

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 reviews and revises policies and
21 procedures. Since the Board's review of Distribution Rates for 2008 (EB-2007-0681),
22 there have not been any significant changes to corporate policies and procedures that
23 affect corporate governance.

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25 The following represent significant changes to the company's key accounting policies
26 since the EB-2007-0681 Board review.

1 **2.1 Inventory**

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3 Effective January 1, 2008, Hydro One Networks retrospectively adopted Canadian
4 Institute of Chartered Accountants' ("CICA") Handbook Section 3031, *Inventories*. This
5 Handbook revision required that certain major spare parts and standby equipment be
6 reclassified from inventory to fixed assets. To meet the requirements of the new section,
7 Hydro One Networks reclassified certain asset components and equipment previously
8 classified as materials and supplies inventory. Concurrent with that reclassification,
9 Hydro One Networks also reclassified future use land from "fixed assets in service" to
10 "future use land, components and spares" on the Balance Sheet. Future use assets are not
11 depreciated until they are transferred to active capital projects and those projects are
12 placed in-service.

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14 **2.2 Goodwill and Intangibles**

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16 Effective January 1, 2009, Hydro One Networks adopted CICA Handbook Section 3064,
17 *Goodwill and Intangible Assets*, which replaced CICA Handbook Sections 3062,
18 *Goodwill and Other Intangible Assets*, and CICA Handbook Section 3450, *Research and*
19 *Development Costs*. The new Section establishes standards for the recognition,
20 measurement, presentation and disclosure of goodwill and other intangible assets.

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22 As a result of adopting this new accounting standard, Hydro One Networks reclassified
23 computer applications software previously classified as fixed assets to intangible assets.

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25 **2.3 Accounting for Income Taxes**

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27 Effective January 1, 2009, Hydro One Networks adopted amendments to CICA
28 Handbook Section 3465 - *Income Taxes* and CICA Handbook Section 1100 – *Generally*

1 *Accepted Accounting Standards.* These amended Sections established new standards for
2 the recognition, measurement, presentation and disclosure of future income tax assets and
3 liabilities of rate regulated enterprises.

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5 For transactions and events that cause temporary differences between the tax basis of
6 assets and liabilities and their carrying amounts for accounting purposes, the adoption of
7 these amended sections requires the recognition of future income tax assets and
8 liabilities, and correspondingly the recognition of regulatory liabilities and assets. The
9 temporary differences primarily relate to capital cost allowance in excess of depreciation
10 and employee future benefits other than pension. As a result of adopting these amended
11 standards, on January 1, 2009, Networks recognized new future income tax assets and
12 liabilities. Hydro One Networks also recognized corresponding current regulatory
13 liabilities and regulatory assets.