COMMUNICATION OF ACCOUNTING CHANGES

I. Purpose

This policy addresses the communication, documentation and approval of accounting changes. It provides a framework for assuring that all significant accounting transactions have been documented and reviewed to ensure proper accounting treatment and financial statement presentation (in both internal reporting and external reporting), which should provide comparable financial information.

The documentation requirements of this policy do not apply to immaterial accounting changes unless the underlying activity has the potential to become more frequent or material. See APS 23, Materiality Considerations in Financial Reporting, for requirements relating to determining materiality.

II. Scope

Accounting changes that may be subject to this policy include, but are not limited to:

- New types of transactions or increased volume of transactions (e.g., changes in benefit plans or financing arrangements)
- Changes in the method or timing of how estimates are recorded
- Significant developments affecting legal, regulatory or other exposures
- New accounting pronouncements or reporting rules are issued (e.g. FERC, FASB, SEC, or state regulator rulemaking)
- New regulatory orders are issued or there are changes in ISO requirements
- Legal entities are added or changed or new intercompany transactions occur
- Changes in accounting policies or accounting principles are initiated to conform subsidiary accounting or classification or improve accounting or financial reporting
- There are changes to FERC accounts, companies used or journal entry preparation procedures that could have a material impact
- Management determines that a change in accounting methodology or any other type of change in accounting should be made, including a change in where significant transactions are charged
- Management identifies an error requiring correction

III. Policy

Accounting changes must be communicated, approved and implemented in a controlled and timely manner. Changes may be required to be made prospectively or retroactively, and impacts must be thoroughly considered and documented, including considerations of impacts to prior periods for which financial statements have been filed with the SEC. Adequate time must be allowed to review the impacts of a proposed accounting change prior to implementation.

All departments are responsible for identifying and communicating to Accounting all changes that originate in or impact their areas. Accounting will work with the originating department to ensure the change is appropriately reviewed, documented, and approved prior to implementation, and that it is communicated to financial reporting, budgeting and other affected groups.

Accounting changes must be documented and approved by Accounting prior to implementation. The level of documentation depends upon the complexity and significance of the issue.

Accounting will assist with establishing new FERC accounts required to implement accounting changes. In addition to discussions with Accounting personnel of proposed accounting changes as they arise, there are established channels for communicating accounting changes intended to facilitate their implementation:

- Accounting holds quarterly issues meetings that include representatives from the Tax, Regulatory, Financial Reporting and Budgeting areas. When proposed accounting changes are identified or under consideration, they should be added to the issues list for these meetings to ensure that they are resolved by the end of the quarter. However, consideration of accounting changes should be addressed as they arise, and not delayed to the end of the quarter.

- Significant accounting changes should be reviewed with Accounting Policy and Research. Accounting Policy and Research is a resource for consultation on new types of transactions or any questions regarding accounting treatment, accounting policy, accounting estimates, and application of GAAP, as well as for assistance with documentation of significant accounting matters.

IV. Examples of Accounting Changes and Guidance

Below are some examples of accounting changes that may be identified and how they could be communicated:

New FERC Account
A new account is needed to amortize a previously established regulatory asset or liability due to a regulatory order.

Guidance: In addition to Accounting setting up a new FERC account, discussion and documentation of the accounting change should be completed as needed to support proper balance sheet classification and disclosures.

FERC Order
A FERC order requires purchase and sales transactions with ISO New England to be recorded hourly versus monthly, resulting in a significant change to the amounts of revenues and expenses recorded. This is a change in the way existing accounts are used and is a change in accounting policy.

Guidance: The change is discussed with Accounting. The issues list is updated and the change is discussed at the quarterly issues meeting. The change is evaluated to see if it should be made to external reporting.

Distribution Rate Order or Settlement
A distribution company rate order or settlement is received.

Guidance: Changes required by the decision are discussed with Accounting on a timely basis. A rate case memo documenting the accounting impacts of

the rate case/order is issued. New FERC accounts are established as needed.

Accounting Estimates or Methodology

A change in the method or timing of estimating certain amounts, such as depreciation expense, bad debt or income tax expense, is deemed necessary.

Guidance: The proposed accounting change is discussed with Accounting and included in the quarterly issues list to ensure that the change is properly recorded and reported. Budgetary, external reporting, tax and regulatory accounting implications are addressed.

Reclassification of FERC Accounts within Financial Statement Line Items

Budgeting or Regulatory Accounting determines that a subsidiary's activity is not consistently classified or reclassification to another line item may be preferable.

Guidance: Proposed changes are discussed with Accounting. SEC reporting requirements are reflected by Accounting (i.e., changes may be made prospectively in HFM as prior period reported balances are generally not permitted to be changed), whereas budgeting requirements are tailored to internal reporting considerations and regulatory reporting is tailored to FERC requirements (retroactive reclassification of prior periods may be preferable or required).