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**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* (the "Act") for an Order or Orders determining payment amounts for the output of certain of its generating facilities.

**APPLICATION FOR AN ACCOUNTING ORDER ESTABLISHING A DEFERRAL ACCOUNT TO CAPTURE THE FINANCIAL IMPACTS OF THE TRANSITION TO AND IMPLEMENTATION OF U.S. GAAP**

Ontario Power Generation Inc. ("OPG") has determined that it will transition to the Generally Accepted Accounting Principles of the United States of America ("U.S. GAAP") on January 1, 2012 for accounting and financial reporting purposes. In addition, OPG will be applying, consistent with the guidance provided in the OEB's *Report of the Board* (EB-2008-0408) and the subsequent addendum to this report, for approval to adopt U.S. GAAP for regulatory accounting purposes in its next cost of service application.

As a result of these developments, OPG is applying for an accounting order to establish a deferral account to capture the financial impacts associated with a change from Canadian Generally Accepted Accounting Principles ("CGAAP") to U.S. GAAP effective January 1, 2012. The requested deferral account would record the financial impacts resulting from the transition to and implementation of U.S. GAAP to the effective date of the OEB's next payment amounts order.

OPG expects that the balance in this account, as well as the timing and manner of its disposition will be reviewed as part of OPG's next payment amounts application. Accordingly, there is no rate impact at this time from this Application.

1 Given that there is no immediate rate impact and given that the requested deferral  
2 account is similar to deferral accounts sought by or approved for other utilities regulated  
3 by the OEB, OPG requests that this Application proceed by way of a written hearing.

4  
5 The Application will be supported by written evidence, as required. The written evidence  
6 filed by OPG may be supplemented or amended from time to time by OPG prior to the  
7 OEB's final decision on the Application.

8  
9 OPG further applies to the OEB pursuant to the provisions of the Act and the OEB Rules  
10 of Practice and Procedure for such orders and directions as may be necessary in  
11 relation to the Application and the proper conduct of this proceeding.

12  
13 The persons affected by this Application are all electricity consumers in Ontario. It is  
14 impractical to set out the names and addresses of the consumers because they are too  
15 numerous.

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20 The applicant: Randy Pugh  
21 Director, Ontario Regulatory Affairs  
22 Ontario Power Generation Inc.

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29 Dated at Toronto, Ontario, this 29th day of December, 2011:  
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31

32 [Original signed by]  
33

34 \_\_\_\_\_  
35 Randy Pugh  
36 Director, Ontario Regulatory Affairs

1 **1.0 BACKGROUND**

2 OPG filed an application (EB-2010-0008) dated May 26, 2010 with the OEB under  
3 section 78.1 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B)*  
4 seeking approval for payment amounts for generating facilities prescribed under Ontario  
5 Regulation 53/05 ("O. Reg. 53/05"). The OEB issued its Decision with Reasons on  
6 March 10, 2011. The EB-2010-0008 Payment Amounts Order establishing the revenue  
7 requirements for the period January 1, 2011 to December 31, 2012 and the payment  
8 amounts effective March 1, 2011 for OPG's regulated hydroelectric and nuclear facilities  
9 was issued on April 11, 2011.

10

11 The financial accounting information underpinning the EB-2010-0008 application was  
12 prepared under CGAAP as per the OEB's filing guidelines (*Filing Guidelines for Ontario*  
13 *Power Generation Inc.*, EB-2009-0331, p. 8.). OPG is in the midst of a full assessment of  
14 the differences between CGAAP and U.S. GAAP. Based on the assessment to date,  
15 OPG expects that the transition to and implementation of U.S. GAAP on January 1, 2012  
16 will result in material financial differences relative to the CGAAP information that  
17 underpins the payment amounts currently in effect.

18

19 As required by the Canadian Accounting Standards Board, OPG cannot continue to use  
20 CGAAP for financial reporting purposes after December 31, 2011<sup>1</sup>. Accordingly, OPG  
21 has determined that it will adopt U.S. GAAP on January 1, 2012. As part of the transition  
22 to and implementation of U.S. GAAP on January 1, 2012, OPG is required to restate its  
23 2011 comparative financial information on a U.S. GAAP basis and to prepare a U.S.  
24 GAAP opening balance sheet as at January 1, 2011. This U.S. GAAP balance sheet  
25 must be used as the reference point for determining the financial impacts from the  
26 transition to and implementation of U.S. GAAP. This revised financial information must  
27 also be used as the starting point for subsequent U.S. GAAP reporting.

28

29 **2.0 JUSTIFICATION OF THE ADOPTION OF U.S. GAAP FOR OPG**

30 The transition to a different accounting standard for financial reporting is required as  
31 OPG will not be able to continue to use CGAAP after December 31, 2011.

<sup>1</sup> References to CGAAP throughout this Application are to Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting.

1 OPG had initially planned on adopting International Financial Reporting Standards  
2 (“IFRS”). However, upon a further assessment of the impacts of adopting IFRS, and in  
3 light of events over the last six months as noted below, OPG has determined that it will  
4 adopt U.S. GAAP on January 1, 2012 for financial accounting purposes.

5 In terms of recent events, there has been increasing uncertainty with respect to the  
6 timeframe for U.S. convergence with IFRS. Indeed, it is unknown whether the U.S. will  
7 ever converge with IFRS. Therefore, U.S. GAAP is increasingly likely to provide a  
8 relevant basis of accounting over the longer term.

9 OPG also notes that Hydro One Networks Inc. (“Hydro One”) is adopting U.S. GAAP as  
10 the basis for its accounting and financial reporting effective January 1, 2012. In addition,  
11 Hydro One has received OEB approval to use U.S. GAAP for regulatory accounting  
12 purposes for its transmission business and has applied to extend this approach to its  
13 distribution business. Accordingly, the use of U.S. GAAP by OPG will provide a benefit  
14 to the Province in that it will have comparable, consistent financial information from the  
15 electricity utilities that it owns.

16 Recently, the other larger utilities regulated by the OEB (e.g., Enbridge, Union Gas, and  
17 Toronto Hydro) have all indicated that they are moving to U.S. GAAP for both financial  
18 reporting and regulatory accounting purposes. In addition, a number of other Canadian  
19 utility regulators, including those in British Columbia, Alberta, and Newfoundland and  
20 Labrador, have recently accepted the use of U.S. GAAP as the basis of regulatory  
21 accounting for utilities that they regulate.

22 OPG sees a number of advantages for it and for Ontario electricity consumers flowing  
23 from the adoption of U.S. GAAP for financial accounting and for regulatory accounting  
24 purposes.

25 The first is that the financial impacts for OPG’s regulated operations flowing from the  
26 adoption of U.S. GAAP are expected to be much smaller than those that would arise  
27 from the adoption of IFRS. OPG would have been required to seek OEB approval of  
28 regulatory assets in excess of \$2 billion in order to address the financial impacts from  
29 the adoption of IFRS. In contrast, OPG’s current estimate of the amount that would be  
30 captured in the proposed U.S. GAAP deferral account is approximately \$40M to be

1 recovered from customers. However, it should be noted that OPG's assessment of the  
2 impacts of adopting U.S. GAAP is not complete and the actual amount may be higher or  
3 lower than the current estimate.

4 Another advantage of U.S. GAAP is that it is substantially similar to CGAAP in a number  
5 of areas. In OPG's case, this is expected to translate into greater rate stability and  
6 significantly more stable financial results than would have been the case under IFRS.

7 Having decided to adopt U.S. GAAP for financial reporting, the adoption of U.S. GAAP  
8 for regulatory accounting means that OPG would only have to maintain one accounting  
9 system, reducing administrative burden, and providing additional assurance with respect  
10 to the financial information used in setting OPG's payment amounts as a result of its  
11 alignment with audited accounting data.

12

13 OPG's adoption of U.S. GAAP is consistent with the principles governing the transition to  
14 and implementation of a change in the basis of financial accounting and the resultant  
15 impacts as stated by the OEB in the EB-2008-0408 *Report of the Board*, issued July 28,  
16 2009.

17

18 In summary, U.S. GAAP is a better approach for both financial and regulatory  
19 accounting for OPG and for consumers in that it results in fewer and smaller financial  
20 impacts, reduced volatility and enhanced comparability for OPG.

21

## 22 **3.0 TRANSITION TO AND IMPLEMENTATION OF U.S. GAAP**

### 23 **3.1 Cost Differences for OPG**

24 The main difference identified to date between CGAAP and U.S. GAAP relates to the  
25 treatment of the actuarial gains/losses and past service costs associated with OPG's  
26 long term disability ("LTD") plan, which is a part of Other Post Employment Benefits  
27 ("OPEB"). Other cost differences may become known as OPG completes its assessment  
28 of the differences between U.S. GAAP and CGAAP.

29

1 The methodology for calculating OPEB costs on a CGAAP basis was described in EB-  
2 2010-0008 at Ex. F4-T3-S1, section 6.3. Under CGAAP, the net cumulative unamortized  
3 actuarial gains or losses related to OPEB plans, including the LTD plan, in excess of 10  
4 per cent of the benefit obligation are amortized over the expected average remaining  
5 service life of the employees, impacting recognized OPEB costs over time. In addition,  
6 past service costs for OPEB plans are recognized over the remaining service period of  
7 the affected employee groups. In contrast, under U.S. GAAP, all actuarial gains or  
8 losses and all past service costs related to the LTD plan are recognized immediately.

9  
10 Because of this difference in accounting requirements, OPG expects to recognize the  
11 previously unrecognized costs related to the LTD plan at the time of transition to U.S.  
12 GAAP based on the required starting point for reporting under U.S. GAAP of January 1,  
13 2011. Under CGAAP, these same costs would have been amortized over time and  
14 included in the calculation of OPEB costs that would have been part of the revenue  
15 requirements in future payment amounts applications.

16  
17 In addition, the change in accounting treatment for LTD costs required as a result of the  
18 transition to and implementation of U.S. GAAP is expected to result in higher OPEB  
19 costs in the 2011/2012 period. The difference in costs will continue until rates are reset  
20 as part of the next payment amounts order. As discussed above, under CGAAP these  
21 costs would have been deferred and amortized over time and would have formed part of  
22 the revenue requirements in future payments amounts applications.

23  
24 The total financial impact of these timing differences in cost recognition between U.S.  
25 GAAP and CGAAP is currently estimated to be approximately \$40M to be recovered  
26 from customers.

### 27 28 **3.2 U.S. GAAP Deferral Account**

29 Given the material cost differences identified to date, OPG is proposing a deferral  
30 account to capture the financial impacts of the transition to and implementation of U.S.  
31 GAAP.

32

1 With respect to OPEB costs, OPG notes that the OEB's *Addendum to Report of the*  
2 *Board* (EB-2008-0408) governing the transition to a new accounting standard for  
3 regulatory purposes, acknowledges at page 15 the need for a pension/OPEB deferral  
4 account for larger utilities, subject to the demonstration of a likelihood of a large cost  
5 impact. In response, Enbridge Gas Distribution Inc. (EB-2011-0277) and Union Gas  
6 Limited (EB-2011-0025) have applied for an account to address differences resulting  
7 from the transition from CGAAP to U.S. GAAP. In OPG's case, the financial impacts  
8 identified to date, that being the treatment of the LTD plan, do result in a large cost  
9 impact.

10  
11 Given that OPG's assessment of the differences between U.S. GAAP and CGAAP is not  
12 yet complete, OPG proposes that the account record the difference between OPG's  
13 costs determined on a CGAAP basis, as reflected in the EB-2010-0008 payment  
14 amounts decisions and orders, and the actual costs flowing from the transition to and  
15 implementation of U.S. GAAP.

### 16 17 **3.3 Justification of the U.S. GAAP Deferral Account**

18 The transition to a different accounting standard is required as OPG will not be able to  
19 continue to use CGAAP after December 31, 2011. The requirement to adopt a different  
20 accounting standard for financial reporting is beyond management's ability to control. As  
21 OPG's current payment amounts are based on the current CGAAP accounting standard,  
22 they do not reflect the financial impacts of adopting a different accounting standard. In  
23 this regard, OPG's circumstances are precisely the same as those recognized in the  
24 OEB's guidance on the transition to new accounting standards (EB-2008-0408).

25  
26 The establishment of a deferral account to record the financial impacts of OPG's  
27 transition to and implementation of U.S. GAAP is consistent with the OEB's principles  
28 governing the transition to a different regulatory accounting standard. Specifically, it is  
29 fair and provides an appropriate balance between shareholders and ratepayers. The  
30 proposed account would be symmetrical in that it would capture both the positive and  
31 negative financial impacts from the adoption of U.S. GAAP. Recording these amounts in



1 a deferral account provides for these amounts to be recovered and/or returned in future  
2 rates.

3

4 In summary, OPG's proposed deferral account would address the material financial  
5 impacts resulting from transition to and implementation of U.S. GAAP in a fair,  
6 reasonable and administratively efficient manner.

7

## 8 **4.0 OTHER REQUIREMENTS**

### 9 **4.1 Reporting Requirements**

10 OPG proposes to file the balance in the proposed deferral account in conjunction with its  
11 regular reporting on the other variance and deferral accounts approved by the OEB.  
12 OPG also proposes that the deferral account established through this Application record  
13 interest on the balance in the account using the interest rate set from time to time  
14 pursuant to the OEB's interest rate policy. OPG will apply simple interest to the monthly  
15 opening balance of the account until the balance is disposed.

16

### 17 **4.2 OPG's Payment Amount Application**

18 OPG's next payment amounts application will be based on U.S. GAAP. In preparing this  
19 application, OPG will follow the OEB's filing guidelines, modified as necessary to reflect  
20 the fact that the application will be on a U.S. GAAP basis rather than an IFRS basis.

21

22 In addition, this application will:

- 23 1) Provide the authorizations and approvals necessary to enable OPG to use U.S.  
24 GAAP as the basis for financial reporting;
- 25 2) Provide further information to support amounts recorded in the proposed deferral  
26 account, including validation of amounts recorded in the account where applicable;  
27 and,
- 28 3) Provide a proposal for the disposition of amounts in the account.

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