

1 **SUMMARY OF HYDRO ONE DISTRIBUTION POLICIES**

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3 **1.0 INTRODUCTION**

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5 Hydro One Distribution has a number of policies that apply to distribution customers,
6 assets and systems, and financial management. Policies are subject to periodic review
7 and/or revision as a result of statutory or regulatory change, or as the business evolves.

8 The objectives of these policies are to ensure:

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- 10 • compliance with statutory and regulatory obligations;
 - 11 • fair and consistent commercial relationships with customers;
 - 12 • efficient management of assets;
 - 13 • consistent criteria for decision making;
 - 14 • compliance with generally-accepted accounting principles;
 - 15 • consistency for transaction processing; and,
 - 16 • accurate and timely recording and reporting of financial information.
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18 **2.0 CHANGES TO POLICIES**

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20 In keeping with good corporate governance, Hydro One has reviewed and revised the
21 following policies and procedures since the Board's review of Distribution Rates for
22 2006 (RP-2005-0020/EB-2005/0378).

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- 24 • Procurement Policy
 - 25 • Procurement Procedure
 - 26 • Corporate Policy on Consultants
 - 27 • Corporate Procedure for Retention of Consultants
 - 28 • Corporate Charge Card Procedure

- 1 • Policy on Employee Business Expenses
- 2 • Employee Business Expenses Procedure

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4 The following represent significant changes to the company's key policies since the RP-
5 2005-0020/EB-2005-0378 Board review.

6 7 **2.1 Comprehensive Income, Financial Instruments and Hedging**

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9 Effective January 1, 2007, Networks adopted four new accounting standards comprising
10 the Canadian Institute of Chartered Accountants' (CICA) Handbook Sections 1530,
11 *Comprehensive Income*; 3855, *Financial Instruments – Recognition and Measurement*;
12 3861, *Financial Instruments – Disclosure and Presentation*; and 3865, *Hedges*. The
13 adoption of these new standards required changes in the accounting for financial
14 instruments and hedges, and the recognition of certain transition adjustments that are
15 recorded in opening accumulated other comprehensive income (AOCI). Comprehensive
16 income is composed of the Company's net income and other comprehensive income
17 (OCI). OCI includes the amortization of unamortized hedging losses on cash flow hedges
18 that had been discontinued prior to the transition date.

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20 Under the new financial instruments standards, all financial instruments are classified
21 into one of five categories: held-to-maturity investments, loans and receivables, held-for-
22 trading, other liabilities or available-for-sale. Networks' classification of existing
23 financial instruments is summarized in the notes to its 2007 first quarter financial
24 statements.

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26 All derivative instruments, including embedded derivatives, are carried at fair value on
27 the balance sheet unless exempted from derivative treatment as a normal purchase and
28 sale. All changes in fair value are recorded in financing charges unless cash flow hedge

1 accounting is used, in which case changes in fair value are recorded in OCI to the extent
2 that the hedge is effective. Where there is an economic hedge, Networks has selected to
3 apply the fair value option without hedge accounting. All financial instrument
4 transactions are recorded at trade date.

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6 Upon adoption of the new standards, the Company reclassified unamortized hedging
7 losses on cash flow hedges that had been discontinued prior to the transition date to
8 AOCI. The hedging losses are amortized through OCI over the term of the hedged debt.
9 Previously these unamortized gains and losses were disclosed net with long-term debt.

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11 Transaction costs for financial assets and liabilities that are classified as other than held-
12 for-trading, are added to the carrying value of the asset or liability and amortized over the
13 expected life of the instrument. Previously such costs incurred as a result of the issuance
14 of long-term debt were disclosed as a separate long-term asset on the Balance Sheet.

15 16 **2.2 Accounting for Conditional Asset Retirement Obligations**

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18 Effective April 1, 2006, Networks adopted new accounting recommendations for
19 Conditional Asset Retirement Obligations issued by the Emerging Issues Committee of
20 the CICA. Most of these obligations are not currently estimable because final retirement
21 and removal dates cannot be determined as the related assets are expected to be used on
22 an ongoing basis. Networks did determine that it has an estimable but immaterial liability
23 associated with the disposal of treated wood utility poles.

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