entity can recover and thus what the asset is "worth", not the market at large, or an independent body as in other industries. Also, given that the assets are integrated with the electricity transmission and distribution network, there is no benchmark of fair value that can be established. Consequently impairments are rare, and generally occur only where the regulator has deemed a cost incurred to be imprudent.

Representatives of the Canadian Electricity Association, the Canadian Gas Association, and the Canadian Extractive and Pipeline Association have submitted a similar letter on the proposed exemption in respect of rate-regulated utilities. We are supportive of the views expressed in that letter.

In summary, we believe that the proposed exemption for rate regulated entities should stand without the additional hurdle of having to demonstrate impracticability, consistent with other IFRS 1 exemptions. Further, such entities should only assess for impairment consistent with IAS 36 on an integrated network basis, rather than perform a specific impairment test on an item by item basis.

Should you have any questions concerning our comments, please contact us at 416.345.4008.

Sincerely,

Beth Summers, Executive Vice President and Chief Financial Officer.