Ontario Energy Board

Commission de l'énergie de l'Ontario

VT INCEPIT FIDELIS SIC PERMANET

Ontario

Accounting Procedures Handbook

For

Electricity Distributors

Issued: December 2011
Effective: January 1, 2012

Table of Contents

Introduction to the Accounting Procedures Handbook

TABLE OF CONTENTS

Go To Main APH ToC

Introduction to the Accounting Procedures Handbook

The Ontario Energy Board (the "Board") is the regulator for rate-regulated electricity and gas utilities in the province of Ontario. The *Ontario Energy Board Act, 1998 S.O. 1998, c.15, Schedule B (the "OEB Act")* in section 57 sets out the requirement for any person owning or operating a distribution system to obtain a licence. The electricity distribution licences issued by the Board include conditions requiring the maintenance of records, the provision of information, and the separation of financial records between regulated and non-regulated activities in accordance with this Accounting Procedures Handbook for Electricity Distributors (the "APH").

In 1999, the Board developed and approved the APH, which includes guidance on financial and regulatory accounting procedures and requirements and the Uniform System of Accounts ("USoA"). This 2012 revision of the APH recognizes the requirement for most Ontario electricity distributors to adopt International Financial Reporting Standards ("IFRS") as of January 1, 2012. This updated APH supersedes the previous version.

Purpose of this APH

This APH establishes the accounting records that electricity distributors must use for regulatory purposes. Such records assist in providing an adequate information base for establishing rates and monitoring distributor performance. The financial accounting and reporting system set out in this APH provides the structure to be used for financial forecasting including test period information, revenue requirement, financial performance bench-marking, cost allocation and rate design. The Board conducts selected audits and reviews to assess distributor compliance with the APH.

The APH has also been prepared in order to:

a) Summarize regulatory accounting procedures and requirements and provide a USoA for the use of all electricity distributors, including those distributors concurrently possessing qualifying renewable generation assets and/or transmission capabilities. The APH is designed for use by:
   - each distributor's accounting, financial and regulatory personnel;
   - the distributor's external auditors, where applicable;
   - stakeholders, including intervenors in distributors' regulatory proceedings; and
   - the Board and the Board's regulatory staff.

b) Summarize the requirements and the Board's interpretation, for regulatory purposes, of Canadian Generally Accepted Accounting Principles ("GAAP") based on *Part 1 – International Financial Reporting Standards* of the Canadian Institute of Chartered Accountants Handbook - *Accounting (“*CICA Handbook”);

c) Address financial accounting issues where further guidance specific to Ontario distributors is required to ensure consistent and accurate information is reported;

d) Recognize that the regulatory process introduces certain specific cause-and-effect relationships in the matching of a distributor’s revenues and expenses, which may require special treatment for regulatory accounting; and

e) Encourage consistency in the application of regulatory accounting requirements and, to the extent possible, GAAP, where choices exist.

The APH reflects current accounting and regulatory practices and terminology. The accounting procedures and requirements and USoA have been refined in certain areas to accommodate the deregulated electricity environment, as well as regulated and non rate-regulated activities of distributors.

Inclusion of any item or account in the prescribed USoA does not necessarily imply the Board’s acceptance for rate-making purposes of any expenditure, revenue or procedure suggested by the use of such an account.

Application of the APH

The accounting procedures and requirements set out in this APH apply to a distributor that prepares its financial accounting records and reporting on the basis of CICA Handbook *Part I – International Financial Reporting Standards*. The Board generally requires regulatory filing and reporting under IFRS, as modified for regulatory purposes by the Board (modified IFRS or “MIFRS”). Where a distributor prepares its financial accounting records using an alternative accounting framework (e.g. US GAAP or CICA Handbook *Part II - Accounting Standards for Private Enterprises*), the Board has stated that it will generally not require regulatory reporting and filing in MIFRS from those distributors. However, the Board does require distributors not using MIFRS to demonstrate their eligibility to use an alternative standard to IFRS for financial reporting, and set out the advantages and disadvantages of their choice of accounting framework. A discussion on alternative accounting frameworks is provided in Article 315 *Applying Regulatory Accounting in a Rate-Regulated Environment.*

For ratemaking under an alternative accounting framework, the Board may require or prescribe accounting procedures and requirements in such items as depreciation methodology, capitalization policy, employee benefit recovery, and specified deferral and variance accounts. Consequently, in reporting to the Board in the USoA (trial balance), and other specified reporting or filings, the distributor is required to report using the alternative accounting standard, including the accounting procedures or requirements that the Board has stipulated.

The terms “regulated” and “rate-regulated” as used in this APH do not imply a specific methodology for approval or fixing of rates. Such methodologies are normally referred to as cost of service, rate base, price cap, social contract, or incentive based regulation, etc. Instead, these terms refer to the fact that rates, however determined, are subject to approval by the Board.

The APH applies to distributors and does not apply directly to the affiliate(s) of distributors. The APH, however, does have implications for distributors that exchange goods or services with affiliates.

In October 2002, the Board amended the distribution licence of distributors to include a condition of licence to implement the requirements of the electricity Reporting and Record-keeping Requirements (“RRR”). As part of the RRR, the reporting requirements for a distributor include the annual USoA trial balance established under the APH and annual audited financial statements. Quarterly reporting requirements include deferral and variance account balances.

Accounting Standards Applicable to Distributors

As a result of incorporating under the *Ontario Business Corporations Act*, distributors will be subject to financial reporting requirements as contained in Part XII of that Act — Auditors and Financial Statements. Specifically, section 155 of the *Ontario Business Corporations Act* requires that financial statements be prepared as prescribed by regulation and in accordance with GAAP.

The basis for GAAP is provided in *Regulation 62, R.R.O. 1990*, made under the *Ontario Business Corporations Act*. Section 40 requires that the financial statements referred to in section 155 of the *Ontario Business Corporations Act* be prepared in accordance with the standards set forth in the CICA Handbook.

Consequently, pursuant to the *Ontario Business Corporations Act*, GAAP is the prescribed medium for communication of financial information to the public, and Ontario electricity distributors will be required to prepare financial statements based on GAAP as presented in the CICA Handbook.

The Board does not prescribe the general purpose financial reporting for regulated utilities. The accounting principles required for general purpose financial reporting are prescribed by the Canadian Accounting Standards Board and other accounting standard-setting bodies. Accordingly, distributors should follow the guidance set out in CICA Handbook in preparing their general purpose financial statements. The Board establishes the requirements for regulatory accounting, reporting and filing. The policies that are set out in this APH apply to regulatory accounting, reporting and rate application filings.

In addition, this APH provides guidance in those specific areas where distributors are required to use MIFRS accounting treatments prescribed by the Board due to special circumstances resulting from the regulatory process. A full discussion of MIFRS issues are provided in Article 315 *Applying Regulatory Accounting in a Rate-Regulated Environment*.

Summary of Specified Accounting Records

It is the responsibility of management of each distributor to keep records in accordance with proper accounting methods for the purpose of accurate, complete, timely and proper recording of the distributor's transactions. Specifically:

a) Each distributor shall keep its books of account, and all other books, records, and memoranda that support the entries in such books of account so as to be able to readily furnish full information about any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, examination, analysis, and verification of all relevant facts. The records shall be filed in such a manner as to be readily accessible for examination by authorized representatives of the Board;

b) The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, inventory books, reports, correspondence, memoranda, etc., that may be useful in developing the history of or facts regarding any transaction;

c) No distributor shall destroy any such books or records unless the destruction thereof is permitted by the Board;

d) Pursuant to section 72 of the OEB Act and distribution licences, each distributor shall keep its financial records associated with distributing electricity separate from its financial records associated with other activities;

Go to TOC A100

e) Unless otherwise provided for in the accounts prescribed in the USoA, distributors shall subdivide any and all applicable accounts to record non rate-regulated distributor transactions or items that are not normally permitted in Ontario electricity distributor assets, liabilities, revenues or expenses for the purposes of the establishing the revenue requirements;

f) Distributors may further subdivide any account prescribed in the USoA. Clearing accounts, temporary or experimental accounts, and subdivisions of any accounts, may be kept, provided the integrity of the prescribed accounts is not impaired;

g) For new electricity-related lines of business and for non rate-regulated distributor activities, distributors shall record all transactions in sufficient detail to segregate such activities;

h) A distributor may use a different system of account numbers for its own purposes provided that it shall keep a readily available list of such account numbers and a reconciliation of such account numbers with the account numbers provided in the USoA. It is intended that the distributor's records shall be kept so as to permit ready analysis by prescribed accounts (by direct reference to sources of original entry to the extent practicable) and to permit preparation of financial and operating statements directly from such records at the end of each accounting period according to the prescribed accounts;

i) Each distributor shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with affiliate companies. The statements may be required to show the general nature of the transactions, the amounts involved and the amounts included in each account prescribed in the USoA with respect to such transactions. Unless otherwise provided, transactions with affiliate companies shall be recorded in the appropriate accounts for transactions of the same nature. The distributor is permitted to subdivide accounts for the purpose of separately recording transactions with affiliate companies. See also Article 340 *Allocation of Costs and Transfer Pricing*; and

j) Each distributor shall keep records and reconciliations relating to the transition to IFRS (and/or MIFRS) as prescribed by the Board in Article 510 *Transitional Issues for the Adoption of IFRS*.

Summary of Specified Financial Reporting Requirements

In summary, a distributor is required to report to the Board (among other reporting requirements) an annual USoA trial balance established under the APH, annual audited financial statements and quarterly deferral and variance account balances.

Where the financial statements of a distributor regulated by the Board contain material businesses not regulated by the Board, or where the regulated entity conducts more than one activity regulated by the Board, the distributor is required to disclose separately information about each operating segment in accordance with the Operating Segment disclosure requirements that a distributor applies or would be required to apply under CICA Handbook *Part I – International Financial Reporting Standards*.

The Board does not prescribe how the regulatory accounts contained in the USoA are to be rolled up for general purpose financial reporting. Matters relating to general purpose financial statements are left to the discretion of the distributor to determine in order to meet the needs of its financial statement users.

Guidance for Use of this APH

This version of APH replaces and supersedes the previously issued APH (originally issued November 1999 and revised in December 2001 and in July 2007). For guidance on the initial application of the accounting procedures or requirements set out in this APH, refer to Article 510 *Transitional Issues for the Adoption of IFRS*.

It should be recognized that in issuing this APH, no rule of general application can be phrased to suit all circumstances or combination of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case.

Distributors are advised to use the APH in conjunction with the CICA Handbook *Part I – International Financial Reporting Standards* to determine appropriate accounting policies and practices, giving due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of regulatory accounting requirements.

No accounting procedure or requirement is intended to override the requirements of a governing statute.

The accounting procedures or requirements in this APH need not be applied to immaterial items. While materiality is a matter of professional judgment in the particular circumstances, as a general rule, materiality should be judged in relation to the significance of financial information to decision makers. An item of information, or an aggregate of items, should be deemed to be material if its omission or misstatement could influence or change an economic decision. In determining materiality in a regulated environment, both qualitative as well as quantitative factors need to be considered, particularly those qualitative items that would be of a social or otherwise sensitive nature and therefore of particular interest to the users of the financial information. As a result, the materiality level for regulatory reporting purposes may be different from that for general purpose financial reporting. The Board may review information and determine that for regulatory purposes, the accounting treatment should be different from that accorded to the item by the distributor, irrespective of the size or nature of the item.

Structure of the Articles in this APH

The Articles in this APH have been structured so as to provide separate and distinct guidance for the following:

a) IFRS: Articles in this APH contain a high-level summary of the key accounting requirements and considerations, specific to distributors that may arise in applying the relevant standards set out in CICA Handbook *Part I – International Financial Reporting Standards*. These summaries are not intended to provide comprehensive or detailed guidance, interpretation or analysis of the requirements of accounting standards. Instead, they have been included to provide context to accounting issues that affect regulatory accounting, and to enhance reporting under the USoA. Accordingly, a distributor should refer to the more detailed guidance provided in the IFRS standards.

b) Regulatory Treatment (MIFRS): regulatory accounting introduces certain adjustments to financial information prepared in accordance with CICA Handbook *Part I – International Financial Reporting Standards*. These adjustments arise primarily from the rate setting process and reflect cause and effect relationships in matching of a distributor's expenses with its revenue requirements and rates charged to customers.

Each Article sets out those modifications, if applicable, that have been approved by the Board to be made to financial information prepared in accordance with CICA Handbook *Part I – International Financial Reporting Standards*. Note that if the Board has issued specific guidance to a distributor (e.g. as part of a rate application), the distributor should follow that specific guidance. However, if for a particular issue the Board has not issued any specific guidance or modification guidance in the Articles of this APH, generally a distributor should follow the requirements of CICA Handbook *Part I – International Financial Reporting Standards*.

Go to TOC A100

Introduction
to the
Accounting Procedures Handbook

Effective Date of the Articles in this APH

Unless otherwise indicated, the regulatory accounting procedures or requirements contained in this APH are effective with respect to financial information relating to fiscal periods commencing on or after the first of the month noted at the bottom right corner of each page unless otherwise noted.

An existing accounting procedure or requirement remains in force until it is replaced or superseded on the effective date noted at the bottom right corner of the page of the new accounting procedure or requirement. However, distributors may adopt a new accounting procedure or requirement before the effective date when this practice is authorized by the Board in the release notice. (See also below for the appropriate treatment of changes in accounting standards for which the Board has not issued an update to the APH).

Future Additions and Revisions to the APH

Regulatory accounting and accounting standards for general purpose financial reporting are not static. Regulatory accounting has changed in the past and will continue to adapt to meet changes in accounting standards, regulatory methodology, or economic conditions. There will be a periodic review and amendment of material contained herein as circumstances warrant. However, it is not the Board's intent to update this APH to incorporate new accounting standard pronouncements in the same timeframe as issued by accounting standards-setting bodies. It is the distributor's responsibility to monitor changes to and interpretation of the accounting standards in the CICA Handbook *Part I – International Financial Reporting Standards* for financial reporting and to determine the appropriate accounting policies or seek professional advice as the circumstance warrants.

In order to establish and improve standards for regulatory accounting and reporting, the Board will periodically issue new accounting procedures or requirements.

In addition, the Board will issue Accounting Procedures Handbook - Frequently Asked Questions ("APH-FAQs") as required providing guidance on transitional issues, the application of accounting procedures or requirements or addressing new issues. The APH-FAQs are integral part of the Board's accounting guidance, which would be included in updates to the APH, if applicable. Board staff may issue Bulletins, as required, addressing the interpretation of accounting procedures or requirements or contentious issues.

If accounting standards change and the Board has not issued related updates to this APH or provided other specific guidance, a distributor should follow the guidance contained in Article 320 *Accounting Policies, Changes in Accounting Estimates and Errors*. Generally, as the Board has decided that it will not create or define a generic account to record the impacts of changes in accounting standards, a distributor would record the transitional and subsequent impact of the change in accordance with the requirements of the accounting standards. Any individual distributor that anticipates a large impact from a change in accounting standards should consider the Board's guidance on Z-factor treatment applicable to the distributor or apply to the Board for a distributor-specific deferral account.

Publication of the APH

This APH and related guidance material (e.g., Board letters, accounting procedures instructions and APH-FAQs) issued by the Board can be accessed through the Board's website. The Board does not publish paper copy versions of these materials. The APH and related material are available following the links on the "Rules, Codes, Guidelines & Forms" page of the "Industry Relations" section of the Board's website or can be accessed directly using the following link:

http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms#accounting

Inquiries

Inquiries in respect to interpretation and clarification of accounting issues relating to specific situations in distributors should be directed to the Board's Market Operations Hotline email: market.operations@ontarioenergyboard.ca at the Ontario Energy Board.

Go to TOC A100

TABLE OF ACRONYMS

The following acronyms are used throughout the APH.

FULL NAME	ACRONYMS
Accounting Procedures Handbook	APH
Accounting Procedures Handbook Frequently Asked Questions	APH-FAQs
Canadian Institute of Chartered Accountants Handbook	CICA Handbook
Generally Accepted Accounting Principles	GAAP
International Accounting Standards	IAS
International Accounting Standards Board	IASB
International Financial Reporting Interpretations Committee	IFRIC
International Financial Reporting Standards	IFRS
Modified International Financial Reporting Standards	MIFRS
Ontario Energy Board	Board
Ontario Energy Board Act, 1998, S.O.1998 c.15 Schedule B	OEB Act
Payment In Lieu Of Taxes	PILS
Property, Plant And Equipment	PP&E
Reporting And Record-Keeping Requirements	RRR
Uniform System Of Accounts	USoA

Go to TOC A100

Uniform System of Accounts

Chart of Accounts

Account	Account Description

TABLE OF CONTENTS

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Go To Main APH ToC

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Current Assets

1005	Cash
1010	Cash Advances and Working Funds
1020	Interest Special Deposits
1030	Dividend Special Deposits
1040	Other Special Deposits
1060	Term Deposits
1070	Current Investments
1100	Customer Accounts Receivable
1102	Accounts Receivable - Services
1104	Accounts Receivable - Recoverable Work
1105	Accounts Receivable - Merchandise
1110	Other Accounts Receivable
1120	Accrued Utility Revenues
1130	Accumulated Provision for Uncollectible Accounts - Credit
1140	Interest and Dividends Receivable
1150	Rents Receivable
1170	Notes Receivable
1180	Prepayments
1190	Miscellaneous Current and Accrued Assets
1200	Accounts Receivable from Associated Companies
1210	Notes Receivable from Associated Companies

Inventory

1305	Fuel Stock
1330	Plant Materials and Operating Supplies
1340	Merchandise
1350	Non Rate-Regulated Materials and Supplies

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Non-Current Assets

1405	Non-Current Investments in Non-Associated Companies
1407	Finance Lease Receivable
1408	Long Term Receivable - Street Lighting Transfer
1410	Other Special or Collateral Funds
1415	Sinking Funds
1425	Unamortized Debt Expense
1445	Unamortized Discount on Long-Term Debt - Debit
1455	Unamortized Deferred Foreign Currency Translation Gains and Losses
1460	Other Non-Current Assets
1480	Portfolio Investments - Associated Companies
1481	Investment in Equity-Accounted Joint Venture
1485	Investment in Associated Companies - Significant Influence
1490	Investment in Subsidiary Companies
1495	Deferred Taxes - Non-Current Assets

Other Assets and Deferred Charges

1505	Unrecovered Plant and Regulatory Study Costs
1508	Other Regulatory Assets
1508	Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs
1508	Other Regulatory Assets, Sub-account IFRS Transition Costs Variance
1508	Other Regulatory Assets, Sub-account Incremental Capital Charges
1508	Other Regulatory Assets, Sub-account Financial Assistance Payment and Recovery Variance – Ontario Clean Energy Benefit
1510	Preliminary Survey and Investigation Charges
1515	Emission Allowance Inventory
1516	Emission Allowances Withheld
1518	$RCVA_{Retail}$
1521	Special Purpose Charge Assessment Variance Account
1525	Miscellaneous Deferred Debits
1530	Deferred Losses from Disposition of Utility Plant
1531	Renewable Connection Capital Deferral Account
1532	Renewable Connection OM&A Deferral Account
1533	Renewable Generation Connection Funding Adder Deferral Account
1534	Smart Grid Capital Deferral Account

Uniform System of Accounts

Chart of Accounts

Account	Account Description
1535	Smart Grid OM&A Deferral Account
1536	Smart Grid Funding Adder Deferral Account
1540	Unamortized Loss on Reacquired Debt
1548	$RCVA_{STR}$
1550	LV Variance Account
1555	Smart Meter Capital and Recovery Offset Variance Account
1555	Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs
1556	Smart Meter OM&A Variance Account
1562	Deferred Payments In Lieu of Taxes
1563	Contra Asset - Deferred Payments In Lieu of Taxes
1567	Board-Approved CDM Programs Variance Account
1568	LRAM Variance Account
1572	Extraordinary Event Costs
1574	Deferred Rate Impact Amounts
1575	IFRS-CGAAP Transitional PP&E Amounts
1580	$RSVA_{WMS}$
1582	$RSVA_{ONE\text{-}TIME}$
1584	$RSVA_{NW}$
1586	$RSVA_{CN}$
1588	$RSVA_{POWER}$
1589	$RSVA_{GA}$
1592	PILs and Tax Variance for 2006 and Subsequent Years
1592	PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax Credits (ITCs)
1595	Disposition and Recovery/Refund of Regulatory Balances Control Account
1595	Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances Approved in “20yy”
1595	Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges Approved in “20yy”
1595	Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges for Net Principal in “20yy”

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Electric Plant in Service - Detailed Accounts

A. Intangible Plant

1606	Organization
1608	Franchises and Consents
1609	Capital Contributions Paid
1610	Miscellaneous Intangible Plant
1611	Computer Software
1612	Land Rights

B. Generation Plant

1615	Land
1616	Land Rights
1620	Buildings and Fixtures
1630	Leasehold Improvements
1635	Boiler Plant Equipment
1640	Engines and Engine - Driven Generators
1645	Turbogenerator Units
1650	Reservoirs, Dams and Waterways
1655	Water Wheels, Turbines and Generators
1660	Roads, Railroads and Bridges
1665	Fuel Holders, Producers and Accessories
1670	Prime Movers
1675	Generators
1680	Accessory Electric Equipment
1685	Miscellaneous Power Plant Equipment

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Electric Plant in Service - Detailed Accounts

C. Transmission Plant

1705	Land
1706	Land Rights
1708	Buildings and Fixtures
1710	Leasehold Improvements
1715	Station Equipment
1720	Towers and Fixtures
1725	Poles and Fixtures
1730	Overhead Conductors and Devices
1735	Underground Conduit
1740	Underground Conductors and Devices
1745	Roads and Trails

D. Distribution Plant

1805	Land
1808	Buildings and Fixtures
1810	Leasehold Improvements
1815	Transformer Station Equipment - Normally Primary Above 50 kV
1820	Distribution Station Equipment - Normally Primary Below 50 kV
1825	Storage Battery Equipment
1830	Poles, Towers and Fixtures
1835	Overhead Conductors and Devices
1840	Underground Conduit
1845	Underground Conductors and Devices
1850	Line Transformers
1855	Services
1860	Meters
1865	Other Installations on Customer's Premises
1870	Leased Property on Customer Premises
1875	Street Lighting and Signal Systems

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Electric Plant in Service - Detailed Accounts

E. General Plant

1905	Land
1908	Buildings and Fixtures
1910	Leasehold Improvements
1915	Office Furniture and Equipment
1920	Computer Equipment - Hardware
1930	Transportation Equipment
1935	Stores Equipment
1940	Tools, Shop and Garage Equipment
1945	Measurement and Testing Equipment
1950	Power Operated Equipment
1955	Communication Equipment
1960	Miscellaneous Equipment
1970	Load Management Controls - Customer Premises
1975	Load Management Controls - Utility Premises
1980	System Supervisory Equipment
1985	Sentinel Lighting Rental Units
1990	Other Tangible Property
1995	Contributions and Grants - Credit

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Other Capital Assets

2005	Property Under Finance Leases
2010	Electric Plant Purchased or Sold
2020	Experimental Electric Plant Unclassified
2030	Electric Plant and Equipment Leased to Others
2040	Electric Plant Held for Future Use
2050	Completed Construction Not Classified - Electric
2055	Construction Work in Progress - Electric
2060	Electric Plant Acquisition Adjustment
2065	Other Electric Plant Adjustment
2070	Other Utility Plant
2075	Non Rate-Regulated Utility Property Owned or Under Finance Leases
2075	Non Rate-Regulated Utility Property Owned or Under Finance Leases, Sub-account Generation Facility Assets

Accumulated Depreciation and Amortization

2105	Accumulated Depreciation of Electric Utility Plant - Property, Plant and Equipment
2120	Accumulated Amortization of Electric Utility Plant - Intangibles
2140	Accumulated Amortization of Electric Plant Acquisition Adjustment
2160	Accumulated Depreciation of Other Utility Plant
2180	Accumulated Depreciation of Non Rate-Regulated Utility Property

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Current Liabilities

2205	Accounts Payable
2208	Customer Credit Balances
2210	Customer Deposits
2215	Dividends Declared
2220	Miscellaneous Current and Accrued Liabilities
2225	Notes and Loans Payable
2240	Accounts Payable to Associated Companies
2242	Notes Payable to Associated Companies
2250	Debt Retirement Charges Payable
2252	Transmission Charges Payable
2254	Electrical Safety Authority Fees Payable
2256	Independent Electricity System Operator Fees and Penalties Payable
2260	Current Long Term Debt
2264	OMERS - Current
2265	Non-OMERS - Current
2268	Accrued Interest on Long Term Debt
2270	Matured Long Term Debt
2272	Matured Interest on Long Term Debt
2285	Obligations Under Finance Leases - Current
2285	Obligations Under Finance Leases - Current, Sub-account Generation Facility Liabilities
2290	Commodity Taxes
2292	Payroll Deductions / Expenses Payable
2294	Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Non-Current Liabilities

2305	Accumulated Provision for Injuries and Damages
2306	OPEB Liability
2308	Other Pensions Liability
2310	Vested Sick Leave Liability
2312	Past Service Costs - Other Post-Employment Benefits
2313	Past Service Costs - Other Pension Plans
2315	Accumulated Provision for Rate Refunds
2320	Other Miscellaneous Non-Current Liabilities
2325	Obligations Under Finance Lease - Non-Current
2325	Obligations Under Finance Lease - Non-Current, Sub-account Generation Facility Liabilities
2335	Non-Current Customer Deposits
2340	Collateral Funds Liability
2345	Unamortized Premium on Long Term Debt
2348	OMERS - Long-Term
2350	Deferred Tax - Non-Current Liability

Other Liabilities and Deferred Credits

2405	Other Regulatory Liabilities or Credits
2410	Deferred Gains from Disposition of Utility Plant
2415	Unamortized Gain on Reacquired Debt
2425	Other Deferred Credits
2435	Accrued Rate - Payer Benefit
2440	Deferred Revenues

Long Term Debt

2505	Debentures Outstanding - Long Term
2510	Debenture Advances
2515	Reacquired Bonds
2520	Other Non-Current Debt
2525	Term Bank Loans - Long Term
2550	Advances from Associated Companies

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Balance Sheet Accounts

Shareholders' Equity

3005	Common Shares Issued
3008	Preference Shares Issued
3010	Contributed Surplus
3020	Donations Received
3022	Development Charges Transferred to Equity
3026	Capital Stock Held in Treasury
3030	Miscellaneous Paid-In Capital
3035	Installments Received on Capital Stock
3040	Appropriated Retained Earnings
3045	Unappropriated Retained Earnings
3046	Balance Transferred From Income
3047	Appropriations of Retained Earnings - Current Period
3048	Dividends Payable - Preference Shares
3049	Dividends Payable - Common Shares
3055	Adjustment to Retained Earnings
3065	Unappropriated Undistributed Subsidiary Earnings
3075	Non Rate-Regulated Utility Shareholders' Equity
3075	Non Rate-Regulated Utility Shareholders' Equity, Sub-account Generation Facilities
3080	Current Taxes - Shareholders' Equity
3081	Deferred Taxes - Shareholders' Equity
3090	Accumulated Other Comprehensive Income

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Sales of Electricity

4006	Residential Energy Sales
4010	Commercial Energy Sales
4015	Industrial Energy Sales
4020	Energy Sales to Large Users
4025	Street Lighting Energy Sales
4030	Sentinel Lighting Energy Sales
4035	General Energy Sales
4040	Other Energy Sales to Public Authorities
4050	Revenue Adjustment
4055	Energy Sales For Retailers/Others
4060	Interdepartmental Energy Sales
4062	Billed - WMS
4064	Billed - WMS–ONE-TIME
4066	Billed - NW
4068	Billed - CN
4075	Billed - LV

Revenues From Services – Distribution

4080	Distribution Services Revenue
4082	Retail Services Revenues
4084	Service Transaction Requests (STR) Revenues
4086	SSS Administration Revenue
4090	Electric Services Incidental to Energy Sales

Revenues From Services – Transmission

4105	Transmission Charges Revenue
4110	Transmission Services Revenue

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Other Operating Revenues

4205	Interdepartmental Rents
4210	Rent from Electric Property
4215	Other Utility Operating Income
4220	Other Electric Revenues
4225	Late Payment Charges
4230	Sales of Water and Water Power
4235	Miscellaneous Service Revenues
4240	Provision for Rate Refunds
4245	Government and Other Assistance Directly Credited to Income

Other Income/ Deductions

4305	Regulatory Debits
4310	Regulatory Credits
4315	Revenues from Electric Plant Leased to Others
4320	Expenses of Electric Plant Leased to Others
4324	Special Purpose Charge Recovery
4325	Revenues from Merchandise
4330	Costs and Expenses of Merchandising
4335	Profits and Losses from Financial Instrument Hedges
4340	Profits and Losses from Financial Instrument Investments
4345	Gains from Disposition of Future Use Utility Plant
4350	Losses from Disposition of Future Use Utility Plant
4355	Gain on Disposition of Utility and Other Property
4357	Gain from Retirement of Utility and Other Property
4360	Loss on Disposition of Utility and Other Property
4362	Loss from Retirement of Utility and Other Property
4365	Gains from Disposition of Allowances for Emission
4370	Losses from Disposition of Allowances for Emission
4375	Revenues from Non Rate-Regulated Utility Operations
4375	Revenues from Non Rate-Regulated Utility Operations, Sub-account Generation Facility Revenues
4380	Expenses of Non Rate-Regulated Utility Operations

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description
4380	Expenses from Non Rate-Regulated Utility Operations, Sub-account Generation Facility Expenses
4385	Non Rate-Regulated Utility Rental Income
4390	Miscellaneous Non-Operating Income
4395	Rate-Payer Benefit Including Interest
4398	Foreign Exchange Gains and Losses, Including Amortization

Investment Income

4405	Interest and Dividend Income
4410	Lessor's Net Investment in Finance Lease
4415	Equity in Earnings of Subsidiary Companies
4420	Share of Profit or Loss of Joint Venture

Power Production Expenses

Generation Expenses – Operation

4505	Operation Supervision and Engineering
4510	Fuel
4515	Steam Expense
4520	Steam from Other Sources
4525	Steam Transferred - Credit
4530	Electric Expense
4535	Water for Power
4540	Water Power Taxes
4545	Hydraulic Expenses
4550	Generation Expense
4555	Miscellaneous Power Generation Expenses
4560	Rents
4565	Allowances for Emissions

Go to TOC A 210

Account	Account Description

Income Statement Accounts

Power Production Expenses

Generation Expenses – Maintenance

4605	Maintenance Supervision and Engineering
4610	Maintenance of Structures
4615	Maintenance of Boiler Plant
4620	Maintenance of Electric Plant
4625	Maintenance of Reservoirs, Dams and Waterways
4630	Maintenance of Water Wheels, Turbines and Generators
4635	Maintenance of Generating and Electric Plant
4640	Maintenance of Miscellaneous Power Generation Plant

Other Power Supply Expenses

4705	Power Purchased
4707	Charges - Global Adjustment
4708	Charges - WMS
4710	Cost of Power Adjustments
4712	Charges - One-Time
4714	Charges - NW
4715	System Control and Load Dispatching
4716	Charges - CN
4720	Other Expenses
4750	Charges - LV

Transmission Expenses – Operation

4805	Operation Supervision and Engineering
4810	Load Dispatching
4815	Station Buildings and Fixtures Expenses
4820	Transformer Station Equipment - Operating Labour

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Transmission Expenses – Operation

4825	Transformer Station Equipment - Operating Supplies and Expense
4830	Overhead Line Expenses
4835	Underground Line Expenses
4840	Transmission of Electricity by Others
4845	Miscellaneous Transmission Expense
4850	Rents

Transmission Expenses – Maintenance

4905	Maintenance Supervision and Engineering
4910	Maintenance of Transformer Station Buildings and Fixtures
4916	Maintenance of Transformer Station Equipment
4930	Maintenance of Towers, Poles and Fixtures
4935	Maintenance of Overhead Conductors and Devices
4940	Maintenance of Overhead Lines - Right of Way
4945	Maintenance of Overhead Lines - Roads and Trails Repairs
4950	Maintenance of Overhead Lines - Snow Removal from Roads and Trails
4960	Maintenance of Underground Lines
4965	Maintenance of Miscellaneous Transmission Plant

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Distribution Expenses – Operation

5005	Operation Supervision and Engineering
5010	Load Dispatching
5012	Station Buildings and Fixtures Expense
5014	Transformer Station Equipment - Operation Labour
5015	Transformer Station Equipment - Operation Supplies and Expenses
5016	Distribution Station Equipment - Operation Labour
5017	Distribution Station Equipment - Operation Supplies and Expenses
5020	Overhead Distribution Lines and Feeders - Operation Labour
5025	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses
5030	Overhead Sub-transmission Feeders - Operation
5035	Overhead Distribution Transformers - Operation
5040	Underground Distribution Lines and Feeders - Operation Labour
5045	Underground Distribution Lines and Feeders - Operation Supplies and Expenses
5050	Underground Sub-transmission Feeders - Operation
5055	Underground Distribution Transformers - Operation
5060	Street Lighting and Signal System Expense
5065	Meter Expense
5070	Customer Premises - Operation Labour
5075	Customer Premises - Materials and Expenses
5085	Miscellaneous Distribution Expense
5090	Underground Distribution Lines and Feeders - Rental Paid
5095	Overhead Distribution Lines and Feeders - Rental Paid
5096	Other Rent

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Distribution Expenses – Maintenance

5105	Maintenance Supervision and Engineering
5110	Maintenance of Buildings and Fixtures - Distribution Stations
5112	Maintenance of Transformer Station Equipment
5114	Maintenance of Distribution Station Equipment
5120	Maintenance of Poles, Towers and Fixtures
5125	Maintenance of Overhead Conductors and Devices
5130	Maintenance of Overhead Services
5135	Overhead Distribution Lines and Feeders - Right of Way
5145	Maintenance of Underground Conduit
5150	Maintenance of Underground Conductors and Devices
5155	Maintenance of Underground Services
5160	Maintenance of Line Transformers
5165	Maintenance of Street Lighting and Signal Systems
5170	Sentinel Lights - Labour
5172	Sentinel Lights - Materials and Expenses
5175	Maintenance of Meters
5178	Customer Installations Expenses- Leased Property
5195	Maintenance of Other Installations on Customer Premises

Other Expenses

5205	Purchase of Transmission and System Services
5210	Transmission Charges
5215	Transmission Charges Recovered

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Billing and Collecting

5305	Supervision
5310	Meter Reading Expense
5315	Customer Billing
5320	Collecting
5325	Collecting- Cash Over and Short
5330	Collection Charges
5335	Bad Debt Expense
5340	Miscellaneous Customer Accounts Expenses

Community Relations

5405	Supervision
5410	Community Relations - Sundry
5415	Energy Conservation
5420	Community Safety Program
5425	Miscellaneous Customer Service and Informational Expenses

Sales Expenses

5505	Supervision
5510	Demonstrating and Selling Expense
5515	Advertising Expense
5520	Miscellaneous Sales Expense

Administrative and General Expenses

5605	Executive Salaries and Expenses
5610	Management Salaries and Expenses
5615	General Administrative Salaries and Expenses
5620	Office Supplies and Expenses

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Administrative and General Expenses

5625	Administrative Expense Transferred - Credit
5630	Outside Services Employed
5635	Property Insurance
5640	Injuries and Damages
5645	OMERS Pensions and Benefits
5646	Employee Pensions and OPEB
5647	Employee Sick Leave
5650	Franchise Requirements
5655	Regulatory Expenses
5660	General Advertising Expenses
5665	Miscellaneous General Expenses
5670	Rent
5672	Lease Payment Expense
5675	Maintenance of General Plant
5680	Electrical Safety Authority Fees
5681	Special Purpose Charge Expense
5685	Independent Electricity System Operator Fees and Penalties
5695	OM&A Contra Account

Depreciation and Amortization Expense

5705	Depreciation Expense - Property, Plant, and Equipment
5710	Amortization of Limited Term Electric Plant
5715	Amortization of Intangible Assets
5720	Amortization of Electric Plant Acquisition Adjustments
5725	Miscellaneous Depreciation
5730	Amortization of Unrecovered Plant and Regulatory Study Costs
5740	Amortization of Deferred Charges

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Interest Expense

6005	Interest on Long Term Debt
6010	Amortization of Debt Discount and Expense
6015	Amortization of Premium on Debt - Credit
6020	Amortization of Loss on Reacquired Debt
6025	Amortization of Gain on Reacquired Debt - Credit
6030	Interest on Debt to Associated Companies
6035	Other Interest Expense
6040	Allowance For Borrowing Costs Applied to CWIP - Credit
6042	Allowance For Other Borrowing Costs Applied to CWIP - Credit
6045	Interest Expense on Finance Capital Lease Obligations

Taxes

6105	Taxes Other Than Income Taxes
6110	Income Taxes
6115	Provision for Deferred Taxes - Income Statement

Other Deductions

6205	Donations
6205	Donations, Sub-account LEAP Funding
6210	Life Insurance
6215	Penalties
6225	Other Deductions

Unusual Items

6305	Unusual Income
6310	Unusual Deductions
6315	Income Taxes, Unusual Items

Go to TOC A 210

Uniform System of Accounts

Chart of Accounts

Account	Account Description

Income Statement Accounts

Discontinued Operations

6405	Discontinues Operations - Income/ Gains
6410	Discontinued Operations - Deductions/ Losses
6415	Income Taxes, Discontinued Operations

Other Comprehensive Income

7005	Available-for-Sale Financial Asset or Cash Flow Hedge - Other Comprehensive Income
7010	Pension Actuarial Gains or Losses or Remeasurement Adjustment - Other Comprehensive Income
7020	Current Taxes - Other Comprehensive Income
7025	Deferred Taxes - Other Comprehensive Income
7030	Miscellaneous - Other Comprehensive Income

Go to TOC A 210

Uniform System of Accounts

Balance Sheet Accounts

TABLE OF CONTENTS

Go To Main APH ToC

Current Assets

1005 Cash

This account shall include the cash funds which are held in banks or on hand for deposit in banks. There shall be separate ledger accounts for each bank account, whether current, savings, payroll or trust funds.

1010 Cash Advances and Working Funds

These accounts shall include cash advanced to officers, agents, employees, and others as petty cash or working funds. Cash deposits with boards and commissions shall also be included. These accounts shall be maintained in such a manner that an adequate record of advances will be evident.

1020 Interest Special Deposits

This account shall include special deposits with fiscal agents or others for the payment of interest.

1030 Dividend Special Deposits

This account shall include special deposits with fiscal agents or others for the payment of dividends.

1040 Other Special Deposits

This account shall include deposits with fiscal agents or others for special purposes other than the payment of interest and dividends. Such special deposits may include cash deposited with federal, provincial, or municipal authorities as a guaranty for the fulfillment of obligations; cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced; cash realized from the sale of the accounting utility's securities and deposited with trustees to be held until invested in property of the utility, prudential deposits from electricity retailers, etc.

This account shall also include the current asset portion of customer deposits related to amounts in Accounts 2335 and 2340.

Entries to this account shall specify the purpose for which the deposit is made.

Go to TOC A220

Current Assets

Note: Deposits for more than one year, which are not offset by current liabilities, shall not be charged to this account but to Account 1410, Other Special or Collateral Funds.

1060 Term Deposits

This account shall include those term deposits which are cashable at any time.

1070 Current Investments

Current investments shall be considered as those which are capable of reasonably prompt liquidation. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are current in nature. (Those non-current in nature are to be recorded in Account 1405, Long term Investments in Non-associated Companies).

Entries shall be made to this account in such a manner that a complete record of each investment is maintained. Records shall also be so maintained as to show separately the temporary cash investments in securities of associated companies.

1100 Customer Accounts Receivable

This account shall include amounts due from customers for billings rendered for such items as:

1) electrical energy sales;
2) regulated charges;
3) distribution tariff; and
4) applicable taxes (e.g. HST)

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable. This account shall not include amounts due from associated companies. (See Account 1200, Accounts Receivable from Associated Companies).

Go to TOC A220

Current Assets

1102 Accounts Receivable - Services

This account shall include amounts receivable for distributions services provided on behalf of others (i.e. retailers). Where applicable, this account shall also include amounts receivable for transmission services provided.

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1104 Accounts Receivable - Recoverable Work

This account shall include amounts receivable for:

1) recoverable work performed;
2) contract work;
3) temporary facilities (periods of less than one year).

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1105 Accounts Receivable - Merchandise

This account shall include amounts due in relation to revenues derived from the sale of merchandise. See related Account 4325, Revenues from Merchandising.

1110 Other Accounts Receivable

This account shall include amounts due to the utility upon open accounts, other than amounts due from associated companies (Account 1200) and amounts included in Accounts 1100 to 1105. Examples of items to be included are:

1) Amounts due from Municipal Corporations with regard to municipal owned street lighting;
2) Amounts due from other municipal departments and other departments in the case of Municipal Corporations;
3) Amounts due from sources such as taxes recoverable, insurance claims, etc;
4) Other.

Go to TOC A220

Current Assets

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1120 Accrued Utility Revenues

This account shall include the amount of revenue for power/ services consumed prior to the utility's year end but not billed until the following year.

1130 Accumulated Provision for Uncollectible Accounts - Credit

A. This account shall be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. Concurrent charges shall be made to Account 5335, Bad Debt Expense, for amounts applicable to utility operations, and to corresponding accounts for other operations.

B. This account shall be subdivided to show the provision applicable to each class of receivable.

Note: Provisions for uncollectible notes receivable, or for uncollectible receivables from associated companies, if necessary, shall be established under the account in which the receivable is carried (i.e. Accounts 1170, 1200, or 1210, respectively).

1140 Interest and Dividends Receivable

This account shall include the amount of interest on bonds, mortgages, notes, commercial paper, loans, open accounts, deposits, etc., the payment of which is reasonably assured, and the amount of dividends declared or guaranteed on stocks owned.

Note A:Interest which is not subject to current settlement shall not be included herein but in the account in which is carried the principal on which the interest is accrued.

Note B: Interest and dividends receivable from associated companies shall be included in Account 1200, Accounts Receivable from Associated Companies.

Go to TOC A220

Current Assets

1150 Rents Receivable

This account shall include rents receivable or accrued on property rented or leased by the utility to others.

Note: Rents receivable from associated companies shall be included in Account 1200, Accounts Receivable from Associated Companies.

1170 Notes Receivable

This account shall include the book cost of all collectible obligations in the form of notes receivable and similar items of funds due on demand or within one year from the date of issue, except notes receivable from associated companies. (See Account 1210, Notes Receivable from Associated Companies.)

Entries shall be made to the accounts in such a manner that a complete record of each investment is maintained.

1180 Prepayments

This account shall include amounts representing prepayments of all types including transmission charges, insurance, rents, taxes, interest and miscellaneous items, and shall be kept or supported in such manner as to disclose the amount of each class of prepayments.

1190 Miscellaneous Current and Accrued Assets

This account shall include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein.

1200 Accounts Receivable from Associated Companies

This account shall include debit balances subject to current settlement in open accounts with associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to Account 1485, Investment in Associated Companies - Significant Influence.

Current Assets

Note: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

1210 Notes Receivable from Associated Companies

This account shall include notes and drafts upon which associated companies are liable, and which mature and are expected to be paid in full not later than one year from the date of issue, together with any interest thereon. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to Account 1485, Investment in Associated Companies - Significant Influence.

Go to TOC A220

Inventory

1305 Fuel Stock

This account shall include the cost of fuel on hand.

Example of costs to be included:

1. Invoice price of fuel less any cash or other discounts.
2. Freight and other transportation charges.
3. Customs and Excise taxes.
4. Cost of direct labour to handle stock.
5. A reasonable share of the directly attributable overhead expense for warehousing.
6. Any significant carrying charges.

1330 Plant Materials and Operating Supplies

A. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. It shall include also the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated amortization provision, respectively, and included herein as follows:

1) Recovered high value identifiable materials should be carried at net book value unless it is obvious that the asset's value is less due to damage or obsolescence.

2) Scrap and non-usable materials included in this account shall be carried at the estimated net amount realizable therefrom.

B. This account shall include the net realizable value of goods taken out of service and marked for disposal.

C. This account shall also include the cost of bulk purchases made of items to be incorporated in future plant but not items on hand for spare or reserve purposes that are expected to substitute original plant items while the original items are being repaired.

Go to TOC A220

Inventory

Refer to guidance in Article 420 *Inventory and* Article 410 *Plant & Equipment and Intangible Assets*.

1340 Merchandise

This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

1350 Non Rate-Regulated Materials and Supplies

This account shall include the book cost of other materials and supplies held primarily for non-regulated activities performed within the regulated entity. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account

Go to TOC A220

Non-Current Assets

1405 Non-Current Investments in Non-Associated Companies

A. This account shall include the book cost of investments in securities issued by non-associated companies, investment advances to such companies, and any investments not accounted for elsewhere. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See Account 4405, Interest and Dividend Income.)

B. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) which are classified as financial assets or equity instruments and are non-current in nature. (Those of a current nature are to be recorded in Account 1070, Current Investments).

C. The records shall be maintained in such manner as to show the amount of each investment and the investment advances to each entity.

1407 Finance Lease Receivable

This account shall include a finance lease receivable at an amount equal to the net investment in the lease by the lessor. At the commencement of the lease term, the leased asset is recognized at the lower of the fair value of the leased asset at inception of the lease or the present value of the minimum lease payments at inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as the leased asset. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable.

1408 Long Term Receivable - Street Lighting Transfer

This account shall include the non-current portion of the amount due from Municipal Corporations with regard to the transfer of the ownership of the street lighting equipment to the Municipal Corporations. It will also include the net balance transferred where an adjustment to the accounts has been made.

Go to TOC A220

Non-Current Assets

1410 Other Special or Collateral Funds

A. This account shall include the amount of cash and book cost of investments which have been segregated in special funds for insurance, employee pensions, savings, relief, hospital, and other purposes not provided for elsewhere.

B. This account shall also include the non-current portion of customer deposits recorded in Account 2335, as well as non-current deposits or securities held as collateral relating to Account 2340, Collateral Funds Liability.

C. A separate account with appropriate title shall be kept for each fund.

Note: Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employee benefits shall not be included in this account. Investments and securities shall be recorded at face value.

1415 Sinking Funds

This account shall include the amount of cash and book cost of investments held in sinking funds. A separate account, with appropriate title, shall be kept for each sinking fund.

1425 Unamortized Debt Expense

A. This account shall include expenses related to the issuance or assumption of debt securities. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security.

B. The amortization shall be charged to Account 6010, Amortization of Debt Discount and Expense.

Entries shall be made in this account in a manner that the items involved with each issue will be evident.

Go to TOC A220

Non-Current Assets

1445 Unamortized Discount on Long Term Debt - Debit

This is account shall include the excess of the face value of long term debt securities over the cash value of consideration received there for, related to the issue or assumption of all types and classes of debt. Amounts recorded in this account shall be amortized over the life of the respective issues under a plan which will distribute the amount equitably over the life of the securities. The amortization shall be charged to Account 6010, Amortization of Debt Discount and Expense.

Entries shall be made in this account in a manner that the items involved with each debt issue will be evident.

1455 Unamortized Deferred Foreign Currency Translation Gains and Losses

This account shall include the unamortized balance of exchange gains and losses relating to the translation of long term foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the following fiscal year. These gains and losses should be deferred and amortized on a systematic and rational basis over the remaining life of the monetary item.

The amount of exchange gains and losses to be included in the determination of net income for the current period should be recorded in Account 4398, Foreign Exchange Gains or Losses, Including Amortization.

1460 Other Non-Current Assets

This account shall include all other non-current assets which do not properly belong in any other account. Details of these assets shall be kept in such a manner that their nature and purpose is evident.

1480 Portfolio Investments - Associated Companies

A. This account shall include the book cost of investments in securities issued by associated companies, and investment advances to such companies. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See Account 4405, Interest and Dividend Income.)

Go to TOC A220

Non-Current Assets

B. The records shall be maintained in such manner as to show the amount of each investment and the investment advances to each associated entity.

1481 Investment in Equity - Accounted Joint Venture

This account shall include the investment in the joint venture at cost plus the venturer's share of the post-acquisition retained profits and other changes in net assets.

1485 Investment in Associated Companies - Significant Influence

A. This account shall include the cost of investments in securities issued or assumed by associated companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement, provided that the investment does not relate to a subsidiary company. (If the investment relates to a subsidiary company it shall be included in Account 1490, Investment in Subsidiary Companies.) Include herein the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See Account 4405, Interest and Dividend Income.)

B. This account shall be maintained in such manner as to show the investment in securities of, and advances to, each associated company together with full particulars regarding such investments.

Note A: Securities of associated companies held as temporary cash investments are included in Account 1070, Current Investments.

Note B: Balances in open accounts with associated companies, which are subject to current settlement, are included in Account 1200, Accounts Receivable from Associated Companies.

1490 Investment in Subsidiary Companies

This account shall include the cost of investments in securities issued or assumed by subsidiary companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement plus the equity in undistributed earnings or losses of such subsidiary companies since acquisition. This account shall be credited with any dividends declared by such subsidiaries.

Non-Current Assets

This account shall be maintained in such a manner as to show separately for each subsidiary: the cost of such investments in the securities of the subsidiary at the time of acquisition; the amount of equity in the subsidiary's undistributed net earnings or net losses since acquisition; advances or loans to such subsidiary; and full particulars regarding any such investments that are pledged.

1495 Deferred Taxes - Non-Current Assets

This account shall be debited with the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry-forward of unused tax losses and the carry-forward of unused tax credits.

Go to TOC A220

Other Assets & Deferred Charges

1505 Unrecovered Plant And Regulatory Study Costs

A. This account shall include: (1) Non-recurring costs of studies and analyses mandated by the Board related to plants in service, transferred from Account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been cancelled or that have been prematurely retired.

B. This account shall be credited and Account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs, shall be debited over the period specified by the Board.

C. Any additional costs incurred, relative to the cancellation or premature retirement may be included in this account and amortized over the remaining period of the original amortization period. Should any gains or recoveries be realized relative to the cancelled or prematurely retired plant, such amounts shall be used to reduce the unamortized amount of the costs recorded herein.

D. In the event that the recovery of costs included herein is disallowed in the rate proceedings, the disallowed costs shall be charged to Account 6225, Other Deductions, or Account 6310, Extraordinary Deductions, in the year of such disallowance.

1508 Other Regulatory Assets

A. This account shall include the amounts of regulatory created assets, not included in other accounts, resulting from the ratemaking actions of the Board.

B. The amounts included in this account are to be established by those charges which would have been included in net income determinations in the current period under the general requirements of this Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

D. If directed by the Board, the amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred. However, when specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase ins, rate moderation plans, or rate levelization plans, account 4310, Regulatory Credits shall receive the corresponding credit. Account 4305, Regulatory Debits, shall receive the periodic amounts drawing down the balance in this account concurrent with the recovery of the amounts in rates.

E. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 6225, Other Deductions, or account 6310, Extraordinary Deductions, in the year of the disallowance.

F. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account.

1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs

A. A distributor shall use this account to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates.

B. The costs authorized for recording in this account shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in this account may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.

C. The incremental transition costs shall not include ongoing IFRS compliance costs, the financial impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income, or costs related to system upgrades, replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.

D. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account related to this account. The interest rate shall be the rate prescribed by the Board.

1508 Other Regulatory Assets, Sub-account IFRS Transition Costs Variance

A. A distributor shall use this account to record the variance between the amounts recovered in distribution rates at approved rates and the actual incurred one-time administrative incremental IFRS transition costs. The distributor will record the actual incurred one-time administrative incremental IFRS transition costs in this account. In addition, the amounts recovered in distribution rates will be recorded as credits in this account. These recoveries are not recorded as credits in the 4000-4499 series of revenue and other income accounts.

B. The costs authorized for recording in this account shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in this account may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.

C. The incremental transition costs shall not include ongoing IFRS compliance costs, the financial impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income, or costs related to system upgrades, replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.

D. Carrying charge shall apply to this account and amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate carrying charges sub-account related to this account. The rate of interest shall be the rate prescribed by the Board.

1508 Other Regulatory Assets, Sub-account Incremental Capital Charges

A distributor shall use this account to record the charges arising from the capital relief rate rider. The new incremental capital ("Rider 5") charge arises from an incremental capital module approved for Hydro One Networks Inc. (EB-2008-0187), which was effective on May 1, 2009 but was implemented on June 1, 2009.

1508 Other Regulatory Assets, Sub-account Financial Assistance Payment and Recovery Variance - Ontario Clean Energy Benefit

This account shall be used by a distributor to capture the difference between the amounts of reimbursement claimed from the IESO or a host distributor and the financial assistance credited to eligible accounts. This account shall be used by way of exception only; if a licensed distributor cannot adapt its invoices as of January 1, 2011, it will be required to use this variance account for Ontario Clean Energy Benefit purposes.

Carrying charge shall apply to this account and amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate carrying charges sub-account related to this account. The rate of interest shall be the rate prescribed by the Board.

1510 Preliminary Survey and Investigation Charges

A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to Account 6225, Other Deductions, or to the appropriate operating expense account.

B. This account shall also include costs of studies and analyses mandated by the Board related to plant in service. If construction results from such studies, this account shall be credited and the appropriate utility plant account charged with an equitable portion of such study costs directly attributable to new construction.

Other Assets & Deferred Charges

The portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to Account 1505, Unrecovered Plant and Regulatory Study Costs, or the appropriate operating expense account. The costs of such studies relative to plant under construction shall be included directly in Account 2055, Construction Work in Progress Electric.

C. The records supporting the entries to this account shall be so kept that the utility can furnish complete information as to the nature and the purpose of the survey, plans, or investigations and the nature and amounts of the charges.

Note: The amount of preliminary survey and investigation charges transferred to utility plant shall not exceed the expenditures which may reasonably be determined to contribute directly and immediately and without duplication to utility plant.

1515 Emission Allowance Inventory

A. This account shall include the cost of allowances owned by the utility and established under a specified statute.

B. This account shall be credited and Account 4565, Allowances for Emission, shall be debited concurrent with the monthly emission of sulphur dioxide.

C. Separate subdivisions of this account shall be maintained so as to separately account for those allowances usable in the current year and in each subsequent year. The underlying records of these subdivisions shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowance.

1516 Emission Allowances Withheld

A. This account shall include the cost of allowances owned by the utility but withheld by the appropriate authority under a specified statute.

B. The inventory cost of the allowances released by the appropriate authority for use by the utility shall be transferred to Account 1515, Emission Allowance Inventory.

Go to TOC A220

Other Assets & Deferred Charges

C. The underlying records of this account shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowances.

1518 RCVA$_{Retail}$

A. This account shall be used monthly to record the net of:

i) revenues derived, including accruals, from the following services:

a) Establishing Service Agreements;

b) Distributor-Consolidated Billing; and

c) Retailer-Consolidated Billing.

AND

ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (c) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing, including accruals.

B. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

C. Sub-accounts may be used to separately record variances related to items a) to d) above.

1521 Special Purpose Charge Assessment Variance Account

This account shall be used by a distributor to record any difference between the amounts remitted to the Minister of Finance for a utility's Special Purpose Charge ("SPC") assessment and the amount that the utility recovers from customers. This amount shall be recorded in "Sub-account 2010 SPC Assessment Variance" of Account 1521. Account 5681, Special Purpose Charge Expense, shall be used to record the amount of the SPC assessment, and Account 4324, Special Purpose Charge Recovery,

Other Assets & Deferred Charges

shall be used to record amounts collected from customers on account of that assessment.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1525 Miscellaneous Deferred Debits

A. This account shall include all debits not elsewhere provided for which will benefit future periods and shall be carried forward and charged to expense over the term of the benefit.

B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1530 Deferred Losses from Disposition of Utility Plant

This account shall include losses from the sale or other disposition of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to Account 4350, Losses from Disposition of Future Use Utility Plant. (See Account 2040, Electric Plant Held for Future Use.)

1531 Renewable Connection Capital Deferral Account

Investments associated with expansions to connect renewable generation facilities and renewable enabling improvements, both as defined in the Distribution System Code, should be recorded in this capital deferral account. In addition, the capital cost of

Other Assets & Deferred Charges

changes to a distributor's Customer Information System to enable the automated settlement of FIT ("Feed-in Tariff") or microFIT contracts may be included in this account.

The distributor's normal capitalization policies from its last cost of service proceeding should be applied to capital asset expenditures recorded in this account. Effective on January 1, 2012, (or such other date that a distributor adopted IFRS), the distributor's capitalization policies established on adoption of IFRS should be used. Transitional accounting differences between Canadian GAAP and modified IFRS applicable to items of PP&E in this account may be recorded in Account 1575, IFRS-CGAAP Transitional PP&E Amounts. See related guidance in Article 510 *Transitional Issues Relating to the Adoption of IFRS* and Account 1575, IFRS-CGAAP Transitional PP&E Amounts.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1532 Renewable Connection OM&A Deferral Account

Incremental operating, maintenance, amortization and administrative expenses directly related to expansions to connect renewable generation facilities, and renewable enabling improvements, both as defined in the Distribution System Code, should be recorded in this operating deferral account. In addition, costs that can be recorded in this account include expenses associated with preparing a "GEA Plan" and expenses associated with changes to a distributor's Customer Information System to enable the automated settlement of FIT ("Feed-in Tariff") or microFIT contracts.

Distributors should not record in this account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1531.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

Go to TOC A220

Other Assets & Deferred Charges

1533 Renewable Generation Connection Funding Adder Deferral Account

This account will record the revenues collected through a funding adder approved by the Board related to renewable generation connection projects. Separate sub-accounts should be used to record any amounts collected from a distributor's ratepayers and any amounts received from the Independent Electricity System Operator (pursuant to the provincial pooling mechanism set out in section 79.1 of the Ontario Energy Board Act, 1998) in respect of the projects.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1534 Smart Grid Capital Deferral Account

Investments related to smart grid demonstration projects should be recorded in this capital deferral account. This account should also be used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation.

The distributor's normal capitalization policies from its last cost of service proceeding should be applied to capital asset expenditures recorded in this account. Effective on January 1, 2012, (or such other date that a distributor adopted IFRS), the distributor's capitalization policies established on adoption of IFRS should be used. Transitional accounting differences between Canadian GAAP and modified IFRS applicable to items of PP&E in this account may be recorded in Account 1575, IFRS-CGAAP Transitional PP&E Amounts. See related guidance in Article 510 *Transitional Issues Relating to the Adoption of IFRS* and Account 1575, IFRS-CGAAP Transitional PP&E Amounts.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

Go to TOC A220

Other Assets & Deferred Charges

1535 Smart Grid OM&A Deferral Account

Operating, maintenance, amortization and administrative expenses directly related to the following smart grid development activities should be recorded in this operating deferral account:

- smart grid demonstration projects;
- smart grid studies and planning exercises; and
- smart grid education and training.

This includes expenses associated with preparing the smart grid portion of a "GEA Plan". Distributors should not record in this account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1534. An investment in a renewable enabling improvement, as defined in the Distribution System Code, may incorporate what the distributor believes to be smart grid technologies. In such cases, distributors should allocate any costs associated with the incorporation of smart grid technologies to the smart grid deferral accounts, with the balance of the costs going to the renewable generation connection deferral accounts.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1536 Smart Grid Funding Adder Deferral Account

This account will record the revenue collected through a funding adder approved by the Board related to smart grid development.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1540 Unamortized Loss on Reacquired Debt

This account shall include material losses on long term debt reacquired or redeemed. See related Account 6020, Amortization of Loss on Reacquired Debt.

Go to TOC A220

Other Assets & Deferred Charges

1548 RCVA$_{STR}$

A. This account shall be used monthly to record the net of:

i) revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, as prescribed, in the form of a:

a) Request fee;
b) Processing fee;
c) Information Request fee;
d) Default fee; and
e) Other Associated Costs fee;

AND

ii) the incremental cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.

B. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

C. Sub-accounts may be used to separately record variances related to items listed above.

1550 LV Variance Account

A. This account shall be used monthly to record the variances arising from low voltage transactions which are not part of the electricity wholesale market.

B. On a monthly basis, this account shall be used to record the net of:

i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services, Account 4750, including accruals

AND

ii) the amount billed to the embedded distributor's customers based on the embedded distributor's approved LV rate(s) in, Account 4075, including accruals.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1555 Smart Meter Capital and Recovery Offset Variance Account

A. Amounts recorded in this account shall include the revenues approved by the Board for smart meters and related capital costs incurred by the distributor.

B. To record the revenues for smart meter funding recovered by the fixed and/or variable rate charge for each class of customer, Account 4080, Distribution Services Revenue shall be debited and this account credited.

C. To record capitalized direct costs related to the smart meter program, this account shall be debited and Account 1005, Cash or Accounts Payable credited.

D. The distributor's normal capitalization policies from its last cost of service proceeding should be applied to capital asset expenditures recorded in this account. Effective on January 1, 2012, (or such other date that a distributor adopted IFRS), the distributor's capitalization policies established on adoption of IFRS should be used. Transitional accounting differences between Canadian GAAP and modified IFRS applicable to items of PP&E in this account may be recorded in Account 1575, IFRS-CGAAP Transitional PP&E Amounts. See related guidance in Article 510 *Transitional Issues Relating to the Adoption of IFRS* and Account 1575, IFRS-CGAAP Transitional PP&E Amounts.

E. Appropriate sub-accounts shall be used in this account to segregate costs into various categories of capital costs.

F. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate

Other Assets & Deferred Charges

carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

G. Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded.

1555 Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs

A. This sub-account shall be used to record the stranded costs associated with conventional or accumulation meters removed at the time of installation of smart meters.

B. The recovery of stranded costs is associated with the smart metering initiative. With respect to the recovery, Ontario Regulation 441/07, states: “Subject to Board order, …distributors may recover the costs associated with meters owned before, on or after January 1, 2006 being replaced because of the smart metering initiative if, (a) the meter being replaced was not acquired in contravention of section 53.18 of the Electricity Act, 1998; and (b) the meter is replaced with a smart meter authorized for installation under the Electricity Act, 1998.

C. Stranded meter costs are defined as the pooled residual net book value cost of removed meters or meters held in reserve for replacement of in-service meters, less any net sale proceeds when received. Disposition of these costs will be determined in a future proceeding of the Board.

D. Carrying charges are not authorized for this sub-account (as a return on these assets recorded herein is recovered in rates pending the future disposition of these amounts in this sub-account).

E. This account shall be further sub-divided to be consistent with rate classes to which the stranded meter costs relate.

F. Records must also be kept by the types of meters and number of meters to verify the stranded meter costs recorded in this account.

Go to TOC A220

Other Assets & Deferred Charges

1556 Smart Meter OM&A Variance Account

A. This account shall be used by the distributor to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters.

B. To record incremental OM&A expenses and amortization related to the smart meter program this account shall be debited and Account 5695, OM&A Contra Account shall be credited.

C. Separate sub-accounts within the OM&A contra account (5695) shall be created for the following categories of expenses: operating, maintenance, administration and depreciation or amortization.

D. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

E. Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded therein.

1562 Deferred Payments In Lieu of Taxes

A. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal instalments in October, November and December for utilities with a December 31, 2001 taxation year end. For a full year each applicable proxy will be divided by 12, and a monthly amount should be posted for each applicable period.

B. Any entries resulting from the PILS Deferral Account Allowance will be effective at the end of a utility's taxation year (December 31) and any entries resulting from the pass-through of variances between the Deferral Account Allowance and the actual results reflected in a utility's tax filing (e.g. to the Ministry of Finance for

Other Assets & Deferred Charges

payments in lieu of tax) will be effective as of the filing deadline (i.e. tax returns are due six months after year end).

C. The distributor shall use, on a consistent basis, one of the three accounting methods approved for recording entries in this account in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued Frequently Asked Questions on the APH.

D. Adjustments shall be made to this account as directed by the Board.

E. Any amounts included rates shall be debited/credited back to this account at the time of billing or other account specified by the Board.

F. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board. Prior to May 1, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the *2000 Electricity Distribution Rate Handbook* Table 3-1.

Note: Account 1562 relates to the rate-year periods that ended on or before April 30, 2006. For rate-year periods starting on or after May 1, 2006, the distributor must apply the requirements of Chapter 7 of the Board's *2006 Electricity Distribution Rate Handbook, Report of the Board*, applicable accounting guidance (e.g. Frequently Asked Questions) and other requirements the Board may specify. Account 1592 shall be used for these purposes.

1563 Contra Account Deferred Payments In Lieu of Taxes

A. Amounts recorded in this account are applicable to a distributor using the third accounting method approved for recording entries in Account 1562 in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued Frequently Asked Questions on the APH. The offsetting entry of each entry in Account 1562 shall be made to this contra account.

B. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board. Prior to May 1, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the *2000 Electricity Distribution Rate Handbook* Table 3-1.

1567 Board-Approved CDM Programs Variance Account

This account shall be used by the distributor to record the difference between the funding awarded for Board-Approved CDM Programs and the actual spending incurred for these Programs.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

The disposition of the balance in this account shall be made at the time specified by the Board and in the manner specified by the Board.

1568 LRAM Variance Account

Account description will be determined in the future.

1572 Extraordinary Event Costs

A. This account shall be used to record extraordinary event costs that meet the qualifying criteria established by the Board. Amounts recorded in this account does not imply Board acceptance of these amounts. Consequently, amounts are subject to regulatory review and approval prior to disposition of amounts in rates.

B. Extraordinary events by their nature are unique; therefore, this account shall be further sub-divided to reflect the nature of the activity resulting in the extraordinary expense entry. Consequently, extraordinary event costs transactions shall be recorded in appropriate sub-accounts for transactions of the same nature.

Other Assets & Deferred Charges

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

D. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. Records shall be maintained as to permit the separate identification of any capital and non-capital cost components of this account. The capital sub-account will include capital assets that generally are included in the utility's rate base for rate-making purposes while the non-capital sub-account records the related annual amortization expense and operating and maintenance costs.

Entry at time of deferral

This account shall be debited with the amount deferred to a future period. The offsetting credit shall be recorded in the appropriate cash and/ or asset account as applicable.

Entry to record return on deferred amounts

This account shall be debited with an amount equal to the allowed or prescribed carrying charges on extraordinary event costs. The offsetting credit shall be to Account 4405, Interest and Dividend Income.

1574 Deferred Rate Impact Amounts

A. This account shall be used to record amounts equal to rate impacts associated with market-based rate of return or other costs that the Board has authorized or directed to be recorded and deferred to future periods.

B. When authorized or directed by the Board, this account shall be used to record the difference between the rate of return reflected in the rates and the market based rate of return.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

D. A separate sub-account shall be maintained for each type of deferred rate amount included in this account.

1575 IFRS-CGAAP Transitional PP&E Amounts

A distributor shall use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified IFRS as follows (for purposes of this account, PP&E includes rate base related intangible assets):

A. Distributors shall maintain records using previous Canadian GAAP of the amounts in the PP&E accounts that will be included in rate base, commencing at their last rebasing under previous Canadian GAAP, and continuing until their first rebasing under modified IFRS. This will produce a figure for the PP&E accounts that is consistent with their last rebasing. The PP&E accounts noted above may also include items of PP&E recorded in PP&E related deferral accounts, if applicable (e.g., Accounts 1555, 1531 and 1534). Records should be kept to at a level of detail sufficient to support the analysis and justification of the entries made to the account.

B. Distributors shall also calculate "adjusted rate base" values for the PP&E components of rate base using the accounting system applicable in each year between rebasing under previous Canadian GAAP and the first rebasing under modified IFRS. For example, if a distributor rebased using previous Canadian GAAP in 2010, and continued with previous Canadian GAAP in 2011, and then moved to IFRS for financial reporting for 2012 and 2013, it would calculate the PP&E components of rate base using previous Canadian GAAP in 2010 and 2011, and modified IFRS in 2011, 2012 and 2013. (2011 must be included in modified IFRS because the year before the move to IFRS has to be restated under IFRS.)

C. Distributors shall record in the deferral account the cumulative difference between items A and B above. The calculations for the balance in this account (which does not accrue carrying charges) provide the Board with the evidence to consider an adjustment to the opening values of the PP&E components of rate base up or down in the first modified IFRS rebasing year to match the "adjusted

Other Assets & Deferred Charges

rate base" figure above. For that rebasing year, and every subsequent year, rate base will be calculated on a modified IFRS basis.

D. The amount of the cumulative adjustment up or down (unamortized balance of the deferral account) should be recorded as a balance to be recovered from, or refunded to, ratepayers and as an adjustment to opening rate base in the year of rebasing (with rate base otherwise calculated on an modified IFRS basis). Distributors shall reflect the deferral account balance as an adjustment to modified IFRS calculated rate base going forward, and amortize that adjustment over a period of time approved by the Board. The rate base, upon which the distributor's return on rate base calculation is based in the cost of service application, will therefore include two components: the modified IFRS based elements of PP&E, and the unamortized balance in the deferral account. Thus the unamortized balance in the deferral account will attract the same level of return in determining revenue requirement in a cost of service application as other PP&E balances. The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement.

1580 RSVA$_{WMS}$

A. This account shall be used monthly to record the net of:

i. the amount charged by the Independent Electricity System Operator ("IESO"), based on the monthly settlement invoice, for the operation of the IESO administered markets and the operation of the IESO- controlled grid (as defined in the Electricity Act, 1998), specified by the Board, including accruals

AND

ii. the amount billed to customers using the Board-approved Wholesale Market Service Rate, including accruals.

B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for wholesale market services and the amount billed to customers using the Board-approved Wholesale Market Service Rate.

Other Assets & Deferred Charges

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1582 RSVA$_{\text{one-time}}$

A. This account shall be used monthly to record the net of:

i. the amount charged by the Independent Electricity System Operator, based on the monthly settlement invoice, for Wholesale Market Service, specified by the Board (these charges are not normally already incorporated in Wholesale Market Service Rate), including accruals

AND

ii. the amount billed to customers for the same services using the Board-approved Rate, including accruals.

B. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1584 RSVA$_{\text{NW}}$

A. This account shall be used monthly by distributors deemed to be transmission customers to record the net of:

i. the amount charged by the Independent Electricity System Operator, based on the monthly settlement invoice, for transmission network services, including accruals

AND

ii. the amount billed to customers for the same services using the Board-approved Transmission Network Charge Rate, including accruals.

B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network services and the amount billed to customers using the Board-approved Transmission Network Charge Rate.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1586 RSVA$_{CN}$

A. This account shall be used monthly by distributors deemed to be transmission customers to record the net of:

i. the amount charged by the Independent Electricity System Operator, based on the monthly settlement invoice, for transmission connection services, including accruals

AND

ii. the amount billed to customers for the same services using the Board-approved Transmission Connection Charge Rate, including accruals.

B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission connection services and the amount billed to customers using the Board-approved Transmission Connection Charge Rate.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

Other Assets & Deferred Charges

1588 RSVA$_{Power}$

A. This account shall be used monthly to record the net difference between:

i. the energy amount billed to customers, including accruals

AND

ii. the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator, host distributor or embedded generator, including accruals.

B. The related accounts used to record the electricity billed to customers (e.g., Accounts 4006 to 4055) and to record the electricity charges to the distributor (e.g. Accounts 4705 and 4710) shall be sub-divided to show the electricity amounts including adjustments recorded in each of these accounts.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1589 RSVA$_{GA}$

A. This account shall be used monthly to record the net difference between:

i. the global adjustment amount billed to non-Regulated Price Plan consumers, including accruals

AND

i. the global adjustment charge (i.e., under charge types as applicable) to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoice received from the Independent Electricity System Operator ("IESO"), host distributor or embedded generator, including accruals. Note that the global adjustment charge for Regulated Price Plan consumers is not included in this account since the distributor settles this part of the global adjustment charge on its monthly settlement filings with the IESO.

B. The related accounts used to record the global adjustment billed to customers (e.g., Sub-accounts of Accounts 4006 to 4055) and to record the global adjustment charges/credits to the distributor (e.g., Account 4707) shall be sub-divided to show the global adjustment amounts including adjustments recorded in each of these accounts.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

1592 PILs and Tax Variances for 2006 and Subsequent Years

A. For the rate years starting May 1, 2006 (or as approved by the Board), the distributor shall use this account to record the tax impact of any of the following differences that are not reflected in the distributor's rates:

1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.

2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:

    a) received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or

    b) relating to any tax year ending prior to May 1, 2006.

Go to TOC A220

Other Assets & Deferred Charges

B. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

C. Records shall be maintained at a detail level to support entries in this account. Disposition of the account balance will be subject to Board review.

Note: For Account 1592, additional Board instructions include the PILs requirements of Chapter 7 of the Board's *2006 Electricity Distribution Rate Handbook, Report of the Board* (on the handbook), applicable accounting guidance (i.e. Frequently Asked Questions) and other requirements the Board may specify. Account 1562 relates to the rate-year periods that ended on or before April 30, 2006.

1592 PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax Credits (ITCs)

Effective on July 1, 2010, distributors shall record the incremental ITC they receive on distribution revenue requirement items that were previously subject to PST and become subject to HST. Tracking of these amounts will continue in this deferral account until the effective date of distributors' next cost of service rate order. 50 per cent of the confirmed balance in this account shall be returnable to the ratepayers.

Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

Note: Further guidance is provided in the December 2010 Accounting Procedures Handbook-Frequently Asked Questions.

1595 Disposition and Recovery/Refund of Regulatory Balances Control Account

This control account shall be used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process. This control account structure has three generic Sub-accounts for each rate year starting in 2008. For each year that the deferral or variance account balances are approved for disposition by the Board, distributors are required to set-up under this control account, three sub-accounts for the purposes and in the format outlined below (i.e., a vintage year classification consisting of three sub-accounts in relation to the particular year in which the account balances are approved).

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances Approved in "20yy"

This account shall be used to record the approved principal account balances on the transfer to Account 1595 of the Board-approved deferral or variance account balances. This account shall also include the amounts recovered (or refunded) in rates through regulatory asset or deferral and variance accounts rate riders.

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges Approved in "20yy"

This account shall be used to record cumulative carrying charge account balances on the transfer to Account 1595 of the Board-approved deferral or variance account balances. No additional carrying charges shall be applied or added to these carrying charge balances transferred to this account (i.e., no interest on interest is applicable).

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges for Net Principal in "20yy"

This account shall be used to record the carrying charges calculated on the opening monthly net principal balance (i.e., transferred account principal balances less recoveries) recorded in "Sub-account Principal Balances Approved in "20yy". The interest rate shall be the rate prescribed by the Board.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

A. Intangible Plant

1606 Organization

This account shall include all fees paid to federal or provincial governments for the privilege of incorporation and expenditures incident to organizing the corporation, and putting it into readiness to do business.

Example items

1. Cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Stock and minute books and corporate seal.

Note A: This account shall not include any discounts upon securities issued or assumed; nor shall it include any costs incident to negotiating loans, selling bonds or other evidences of debt or expenses in connection with the authorization, issuance or sale of capital stock.

Note B: When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, etc. amounts previously included herein or in similar accounts in the books of the entities concerned shall be excluded from this account.

Note C: This account shall include amounts related to transfer by-laws.

1608 Franchises and Consents

A. This account shall include amounts paid to the federal, provincial, or other government in consideration for franchises, consents, water power licenses, or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents, water power licenses, or certificates of permission and approval.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

A. Intangible Plant

B. If a franchise, consent, water power license or certificate is acquired by assignment, the charge to this account shall not exceed the amount paid by the utility.

C. The amortization related to any item in this account shall be recorded in Account 2120, Accumulated Amortization of Electric Utility Plant - Intangibles.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise or consent.

Note: Annual or other periodic payments under franchises shall not be included herein but in the appropriate operating expense account.

1609 Capital Contributions Paid

This account shall include capital contributions paid by a distributor to a host distributor, a transmitter or a generator for capital expenditures (e.g., under a Connection and Cost Recovery Agreement) that meet the IAS 38 *Intangible Assets* requirements for classification as an intangible asset.

The amortization related to any item in this account shall be recorded in Account 2120, Accumulated Amortization of Electric Utility Plant – Intangibles.

1610 Miscellaneous Intangible Plant

A. This account shall include the cost of patent rights, licenses, privileges, capitalizable load profile development costs and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account.

B. The amortization related to any item in this account shall be recorded in Account 2120, Accumulated Provision for Amortization of Electric Utility Plant - Intangibles.

C. This account shall be maintained in such a manner that the utility can furnish full information with respect to the amounts included herein. Go to TOC A220

Electric Plant in Service – Detailed Accounts

A. Intangible Plant

1611 Computer Software

This account shall include the cost of developed or purchased computer operating and application software that is material in amount.

Example items:

1. Accounting packages.
2. Customer Information System (CIS).
3. Groupware packages (e.g. e-mail, scheduling & conferencing programs, etc.).
4. Database management system packages.
5. Software development tools.
6. Primary development tools.

1612 Land Rights

This account(s) shall include the cost of rights, interests and privileges held by the utility in land owned by others. See Article 230 *Definitions and Instructions* No. 8 for detail guidance.

Note: Do not include in this account the cost of permits to erect poles, towers, etc., or to trim trees. See Account 1830, Poles, Towers and Fixtures, and Account 5135, Overhead Distribution Lines and Feeders - Tree Trimming.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

B. Generation Plant

1615 Land

This account shall include the cost of land used in connection with power generation. (See Article 230 *Definitions and Instructions* No. 8.)

1616 Land Rights

This account shall include the cost land rights used in connection with power generation. (See Article 230 *Definitions and Instructions* No. 8.)

1620 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with generation. (See Article 230 *Definitions and Instructions* No. 9.)

1630 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

1635 Boiler Plant Equipment

This account shall include the cost installed of furnaces, boilers, coal and ash handling and coal preparing equipment, steam and feed water piping, boiler apparatus and accessories used in the production of steam, mercury, or other vapor, to be used primarily for generating electricity.

Example items:

1. Ash handling equipment, including sluicing trenches and accessories, etc., except sluices which are a part of a building.

Electric Plant in Service – Detailed Accounts

B. Generation Plant

2. Boiler feed system.
3. Boiler plant cranes and hoists and associated drives.
4. Boilers and equipment.
5. Breeching and accessories.
6. Coal handling and storage equipment.
7. Draft equipment and associated motors or other power equipment.
8. Gas-burning equipment.
9. Instruments and devices, including all measuring, indicating, and recording equipment.
10. Lighting systems.
11. Oil burning equipment.
12. Pulverized fuel equipment.
13. Stacks, when set on separate foundations, independent of substructure or superstructure of building.
14. Station piping but not condensing water, plumbing, building heating, oil, gas, air piping or piping specifically provided for in Account 1620, Buildings and Fixtures.
15. Stoker or equivalent feeding equipment.
16. Ventilating equipment.
17. Water purification equipment.
18. Water supply systems, including intake and discharge pipes and tunnels not a part of a building.
19. Wood fuel equipment.

Note: When the system for supplying boiler or condenser water is elaborate, as when it includes a dam, reservoir, canal, pipe line, cooling ponds, or where gas or oil is used as a fuel for producing steam and is supplied through a pipe line system owned by the utility, the cost of such special facilities shall be charged to a subdivision of Account 1620, Buildings and Fixtures.

1640 Engines and Engine - Driven Generators

This account shall include the cost installed of steam engines, reciprocating or rotary, and their associated auxiliaries; and engine driven main generators, except turbogenerator units.

Example items:

Go to TOC A220

Electric Plant in Service – Detailed Accounts

B. Generation Plant

1. Air cleaning and cooling apparatus, including air ducts not a part of building.
2. Belting, shafting, pulleys, reduction gearing, etc.
3. Circulating pumps, including connections between condensers and intake and discharge tunnels.
4. Cooling system, including towers, pumps, tank, and piping.
5. Condensers.
6. Cranes, hoists, etc., including items wholly identified with items listed herein.
7. Engines, reciprocating or rotary.
8. Fire extinguishing systems.
9. Foundations and settings.
10. Generators Main, a.c. or d.c.
11. Governors.
12. Lighting systems.
13. Lubricating systems including gauges, filters, tanks, pumps, piping, motors, etc.
14. Mechanical meters, including gauges, recording instruments, sampling and testing equipment.
15. Piping main exhaust.
16. Piping main steam, including connections from main throttle valve to turbine inlet.
17. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
18. Pressure oil system, including accumulators, pumps, piping, motors, etc.
19. Throttle and inlet valve.
20. Tunnels, intake and discharge, for condenser system, when not a part of a structure.
21. Water screens, motors, etc.

1645 Turbogenerator Units

This account shall include the cost installed of main turbine driven units and accessory equipment used in generating electricity by steam.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

B. Generation Plant

Example items:

1. Air cleaning and cooling apparatus.
2. Circulating pumps.
3. Condensers.
4. Generator hydrogen, gas piping and detrainment equipment.
5. Cooling system, including towers, pumps, tanks, and piping.
6. Cranes, hoists, etc., including items wholly identified with items listed herein.
7. Excitation system, when identified with main generating units.
8. Fire extinguishing systems.
9. Foundations and settings.
10. Governors.
11. Lighting systems.
12. Lubricating systems.
13. Mechanical meters, including gauges, recording instruments, sampling and testing equipment.
14. Piping main exhaust.
15. Piping main steam, including connections from main throttle valve to turbine inlet.
16. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
17. Pressure oil systems, including accumulators, pumps, piping, motors, etc.
18. Steelwork, specially constructed for apparatus listed herein.
19. Throttle and inlet valve.
20. Tunnels, intake and discharge, for condenser system, when not a part of structure.
21. Turbogenerators main.
22. Water screens, motors, etc.
23. Moisture separator for turbine steam.
24. Turbine lubricating oil (initial charge).

1650 Reservoirs, Dams, and Waterways

This account shall include the cost in place of facilities used for impounding, collecting, storage, diversion, regulation, and delivery of water used primarily for generating electricity. It shall also include the cost in place of facilities used in connection with (a) the conservation of fish and wildlife, and (b) recreation. Separate sub-accounts shall be maintained for each of the above.

Electric Plant in Service – Detailed Accounts

B. Generation Plant

Example items:

1. Bridges and culverts (when not a part of roads or railroads).
2. Clearing and preparing land.
3. Dams.
4. Dikes and embankments.
5. Electric system, including conductors control system, transformers, lighting fixtures, etc.
6. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
7. Excavation, shoring, bracing, bridging, refill, and disposal of excess excavated material.
8. Foundations and settings.
9. Intakes and intake house when not a part of station structure.
10. Platforms, railings, steps, gratings, etc., appurtenant to structures listed herein.
11. Power line wholly identified with items included herein.
12. Retaining walls.
13. Water conductors and accessories.
14. Water storage reservoirs, including dams, flashboards, spillway gates and operating mechanisms, inlet and outlet tunnels, regulating valves and valve towers, silt and mud sluicing tunnels with valve or gate towers, and all other structures wholly identified with any of the foregoing items.

1655 Water Wheels, Turbines and Generators

This account shall include the cost installed of water wheels and hydraulic turbines (from connection with penstock or flume to tailrace) and generators driven thereby devoted to the production of electricity by water power or for the production of power for industrial or other purposes, if the equipment used for such purposes is a part of the hydraulic power plant works.

Example items:

1. Exciter water wheels and turbines.
2. Fire extinguishing equipment.
3. Foundations and settings.
4. Generator cooling system.
5. Generators main, a. c. or d. c.

Electric Plant in Service – Detailed Accounts

B. Generation Plant

6. Lighting systems.
7. Lubricating systems, including gauges, filters, tanks, pumps, piping, etc.
8. Main penstock valves and appurtenances.
9. Main turbines and water wheels.
10. Mechanical meters and recording instruments.
11. Miscellaneous water wheel equipment, including gauges, thermometers, meters, and other instruments.
12. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
13. Scroll case filling and drain system, including gates, pipe, valves, fittings, etc.
14. Water actuated pressure regulator system.

1660 Roads, Railroads, and Bridges

This account shall include the cost of roads, railroads, trails, bridges, and trestles used primarily as production facilities. It includes also those roads, etc., necessary to connect the plant with highway transportation systems, except when such roads are dedicated to public use and maintained by public authorities.

Example items:

1. Bridges, including foundations, piers, girders, trusses, flooring, etc.
2. Clearing land.
3. Railroads, including grading, ballast, ties, rails, culverts, hoists, etc.
4. Roads, including grading, surfacing, culverts, etc.
5. Structures constructed and maintained in connection with items listed herein.
6. Trails, including grading, surfacing, culverts, etc.
7. Trestles, including foundations, piers, girders, trusses, flooring, etc.

Note A: Roads intended primarily for connecting employees' houses with the power plants, and roads used primarily in connection with fish and wildlife, and recreation activities, shall not be included herein but in Account 1620, Buildings and Fixtures.

Note B: The cost of temporary roads, bridges, etc. necessary during the period of construction but abandoned or dedicated to public use upon completion of the plant, shall not be included herein but shall be charged to the accounts appropriate for the construction.

Electric Plant in Service – Detailed Accounts

B. Generation Plant

1665 Fuel Holders, Producers, and Accessories

This account shall include the cost installed of fuel handling and storage equipment used between the point of fuel delivery to the station and the intake pipe through which fuel is directly drawn to the engine, also the cost of gas producers and accessories devoted to the production of gas for use in prime movers driving main electric generators.

Example items:

1. Blower and fans.
2. Boilers and pumps.
3. Economizers.
4. Exhauster outfits.
5. Flues and piping.
6. Pipe system.
7. Producers.
8. Regenerators.
9. Scrubbers.
10. Steam injectors.
11. Tanks for storage of oil, gasoline, etc.
12. Vaporizers.

1670 Prime Movers

This account shall include the cost installed of diesel or other prime movers devoted to the generation of electric energy, together with their auxiliaries.

Example items:

1. Air filtering system.
2. Belting, shafting, pulleys, reduction gearing, etc.
3. Cooling system, including towers, pumps, tanks, and piping.
4. Cranes, hoists, etc., including items wholly identified with apparatus listed herein.
5. Engines that are Diesel, gasoline, gas, or other internal combustion.
6. Foundations and settings.

Electric Plant in Service – Detailed Accounts

B. Generation Plant

7. Governors.
8. Ignition system.
9. Inlet valve.
10. Lighting systems.
11. Lubricating systems, including filters, tanks, pumps, and piping.
12. Mechanical meters.
13. Mufflers.
14. Piping.
15. Starting systems, compressed air, or other, including compressors and drives, tanks, piping, motors, boards and connections, storage tanks, etc.
16. Steelwork, specially constructed for apparatus listed herein.
17. Waste heat boilers, antifluctuators, etc.

1675 Generators

This account shall include the cost installed of diesel or other power driven main generators.

Example items:

1. Cranes, hoists, etc., including items wholly identified with such apparatus.
2. Fire extinguishing equipment.
3. Foundations and settings.
4. Generator cooling system.
5. Generators main, a. c. or d. c.
6. Lighting systems.
7. Lubricating system, including tanks, filters, strainers, pumps, piping, coolers, etc.
8. Mechanical meters, and recording instruments.
9. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.

Note: If prime movers and generators are so integrated that it is not practical to classify them separately, the entire unit may be included in this account.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

B. Generation Plant

1680 Accessory Electric Equipment

This account shall include the cost installed of auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric energy produced in other power generating stations, and the protection of electric circuits and equipment, except electric motors used to drive equipment included in other accounts. Such motors shall be included in the account in which the equipment with which it is associated is included.

Example items:

1. Auxiliary generators.
2. Excitation system.
3. Generator main connections.
4. Station control system.
5. Station buses, including main, auxiliary transfer, synchronizing and fault ground buses.

Note: Do not include in this account transformers and other equipment used for chancing the voltage or frequency of electricity for the purposes of transmission or distribution.

1685 Miscellaneous Power Plant Equipment

This account shall include the cost installed of miscellaneous equipment in and about the power generating plant, devoted to general station use, and not properly included in any of the foregoing other power production accounts.

Example items:

1. Compressed air and vacuum cleaning systems.
2. Cranes and hoisting equipment.
3. Fire-extinguishing equipment for general station use.
4. Foundations and settings.
5. Miscellaneous equipment, including atmospheric and weather indicating devices, intrasite communication equipment, laboratory equipment, signal systems,

Electric Plant in Service – Detailed Accounts

B. Generation Plant

callophones, emergency whistles and sirens, fire alarms, and other similar equipment.

6. Miscellaneous belts, pulleys, countershafts, etc.
7. Refrigerating system including compressors, pumps, cooling coils, etc.
8. Station maintenance equipment.
9. Ventilating equipment, including items wholly identified with apparatus listed herein.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

1705 Land

This account shall include the cost of land used in connection with transmission operations. (See Article 230 *Definitions and Instructions* No.8.)

1706 Land Rights

This account shall include the cost of land rights used in connection with transmission operations. (See Article 230 *Definitions and Instructions* No.8.)

1708 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with transmission operations. (See Article 230 *Definitions and Instructions* No.9.)

1710 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

1715 Station Equipment

This account shall include the cost installed of transforming, conversion, and switching equipment used for the purpose of changing the characteristics of electricity in connection with its transmission or for controlling transmission circuits.

Example items:

1. Bus compartments.
2. Conduit, including concrete and iron duct runs not a part of a building.

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

3. Control equipment, including batteries battery charging equipment, transformers, remote relay boards, and connections.
4. Conversion equipment.
5. Fences.
6. Fixed and synchronous condensers, including transformers, switching equipment blowers, motors and connections.
7. Foundations and settings.
8. General station equipment.
9. Platforms, railings, steps, gratings, etc. appurtenant to apparatus listed herein.
10. Primary and secondary voltage connections.
11. Switchboards, including meters, relays, control wiring, etc.
12. Switching equipment (indoor and outdoor).
13. Tools and appliances.

1720 Towers and Fixtures

This account shall include the cost installed of towers and appurtenant fixtures used for supporting overhead transmission conductors.

Example items:

1. Anchors, guys, and braces.
2. Brackets.
3. Crossarms, including braces.
4. Excavation, backfill, and disposal of excess excavated material.
5. Foundations.
6. Guards.
7. Insulator pins and suspension bolts.
8. Ladders and steps.
9. Railings, etc.
10. Towers.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

1725 Poles and Fixtures

This account shall include the cost installed of transmission line poles, wood, steel, concrete, or other material, together with appurtenant fixtures used for supporting overhead transmission conductors.

Example items:

1. Anchors, head arm and other guys, including guy guards, guy clamps, strain insulators, pole plates, etc.
2. Brackets.
3. Crossarms and braces.
4. Excavation and backfill, including disposal of excess excavated material.
5. Extension arms.
6. Gaining, roofing stenciling, and tagging.
7. Insulator pins and suspension bolts.
8. Paving.
9. Pole steps.
10. Poles, wood, steel, concrete, or other material.
11. Racks complete with insulators.
12. Reinforcing and stubbing.
13. Settings.
14. Shaving and painting.

1730 Overhead Conductors and Devices

This account shall include the cost installed of overhead conductors and devices used for transmission purposes.

Example items:

1. Circuit breakers.
2. Conductors, including insulated and bare wires and cables.
3. Ground wires and ground clamps.
4. Insulators, including pin, suspension, and other types.
5. Lightning arresters.
6. Switches.

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

7. Other line devices.

1735 Underground Conduit

This account shall include the cost installed of underground conduit and tunnels used for housing transmission cables or wires. (See Article 230 *Definitions and Instructions* No.10.)

Example items:

1. Conduit, concrete, brick or tile, including iron pipe, fiber pipe, Murray duct, and standpipe on pole or tower.
2. Excavation, including shoring, bracing, bridging, backfill, and disposal of excess excavated material.
3. Foundations and settings specially constructed for and not expected to outlast the apparatus for which provided.
4. Lighting systems.
5. Manholes, concrete or brick, including iron or steel, frames and covers, hatchways, gratings, ladders, cable racks and hangers, etc., permanently attached to manholes.
6. Municipal inspection.
7. Pavement disturbed, including cutting and replacing pavement, pavement base and sidewalks.
8. Permits.
9. Protection of street openings.
10. Removal and relocation of subsurface obstructions.
11. Sewer connections, including drains, traps, tide valves, check valves, etc.
12. Sumps, including pumps.
13. Ventilating equipment.

1740 Underground Conductors and Devices

This account shall include the cost installed of underground conductors and devices used for transmission purposes.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

Example items:

1. Armored conductors, buried, including insulators, insulating materials, splices, potheads, trenching, etc.
2. Armored conductors, submarine, including insulators, insulating materials, splices in terminal chambers, potheads, etc.
3. Cables in standpipe, including pothead and connection from terminal chamber of manhole to insulators on pole.
4. Circuit breakers.
5. Fireproofing, in connection with any items listed herein.
6. Hollow core oil filled cable, including straight or stop joints pressure tanks, auxiliary air tanks, feeding tanks, terminals, potheads and connections, ventilating equipment, etc.
7. Lead and fabric covered conductors, including insulators, compound filled, oil filled, or vacuum splices, potheads, etc.
8. Lightning arresters.
9. Municipal inspection.
10. Permits.
11. Protection of street openings.
12. Racking of cables.
13. Switches.
14. Other line devices.

1745 Roads and Trails

This account shall include the cost of roads, trails, and bridges used primarily as transmission facilities.

Example items:

1. Bridges, including foundation piers, girders, trusses, flooring, etc.
2. Clearing land.
3. Roads, including grading, surfacing, culverts, etc.
4. Structures constructed and maintained in connection with items included herein.
5. Trails, including grading, surfacing, culverts, etc.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

C. Transmission Plant

Note: The cost of temporary roads, bridges, etc., necessary during the period of construction but abandoned or dedicated to public use upon completion of the plant, shall be charged to the accounts appropriate for the construction.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

1805 Land

This account shall include the cost of land used in connection with power distribution. *See* Article 230 *Definitions and Instructions* No. 8 for detail guidance.

Note: Do not include in this account the cost of permits to erect poles, towers, etc., or to trim trees. See Account 1830, Poles, Towers and Fixtures, and Account 1835, Overhead Conductors and Devices.

1808 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with distribution operations. (See Article 230 *Definitions and Instructions* No. 9.)

1810 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

1815 Transformer Station Equipment - Normally Primary Above 50 kV

This account shall include the installed cost of transforming and switching equipment used for the purpose of stepping down from transmission voltages to subtransmission voltages and/or distribution voltages.

The account shall include all equipment used in the above operation from the high voltage feeder through to the delivery point outside the station or the connections within the confines of the station area. Included in the cost shall be all transformer equipment, control equipment, switching equipment, station metering equipment and the compartments or cubicles used to house such equipment, as well as general equipment such as cranes, hoists, test equipment, motors and the like. Moveable mountings or

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

settings specially constructed for the particular equipment mounted therein shall also be included.

The detail of separate stations shall be entered in such a manner that an accurate record of their age, cost, location, and voltage characteristics will be evident.

1820 Distribution Station Equipment - Normally Primary Below 50 kV

This account shall include the installed cost of transforming and switching equipment used for the purpose of stepping down to distribution voltages.

The account shall include all equipment used in the above operation from the high voltage feeder through to the low voltage connection outside the station within the confines of the station area. Included in the cost shall be all transformer equipment, control equipment, switching equipment, station metering equipment and the compartments or cubicles used to house such equipment, as well as general equipment such as cranes, hoists, test equipment, motors and the like. Moveable mountings or settings specially constructed for the particular equipment mounted therein shall also be included.

The detail of separate stations shall be entered in such a manner that an accurate record of their age, cost, location, and voltage characteristics will be evident.

1825 Storage Battery Equipment

This account shall include the cost installed of storage battery equipment used for the purpose of supplying electricity to meet emergency or peak demands.

Example items:

1. Batteries, including elements, tanks, tank insulators, etc.
2. Battery room connections, including cable or bus runs and connections.
3. Battery room flooring, when specially laid for supporting batteries.
4. Charging equipment, including motor generator sets and other charging equipment and connections, and cable runs from generator or station bus to battery room connections.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

5. Miscellaneous equipment, including instruments, water stills, etc.
6. Switching equipment, including endcell switches and connections, boards and panels, used exclusively for battery control, not part of general station switchboard.
7. Ventilating equipment, including fans and motors, louvers, and ducts not part of building.

Note: Storage batteries used for control and general station purposes shall not be included in this account but in the account appropriate for their use.

1830 Poles, Towers, and Fixtures

This account shall include the cost installed of poles, towers, and appurtenant fixtures used for supporting overhead distribution conductors and service wires.

Example items:

1. Anchors, head arm, and other guys, including guy guards, guy clamps, strain insulators, pole plates, etc.
2. Brackets.
3. Crossarms and braces.
4. Excavation and backfill, including disposal of excess excavated material.
5. Extension arms.
6. Foundations.
7. Guards.
8. Insulator pins and suspension bolts.
9. Paving.
10. Permits for construction.
11. Pole steps and ladders.
12. Poles, wood, steel, concrete, or other material.
13. Racks complete with insulators.
14. Railings.
15. Reinforcing and stubbing.
16. Settings.
17. Shaving, painting, gaining, roofing, stenciling, and tagging.
18. Towers.
19. Transformer racks and platforms.

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

Note: Sub-accounts should be used for sub-transmission Poles, Towers and Fixtures.

1835 Overhead Conductors and Devices

This account shall include the cost installed of overhead conductors and devices used for distribution purposes.

Example items:

1. Circuit breakers.
2. Conductors, including insulated and bare wires and cables.
3. Ground wires, clamps, etc.
4. Insulators, including pin, suspension, and other types, and tie wire or clamps.
5. Lightning arresters.
6. Railroad and highway crossing guards.
7. Splices.
8. Switches.
9. Initial cost of tree trimming, including the cost of permits.
10. Other line devices.

Note: The cost of conductors used solely for street lighting or signal systems shall not be included in this account but in account 1875, Street Lighting and Signal Systems.

1840 Underground Conduit

This account shall include the cost installed of underground conduit and tunnels used for housing distribution cables or wires.

Example items:

1. Conduit, concrete, brick and tile, including iron pipe, fiber pipe, Murray duct, and standpipe on pole or tower.
2. Excavation, including shoring, bracing, bridging, backfill, and disposal of excess excavated material.
3. Foundations and settings specially constructed for and not expected to outlast the apparatus for which constructed.

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

4. Lighting systems.
5. Manholes, concrete or brick, including iron or steel frames and covers, hatchways, gratings, ladders, cable racks and hangers, etc., permanently attached to manholes.
6. Municipal inspection.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Protection of street openings.
10. Removal and relocation of subsurface obstructions.
11. Sewer connections, including drains, traps, tide valves, check valves, etc.
12. Sumps, including pumps.
13. Ventilating equipment.

Note: The cost of underground conduit used solely for street lighting or signal systems shall be included in Account 1875, Street Lighting and Signal Systems.

1845 Underground Conductors and Devices

This account shall include the cost installed of underground conductors and devices used for distribution purposes.

Example items:

1. Armored conductors, buried, including insulators, insulating materials, splices, potheads, trenching, etc.
2. Armored conductors, submarine, including insulators, insulating materials, splices in terminal chamber, potheads, etc.
3. Cables in standpipe, including pothead and connection from terminal chamber or manhole to insulators on pole.
4. Circuit breakers.
5. Fireproofing, in connection with any items listed herein.
6. Hollow core oil filled cable, including straight or stop joints, pressure tanks, auxiliary air tanks, feeding tanks, terminals, potheads and connections, etc.
7. Lead and fabric covered conductors, including insulators, compound filled, oil filled or vacuum splices, potheads, etc.
8. Lightning arresters.

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

9. Municipal inspection and Permits.
10. Protection of street openings.
11. Racking of cables.
12. Switches.
13. Other line devices.

Note: The cost of underground conductors and devices used solely for street lighting or signal systems shall be included in Account 1875, Street Lighting and Signal Systems.

1850 Line Transformers

A. This account shall include the cost installed of overhead and underground distribution line transformers and poletype and underground voltage regulators owned by the utility, for use in transforming electricity to the voltage at which it is to be used by the customer, whether actually in service or held in reserve.

B. The records covering line transformers shall be so kept that the utility can furnish the number of transformers of various capacities in service and those in reserve by:

   a) type (underground or overhead);
   b) capacity;
   c) function.

Example items:

1. Transformers.
2. Transformer cutouts.
3. Grounding equipment.
4. Other material and labour necessary for installation (first installation only).
5. Transformer lightning arresters.
6. Transformers, line and network.
7. Capacitors.
8. Network protectors.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

Note: The cost of removing and resetting line transformers shall not be charged to this account but to Account 5035, Overhead Distribution Transformers - Operations or Accounts 5055, Underground Distribution Transformers - Operations. The cost of line transformers used solely for street lighting or signal systems shall be included in Account 1875, Street Lighting and Signal Systems.

1855 Services

This account shall include the cost installed of overhead and underground conductors leading from a point where wires leave the last pole of the overhead system or the transformers or manhole, or the top of the pole of the distribution line, to the point of connection with the customer's electrical panel. Conduit used for underground service conductors shall be included herein.

Example items:

1. Brackets.
2. Cables and wires.
3. Conduit.
4. Insulators.
5. Municipal inspection.
6. Overhead to underground, including conduit or standpipe and conductor from last splice on pole to connection with customer's wiring.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Protection of street openings.
10. Service switch.
11. Suspension wire.

Records shall be maintained providing information on underground and overhead services separately and by capacity and function.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

1860 Meters

A. This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve.

B. The records covering meters shall be so kept that the utility can furnish information as to the number of meters of various capacities in service and in reserve by:

a) type (underground or overhead);
b) capacity;
c) function.

Example items:

1. Labour and expense of first installation.
2. Inspection fees.
3. Alternating current, watt hour meters.
4. Current limiting devices.
5. Demand indicators.
6. Demand meters.
7. Direct current watt hour meters.
8. Graphic demand meters.
9. Instrument transformers.
10. Maximum demand meters.
11. Meter badges and their attachments.
12. Meter boards and boxes.
13. Meter fittings, connections, and shelves (first set).
14. Meter switches and cut outs.
15. Prepayment meters.
16. Protective devices.
17. Testing new meters.
18. Interval Meters
19. Smart Meters

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

Note A: This account shall not include meters for recording output of a generating station, substation meters, etc. Generation station high voltage meters shall be recorded in Account 1815, Transformer Station Equipment - Normally Primary Above 50 kV and substation meters shall be recorded in Account 1820, Distribution Station Equipment - Normally Primary Below 50 kV.

Note B: Generation related meter costs for renewable energy standard offer program, Feed-in Tariff ("FIT") and microFIT generation activities shall be recorded in a separate sub-account by meter type under this account. The revenues collected for the recovery of the generator connection costs including the meter costs shall be treated as capital contributions and recorded in Account 2440, Deferred Revenues. The meter cost is offset by the capital contribution (recorded in Account 2440, Deferred Revenues) and the depreciation expense is offset by the amortized deferred revenue (recorded in Account 4245, Government and Other Assistance Directly Credited to Income) in profit or loss. (See Article 430 *Contributions in Aid of Construction.*)

Note C: The cost of removing and resetting meters shall be charged to Account 5065, Meter Expenses.

1865 Other Installations on Customer Premises

This account shall include the cost installed of equipment on the customer's side of a meter when the utility incurs such cost and when the utility retains title to and assumes full responsibility for maintenance and replacement of such property. This account shall not include expenses related to leased equipment (see Account 1870, Leased Property on Customer Premises).

Example items:

1. Cable vaults.
2. Commercial lamp equipment.
3. Foundations and settings specially provided for equipment included herein.
4. Frequency changer sets.
5. Motor generator sets.
6. Motors.
7. Switchboard panels, high or low tension.

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

8. Wire and cable connections to incoming cables.

Note A: Do not include in this account any costs incurred in connection with merchandising or contract work activities. (See Account 4330).

Note B: It is intended that only equipment used in furnishing special service or service of a character different from that normally supplied shall be included in this account.

Note C: Maintenance costs relating the items in this account are to be charged to Account 5195, Maintenance of Other Installations on Customer Premises.

1870 Leased Property on Customer Premises

This account shall include the cost of electric motors, transformers, and other equipment on customers' premises (including municipal corporations), leased or loaned to customers, but not including property held for sale.

Note A: The cost of setting and connecting such appliances or equipment on the premises of customers and the cost of resetting or removal shall not be charged to this account but to operating expenses, Account 5178, Customer Installations Expenses - Leased Property.

Note B: Do not include in this account any costs incurred in connection with merchandising. (See Account 4330)

1875 Street Lighting and Signal Systems

If street lighting and signal systems are authorized by the Board for ratemaking, this account shall include the cost installed of equipment used wholly for public street and highway lighting or traffic, fire alarm, police, and other signal systems.

Go to TOC A220

Electric Plant in Service – Detailed Accounts

D. Distribution Plant

Example items:

1. Armored conductors, buried or submarine, including insulators, insulating materials, splices, trenching, etc.
2. Automatic control equipment.
3. Conductors, overhead or underground.
4. Lamps, incandescent, or other types, including glassware, suspension fixtures, brackets, etc.
5. Municipal inspection.
6. Ornamental lamp posts.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Posts and standards.
10. Protection of street openings.
11. Relays or time clocks.
12. Series contactors.
13. Switches.
14. Transformers, pole or underground.

Go to TOC A220

Electric Plant in Service - Detailed Accounts

E. General Plant

1905 Land

This account shall include the cost of land used for utility purposes, the cost of which is not properly included in other land account. (See Article 230 *Definitions and Instructions* No. 8 for detail guidance.)

1908 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used for utility purposes, the cost of which is not properly included in other Buildings and Fixtures accounts. (See Article 230 *Definitions and Instructions* No. 9.)

1910 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

1915 Office Furniture and Equipment

This account shall include the cost of the general office furniture and equipment.

Articles of low value and/or relatively short life should be charged to the appropriate operating account when purchased.

The account shall be maintained in such a manner as to provide the cost of each piece of equipment, and be subdivided into as many classifications as are required.

Go to TOC A220

Electric Plant in Service - Detailed Accounts

E. General Plant

1920 Computer Equipment - Hardware

This account shall include the costs of acquiring computer hardware. Hardware includes all physical equipment associated with input, processing, storage and output functions, also word processing equipment.

This account shall be subdivided as considered necessary.

1930 Transportation Equipment

These accounts shall include the cost of automobiles, small trucks, truck chassis, special truck bodies, aerial ladders, trailers and other mobile equipment.

These accounts shall be subdivided into the following:

1. Automobiles;
2. Trucks - Under 3 tons;
3. Trucks - 3 tons and over.

The accounts shall be maintained in such a manner as to provide the cost of each piece of equipment.

Note: Work and service equipment is to be included in Account 1950, Power Operated Equipment.

1935 Stores Equipment

This account shall include the cost of equipment used for the receiving, shipping, handling, and storage of materials and supplies.

Example items:

1. Chain falls.
2. Counters.
3. Cranes (portable).
4. Elevating and stacking equipment (portable).
5. Hoists.

Electric Plant in Service - Detailed Accounts

E. General Plant

6. Lockers.
7. Scales.
8. Shelving.
9. Storage bins.
10. Trucks, hand and power driven.
11. Wheelbarrows.

1940 Tools, Shop and Garage Equipment

This account shall include the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for or included in other accounts.

Example items:

1. Air compressors.
2. Anvils.
3. Automobile repair shop equipment.
4. Battery charging equipment.
5. Belts, shafts and countershafts.
6. Boilers.
7. Cable pulling equipment.
8. Concrete mixers.
9. Drill presses.
10. Derricks.
11. Electric equipment.
12. Engines.
13. Forges.
14. Furnaces.
15. Foundations and settings specially constructed.
16. Gas producers.
17. Greasing tools and equipment.
18. Hoists.
19. Ladders.

Go to TOC A220

Electric Plant in Service - Detailed Accounts

E. General Plant

20. Lathes.
21. Machine tools.
22. Motor-driven tools.
23. Pneumatic tools.
24. Pumps.
25. Riveters.
26. Smithing equipment.
27. Tool racks.
28. Vises.
29. Welding apparatus.
30. Work benches.
31. Line belt and harness for line crews.
32. Chain saws.

1945 Measurement and Testing Equipment

This account shall include the cost installed of laboratory equipment used for general laboratory purposes and not specifically provided for or included in other departmental or functional plant accounts.

Example items:

1. Ammeters.
2. Current batteries.
3. Frequency changers.
4. Galvanometers.
5. Inductometers.
6. Laboratory standard millivolt meters and volt meters.
7. Meter testing equipment.
8. Millivolt meters.
9. Motor generator sets.
10. Panels.
11. Phantom loads.
12. Portable graphic ammeters, voltmeters, and wattmeters.
13. Portable loading devices.
14. Potential batteries.
15. Potentiometers.

Electric Plant in Service - Detailed Accounts

E. General Plant

16. Rotating standards.
17. Standard cell, reactance, resistor, and shunt.
18. Switchboards.
19. Synchronous timers
20. Testing panels
21. Testing resistors.
22. Transformers.
23. Voltmeters.
24. Other testing, laboratory, or research equipment not provided for elsewhere.
25. Telescopic guns

1950 Power Operated Equipment

This account shall include the cost of power operated equipment used in construction, repair and service work exclusive of equipment included in other accounts. Include, also, the tools and accessories acquired for use with such equipment and the vehicle on which such equipment is mounted.

Example items:

1. Air compressors, including driving unit and vehicle.
2. Backhoe machines.
3. Boring machines.
4. Bulldozers.
5. Cranes and hoists.
6. Pipe cleaning machines.
7. Pipe coating or wrapping machines.
8. Tractors Crawler type.
9. Trenchers.
10. Other power operated equipment.

Note: It is intended that this account include only such large units as are generally self-propelled or mounted on movable equipment.

Go to TOC A220

Electric Plant in Service - Detailed Accounts

E. General Plant

1955 Communication Equipment

This account shall include the cost installed of telephone and wireless equipment for general use in connection with utility operations.

1960 Miscellaneous Equipment

This account shall include the cost of equipment, apparatus, etc., used in the utility operations, which is not included in any other account of this Uniform System of Accounts.

Example items:

1. Kitchen equipment.
2. Employees' recreation equipment.
3. Operators' cottage furnishings.
4. Other miscellaneous equipment.

Note: Miscellaneous equipment of the nature indicated above wherever practicable shall be included in the utility plant accounts on a functional basis.

1970 Load Management Controls - Customer Premises

This account shall include the cost of control equipment on customer premises in connection with the remote control of water heaters, and other customer equipment.

1975 Load-Management Controls - Utility Premises

This account shall include the cost of all control devices situated on utility premises, used for the purpose of controlling equipment in Account 1970 above.

1980 System Supervisory Equipment

This account shall include the costs of all control equipment used for the purposes of remote operation and control of utility transformer stations and distribution equipment.

Electric Plant in Service - Detailed Accounts

E. General Plant

1985 Sentinel Lighting Rental Units

These accounts shall include the installed cost of all Sentinel Lighting Rental Units. The accounts shall be subdivided into as many classifications as are required.

1990 Other Tangible Property

This account shall include the cost of tangible utility plant not provided for elsewhere.

1995 Contributions and Grants - Credit

Effective until December 31, 2011, (or date of IFRS adoption, if early adoption was elected) this account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

This account shall be maintained so that the company can supply information as to the purpose of each contribution or grant, the conditions, if any, on which it was made, the amount of contributions or grants from governments or government agencies, corporations, individuals and others and the amount applicable to each Electric Plant in Service detail Account (i.e. Accounts 1606 to 1990).

Note A: Effective on January 1, 2012, (or date of IFRS adoption, if early adoption was elected) customer contributors will be recorded in Account 2440, Deferred Revenues.

Note B: Effective on the date of IFRS adoption on January 1, 2012, (or date of IFRS adoption, if early adoption was elected by the utility), the balance in this account should be adjusted to zero in accordance with the guidance in Article 510 *Transitional Issues Relating to the Adoption of IFRS.*

Note C: After the adoption of IFRS, the utility shall continue to maintain detail records as evidence in support of the amounts recorded in this account as at December 31, 2011 (or date of IFRS adoption, if early adoption was elected) relating to contributions or grants in cash, services or property from

Electric Plant in Service - Detailed Accounts

E. General Plant

governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

Go to TOC A220

Other Capital Assets

2005 Property Under Finance Leases

A. This account shall include the amount recorded under finance leases for plant leased from others and used by the utility in its utility operations.

B. The electric property included in this account shall be classified separately according to the detailed Accounts (1606 to 1990) prescribed for Electric Plant in Service.

C. Records shall be maintained with respect to each finance lease reflecting: (1) name of lessor, (2) basic details of lease, (3) termination date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lease payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

Note: The related obligations shall be recorded in Account 2285, Obligations Under Finance Leases - Current and Account 2325, Obligations Under Finance Leases - Non-current.

2010 Electric Plant Purchased or Sold

A. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Article 230 *Definitions and Instructions* No. 7.

B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Board the proposed journal entries to clear from this account the amounts recorded herein.

2020 Experimental Electric Plant Unclassified

A. This account shall include the cost of electric plant which was constructed as a development plant under the provisions of paragraph C, Account 2055, Construction Work in Progress Electric, and due to the nature of the plant it is desirable to operate it for a period of time in an experimental status.

Go to TOC A220

Other Capital Assets

B. Amounts in this account shall be transferred to Electric Plant in Service Accounts 1606 to 1990, or Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, as appropriate when the project is no longer considered as experimental.

C. The amortization of property in this account shall be charged to Account 5705, Amortization Expense, and credited to Account 2105, Accumulated Depreciation of Electric Utility Plant. The amounts herein shall be amortized over a period which would correspond to the estimated useful life of the relevant project considering the characteristics involved. However, when projects are transferred to relevant Electric Plant in Service accounts, the projects shall be reviewed and a new depreciation rate based on the revised service life and unamortized amounts will be established as required.

D. Records shall be maintained with respect to each unit of experiment so that full details may be obtained as to the cost, depreciation and the experimental status.

E. Should it be determined that experimental plant recorded in this account will fail to satisfactorily perform its function, the costs thereof shall be accounted for as directed or authorized by the Board.

2030 Electric Plant and Equipment Leased to Others

A. This account shall include the original cost of electric plant and equipment owned by the utility, but leased to others as operating units or systems, where the lessee has exclusive possession.

B. The property included in this account shall be classified according to the detailed Accounts (1606 to 1990) prescribed for Electric Plant in Service and this account shall be maintained in such detail as though the property were used by the owner in its utility operations.

2040 Electric Plant Held For Future Use

A. This account shall include the original cost of electric plant (for land and land rights see B below) owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired (for land and land

Other Capital Assets

rights see B below) but never used by the utility in electric service, but held for such service in the future under a definite plan, and (2) property (for land and land rights see B below) previously used by the utility in service, but retired from such service and held pending its reuse in the future, under a definite plan, in electric service.

B. This account shall also include the original cost of land and land rights owned and held for future use in electric service under a plan for such use, to include land and land rights: (1) Acquired but never used by the utility in electric service, but held for such service in the future under a plan, and (2) previously held by the utility in service, but retired from such service and held pending its reuse in the future under a plan, in electric service. See Article 230 *Definitions and Instructions* No. 8 for detailed guidance.

C. In the event that property recorded in this account shall no longer be needed or appropriate for future utility operations, the company shall request Board approval of journal entries to remove such property from this account when the gain realized from the sale or other disposition of the property is material, prior to their being recorded. Such filings shall include the description and original cost of individual properties removed from this account, the accounts charged upon removal, and any associated gains realized upon disposition of such property.

D. Gains or losses from the sale of land and land rights or other disposition of such property previously recorded in this account and not placed in utility service shall be recorded directly in Accounts 4345 or 4350, as appropriate, except when determined to be significant by the Board. Upon such a determination, the amounts shall be transferred to Account 2410, Deferred Gains from Disposition of Utility Plant, or Account 1530, Deferred Losses from Disposition of Utility Plant, and amortized to Accounts 4345, Gains from Disposition of Utility Plant, or 4350, Losses from Disposition of Utility Plant, as appropriate.

E. The property included in this account shall be classified according to the detail Accounts (1606 to 1990) prescribed for Electric Plant in Service and the account shall be maintained in such detail as though the property were in service.

Go to TOC A220

Other Capital Assets

Note: Materials and supplies, meters and transformers held in reserve, and normal spare capacity of plant in service shall not be included in this account.

2050 Completed Construction Not Classified - Electric

At the end of the year or such other date as a balance sheet may be required by the Board, this account shall include the total of the balances of work orders for electric plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed electric plant accounts.

Note: For the purpose of reporting to the Board the classification of Electric Plant in Service by Accounts (1606 to 1990), the utility shall also report the balance in this account tentatively classified as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omissions in reported amounts of Electric Plant in Service.

2055 Construction Work in Progress - Electric

A. This account shall include the total of the balances of work orders for electric plant in process of construction.

B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in Electric Plant in Service upon the completion and the readiness for service of the first unit. All expenditures which are identified exclusively with units of property not yet in service shall be included in this account.

C. Expenditures on development projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the development project together with the related costs.

Go to TOC A220

Other Capital Assets

2060 Electric Plant Acquisition Adjustments

A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for amortization and contributions in aid of construction with respect to such property. The goodwill shall be recorded as a debit in this account and the credit is to Account 3030, Miscellaneous Paid-in Capital in the case of goodwill resulting from pushdown accounting by the parent to its subsidiary.

B. This account shall be subdivided so as to show the amounts included for each property acquisition and to Electric Plant in Service, Electric Plant Held for Future Use and Electric Plant Leased to Others. (See Article 230 *Definitions and Instructions* No. 7.)

C. Amounts recorded in this account related to an operating unit or system acquisition may be amortized to Account 5720, Amortization of Electric Plant Acquisition Adjustments, pursuant to an approval or order of the Board, over a period not longer than the estimated remaining life of the properties to which such amounts relate.

D. Amounts included in this account shall be disposed subject to Board approval.

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of electric plant.

2065 Other Electric Plant Adjustments

A. This account shall include the difference between the original cost, estimated if not known, and the book cost of electric plant to the extent that such difference is not included in Account 2060, Electric Plant Acquisition Adjustments (See Article 230 *Definitions and Instructions* No. 7 under "General classification of electric plant.")

B. Amounts included in this account shall be classified in such manner as to show the origin of each amount and shall be disposed of as the Board may approve or direct.

Other Capital Assets

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of electric plant.

2070 Other Utility Plant

This account shall include the cost of land, structures, equipment and other tangible and intangible plant assets owned by the utility, but not used in its utility operations and not included in Accounts 2030, Electric Plant and Equipment Leased to Others, 2040, Electric Plant Held for Future Use, and 2055, Construction Work in Progress - Electric.

Non rate-regulated utility assets shall not be included in this account but in Account 2075.

2075 Non Rate-Regulated Utility Property Owned or Under Finance Leases

A. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility or under a finance lease, but not used in utility service and not included in Account 2040, Electric Plant Held for Future Use.

B. This account shall also include the amount recorded under finance leases for property leased from others and used by the utility in its non rate-regulated utility operations. Records shall be maintained with respect to each lease reflecting: (1) name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lessee payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

C. This account shall be subdivided so as to show the amount of property used in operations which are non-utility in character but nevertheless constitute a distinct operating activity of the company and the amount of miscellaneous property not used in operations. The records in support of each sub-account shall be maintained so as to show an appropriate classification of the property.

Note A: The gain from the sale or other disposition of property included in this account which had been previously recorded in Account 2040, Electric Plant Held for

Other Capital Assets

Future Use, shall be accounted for in accordance with paragraph C of Account 2040.

Note B: The related obligations shall be recorded in Account 2285, Obligations Under Capital Leases - Current and Account 2325, Obligations Under Capital Leases - Non-current.

2075 Non Rate-Regulated Utility Property Owned or Under Finance Leases, Sub-account Generation Facility Assets

A. This account shall include the book cost of qualifying generation facilities or assets owned by the utility or under a finance lease, but not used in utility service and not included in Account 2040, Electric Plant Held for Future Use.

B. This account shall also include the amount recorded under finance leases for generation property leased from others and used by the utility in its non rate-regulated utility operations. Records shall be maintained with respect to each lease reflecting: (1) name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lessee payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

C. This account shall be subdivided so as to show the amount of property used in operations which are non-utility in character but nevertheless constitute a distinct operating activity of the company and the amount of miscellaneous property not used in operations. The records in support of each sub-account shall be maintained so as to show an appropriate classification of the generation property.

Go to TOC A220

Accumulated Depreciation and Amortization

2105 Accumulated Depreciation of Electric Utility Plant - Property, Plant and Equipment

A. This account shall be credited with the following:

1. Amounts charged to Account 5705, Depreciation Expense, or to clearing accounts for current depreciation expense for Electric Plant in Service.

2. Amounts charged to Account 4390, Miscellaneous Non-Operating Income, for depreciation expense on property included in Account 2040, Electric Plant Held for Future Use. Include, also, the balance of accumulated depreciation on property when transferred to Account 2040, Electric Plant Held for Future Use, from other property accounts. Normally this account will not be used for current depreciation provisions because, as provided herein, the service life during which depreciation is computed commences with the date the property can be included in Electric Plant in Service; however, if special circumstances indicate the propriety of current provisions for depreciation, such charges shall be made to Account 4390, Miscellaneous Non-Operating Income.

3. Amounts charged to Account 4320, Expenses of Electric Plant Leased to Others, for electric plant included in Account 2030, Electric Plant and Equipment Leased to Others.

4. Amounts charged to Account 4330, Costs and Expenses of Merchandising, Etc. or to clearing accounts for current depreciation expense.

5. Amounts of depreciation applicable to electric properties acquired as operating units or systems. (See Article 230 *Definitions and Instructions* No. 7.)

6. Amounts charged to Account 1572, Extraordinary Event Losses, when authorized by the Board.

7. Amounts of depreciation applicable to electric plant donated to the utility.

Note: The utility shall maintain separate sub-accounts for depreciation applicable to Electric Plant in Service, Electric Plant Leased to others and Electric

Accumulated Depreciation and Amortization

Plant Held for Future Use. For the purposes of items to which depreciation and accumulated depreciation apply, the terms "Electric Plant" and "property, plant and equipment" are used interchangeably.

B. When any property, plant and equipment (PP&E) to which this account apply are sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such PP&E. The book cost of the item of PP&E sold less the amount chargeable to this account and less the net proceeds realized from the sale shall be included in Account 4355, Gain on Disposition of Property, or Account 4360, Loss on Disposition of Property, as appropriate. For the retirements of items of PP&E, the book cost of the PP&E retired less the amount chargeable to this account and less the net proceeds realized from salvage at retirement (if any) shall be included in Account 4357, Gain from Retirement of Utility and Other Property, or Account 4362, Loss from Retirement of Utility and Other Property, as appropriate. On retirement, if costs of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate sub-account. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph.

C. For purposes of analysis and supporting information, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for PP&E including PP&E components, as applicable:

(1) Generation, (2) Transmission, (3) Distribution, (4) General and (5) Other. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification including PP&E components (a) the amount of accrual for depreciation, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.

D. When transfers of PP&E are made from one electric PP&E account to another, or from or to another utility department, or from or to non-utility PP&E accounts, any related amounts carried in the accounts for accumulated depreciation shall be transferred but segregation of such amounts shall be maintained.

E. The utility is restricted in its use of the accumulated depreciation to the purposes set forth above. It shall not transfer any portion of this account or make any other use of this account without authorization by the Board.

Accumulated Depreciation and Amortization

2120 Accumulated Amortization of Electric Utility Plant - Intangibles

A. This account shall be credited with the following:

1. Amounts charged to Account 5710, Amortization of Limited Term Electric Plant, for the current amortization of limited term electric plant investments.

2. Amounts charged to Account 4390, Miscellaneous Non-Operating Income, for amortization expense on property included in Account 2040, Electric Plant Held for Future Use. Include also the balance of accumulated amortization on property when transferred to Account 2040, Electric Plant Held for Future Use, from other property accounts. See also paragraph A (2), Account 2105, Accumulated Depreciation of Electric Utility Plant – Property, Plant and Equipment.

3. Amounts charged to Account 5715, Amortization of Intangibles and Other Electric Plant.

4. Amounts charged to Account 4320, Expenses of Electric Plant Leased to Others, for the current amortization of limited term or other investments subject to amortization included in Account 2030, Electric Plant and Equipment Leased to Others.

5. Amounts charged to Account 5725, Miscellaneous Amortization, for the amortization of intangible or other electric plant which does not have a definite or terminable life and is not subject to charges for amortization expense, with Board approval.

Note: The utility shall maintain sub-accounts of this account for the amortization applicable to Electric Plant in Service, Electric Plant Leased to Others and Electric Plant Held for Future Use. For the purposes of items to which amortization and accumulated amortization apply, the terms “Electric Plant”, “Property” and “property, plant and equipment” are used interchangeably.

B. When any property to which this account applies is sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such property. The book cost of the property sold less the amount chargeable to this account and less the net proceeds

Accumulated Depreciation and Amortization

realized from sale shall be included in Account 4355, Gain on Disposition of Property, or Account 4360, Loss on Disposition of Property, as appropriate. For the retirements of property, the book cost of the property retired less the amount chargeable to this account and less the net proceeds realized at retirement shall be included in Account 4357, Gain from Retirement of Utility and Other Property, or Account 4362, Loss from Retirement of Utility and Other Property, as appropriate.

C. For purposes of analysis and supporting information, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant including components: (1) Generation, (2) transmission, (3) distribution, (4) general, and (5) Other. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification (a) the amount of accrual for amortization, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.

D. The utility is restricted in its use of the accumulated amortization to the purposes set forth above. It shall not transfer any portion of this account to or make any other use of this account without authorization by the Board.

2140 Accumulated Amortization of Electric Plant Acquisition Adjustments

This account shall be credited or debited with amounts which are included in Account 5720, Amortization of Electric Plant Acquisition Adjustments or Account 5725, Miscellaneous Amortization, for the purpose of providing for the extinguishment of amounts in Account 2060, Electric Plant Acquisition Adjustments, in instances where the amortization of Account 2060 is not being made by direct write off of the account.

2160 Accumulated Depreciation of Other Utility Plant

This account shall include the accumulated depreciation applicable to utility property other than electric plant. (These items would have been included in Account 2070, Other Utility Plant).

Go to TOC A220

Accumulated Depreciation and Amortization

2180 Accumulated Depreciation of Non Rate-Regulated Utility Property

This account shall include the accumulated depreciation applicable to non rate-regulated utility property. These items would have been included in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, or other applicable prescribed non rate-regulated asset accounts.

Go to TOC A220

Current Liabilities

2205 Accounts Payable

This account shall include all amounts payable by the utility within one year, which are not provided for in other accounts.

2208 Customer Credit Balances

This account shall include all customer credit balances arising from an “equalized billing plan” with corresponding adjustment to Account 1100, Customer Accounts Receivable. Any material prepayment of customer accounts receivable should be transferred to this account.

2210 Customer Deposits

This account shall include the deposits expected to be refunded in the next year.

Note: Long term portions to be included in Account 2335, Non-Current Customer Deposits.

2215 Dividends Declared

This account shall include the amount of dividends which have been declared by the utility but not paid. Dividends shall be credited to this account when they become a liability.

2220 Miscellaneous Current and Accrued Liabilities

This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability. Example items: Tender Deposits refundable within one year.

2225 Notes and Loans Payable

This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable on demand or within a time not exceeding one year from date of issue, to other than associated companies.

Go to TOC A220

Current Liabilities

This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) which are classified as financial liabilities and are current in nature.

This account shall be kept in such detail that the identity and amount of each note, loan, etc. is evident.

2240 Accounts Payable to Associated Companies

These accounts shall include amounts owing to associated companies on notes, drafts, acceptances, or other similar evidences of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: Exclude from these accounts notes and amounts which are included in Account 2550, Advances from Associated Companies.

2242 Notes Payable to Associated Companies

This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable to associated companies on demand or within a time not exceeding one year from date of issue.

This account shall be kept in such detail that the identity and amount of each note, loan, etc. is evident.

2250 Debt Retirement Charges Payable

This account will be used to monitor Debt Retirement Charges charged and collected and to be remitted to the Financial Corporation in respect of electricity used by the consumer (in the case of distributors) or electricity generated in Ontario (in the case of generators).

2252 Transmission Charges Payable

This account will be used to record transmission charges payable. Sub-accounts shall be used to record other payables related to transmission.

Current Liabilities

2254 Electrical Safety Authority Fees Payable

This account will be used to record fees imposed by the Electrical Safety Authority.

2256 Independent Electricity System Operator Fees and Penalties Payable

This account will be used to record fees and penalties imposed by the Independent Electricity System Operator.

2260 Current Portion of Long Term Debt

This account shall include the amount of the corresponding long term debt which is payable in the next twelve months.

The account shall be sub-divided in the following manner, as required:

1. Debentures Outstanding   Current Portion.
2. Term Bank Loans   Current Portion.
3. Other Long Term Debt   Current Portion.

2264 OMERS - Current

This account shall include the current portion of amounts payable to OMERS in regard to pension costs recorded in Account 2348, OMERS - Long-Term.

Sub-accounts should be used to record the current portion of OMERS past service pension costs, and Employee Benefits.

2265 Non-OMERS - Current

This account shall include the current portion of non-OMERS pension costs and OPEB, recorded in separate sub-accounts, if the contributions payable to a plan within the next 12 months are determinable and the distributor chooses to separately present such amounts.

The non-current portion is recorded in Account 2306, OPEB Liability and Account 2308, Other Pensions Liability.

Go to TOC A220

Current Liabilities

2268 Accrued Interest on Long Term Debt

This account shall include accrued interest on long term debt for the current year's operations. Supporting records shall be maintained so as to show the amount of interest accrued on each obligation.

2270 Matured Long Term Debt

This account shall include the amount of long term debt (including any obligation for premiums) matured and unpaid, without specific agreement for extension of the time of payment and bonds called for redemption but not presented.

2272 Matured Interest on Long Term Debt

This account shall include the amount of matured interest on long term debt or other obligations of the utility at the date of the balance sheet unless such interest is added to the principal of the debt on which incurred.

2285 Obligations Under Finance Leases - Current

This account shall include the portion, due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in Account 2005, Property Under Finance Leases, or Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases.

2285 Obligations Under Finance Leases - Current, Sub-account Generation Facility Liabilities

This account shall include the portion, due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, Sub-account Generation Facility Assets.

2290 Commodity Taxes

The purpose of this account is to monitor the Harmonized Sales Tax (HST) charged and collected, as well as the amount of HST paid which is eligible for an input tax credit.

Current Liabilities

The account shall be subdivided in such a manner that the details for each type of commodity tax will be evident.

2292 Payroll Deductions/ Expenses Payable

This account shall include the amounts collected by the utility through payroll deductions or related amounts otherwise payable and pending transmittal to the proper authority.

Sub-accounts shall be maintained providing details for the following payroll deductions/ expenses:

1. Income tax.
2. Canada Pension Plan.
3. Employment Insurance.
4. Employer Health Tax.
5. Other.

2294 Accrual for Taxes, "Payments in Lieu of Taxes", Etc.

A. This account shall be credited with the amount of taxes, "payments in lieu of taxes", etc. accrued during the accounting period, corresponding debits being made to the appropriate accounts for such charges. Such credits may be based upon estimates, but from time to time during the year as the facts become known, the amount of the periodic credits shall be adjusted so as to include as nearly as can be determined in each year the taxes, "payments in lieu of taxes", etc., applicable thereto. Any amount representing a prepayment of amounts applicable to the period subsequent to the date of the balance sheet, shall be shown under Account 1180, Prepayments.

B. If accruals for taxes are found to be insufficient or excessive, correction therefore shall be made through current tax accruals.

C. Accruals for taxes shall be based upon the net amounts payable after credit for any discounts, and shall not include any amounts for interest on tax deficiencies or refunds. Interest received on refunds shall be credited to Account 4405, Interest and Dividend Income, and interest paid on deficiencies shall be charged to Account 6035, Other Interest Expense.

Go to TOC A220

Current Liabilities

D. The records supporting the entries to this account shall be kept so as to show for each class of accrual, the amount accrued, the basis for the accrual, the accounts to which charged, and the amount paid.

Go to TOC A220

Non-Current Liabilities

2305 Accumulated Provision for Injuries and Damages

A. This account shall be credited with amounts charged to Account 5640, Injuries and Damages, or other appropriate accounts, to meet the probable liability, not covered by insurance, for deaths or injuries to employees and others and for damages to property neither owned nor held under lease by the utility.

B. When liability for any injury or damage is admitted by the utility either voluntarily or because of the decision of a court or other lawful authority, the admitted liability shall be transferred to the appropriate current liability account. Details of these charges shall be maintained according to the year the injury or damage giving rise to the loss occurred.

Note: Recoveries or reimbursements for losses charged to this account shall be credited to this account; the cost of repairs to property of others if provided for here shall be charged to this account.

2306 OPEB Liability

This account shall include provision for other post-employment benefits, such as health care benefits, life insurance and other benefits provided to employees after retirement as required by IAS 19 *Employee Benefits*.

A separate account shall be kept for each kind of provision included herein.

Note: See related expense Account 5645, Employee Pensions and Benefits.

2308 Other Pensions Liability

This account shall be used for non-OMERS pension assets or liabilities as required by IAS 19 *Employee Benefits*. See also related Account 2312, Past Service Costs - Other Post-employment Benefits.

2310 Vested Sick Leave Liability

This account shall include the vested sick leave entitlement as at year end. Annual credits to this account shall be made in accordance with management or statutory requirements. The current portion of this liability shall be included in Account 2220, Miscellaneous Current and Accrued Liabilities.

Go to TOC A220

Non-Current Liabilities

2312 Past Service Costs - Other Post-Employment Benefits

This account shall include the unamortized portion of past service costs related to other post-employment benefits that will be expensed in future periods.

2313 Past Service Costs - Other Pension Plans

This account shall include the unamortized portion of past service costs related to pension plans other than OMERS that will be expensed in future periods.

2315 Accumulated Provision for Rate Refunds

A. This account shall be credited with amounts charged to Account 4240, Provisions for Rate Refunds, to provide for estimated refunds where the utility is collecting amounts in rates subject to refund.

B. This account also shall be credited with rebates amounts received for customers from others (e.g., Ontario Power Generation Inc. Market Power Mitigation Agreement Rebates).

C. When refund of any amount recorded in this account is ordered by the Board within the next year, such amount shall be charged to this account and credited to Account 2220, Miscellaneous Current and Accrued Liabilities.

D. Records supporting the entries to this account shall be kept so as to identify each amount recorded by the respective rate filing docket number.

2320 Other Miscellaneous Non-Current Liabilities

This account shall include all non-current liabilities which do not properly belong in any other account. The account shall be kept in such a manner that the nature of each liability is evident.

2325 Obligations Under Finance Lease - Non-Current

This account shall include the portion not due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in Account

Non-Current Liabilities

2005, Property under Capital Leases, or Account 2075, Non Rate-Regulated Utility Property Owned or Under Capital Leases.

2325 Obligations Under Finance Lease - Non-Current, Sub-account Generation Facility Liabilities

This account shall include the portion not due within one year, of the obligations recorded for the amounts applicable to leased qualifying generation facilities or assets recorded in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, Sub-account Generation Facility Assets.

2335 Non-Current Customer Deposits

This account shall include all deposits except those included in Account 2340 Collateral Funds Liability. The amounts expected to be refunded in the next year shall be included in Account 2210, Current Portion of Customer Deposits. Detailed records shall be kept of individual deposits.

2340 Collateral Funds Liability

This account shall include all deposits or securities received from customers or contractors and maintained in a separate bank account or safety deposit box.

This account shall only be used in situations where it is necessary to fund customer or other deposits, such as deposits guaranteeing construction costs or contract performance.

The accounts shall be maintained in such a manner that the deposit of each customer is evident.

Note: The bank and securities account(s) related to these deposits are recorded in Account 1410, Other Special or Collateral Funds.

2345 Unamortized Premium on Long Term Debt

A. This account shall include the excess of the cash value of consideration received over the face value upon the issuance or assumption of long term debt securities.

Go to TOC A220

Non-Current Liabilities

B. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization shall be credited to Account 6015, Amortization of Premium on Debt Credit. Entries shall be made in this account in a manner that the items involved with each debt issue will be evident.

2348 OMERS - Long Term

This account shall include the long-term portion of any known future principal amounts payable to OMERS. The current portion shall be kept in Account 2264, OMERS – Current.

2350 Deferred Tax - Non-Current Liability

This account shall be credited with the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Go to TOC A220

Other Liabilities and Deferred Credits

2405 Other Regulatory Liabilities or Credits

A. This account shall include the amounts of regulatory liabilities, not included in other accounts, imposed on the utility by the ratemaking actions of the Board.

B. The amounts included in this account are to be established by those credits which would have been included in net income determinations in the current period under the general requirements of this Uniform System of Accounts but for it being probable that: 1) such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or 2) refunds to customers, not provided for in other accounts, will be required.

C. If it is later determined that the amounts recorded in this account will not be returned to customers through rates or refunds, such amounts shall be credited to Account 4390, Miscellaneous Non-Operating Income, or Account 6305, Extraordinary Income, as appropriate, in the year such determination is made.

D. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to the nature and amount of each regulatory liability included in this account, including justification for inclusion of such amounts in this account.

2410 Deferred Gains from Disposition of Utility Plant

This account shall include gains from the sale or other disposition of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to account 4345, Gains from Disposition of Future Use Utility Plant. (See Account 2040, Electric Plant Held for Future Use.)

2415 Unamortized Gain on Reacquired Debt

This account shall include the amounts of discount realized upon reacquisition or redemption of long term debt. See related Account 6025, Amortization of Gain on Reacquired Debt–Credit.

Go to TOC A220

Other Liabilities and Deferred Credits

2425 Other Deferred Credits

This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account.

2435 Accrued Rate - Payer Benefit

This account shall be used to record the amounts over the return on equity ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the incentive regulation plan. This account will include related accrued interest.

2440 Deferred Revenues

This account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

Amounts recognized in this account should be amortized to income over the useful life of the related property, plant and equipment by debiting this account and crediting Account 4245, Government and Other Assistance Directly Credited to Income.

This account shall be maintained so that the distributor can supply information as to the purpose of each contribution or grant, the conditions, if any, on which it was made, the amount of contributions or grants from governments or government agencies, corporations, individuals and others and the amount applicable to each Electric Plant in Service detail account (i.e. Accounts 1606 to 1990).

Records shall be maintained so that the contribution or grant can be directly assigned to specific type of asset for which the contribution was made to ensure the proper offset is made to the asset before inclusion in rate base as prescribed in Article 430 *Contributions in Aid of Construction.*

Go to TOC A220

Long Term Debt

2505 Debentures Outstanding - Long Term

These accounts shall include the long term portion of the face value in Canadian funds at the time of issue of all unmatured debentures. The accounts shall be kept in such a manner that the details and status of any individual issue shall be evident. The current portion shall be kept in Account 2260, Current Long Term Debt.

2510 Debenture Advances

This account shall contain any advances received against appropriately approved debentures. The account shall be kept in such a manner that the details of each advance are evident.

2515 Reacquired Bonds

A. This account shall include the face value of bonds actually issued or assumed by the utility and reacquired by it and not retired or cancelled. The account for reacquired debt shall not include securities which are held by trustees in sinking or other funds.

B. When bonds are reacquired, the difference between face value, adjusted for unamortized discount, expenses or premium, and the amount paid upon reacquisition, shall be included in Account 1540, Unamortized Loss on Reacquired Debt, or Account 2415, Unamortized Gain on Reacquired Debt, as appropriate.

2520 Other Non-Current Debt

A. This account shall include, until maturity all long term debt not provided for in any other account. This covers such items as receivers' certificates, real estate mortgages executed or assumed, assessments for public improvements, notes and unsecured certificates of indebtedness not owned by associated companies, receipts outstanding for long term debt, and other obligations maturing more than one year from date of issue or assumption.

This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are non-current in nature.

Go to TOC A220

Long Term Debt

B. Separate accounts shall be maintained for each class of obligation, and records shall be maintained to show for each class all details as to date of obligation, date of maturity, interest dates and rates, security for the obligation, etc.

Note: Miscellaneous long term debt reacquired shall be accounted for in accordance with the procedure set forth in Account 2515, Reacquired Bonds.

2525 Term Bank Loans - Long Term

This account shall include the long term portion of all bank loans which are repayable over a term of longer than one year. The account shall be kept in such a manner that the details and status of any individual loan shall be evident. The current portion shall be kept in Account 2260.

2550 Advances from Associated Companies

A. This account shall include the face value of notes payable to associated companies and the amount of open book accounts representing advances from associated companies. It does not include notes and open accounts representing indebtedness subject to current settlement which shall be included in Account 2240, Accounts Payable to Associated Companies, or Account 2242, Notes Payable to Associated Companies, as applicable.

B. The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note and open account.

Go to TOC A220

Shareholders' Equity

3005 Common Shares Issued

A. This account shall include the stated or assigned value of common shares of each class issued.

B. When capital stock is retired, this account shall be charged with the amount at which such stock is carried herein.

C. A separate ledger account, with a descriptive title, shall be maintained for each class and series of common shares. The supporting records shall show the shares nominally issued, actually issued, and nominally outstanding.

3008 Preference Shares Issued

A. This account shall include the stated or assigned value of preference shares of each class issued.

B. When capital stock is retired, these accounts shall be charged with the amount at which such stock is carried herein.

C. A separate ledger account, with a descriptive title, shall be maintained for each class and series of preference shares. The supporting records shall show the shares nominally issued, actually issued, and nominally outstanding.

3010 Contributed Surplus

A. This account shall include, in a separate subdivision for each class and series of stock, the excess of the actual cash value of the consideration received on original issues of capital stock over the stated or assigned value and accrued dividends of such stock.

B. Premium on capital stock shall not be set off against expenses. Further, a premium received on an issue of a certain class or series of stock shall not be set off against expenses of another issue of the same class or series.

3020 Donations Received

This account shall include the balance of credits for donations received consisting of capital stock of the utility, cancellation or reduction of debt of the utility, and the cash value of other assets received.

Shareholders' Equity

3022 Development Charges Transferred to Equity

This account shall include the amounts related to Development Charges Funds recorded as liabilities in accordance with the Electricity Act, 1998, section 148. Any amounts that were subsequently expended on capital works in accordance with the obligations associated with those Funds shall be included in this equity account.

Supporting records shall be maintained of each transfer to this account.

3026 Capital Stock Held in Treasury

This account shall include in a separate subdivision for each class and series of capital stock, the cost of capital stock actually issued by the utility and reacquired by it and not retired or cancelled, except, however, stock which is held by trustees in sinking or other funds.

3030 Miscellaneous Paid in Capital

This account shall include the balance of all other credits for paid in capital which are not properly included in the foregoing accounts.

3035 Instalments Received on Capital Stock

A. This account shall include in a separate subdivision for each class and series of capital stock the amount of instalments received on capital stock on a partial or instalment payment plan from subscribers who are not bound by legally enforceable subscription contracts.

B. As subscriptions are paid in full and certificates issued, this account shall be charged and the appropriate capital stock account credited with the par or stated value of such stock. Any discount or premium on an original issue shall be included in Account 3010, Contributed Surplus.

3040 Appropriated Retained Earnings

This account shall include retained earnings set aside or reserves maintained by the utility which are not provided for elsewhere. The account shall be maintained and subdivided in such a manner as to show the nature and purpose of each separate appropriation or reserve.

Go to TOC A220

Shareholders' Equity

3045 Unappropriated Retained Earnings

This account shall include the balances, either debit or credit, of unappropriated retained earnings arising from earnings of the utility. This account shall not include any amounts representing the undistributed earnings of subsidiary companies. (See Account 3065, Unappropriated Undistributed Subsidiary Earnings).

Net changes to this account for the current period are shown by the sum of the activities in Accounts 3046 to 3055.

3046 Balance Transferred from Income

This account shall include the net credit or debit transferred from income for the year.

3047 Appropriations of Retained Earnings - Current Period

This account shall include appropriations of retained earnings.

Example items:

1. Appropriations required under terms of mortgages, orders of courts, contracts, or other agreements.
2. Appropriations required by action of regulatory authorities.
3. Other appropriations made at option of utility for specific purposes.

3048 Dividends Payable - Preference Shares

A. This account shall include amounts declared payable out of retained earnings as dividends on outstanding preferred capital stock of the utility.

B. Dividends shall be segregated for each class and series of preference shares as to those payable in cash. If not payable in cash, the medium of payment shall be described with sufficient detail to identify it.

3049 Dividends Payable - Common Shares

A. This account shall include amounts declared payable out of retained earnings as dividends on outstanding common capital stock of the utility.

Shareholders' Equity

B. Dividends shall be segregated for each class of common shares as to those payable in cash, shares and other forms. If not payable in cash, the medium of payment shall be described with sufficient detail to identify it.

3055 Adjustments to Retained Earnings

This account shall, with prior Board approval, include significant non-recurring transactions accounted for as prior period adjustments, as follows:

1. Correction of a material error in the financial statements of a prior year.
2. Other adjustments that may be required by the Board.

All other items of profit and loss recognized during a year shall be included in the determination of net income for that year.

3065 Unappropriated Undistributed Subsidiary Earnings

This account shall include the balances, either debit or credit, of undistributed retained earnings of subsidiary companies since their acquisition. When dividends are received from subsidiary companies relating to amounts included in this account, this account shall be debited and Account 3045, Unappropriated Retained Earnings, credited.

3075 Non Rate-Regulated Utility Shareholders' Equity

This sub-account shall include shares, paid-in capital, appropriated and unappropriated retained earnings, balances transferred from income and dividends associated with the distributor's non rate-regulated activities. Sub-accounts may be used to distinguish the components of non rate-regulated activities of shareholders' equity.

3075 Non Rate-Regulated Utility Shareholders' Equity, Sub-account Generation Facilities

This sub-account shall include shares, paid-in capital, appropriated and unappropriated retained earnings, balances transferred from income and dividends associated with distributor-owned qualifying facilities or assets.

Go to TOC A220

Shareholders' Equity

3080 Current Taxes - Shareholders' Equity

This account shall be debited (credited) with amounts of current Provincial and Federal income taxes (or PILs allowance) recognized on items recorded directly in equity. Concurrent credits (debits) for the tax accruals shall be made to sub-accounts of Account 2294, Accrual for Taxes, "Payments in lieu of Taxes", Etc.

3081 Deferred Taxes - Shareholders' Equity

This account shall be debited (credited) with amounts of Provincial and Federal deferred taxes (or PILs allowance) recognized on items recorded directly in equity. Concurrent credits (debits) for the tax accruals shall be made to sub-accounts of Account 2294, Accrual for Taxes, "Payments in lieu of Taxes", Etc.

3090 Accumulated Other Comprehensive Income

This account shall include the cumulative Other Comprehensive Income for the current and prior accounting periods in the Uniform System of Accounts 7000 series and reclassification adjustments (e.g. recycling of other comprehensive income, if permitted, when realized in net income during the period). Separate sub-accounts shall be used for each item of Other Comprehensive Income.

Go to TOC A220

Sales of Electricity

4006 Residential Energy Sales

A. This account shall include the net billing for electricity supplied for residential or domestic purposes.

B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Note: When electricity supplied through a single meter is used for both residential and commercial purposes, the total revenue shall be included in this account, or Account 4010, Commercial Energy Sales, according to the rate schedule which is applied. If the same rate schedules apply to residential as to commercial service, classification shall be made according to principal use.

4010 Commercial Energy Sales

A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as commercial.

B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Note: When electricity supplied through a single meter is used for both commercial and residential purposes, the total revenue shall be included in this account, or in Account 4006, Residential Energy Sales, according to the rate schedule which is applied. If the same rate schedules apply to residential as to commercial and industrial service, classification shall be made according to the principal use.

4015 Industrial Energy Sales

A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as industrial.

B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Go to TOC A220

Sales of Electricity

4020 Energy Sales to Large Users

A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as large users.

B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

4025 Street Lighting Energy Sales

These accounts shall include all revenue resulting from the sale of electrical energy used for the lighting of municipal streets and parks.

4030 Sentinel Lighting Energy Sales

These accounts shall include all revenue resulting from the sale of electrical energy used for sentinel lighting.

4035 General Energy Sales

A. This account shall include all revenue resulting from the sale of electrical energy used by customers classified as General Service. Records shall be maintained so that the quantity of electricity sold and the revenue received from each customer shall be readily available.

B. Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the *Electricity Distribution Rate Handbook* or as otherwise approved by the Board for a specific utility.

4040 Other Energy Sales to Public Authorities

A. This account shall include the net billing for electricity supplied to municipalities or divisions or agencies of federal or provincial governments, under special contracts or agreements or service classifications applicable only to public authorities, except such revenues as shall be included in Accounts 4025 and 4055.

Go to TOC A220

Sales of Electricity

B. Records shall be maintained so as to show the quantity of electricity sold and the revenues received from each customer.

4050 Revenue Adjustment

This account will include both unbilled revenue adjustments and prior year billing adjustments. Each adjustment shall be completely described.

4055 Energy Sales For Retailers/Others

A. This account shall include the revenues derived from the sale of electricity through retailers or others. Records shall be maintained to be able to identify electricity sales by retailer.

Sub-accounts shall be used to separately record each of the following classes of electricity sales:

- Residential
- Large Use
- Street Lighting
- General Service*

*Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the *Electricity Distribution Rate Handbook* or as otherwise approved by the Board for a specific utility.

B. This account is effective on the electricity market opening (i.e. May 1, 2002).

4060 Interdepartmental Energy Sales

A. This account shall include amounts charged by the electric department at tariff or other specified rates for electricity supplied by it to other utility departments.

B. Records shall be maintained so that the quantity of electricity supplied to each other department and the charges there for shall be readily available.

Go to TOC A220

Sales of Electricity

4062 Billed - WMS

A. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers using the Board-approved Wholesale Market Service Rate for specified charge types and Rural or Remote Rate Protection Charge.

B. This account shall include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4708.

C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Wholesale Market Service Rate and Rural or Remote Rate Protection Charge.

4064 Billed - ONE-TIME

A. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers relating to specified charge types for this account which are not normally already incorporated in the Board-approved Wholesale Market Service Rate.

B. This account shall include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4712.

4066 Billed - NW

A. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Network Service Rate approved by the Board.

B. This account shall include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4714.

C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Service Rate.

Go to TOC A220

Sales of Electricity

4068 Billed - CN

A. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Connection Service Rate approved by the Board.

B. This account shall include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4716.

C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Connection Service Rate.

4075 Billed - LV

This account shall be used by an embedded distributor to record amounts billed to its customers for transmission or low voltage charges. This account shall include accruals for monthly unbilled estimates. The embedded distributor must ensure a proper matching of the billed amounts recorded in Account 4075 to those charges recorded in Account 4750.

Go to TOC A220

Revenues from Services - Distribution

4080 Distribution Services Revenue

A. This account shall include revenues from the distribution of electricity charge for standard supply service, retailer and other customers.

Sub-accounts shall be used to separately record the distribution service revenues that relate to each of the following classes of electricity sales:

1. Residential
2. Large Use
3. Street Lighting
4. General Service*

*Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the *Electricity Distribution Rate Handbook* or as otherwise approved by the Board for a specific utility.

B. Distributors shall use Account 4086, SSS Administration Revenue, to record revenues generated from the SSS Administration Charge.

C. Distributors will use this account to record revenues generated from the Distribution Wheeling Service where the service is unrelated to revenues recorded in Account 4075, Billed – LV. Distributors shall use a separate sub-account of this Account to track such revenues.

4082 Retail Services Revenues

A. This account shall be used to record revenues derived from the following services described in the *Electricity Distribution Rate Handbook*:

a) Establishing Service Agreements;
b) Distributor-Consolidated Billing; and
c) Retailer-Consolidated Billing.

B. Sub-accounts may be used to separately record amounts related to each of the above services.

Go to TOC A220

Revenues from Services - Distribution

4084 STR Revenues

A. This account shall be used to record revenues derived from the Service Transaction Request services described in the *Electricity Distribution Rate Handbook* and charged by the distributor, as prescribed, in the form of a:

a) Request fee;
b) Processing fee;
c) Information Request fee;
d) Default fee; and
e) Other Associated Costs fee:

B. Sub-accounts may be used to separately record amounts related to the items listed above.

4086 SSS Administration Revenue

This account will include the standard supply service (SSS) administration revenue generated from the SSS Administration Charge.

4090 Electric Services Incidental to Energy Sales

Note: Services not incidental to electricity sales to be included in Account 4235, Miscellaneous Service Revenues.

Go to TOC A220

Revenues from Services - Transmission

4105 Transmission Charges Revenue

Account description to be developed at a later date, if applicable.

4110 Transmission Services Revenue

This account shall include revenues from the transmission of electricity on behalf of others.

Records shall be maintained so that the quantity of electricity supplied to each party and the related revenues shall be readily available.

Go to TOC A220

Other Operating Revenues

4205 Interdepartmental Rents

This account shall include rents credited to the electric department on account of rental charges made against other departments (gas, water, etc.) of the utility. In the case of property operated under a definite arrangement to allocate the costs among the departments using the property, any reimbursement to the electric department for interest or return and amortization and taxes shall be credited to this account.

4210 Rent from Electric Property

A. This account shall include rents received for the use by others of land, buildings, and other property devoted to electric operations by the utility.

B. When property owned by the utility is operated jointly with others under a definite arrangement for apportioning the actual expenses among the parties to the arrangement, any amount received by the utility for interest or return or in reimbursement of taxes or amortization on the property shall be credited to this account.

C. Records shall be maintained to show each source of rental income by category.

Example items:

1. Pole rentals.
2. Real property rentals, including meeting rooms, etc.
3. Duct rentals.
4. Use of easements by others.

Note: Do not include in this account rents from property constituting an operating unit or system. (See Account 4315, Revenues from Electric Plant Leased to Others.)

4215 Other Utility Operating Income

A. This account shall include the revenues received and expenses incurred in connection with the operations of utility plant, the book cost of which is included in Account 2070, Other Utility Plant.

B. The expenses shall include every element of cost incurred in such operations, including amortization, rents, and insurance.

Other Operating Revenues

4220 Other Electric Revenues

This account shall include revenues derived from electric operations not included in any of the foregoing accounts. It shall also include in a separate sub-account revenues received from operation of fish and wildlife, and recreation facilities whether operated by the company or by contract concessionaires, such as revenues from leases, or rentals of land for cottage, homes, or campsites.

Example items:

1. Compensation for minor or incidental services provided for others such as customer billing, engineering, etc.
2. Profit or loss on sale of material and supplies not ordinarily purchased for resale and not handled through merchandising accounts.
3. Sale of steam, but not including sales made by a steam heating department or transfers of steam under joint facility operations.
4. Revenues from transmission of electricity of others over transmission facilities of the utility.
5. Include in a separate sub-account revenues in payment for rights and/or benefits received from others which are realized through research and development ventures.

4225 Late Payment Charges

This account shall include the amount of discounts forfeited or additional charges imposed because of the failure of customers to pay their electric bills on or before a specified date.

This account shall be sub-divided to separately show penalties and interest charges.

4230 Sales of Water and Water Power

A. This account shall include revenues derived from the sale of water for irrigation, domestic, industrial or other uses, or for the development by others of water power, or for headwater benefits; also, revenues derived from furnishing water power for mechanical purposes when the investment in the property used in supplying such water or water power is carried as Electric Plant in Service.

B. The records for this account shall be kept in such manner as to permit an analysis of the rates charged and the purposes for which the water was used.

Other Operating Revenues

4235 Miscellaneous Service Revenues

This account shall include revenues for all miscellaneous services and charges billed to customers which are not specifically provided for in other accounts.

Separate records shall be maintained for each class of service and related charges.

Example items:

1. Fees for changing, connecting or disconnecting service including reconnection charges and change of occupancy fees.
2. Profit on maintenance of appliances, wiring, piping or other distribution related installations on customers' premises.
3. Net credit or debit (cost less net salvage and less payment from customers) on closing of work orders for plant installed for temporary service of less than one year. (See Account 1104, Accounts Receivable-Recoverable Work.)
4. Recovery of expenses in connection with current diversion cases (billing for the electricity consumed shall be included in the appropriate electric revenue account).
5. Dispute meter test charges.
6. Account history research charges.
7. Disconnect of electricity service
8. Reconnection of electricity
9. Dispute involvement charge
10. Temporary electricity service
11. Account setup charge
12. Return cheque charge
13. Other specific service charges as approved by the Board

4240 Provision for Rate Refunds

A. This account shall be charged with provisions for the estimated pretax effects on net income of the portions of amounts being collected subject to refund which are estimated to be required to be refunded. Such provisions shall be credited to Account 2315, Accumulated Provision for Rate Refunds.

B. This account shall also be charged with amounts refunded when such amounts had not been previously accrued.

Go to TOC A220

Other Operating Revenues

C. Records shall be maintained to show separately refunds by customer class.

4245 Government and Other Assistance Directly Credited to Income

This account shall include government assistance towards current expenses or revenues. It shall also include government assistance that has been deferred, and is subsequently amortized to income as related expenses are incurred.

This account shall include the deferred revenues arising from customer contributions that are amortized to income. Amounts recognized in Account 2440 are to be amortized to income over the useful life of the related property, plant and equipment or intangible asset to which the contribution were made by debiting Account 2440, Deferred Revenue, and crediting this account.

Go to TOC A220

Other Income/Deductions

4305 Regulatory Debits

This account shall be debited, when appropriate, with the amounts transferred to Account 2405, Other Regulatory Liabilities, to record regulatory liabilities imposed on the utility by the ratemaking actions of the Board. If directed by the Board, this account shall also be debited, when appropriate, with the amounts drawing down the balance in asset Account 1508, Other Regulatory Assets (concurrent with the recovery of such amounts in rates).

4310 Regulatory Credits

This account shall be credited, when appropriate, with the amounts transferred to Account 1508, Other Regulatory Assets, to establish regulatory assets. If directed by the Board, this account shall also be credited, when appropriate, with the amounts drawing down the balance in liability Account 2405, Other Regulatory Liabilities.

4315 Revenues from Electric Plant Leased to Others

This account shall record revenues from electric property constituting a distinct operating unit or system leased by the utility to others, and which property is properly included in Account 2030, Electric Plant and Equipment Leased to Others.

4320 Expenses of Electric Plant Leased to Others

A. These accounts shall include the expenses attributable to electric property constituting a distinct operating unit or system leased by the utility to others, and which property is properly included in Account 2030, Electric Plant and Equipment Leased to Others.

B. The detail of expenses shall be kept or supported so as to show separately the following: Operation, Maintenance, and Amortization expense.

4324 Special Purpose Charge Recovery

This account shall include all revenues collected from customers on account of the special purpose charge referred to in sections 26.1 and 26.2 of the Ontario Energy Board Act, 1998.

Go to TOC A220

Other Income/Deductions

4325 Revenues from Merchandise

A. This account shall include all revenues derived from the sale of merchandise. Interest related income from instalment sales shall be recorded in Account 4405, Interest and Dividend income.

B. Records in support of this account shall be so kept as to permit ready summarization of revenues by such major items as are feasible.

Example items:

1. Revenues from sale of merchandise.
2. Discounts and allowances made in settlement of bills for merchandise.

4330 Costs and Expenses of Merchandising

A. This account shall include all expenses incurred in relation to the sale of merchandise.

B. Records in support of this account shall be so kept as to permit ready summarization of costs and expenses by such major items as are feasible.

Example items:

Labour:

1. Canvassing and demonstrating appliances in homes and other places for the purpose of selling appliances.
2. Demonstrating and selling activities in sales rooms.
3. Installing appliances on customer premises where such work is done only for purchasers of appliances from the utility.
4. Installing related wiring, piping, or other property work.
5. Preparing advertising materials for appliance sales purposes.
6. Receiving and handling customer orders for merchandise.
7. Cleaning and tidying sales rooms.
8. Maintaining display counters and other equipment used in merchandising.
9. Arranging merchandise in sales rooms and decorating display windows.
10. Reconditioning repossessed appliances.
11. Bookkeeping and other clerical work in connection with merchandise activities.
12. Supervision specific to merchandise operations.

Go to TOC A220

Other Income/Deductions

Materials and expenses:

1. Advertising in newspapers, periodicals, radio, television, etc.
2. Cost of merchandise sold.
3. Stores expenses on merchandise.
4. Fees and expenses of advertising and commercial artists' agencies.
5. Printing booklets, dodgers, and other advertising data.
6. Premiums given as inducement to buy appliances.
7. Light, heat and power.
8. Amortization on equipment used primarily for merchandise operations.
9. Rent of sales rooms or of equipment.
10. Transportation expense in delivery and pick up of appliances by utility's facilities or by others.
11. Stationery and office supplies and expenses.
12. Losses from uncollectible merchandise accounts.

4335 Profits and Losses from Financial Instrument Hedges

This account shall be used to record profits and losses from financial instruments used as hedges against financial risks such as price risk (i.e., currency risk, interest rate risk and market risk), credit risk, liquidity risk and cash flow risk. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Note: That financial instruments entered into for speculative investment purposes should be recorded in Account 4340, Profits and Losses from Financial Instrument Investments.

See related asset and liability accounts:

1070, Current Investments.
1405, Long Term Investments in Non-associated Companies.
2225, Notes and Loans Payable.
2520, Other Long Term Debt.

Go to TOC A220

Other Income/Deductions

4340 Profits and Losses from Financial Instrument Investments

This account shall be used to record profits and losses from financial instruments entered into for speculative investment purposes. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Note that financial instruments used as hedges against financial risks should be recorded in Account 4335, Profits and Losses from Financial Instrument Hedges.

See related asset and liability accounts:

1070, Current Investments.
1405, Long Term Investments in Non-associated Companies.
2225, Notes and Loans Payable.
2520, Other Long Term Debt.

4345 Gains from Disposition of Future Use Utility Plant

This account shall include, as approved by the Board, amounts relating to gains from the disposition of future use utility plant including amounts which were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

4350 Losses from Disposition of Future Use Utility Plant

This account shall include, as approved by the Board, amounts relating to losses from the disposition of future use utility plant including amounts which were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

4355 Gain on Disposition of Utility and Other Property

This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. The gain arising from the book cost of the item of property, plant and equipment or intangible asset so disposed less the amount chargeable to the applicable accumulated depreciation or amortization account and less the net proceeds realized shall be recorded in this account. Records shall be maintained as to show how the gains were determined. Gains on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as

Other Income/Deductions

prescribed in paragraphs B, C, and D of Account 2040. (See Article 230 *Definitions and Instructions* No. 7(F)).

4357 Gain from Retirement of Utility and Other Property

This account shall be credited with the gain from the retirement of property, plant and equipment or intangible assets. The gain arising from the book cost of the item of property, plant and equipment or intangible asset retired less the amount chargeable to the applicable accumulated depreciation or amortization account and less the net proceeds realized from salvage at retirement (if any) shall be recorded in this account. Records shall be maintained as to show how the gains were determined. Gains on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D of Account 2040. (See Article 230 *Definitions and Instructions* No. 7 (F)).

4360 Loss on Disposition of Utility and Other Property

This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. The loss arising from the book cost of the item of property, plant and equipment or intangible asset so disposed less the amount chargeable to the applicable accumulated depreciation or amortization account and less the net proceeds realized shall be recorded in account. Records shall be maintained as to show how the gains were determined. Losses on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D of Account 2040. (See Article 230 *Definitions and Instructions* No. 7 (F)).

4362 Loss from Retirement of Utility and Other Property

This account shall be charged with the loss from the retirement of property, plant and equipment or intangible asset. The loss arising from the book cost of the item of property, plant and equipment or intangible asset retired less the amount chargeable to the applicable accumulated depreciation or amortization account and less the net proceeds realized from salvage at retirement (if any) shall be recorded in this account. Records shall be maintained as to show how the losses were determined. Losses on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D of Account 2040. (See Article 230 *Definitions and Instructions* No. 7 (F)).

Other Income/Deductions

4365 Gains from Disposition of Allowances for Emission

This account shall be credited with the gain on the sale, exchange, or other disposition of allowances.

4370 Losses from Disposition of Allowances For Emission

This account shall be debited with the loss on the sale, exchange, or other disposition of allowances.

4375 Revenues from Non Rate-Regulated Utility Operations

A. This account shall include revenues applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation is not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.

B. This account shall also be used to record the revenues arising from the provision of streetlighting services and any administrative fee revenue that the utility earns for administering the streetlighting program on behalf of a municipality, etc. while the related expenses are reflected in Account 4380, Expenses from Non Rate-Regulated Utility Operations.

C. Revenues arising from operation or management of water or sewage services on behalf of a municipal corporation that owns directly or indirectly the utility, may be recorded in this account.

D. The accounts shall be maintained so as to permit ready summarization of revenues by activity.

Example Items:

1. Street Lighting services (unless authorized by the Board).
2. Managing or operating of water or sewage services.
3. Erecting and removing temporary electricity service (non-utility related) such as community decorative Lighting.
4. Electricity generation (unless authorized by legislation).
5. Electricity transmission.

Other Income/Deductions

6. Revenues or funding associated with conservation and demand management activities.
7. Other services not defined as distribution related and not provided for elsewhere in the USoA.

4375 Revenues from Non-Regulated-Utility Operations, Sub-account Generation Facility Revenues

This account shall include revenues applicable to the operations of qualifying generation facilities or assets from all sources, including revenues from Feed-in Tariff contracts. Records shall be maintained to support the entries in this account.

4380 Expenses of Non Rate-Regulated Utility Operations

A. This account shall include expenses applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.

B. The expenses shall include all elements of costs incurred in such operations, and the accounts shall be subdivided so as to permit ready summarization of expenses by activity as follows: Operation, Maintenance, Rents, and Amortization.

Example Items:

1. Street Lighting services (unless authorized by the Board).
2. Managing or operating of water or sewage services.
3. Erecting and removing temporary electricity service (non-utility related) such as community decorative lighting.
4. Electricity generation (unless authorized by legislation).
5. Electricity transmission.
6. Expenses associated with conservation and demand management (CDM) activities.
7. Other services not defined as distribution related and not provided for elsewhere in the USoA.

Go to TOC A220

Other Income/Deductions

4380 Expenses from Non Rate-Regulated Utility Operations, Sub-account Generation Facility Expenses

This account shall include expenses applicable to the operations of qualifying generation facilities or assets. This account shall be segregated by sub-accounts to record the following categories of costs: (1) energy supply expenses (e.g. fuel), (2) operation, (3) maintenance (4) administration, (5) taxes/ payment in lieu (PILs) and (6) amortization expenses. Records shall be maintained to support the entries in this account.

4385 Non Rate-Regulated Utility Rental Income

A. This account shall include all rent revenues and related expenses of land, buildings, or other property included in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, or elsewhere, and used for non-utility purposes.

B. This account shall include all rent revenues related to items included in Account 1985, Sentinel Lighting Rental Units. (The corresponding expenses will be included in Accounts 5170 and 5172 as applicable).

C. The expenses shall include all elements of costs incurred in the ownership and rental of property, and the accounts shall be maintained so as to permit ready summarization as follows:

   Operations, Maintenance, Rents and Amortization

D. The accounts shall be subdivided so as to permit ready summarization of rent revenues by activity.

Example Items:

1. Street Lighting rental.
2. Rent related to temporary electricity service (non-utility) such as community decorative lighting.
3. Renting of sentinel light.
4. Rent derived from water and sewer assets.
5. Rent derived from electricity generation assets.
6. Rent derived from electricity transmission assets.

Go to TOC A220

Other Income/Deductions

4390 Miscellaneous Non-Operating Income

This account shall include all revenue and expense items not provided for elsewhere.

Example items

1. Profit on sale of timber. (See Article 230 *Definitions and Instructions* No. 8(B)).
2. Profits from operations of others realized by the utility under contracts.
3. Gains on disposition of investments. Also, gains on reacquisition and resale or retirement of utilities debt securities when the gain is not material.
4. Sales of scrap material, miscellaneous items.

4395 Rate-Payer Benefit Including Interest

This account shall be used to record the amounts over the return on equity ceiling or in the earnings sharing mechanism that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the Performance Based Regulation or Incentive Regulation plan. This account will also include the related accrued interest, as applicable. The corresponding Deferred Credit Account is 2435, Accrued Rate-Payer Benefit.

4398 Foreign Exchange Gains and Losses, Including Amortization

This account shall include any exchange gains or losses that arise on translation or settlement of a foreign currency denominated monetary item or a non-monetary item carried at market value that should be included in the determination of net income for the current period, except for:

1. any portion that has been included in income of previous accounting periods; and

2. any exchange gain or loss related to a foreign currency denominated monetary item with a fixed or ascertainable life extending beyond the end of the following fiscal year (see Account 1455, Unamortized Deferred Foreign Currency Translation Gains and Losses).

Go to TOC A220

Investment Income

4405 Interest and Dividend Income

A. This account shall include interest revenues on securities, loans, notes, advances, special deposits, tax refunds and all other interest bearing assets, and dividends on stocks of other companies, whether the securities on which the interest and dividends are received are carried as investments or included in sinking or other special fund accounts.

B. This account may include the pro rata amount necessary to extinguish (during the interval between the date of acquisition and the date of maturity) the difference between the cost to the utility and the face value of interest bearing securities. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried.

C. Where significant in amount, expenses, excluding operating taxes and income taxes, applicable to security investments and to interest and dividend revenues thereon shall be charged hereto.

D. Records shall be kept in a manner that each source of investment income is shown separately.

E. This account shall also include gains and losses on the sale of investments, or amounts required to provide allowances for the decrease in market value of investments in non-associated entities.

Note: Interest accrued, the payment of which is not reasonably assured, dividends receivable which have not been declared or guaranteed, and interest or dividends upon reacquired securities issued or assumed by the utility shall not be credited to this account.

4410 Lessor’s Net Investment in Finance Lease

This account shall be used to recognize finance income based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in finance lease.

4415 Equity in Earnings of Subsidiary Companies

This account shall include the utility's equity in the earnings or losses of subsidiary companies for the year.

Investment Income

4420 Share of Profit or Loss of Joint Venture

This account shall include the venturer's share of the after-tax profit or loss of the joint venture.

Go to TOC A220

Power Production Expenses

Generation Expenses - Operation

4505 Operation Supervision and Engineering

A. This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of power generating stations.

B. Direct supervision of specific activities, such as fuel handling, engine and generator operation, etc., shall be charged to the appropriate account. (See Article 230 *Definitions and Instructions* No. 4.)

4510 Fuel

This account shall include the cost delivered at the station (see Account 1305, Fuel Stock) of all fuel, such as gas, oil, kerosene, and gasoline used in power generation.

4515 Steam Expenses

This account shall include the cost of labour, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler house structure.

Example items:

Labour:

1. Supervision specific to steam production.
2. Operating fuel conveying, storage weighing and processing equipment within boiler plant.
3. Operating boiler and boiler auxiliary equipment.
4. Operating boiler feed water purification and treatment equipment.
5. Operating ash collecting and disposal equipment located inside the plant.
6. Operating boiler plant electrical equipment.
7. Keeping boiler plant log and records and preparing reports on boiler plant operation.
8. Testing boiler water.
9. Testing, checking, and adjusting meters, gauges, and other instruments and equipment in boiler plant.

Go to TOC A220

Power Production Expenses

Generation Expenses - Operation

Materials and Expenses:

1. Cleaning boiler plant equipment when not incidental to maintenance work.
2. Repacking glands and replacing gauge glasses where the work involved is of a minor nature and is performed by regular operating crews. Where the work is of a major character, such as that performed on high pressure boilers, the item should be considered as maintenance.
3. Chemicals and boiler inspection fees.
4. Lubricants.
5. Boiler feed water purchased and pumping supplies.

4520 Steam from Other Sources

This account shall include the cost of steam purchased, or transferred from another department of the utility or from others under a joint facility operating arrangement, for use in prime movers devoted to the production of electricity.

Note: The records shall be so kept as to show separately for each company from which steam is purchased, the point of delivery, the quantity, the price, and the total charge. When steam is transferred from another department or from others under a joint operating arrangement, the utility shall be prepared to show full details of the cost of producing such steam, the basis of the charge to electric generation and the extent and manner of use by each department or party involved.

4525 Steam Transferred - Credit

A. This account shall include credits for expenses of producing steam which are charged to others or to other utility departments under a joint operating arrangement. Include also credits for steam expenses chargeable to other electric accounts outside of the steam generation group. Full details of the basis of determination of the cost of steam transferred shall be maintained.

B. If the charges to external parties or to other departments of the utility include an amount for amortization, taxes and return on the joint steam facilities, such portion of the charge shall be credited, in the case of external parties, to Account 4210, Rent from Electric Property, and in the case of other departments of the utility, to Account 4205, Interdepartmental Rents.

Power Production Expenses

Generation Expenses - Operation

4530 Electric Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating prime movers, generators, and their auxiliary apparatus, switch gear and other electric equipment used in steam, nuclear, or hydraulic operations to the points where electricity leaves for conversion for transmission or distribution.

Example items:

Labour:

1. Supervision specific to electric production.
2. Operating turbines, engines, generators and exciters.
3. Operating condensers, circulating water systems and other auxiliary apparatus.
4. Operating generator cooling system.
5. Operating lubrication and oil control system, including oil purification.
6. Operating switchboards, switch gear and electric control and protective equipment.
7. Keeping electric plant log and records and preparing reports on electric plant operations.
8. Testing, checking and adjusting meters, gauges, and other instruments, relays, controls and other equipment in the electric plant.
9. Cleaning electric plant equipment when not incidental to maintenance work.
10. Repacking glands and replacing gauge glasses.

Materials and Expenses:

1. Lubricants and control system oils.
2. Generator cooling gases.
3. Circulating water purification supplies.
4. Cooling water purchased.
5. Motor and generator brushes.
6. Log sheets and charts.

4535 Water for Power

This account shall include the cost of water used for hydraulic power generation.

Go to TOC A220

Power Production Expenses

Generation Expenses - Operation

Example items:

1. Cost of water purchased from others, including water tolls paid to reservoir companies.
2. Periodic payments for licenses or permits from any governmental agency for water rights, or payments based on the use of the water.
3. Periodic payments for riparian rights.
4. Periodic payments for headwater benefits or for detriments to others.
5. Cloud seeding.

4540 Water Power Taxes

This account shall include taxes paid or payable in relation to water used in hydraulic power generation.

4545 Hydraulic Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating hydraulic works including reservoirs, dams, and waterways, and in activities directly relating to the hydroelectric development outside the generating station. It shall also include the cost of labour, materials used and other expenses incurred in connection with the operation of (a) fish and wildlife, and (b) recreation facilities. Separate sub-accounts shall be maintained for each of the above.

Example items:

Labour:

1. Supervision specific to hydraulic operation.
2. Removing debris and ice from trash racks, reservoirs and waterways.
3. Patrolling reservoirs and waterways.
4. Operating intakes, spillways, sluiceways, and outlet works.
5. Operating bubbler, heater or other de-icing systems.
6. Ice and log jam work.
7. Operating navigation facilities.
8. Operations relating to conservation of game, fish, forests, etc.
9. Insect control activities.

Go to TOC A220

Power Production Expenses

Generation Expenses - Operation

Materials and Expenses:

1. Insect control materials.
2. Lubricants, packing, and other supplies used in operation of hydraulic equipment.
3. Transportation expense.

4550 Generation Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating prime movers, generators and electric equipment in other power generating stations, to the point where electricity leaves for conversion for transmission or distribution.

Example items:

Labour:

1. Supervision specific to power generation operation.
2. Operating prime movers, generators and auxiliary apparatus and switching and other electric equipment.
3. Keeping plant log and records and preparing reports on plant operations.
4. Testing, checking, cleaning, oiling and adjusting equipment.

Materials and Expenses:

1. Dynamo, motor, and generator brushes.
2. Lubricants and control system oils.
3. Water for cooling engines and generators.

4555 Miscellaneous Power Generation Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of power generating stations which are not specifically provided for or are not readily assignable to generation expense accounts.

Go to TOC A220

Power Production Expenses

Generation Expenses - Operation

Example items:

Labour:

1. General clerical and stenographic work.
2. Guarding and patrolling plant and yard.
3. Building service.
4. Care of grounds, including snow removal, cutting grass, etc.
5. Miscellaneous labour.

Materials and Expenses:

1. Building service supplies.
2. First aid supplies and safety equipment.
3. Communication service.
4. Employees' service facilities expenses.
5. Office supplies, printing and stationary.
6. Transportation expense.
7. Meals, traveling and incidental expenses.
8. Fuel for heating.
9. Water for fire protection or general use.
10. Miscellaneous supplies, such as hand tools, drills, saw blades, files, etc.
11. Research and development expenses.

4560 Rents

This account shall include all rents of property of others used, occupied, or operated in connection with power generation. (See Article 230 *Definitions and Instructions* No. 5.)

4565 Allowances for Emissions

This account shall include the cost of allowances expensed concurrent with the monthly emission of sulfur dioxide.

Go to TOC A220

Generation Expenses Maintenance

4605 Maintenance Supervision and Engineering

This account shall include the cost of labour and expenses incurred expenses incurred in the general supervision and direction of the maintenance of power generating stations. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See Article 230 *Definitions and Instructions* No. 4.)

4610 Maintenance of Structures

This account shall include the cost of labour, materials used and expenses incurred in maintenance of facilities used in power generation, the book cost of which is included in Account 1620 Buildings and Fixtures, Account 1630 Leasehold improvements, and Account 1665, Fuel Holders, Producers and Accessories.

4615 Maintenance of Boiler Plant

A. This account shall include the cost of labour, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is included in Account 1635, Boiler Plant Equipment.

B. For the purpose of making charges hereto and to Account 4620, Maintenance of Electric Plant, the point at which steam plant is distinguished from electric plant is defined as follows:

1. Inlet flange of throttle valve on prime mover.
2. Flange of all steam extraction lines on prime mover.
3. Hotwell pump outlet on condensate lines.
4. Inlet flange of all turbine room auxiliaries.
5. Connection to line side of motor starter for all boiler plant equipment.

4620 Maintenance of Electric Plant

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is included in Account 1640, Engines and Engine Driven Generators, Account 1645, Turbogenerator Units, and Account 1680, Accessory Electric Equipment. (See paragraph B of Account 4615.)

Go to TOC A220

Generation Expenses Maintenance

4625 Maintenance of Reservoirs, Dams and Waterways

This account shall include the cost of labour, materials used, and expenses incurred in maintenance of plant included in Account 1650, Reservoirs, Dams, and Waterways. However, the cost of labour materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is included in Account 1650, Reservoirs, Dams and Waterways, shall be charged to Account 4640, Maintenance of Miscellaneous power generation plant.

4630 Maintenance of Water Wheels, Turbines and Generators

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant included in Account 1655, Water Wheels, Turbines and Generators.

4635 Maintenance of Generating and Electric Plant

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in Account 1670, Prime Movers, and Account 1675, Generators.

4640 Maintenance of Miscellaneous Power Generation Plant

This account shall include the cost of labour, materials used and expenses incurred in maintenance of power generation plant, the book cost of which is included in Account 1685, Miscellaneous Power Plant Equipment, and Account 1660, Roads, Railroads and Bridges.

This account shall also include the cost of labour materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is included in Account 1650, Reservoirs, Dams and Waterways.

Go to TOC A220

Other Power Supply Expenses

4705 Power Purchased

This account shall include the cost of all electrical energy purchased for resale.

The records supporting this account shall show, by months, the demands and demand charges, kilowatt hours and prices thereof under each purchase contract and the charges and credits under each exchange or power pooling contract.

4707 Charges - Global Adjustment

This account shall be used to record the Global Adjustment charges attributable to non-RPP customers, as a result of the settlement process with the Independent Electricity System Operator ("IESO"), host distributor or embedded generator. Note that the global adjustment charge for Regulated Price Plan consumers is not included in this account since the distributor settles this part of the global adjustment charge on its monthly settlement filings with the IESO.

4708 Charges - WMS

A. A distributor that is a wholesale Market Participant shall use this account to record the amounts charged by the Independent Electricity System Operator ("IESO") (based on the settlement invoice) for wholesale market services charge types specified by the Board.

B. This account shall include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4062 to those charges recorded in this account.

C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

4710 Cost of Power Adjustments

This account shall include any adjustments to the cost of power. Each adjustment shall be completely described.

Go to TOC A220

Other Power Supply Expenses

4712 Charges - ONE-TIME

A. A distributor that is a wholesale Market Participant shall use this account to record the amounts charges from the Independent Electricity System Operator ("IESO") (based on the settlement invoice) specified by the Board (these changes are not normally already incorporated in the Wholesale Market Service Rate).

B. This account shall include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4064 to those charges recorded in this account.

C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

4714 Charges - NW

A. This account is to be used by distributors deemed by the Board to be transmission customers to record the amounts charged by the Independent Electricity System Operator ("IESO") (based on the settlement invoice) for retail transmission network services.

B. This account shall include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4066 to those charges recorded in this account.

C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission network services.

4715 System Control and Load Dispatching

This account shall include the cost of labour and expenses incurred in load dispatching activities for system control. Utilities having an interconnected electric system or operating under a central authority which controls the production and dispatching of electricity may apportion these costs to this account and Accounts 4810, Load Dispatching Transmission, and 5010, Load Dispatching Distribution.

Other Power Supply Expenses

Example items:

Labour:

1. Allocating loads to plants and interconnections with others.
2. Directing switching.
3. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
4. Controlling system voltages.
5. Recording loadings, water conditions, etc.
6. Preparing operating reports and data for billing and budget purposes.
7. Obtaining reports on the weather and special events.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. Obtaining weather and special events reports.

4716 Charges - CN

A. This account is to be used by distributors deemed by the Board to be transmission customers to record the amount charged by the Independent Electricity System Operator ("IESO") (based on the settlement invoice) for retail transmission connection services.

B. This account shall include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4068 to those charges recorded in this account.

C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission connection services.

Go to TOC A220

Other Power Supply Expenses

4720 Other Expenses

A. This account shall be charged with any production expenses including expenses incurred directly in connection with the purchase of electricity, which are not specifically provided for in other production expense accounts. Charges to this account shall be supported so that a description of each type of charge will be readily available.

B. Recoveries from insurance companies, under use and occupancy provisions of policies, of amounts in reimbursement of excessive or added production costs for which the insurance company is liable under the terms of the policy shall be credited to this account.

4750 Charges - LV

This account shall be used by an embedded distributor to record the amount charged by a host distributor for transmission or low voltage services. This account shall include accruals for amounts not yet invoiced by the host distributor. The embedded distributor must ensure a proper matching of the billed amounts recorded in Account 4075 to those charges recorded in Account 4750.

Go to TOC A220

Transmission Expenses - Operation

4805 Operation Supervision and Engineering

This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of the transmission system as a whole. Direct supervision of specific activities, such as station equipment operation, line operation, etc., shall be charged to the appropriate account. (See Article 230 *Definitions and Instructions* No.4.)

4810 Load Dispatching

This account shall include the cost of labour, materials used and expenses incurred in load dispatching operations pertaining to the transmission of electricity.

Example items:

Labour:

1. Directing switching.
2. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
3. Controlling system voltages.
4. Obtaining reports on the weather and special events.
5. Preparing operating reports and data for billing and budget purposes.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. Obtaining weather and special events reports.

4815 Station Buildings and Fixtures Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating transmission station buildings and fixtures recorded in Account 1708, Buildings and Fixtures, and Account 1710, Leasehold Improvements. If transmission station buildings and fixtures are located in or adjacent to a generating station, the expenses applicable to transmission station buildings and fixtures shall nevertheless be charged to this account.

Go to TOC A220

Transmission Expenses - Operation

Labour:

1. Standing watch, guarding and patrolling station and station yard.
2. Sweeping, mopping and tidying station.
3. Care of grounds, including snow removal, cutting grass, etc.

Station Supplies and Expenses:

1. Taxes, light, heat, telephone
2. Building service expenses.
3. Tool expenses.
4. Transportation expenses.
5. Meals, traveling and incidental expenses.

4820 Transformer Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in Account 1715. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in Account 4805.

If transmission station equipment is located in or adjacent to a generating station the expenses applicable to transmission station operations shall nevertheless be charged to this account.

Example items:

1. Supervision specific to station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

Go to TOC A220

Transmission Expenses - Operation

4825 Transformer Station Equipment - Operating Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in Account 1715.

Example items:

1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.
2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses.
6. Meals, traveling, and incidental expenses.

4830 Overhead Line Expenses

See description at Account 4835, Underground Line Expenses.

4835 Underground Line Expenses

A. These accounts shall include the cost of labour, materials used and expenses incurred in the operation of transmission lines.

B. If the expenses are not material for both overhead and underground lines, these accounts may be combined.

Example items:

Labour:

1. Supervision specific to line operation.
2. Inspecting and testing lightning arresters, circuit breakers, switches, and grounds
3. Load tests of circuits.
4. Routine line patrolling.
5. Routine voltage surveys made to determine the condition or efficiency of transmission system.

Go to TOC A220

Transmission Expenses - Operation

6. Transferring loads, switching and reconnecting circuits and equipment for operating purposes. (Switching for construction or maintenance purposes is shall not be included in this account.)
7. Routine inspection and cleaning of manholes, conduit, network and transformer vaults.
8. Electrolysis surveys.
9. Inspecting and adjusting line testing equipment, such as voltmeters, ammeters, wattmeters, etc.
10. Regulation and addition of oil or gas in high voltage cable systems.

Materials and Expenses:

1. Transportation expenses.
2. Meals, traveling and incidental expenses.
3. Tool expenses.
4. Operating supplies, such as instrument charts, rubber goods, etc.

4840 Transmission of Electricity by Others

This account shall include amounts payable to others for the transmission of the utility's electricity over transmission facilities owned by others.

4845 Miscellaneous Transmission Expenses

This account shall include the cost of labour, materials used and expenses incurred in transmission map and record work, transmission office expenses, and other transmission expenses not provided for elsewhere.

Example items:

Labour:

1. General records of physical characteristics of lines and stations, such as capacities, etc.
2. Ground resistance records.
3. Janitor work at transmission office buildings, including care of grounds, snow removal, cutting grass, etc.
4. Joint pole maps and records.

Go to TOC A220

Transmission Expenses - Operation

5. Line load and voltage records.
6. Preparing maps and prints.
7. General clerical and stenographic work.
8. Miscellaneous labour.

Materials and Expenses:

1. Communication service.
2. Building service supplies.
3. Map and record supplies.
4. Transmission office supplies and expenses, printing and stationery.
5. First aid supplies.
6. Research and development expenses.

4850 Rents

This account shall include rents of property of others used, occupied, or operated in connection with the transmission system, including payments to federal, provincial or municipal governments or others for use of public or private lands and reservations for transmission line rights of way. (See Article 230 *Definitions and Instructions* No. 5.)

Go to TOC A220

Transmission Expenses - Maintenance

4905 Maintenance Supervision and Engineering

This account shall include the cost of labour and expenses incurred in the general supervision and direction of maintenance of the transmission system. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See Article 230 *Definitions and Instructions* No. 4.)

4910 Maintenance of Transformer Station Buildings and Fixtures

This account shall include the cost of labour with payroll burden, material, trucking and other expenses, incurred in the maintenance of Transformer station structures, the book cost of which is included in Account 1708, Buildings and Fixtures, and 1710, Leasehold Improvements.

4916 Maintenance of Transformer Station Equipment

This account shall include the cost of labour with payroll burden, material, trucking and other expenses, incurred in maintenance of station equipment the book cost of which is included in Account 1715, Station Equipment.

4930 Maintenance of Towers, Poles and Fixtures

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in Accounts 1720, Towers and Fixtures, 1725, Poles and Fixtures.

Example items:

Work of the following character on poles, towers and fixtures:

1. Installing or removing additional clamps or strain insulators on guys in place.
2. Moving line or guy pole in relocation of the same pole or section of line.
3. Painting poles, towers, crossarms or pole extensions.
4. Readjusting and changing position of guys or braces.
5. Realigning and straightening poles, cross arms braces, and other pole fixtures.
6. Reconditioning reclaimed pole fixtures.
7. Relocating crossarms, racks, brackets, and other fixtures on poles.
8. Repairing or realigning pins, racks, or brackets.
9. Repairing pole supported platform.

Go to TOC A220

Transmission Expenses - Maintenance

10. Repairs by others to jointly owned poles.
11. Shaving, cutting rot, or treating poles or crossarms in use or salvaged for reuse.
12. Stubbing poles already in service.
13. Supporting fixtures and conductors and transferring them to new pole during poles replacements.
14. Maintenance of pole signs, stencils, tags, etc.

4935 Maintenance of Overhead Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in Account 1730, Overhead Conductors and Devices.

Work of the following character on overhead conductors and devices:

1. Overhauling and repairing line cutouts, line switches, line breakers, etc.
2. Cleaning insulators and bushings.
3. Refusing cutouts.
4. Repairing line oil circuit breakers and associated relays and control wiring.
5. Repairing grounds.
6. Resagging, retying, or rearranging position or spacing of conductors.
7. Standing by phones, going to calls, cutting faulty lines clear, or similar activities at times of emergencies.
8. Sampling, testing, changing, purifying, and replenishing insulating oil.
9. Repairing line testing equipment.
10. Transferring loads, switching and reconnecting circuits and equipment for maintenance purposes.

4940 Maintenance of Overhead Lines - Right of Way

This account shall include the maintenance expenses relating to trimming of trees, clearing of brush and maintaining right of way subsequent to construction of a line related to assets included in Accounts 1720, Towers and Fixtures, 1725, Poles and Fixtures, and 1730, Overhead Conductors and Devices.

Go to TOC A220

Transmission Expenses - Maintenance

4945 Maintenance of Overhead Lines - Roads and Trails Repairs

This account shall include the maintenance expenses relating to roadways, trails, bridges, etc. included in Account 1745, Roads and Trails as well as maintenance work on publicly owned roads and trails when done by the utility at its own expense.

4950 Maintenance of Overhead Lines - Snow Removal from Roads and Trails

This account shall include the snow removal expenses relating to repairs of roadways, trails, bridges, etc. included in Account 1745, Roads and Trails.

4960 Maintenance of Underground Lines

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in Accounts 1735, Underground Conduit, and 1740, Underground Conductors and Devices.

Example items:

Work of the following character on underground conduit:

1. Cleaning ducts, manholes, and sewer connections.
2. Minor alterations of handholes, manholes, or vaults.
3. Refastening, repairing, or moving racks, ladders, or hangers in manholes or vaults.
4. Plugging and shelving or replugging ducts.
5. Repairs to sewers and drains, walls and floors, rings and covers.

Work of the following character on underground conductors and devices:

1. Repairing oil circuit breakers, switches, cutouts, and control wiring.
2. Repairing grounds.
3. Retraining and reconnecting cables in manhole, including transfer of cables from one duct to another.
4. Repairing conductors and splices.
5. Repairing or moving junction boxes and potheads.
6. Refireproofing of cables and repairing supports.
7. Repairing electrolysis preventive devices for cables.
8. Repairing cable bonding systems.

Transmission Expenses - Maintenance

9. Sampling, testing, changing, purifying and replenishing insulating oil.
10. Transferring loads, switching and reconnecting circuits and equipment for maintenance purposes.
11. Repairing line testing equipment.
12. Repairs to oil or gas equipment in high-voltage cable system and replacement of oil or gas.

4965 Maintenance of Miscellaneous Transmission Plant

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of owned or leased plant which is assignable to transmission operations and is not provided for elsewhere.

Go to TOC A220

Distribution Expenses - Operations

5005 Operation Supervision and Engineering

This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of the distribution system. Direct supervision of specific activities, such as station operation, line operation, meter department operation, etc., shall be charged to the appropriate operations account in the 5000 series based on the nature of the activity in relation to the account descriptions. (See Article 230 *Definitions and Instructions* No. 4.)

5010 Load Dispatching

This account shall include the cost of labour, materials used and expenses incurred in load dispatching operations pertaining to the distribution of electricity.

Example items:

Labour:

1. Directing switching.
2. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
3. Controlling system voltages.
4. Preparing operating reports.
5. Obtaining reports on the weather and special events.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. SCADA equipment related expenses

5012 Station Buildings and Fixtures Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating distribution station building and fixtures recorded in Account 1808 Buildings and Fixtures and Account 1810 Leasehold Improvements.

Go to TOC A220

Distribution Expenses - Operations

Example items:

Labour:

1. Standing watch, guarding and patrolling station and station yard.
2. Sweeping, mopping and tidying station.
3. Care of grounds, including snow removal, cutting grass, etc.

Station Supplies and Expenses:

1. Taxes (e.g. property taxes), light, heat, telephone.
2. Building service expenses.
3. Tool expenses.
4. Transportation expenses.
5. Meals, traveling and incidental expenses.

The accounts shall be sub-divided to show the cost of operating individual stations.

5014 Transformer Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in Account 1815. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in Account 5005.

Example items:

1. Supervision specific to transformer station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

Go to TOC A220

Distribution Expenses - Operations

5015 Transformer Station Equipment - Operating Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in Account 1815.

Example items:

1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.
2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses.
6. Meals, traveling, and incidental expenses.

5016 Distribution Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in Account 1820. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in Account 5005.

Example items:

1. Supervision specific to transformer station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

Note: If the utility owns storage battery equipment used for supplying electricity to customers in periods of emergency, the cost of operating labour should be recorded in this account and the cost of supplies, such as acid, gloves, hydrometers, thermometers, soda, automatic cell fillers, acid proof shoes, etc.,

Distribution Expenses - Operations

shall be included in Account 5017. If significant in amount, a separate subdivision in each account shall be maintained for such expenses.

5017 Distribution Station Equipment - Operating Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in Account 1820.

Example items:

1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.
2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses
6. Meals, traveling, and incidental expenses.

5020 Overhead Distribution Lines and Feeders - Operation Labour

This account shall include labour with payroll burden incurred in operating overhead lines from the low voltage connection in the distribution station to the customers' premises but not operating labour incurred in relation to customer premises (Account 5070).

Example items:

1. Supervision specific to line operation.
2. Changing line transformer taps.
3. Inspecting and testing lightning arresters, line circuit breakers, switches and grounds.
4. Inspecting and testing line transformers for the purpose of determining load, temperature or operating performance.
5. Patrolling lines.
6. Load tests and voltages surveys of feeders and circuits.

Go to TOC A220

Distribution Expenses - Operations

5025 Overhead Distribution Lines and Feeders - Operation Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating overhead lines from the low voltage connection in the distribution station to the customer's premises but not operating supplies and expenses incurred in relation to customer premises (Account 5075).

Line Supplies and Expenses examples:

1. Voltage surveys, either routine or upon request of customers, including voltage tests at customers' main switch.
2. Transferring loads, switching and reconnecting circuits and equipment for operation purposes.
3. Electrolysis surveys.
4. Inspecting and adjusting line testing equipment.
5. Tool expenses.
6. Transportation expenses.
7. Meals, traveling and incidental expense.
8. Operating supplies, such as instrument charts, rubber goods, etc.

5030 Overhead Sub-transmission Feeders - Operation

These accounts shall include labour with payroll burden, material, trucking and other expenses incurred in inspecting, patrolling and testing the overhead sub-transmission feeder system.

5035 Overhead Distribution Transformers - Operation

This account shall include labour with payroll burden, material, trucking and other expenses incurred in removing and resetting overhead transformers and devices and also the inspection and testing while in service.

The account shall be subdivided as necessary.

Note: The cost of the original setting shall be charged to Account 1850, Line Transformers.

Go to TOC A220

Distribution Expenses - Operations

5040 Underground Distribution Lines and Feeders - Operation Labour

These accounts shall include labour with payroll burden incurred in operating underground distribution lines from the low voltage connection in the municipal distribution station to the customers' premises but not operating labour incurred in relation to customer premises (Account 5070).

Line Labour examples:

1. Supervision specific to line operation.
2. Changing line transformer taps.
3. Inspecting and testing lightning arresters, line circuit breakers, switches and grounds.
4. Inspecting and testing line transformers for the purpose of determining load, temperature or operating performance.
5. Patrolling lines.
6. Load tests and voltages surveys of feeders and circuits.

5045 Underground Distribution Lines and Feeders - Operation Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating underground distribution lines from the low voltage connection in the municipal distribution station to the customers' premises but not operating supplies and expenses incurred in relation to customer premises (Account 5070).

Example items:

1. Voltage surveys, either routine or upon request of customers, including voltage tests at customers' main switch.
2. Transferring loads, switching and reconnecting circuits and equipment for operation purposes.
3. Electrolysis surveys.
4. Inspecting and adjusting line testing equipment.
5. Tool expenses.
6. Transportation expenses.
7. Meals, traveling and incidental expense.
8. Operating supplies, such as instrument charts, rubber goods, etc.

Go to TOC A220

Distribution Expenses - Operations

5050 Underground Sub-transmission Feeders - Operation

These accounts shall include labour with payroll burden, material, trucking and other expenses incurred in inspecting, patrolling and testing the underground sub-transmission feeder system.

5055 Underground Distribution Transformers - Operation

This account shall include labour with payroll burden, material, trucking and other expenses incurred in removing and resetting underground transformers and devices and also the inspection and testing while in service.

The account shall be subdivided as necessary.

Note: The cost of the original setting shall be charged to Account 1850, Line Transformers.

5060 Street Lighting and Signal System Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of such plant owned by the utility, if authorized by the Board and where such work is done regularly as a part of the street lighting and signal system service.

Example items:

Labour:

1. Supervision specific to street lighting and signal systems operation.
2. Replacing lamps and consequential cleaning of glassware and fixtures.
3. Routine patrolling for lamp outages, extraneous nuisances or encroachments, etc.
4. Testing lines and equipment including voltage and current measurement.
5. Winding and inspection of time switch and other controls.

Materials and Expenses:

1. Street lamp renewals.
2. Transportation and tool expense.
3. Meals, traveling, and incidental expenses.

Go to TOC A220

Distribution Expenses - Operations

Note: Where the utility does not own the street lighting assets, the revenues and expenses from the provision or maintenance of street lighting services should be recorded in Account 4375, Revenues from Non-Utility Operations and 4380, Expenses from Non-Utility Operations, respectively.

5065 Meter Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of customer meters and associated equipment.

Example items:

Labour:

1. Supervision specific to meter operation.
2. Clerical work on meter history and associated equipment record cards, test cards, and reports.
3. Disconnecting and reconnecting, removing and reinstalling, sealing and unsealing meters and other metering equipment in connection with initiating or terminating services including the cost of obtaining meter readings, if incidental to such operation.
4. Consolidating meter installations due to elimination of separate meters for different rates of service.
5. Changing or relocating meters, instrument transformers, time switches, and other metering equipment.
6. Resetting time controls, checking operation of demand meters and other metering equipment, when done as an independent operation.
7. Inspecting and adjusting meter testing equipment.
8. Inspecting and testing meters, instrument transformers, time switches, and other metering equipment on premises or in shops excluding inspecting and testing incidental to maintenance
9. Replacing or removing broken meters.

Materials and Expenses:

1. Meter seals and miscellaneous meter supplies.
2. Transportation expenses.
3. Meals, traveling, and incidental expenses.
4. Tool expenses.

Distribution Expenses - Operations

5. Replacing or removing broken meters

Note: The cost of the first setting, including the government inspection fee, and testing of a meter is chargeable to utility plant Account 1860, Meters. The cost of removing and resetting for government inspection, including the fees, shall be a charge to this account.

5070 Customer Premises - Operating Labour

This account shall include labour with payroll burden related to providing service on assets on customers' premises which are included in Account 1855, Services.

Example items:

1. Inspecting premises, including check of wiring for code compliance.
2. Investigating, locating, and clearing grounds on customers' wiring.
3. Investigating service complaints, including load tests of motors and lighting and power circuits on customers' premises; field investigations of complaints on bills or of voltage.
4. Radio, television and similar interference work including erection of new aerials on customers' premises and patrolling of lines, testing of lightning arresters, inspection of pole hardware, etc., and examination of customers' wiring to locate cause of interference.
5. Investigation of current diversion including setting and removal of check meters discovery and settlement of current diversion;
6. Changes in customer wiring and any other labour cost identifiable as caused by current diversion

Note A: Amounts billed customers for any work, the cost of which is charged to this account, shall be transferred to Account 4235, Miscellaneous Service Revenues.

Note B: Do not include in this account expenses incurred in connection with merchandising.

Go to TOC A220

Distribution Expenses - Operations

5075 Customer Premises - Materials and Expenses

This account shall include trucking, materials and other expenses related to providing services to assets on customers' premises which are included in Account 1855, Services.

Examples of services include inspection, voltages tests and the like related to labour examples listed in 5070, Customer Premises - Operating Labour.

Example items:

Materials and Expenses:

1. Lamp and fuse renewals.
2. Materials used in the course of performing inspection, voltage tests, etc.
3. Tool expense.
4. Transportation expense, including pickup and delivery charges.
5. Meals, traveling and incidental expenses.
6. Rewards paid for discovery of current diversion.

Note A: Amounts billed customers for any work, the cost of which is charged to this account, shall be transferred to Account 4235, Miscellaneous Service Revenues.

Note B: Do not include in this account expenses incurred in connection with merchandising and contract work.

5085 Miscellaneous Distribution Expenses

This account shall include the cost of labour, materials used and expenses incurred in distribution system operation not provided for elsewhere.

Example items:

Labour:

1. General records of physical characteristics of lines and substations, such as capacities, etc.
2. Ground resistance records.
3. Joint pole maps and records.
4. Distribution system voltage and load records.

Distribution Expenses - Operations

5. Preparing maps and prints.
6. Service interruption and trouble records.
7. General clerical and stenographic work except that chargeable to account 5065, Meter expenses.

Material and Expenses:

1. Operating records covering poles, transformers, manholes, cables, and other distribution facilities. Exclude meter records chargeable to Account 5065, Meter Expenses and station records chargeable to Account 5012, Station Building and Fixtures Expenses.
2. Janitorial work at distribution office buildings including snow removal, cutting grass, etc.
3. Communication service.
4. Building service expenses.
5. Miscellaneous office supplies and expenses, printing, and stationery, maps and records and first aid supplies.
6. Research, development, and demonstration expenses.

5090 Underground Distribution Lines and Feeders - Rental Paid

This account shall include rents of property of others used, occupied, or operated in connection with the distribution system, including payments to the government authorities and others for the use and occupancy of public lands and reservations for underground distribution line rights of way. (See Article 230 *Definitions and Instructions* No. 5.)

Records should permit identification of payments and parties to whom they were made.

5095 Overhead Distribution Lines and Feeders - Rental Paid

This account shall include rents of property of others used, occupied, or operated in connection with the distribution system, including payments to the government authorities and others for the use and occupancy of public lands and reservations for overhead distribution line rights of way. (See Article 230 *Definitions and Instructions* No. 5.)

Records should permit identification of payments and parties to whom they were made.

Distribution Expenses - Operations

5096 Other Rent

This account shall include rents for property of others used, occupied or operated in connection with the operation of the distribution system. Include rentals paid for railroad crossings, rights of ways, payments to government bodies and others for use of public or private land, etc., not otherwise included in Accounts 5090, Underground Distribution Lines and Feeders Rental Paid or 5095, Overhead Distribution Lines and Feeders - Rental Paid.

Go to TOC A220

Distribution Expenses - Maintenance

5105 Maintenance Supervision and Engineering

This account shall include the cost of labour and expenses incurred in the general supervision and direction of maintenance of the distribution system that cannot be directly allocated to any particular job/project. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account in the 5100 series based on the nature of the activity in relation to the account descriptions. *(*See Article 230 *Definitions and Instructions* No. 4.)

5110 Maintenance of Buildings and Fixtures - Distribution Stations

This account shall include the cost of labour, materials used and expenses incurred in maintenance of structures, the book cost of which is included in Account 1808, Buildings and Fixtures, and 1810, Leasehold Improvements.

5112 Maintenance of Transformer Station Equipment

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in Account 1815, Transformer Station Equipment - Normally Primary above 50kV.

5114 Maintenance of Distribution Station Equipment

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in Account 1820, Distribution Station Equipment - Normally Primary below 50kV, and Account 1825, Storage Battery Equipment.

Records should permit the identification of expenses relating to each type of equipment listed above.

5120 Maintenance of Poles, Towers and Fixtures

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in Account 1830, Poles, Towers and Fixtures.

Go to TOC A220

Distribution Expenses - Maintenance

Example items:

1. Work of the following character on poles, towers, and fixtures:
2. Installing additional clamps or removing clamps or strain insulators on guys in place.
3. Moving line or guy pole in relocation of pole or section of line.
4. Painting poles, towers, crossarms, or pole extensions.
5. Readjusting and changing position of guys or braces.
6. Realigning and straightening poles, crossarms, braces, pins, racks, brackets, and other pole fixtures.
7. Reconditioning reclaimed pole fixtures.
8. Relocating crossarms, racks, brackets, and other fixtures on poles.
9. Repairing pole supported platform.
10. Repairs by others to jointly owned poles.
11. Shaving, cutting rot, or treating poles or crossarms in use or salvaged for reuse.
12. Stubbing poles already in service.
13. Supporting conductors, transformers, and other fixtures and transferring them to new poles during pole replacements.
14. Maintaining pole signs, stencils, tags, etc.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5125 Maintenance of Overhead Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in Account 1835, Overhead Conductors and Devices.

Example items:

Work of the following character on overhead conductors and devices:

1. Overhauling and repairing line cutouts, line switches, line breakers, and capacitor installations.
2. Cleaning insulators and bushings.
3. Refusing line cutouts.
4. Repairing line oil circuit breakers and associated relays and control wiring. Repairing grounds.

Go to TOC A220

Distribution Expenses - Maintenance

5. Resagging, retying, or rearranging position or spacing of conductors.

6. Standing by phones, going to calls, cutting faulty lines clear or similar activities at times of emergency.
7. Sampling, testing, changing, purifying, and replenishing insulating oil.
8. Transferring loads, switching, and reconnecting circuits and equipment for maintenance purposes.
9. Repairing line testing equipment.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5130 Maintenance of Overhead Services

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in Account 1855, Services.

Example items:

Work of the following character on overhead services:

1. Moving position of service either on pole or on customers' premises.
2. Pulling slack in service wire.
3. Retying service wire.
4. Refastening or tightening service bracket.

5135 Overhead Distribution Lines and Feeders - Right of Way

These accounts shall include labour with payroll burden, material, trucking, and other expenses incurred in connection with tree trimming, etc. and other costs incurred in maintaining right of way subsequent to construction of a line.

These accounts may be further subdivided as follows:

1. Labour and Payroll Burden
2. Material
3. Truck Expense
4. Other Expense

Distribution Expenses - Maintenance

5145 Maintenance of Underground Conduit

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in Account 1840, Underground Conduit.

5150 Maintenance of Underground Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in Account 1845, Underground Conductors and Devices.

Example items:

Work of the following character on underground conductors and devices:

1. Repairing circuit breakers, switches, cutouts, network protectors, and associated relays and control wiring.
2. Repairing grounds.
3. Retraining and reconnecting cables in manholes including transfer of cables from one duct to another.
4. Repairing conductors and splices.
5. Repairing or moving junction boxes and potheads.
6. Refireproofing cables and repairing supports.
7. Repairing electrolysis preventive devices for cables.
8. Repairing cable bonding systems.
9. Sampling, testing, changing, purifying and replenishing insulating oil.
10. Transferring loads, switching and reconnecting circuits and equipment for maintenance purposes.
11. Repairing line testing equipment.
12. Repairing oil or gas equipment in high voltage cable systems and replacement of oil or gas.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

Go to TOC A220

Distribution Expenses - Maintenance

5155 Maintenance of Underground Services

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in the underground portion of Account 1855, Services.

Example items:

Work of the following character on underground services:

1. Cleaning ducts.
2. Repairing any underground service plant.

5160 Maintenance of Line Transformers

This account shall include the cost of labour, materials used and expenses incurred in maintenance of distribution line transformers, the book cost of which is included in Account 1850, Line Transformers.

The cost shall include renewing oil, painting and the like, necessary to keep the equipment in service.

Note: All lightning arresters on the distribution system, excluding pothead arresters, are considered to be transformer equipment or devices and the maintenance thereof is chargeable to this account.

Records shall be kept to separately show costs related to overhead and underground transformers.

5165 Maintenance of Street Lighting and Signal Systems

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in Account 1875, Street Lighting and Signal Systems.

5170 Sentinel Lights - Labour

This account shall include labour related to servicing rental sentinel lights.

Go to TOC A220

Distribution Expenses - Maintenance

5172 Sentinel Lights - Materials and Expenses

This account shall include trucking, materials and other expenses related to servicing rental sentinel lights.

5175 Maintenance of Meters

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of meters and meter testing equipment, the book cost of which is included in Account 1860, Meters, and Account 1945, Measurement and Testing Equipment, respectively.

The cost shall include cleaning and painting and other work necessary to keep the equipment in service. The labour and expenses incident to the operation of the meter repair department shall be a charge to these accounts.

5178 Customer Installations Expenses - Leased Property

This account shall include the cost of labour, materials used and expenses incurred in work on customer installations of leased property included in Account 1870, Leased Property on Customer Premises and in rendering services to customers of the nature of those indicated by the list of items hereunder.

Example items:

Labour:

1. Supervision specific to customer installations work.
2. Installing, connecting, reinstalling, or removing leased property on customers' premises.
3. Testing, adjusting, and repairing customers' fixtures and appliances in shop or on premises.
4. Cost of changing customers' equipment due to changes in service characteristics.

Materials and Expenses:

1. Materials used in servicing customers' fixtures, appliances and equipment.

Go to TOC A220

Distribution Expenses - Maintenance

2. Power, light, heat, telephone, and other expenses of appliance repair department.
3. Tool expense.
4. Transportation expense, including pickup and delivery charges.
5. Meals, traveling and incidental expenses.

5195 Maintenance of Other Installations on Customer Premises

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant the book cost of which is included in Account 1865, Other Installations on Customer Premises.

Go to TOC A220

Other Expenses

5205 Purchase of Transmission and System Services

This account will be used to record expenses related to purchase of transmission and system services.

5210 Transmission Charges

This account will be used to record Transmission Charges incurred.

5215 Transmission Charges Recovered

This account will be used to record Transmission Charges recovered from customers.

Records shall be maintained so that the quantity of electricity supplied each party and the related revenues shall be readily available.

Go to TOC A220

Billing and Collecting

5305 Supervision

This account shall include the cost of labour and expenses incurred in the general direction and supervision of customer accounting and collecting activities. Direct supervision of a specific activity shall be charged to Account 5310, Meter Reading Expenses, Account 5315, Billing, or Account 5320, Collecting, as appropriate.

5310 Meter Reading Expenses

This account shall include the cost of labour, materials used and expenses (automobile, truck and other expenses) incurred in reading customer meters, and determining consumption when performed by employees in reading meters.

Where employees are engaged in other functions of the utility, only a pro-rata share of payroll costs shall be charged to this account.

Example items:

Labour:

1. Addressing forms for obtaining meter readings by mail.
2. Changing and collecting meter charts used for billing purposes.
3. Inspecting time clocks, checking seals, etc., when performed by meter readers and the work represents a minor activity incidental to regular meter reading routine.
4. Reading meters, including demand meters, and obtaining load information for billing purposes. Exclude and charge to Account 5065, Meter Expenses, or to Account 5315, Customer Billing, as applicable, the cost to obtaining meter readings, first and final, if incidental to the operation of removing or resetting, sealing, or locking, and disconnecting or reconnecting meters.
5. Computing consumption from meter reader’s book or from reports by mail when done by employees engaged in reading meters.
6. Collecting from prepayment meters when incidental to meter reading.
7. Maintaining record of customers’ keys.
8. Computing estimated or average consumption when performed by employees engaged in reading meters.

Go to TOC A220

Billing and Collecting

Materials and Expenses:

1. Badges, lamps, and uniforms.
2. Demand charts, meter books and binders and forms for recording readings, but not the cost of preparation.
3. Postage and supplies used in obtaining meter readings by mail.
4. Transportation, meals, and incidental expenses.

Note: Sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

5315 Customer Billing

This account shall include all costs related to the billing of customer accounts. These costs shall include salaries and wages with payroll burden, stationery, postage, delivery expense and the charges for contract billing performed by other parties. Where employees are engaged in other functions of the utility, only a prorated share of payroll costs shall be charged to this account.

Note: Sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

5320 Collecting

This account shall include all costs related to the collection of customer accounts. These costs shall include salaries and wages with payroll burden, legal fees and other expenses. Where employees are engaged in other functions of the utility, only a pro-rata share of payroll costs shall be charged to this account.

Note: Sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

Go to TOC A220

Billing and Collecting

5325 Collecting - Cash Over and Short

This account shall be debited with cash shortages and credited with cash overages. At the end of the accounting period, a debit or credit balance in the account shall be transferred to Account 5320, Collecting.

5330 Collection Charges

This account shall include all amounts recovered due to the imposition of charges related to the collection of customer accounts.

5335 Bad Debt Expense

This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits shall be made to Account 1130, Accumulated Provision for Uncollectible Accounts Credit.

Note: Records shall be maintained demonstrating uncollectible amounts by category, customer class, etc.

5340 Miscellaneous Customer Accounts Expenses

This account shall include the cost of labour, materials used and expenses incurred not provided for in other accounts.

Example items:

Labour:

1. General clerical and stenographic work.
2. Miscellaneous labour.

Materials and Expenses:

1. Communication service.
2. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in Accounts 5310, Meter Reading Expenses, 5315, Customer Billing and 5320, Collecting.

Go to TOC A220

Community Relations

5405 Supervision

This account shall include the cost of labour and expenses incurred in the general direction and supervision of customer service activities. Direct supervision of a specific activity shall be charged to the account where the costs of such activity are included.

5410 Community Relations - Sundry

This account shall include the cost of salaries and wages, with payroll burden, of employees directly engaged in providing services to the community. Services acquired outside the organization shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Note: Charges to this account must be directly associated with the operation of the electric utility.

5415 Energy Conservation

This account shall include the cost of salaries and wages, with payroll burden, of employees directly engaged in providing services related to energy conservation. Services acquired outside the organization such as advertising through agencies, newspapers, periodicals, circulars, handbills, booklets and the like, shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Note: Charges to these accounts must be directly associated with the operation of the electric utility.

5420 Community Safety Program

This account shall include the cost of salaries and wages, with payroll burden of employees directly engaged in providing services related to safety. Services acquired outside the organization such as advertising through agencies, newspapers, periodicals, circulars, handbills, booklets and the like, shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Go to TOC A220

Community Relations

Note: Charges to these accounts must be directly associated with the operation of the electric utility.

5425 Miscellaneous Customer Service and Informational Expenses

This account shall include labour, materials and expenses incurred in connection with customer service activities which are not included in other customer service expense accounts.

Go to TOC A220

Sales Expenses

5505 Supervision

This account shall include the cost of labour and expenses incurred in the general direction and supervision of sales activities, except merchandising. Direct supervision of a specific activity, such as demonstrating, selling, or advertising shall be charged to the account wherein the costs of such activity are included. (See Article 230 *Definitions and Instructions* No. 4.)

5510 Demonstrating and Selling Expenses

This account shall include the cost of labour, materials used and expenses incurred in promotional, demonstrating, and selling activities, except by merchandising, the object of which is to promote or retain the use of utility services by present and prospective customers.

Example items:

Labour:

1. Demonstrating uses of utility services.
2. Conducting cooking schools, preparing recipes, and related home service activities.
3. Exhibitions, displays, lectures, and other programs designed to promote use of utility services.
4. Experimental and development work in connection with new and improved appliances and equipment, prior to general public acceptance.
5. Solicitation of new customers or of additional business from old customers, including commissions paid employees.
6. Engineering and technical advice to present or prospective customers in connection with promoting or retaining the use of utility services.
7. Special customer canvasses when their primary purpose is the retention of business or the promotion of new business.

Materials and Expenses:

1. Supplies and expenses pertaining to demonstration and experimental and development activities.
2. Booth and temporary space rental.
3. Loss in value on equipment and appliances used for demonstration purposes.

Go to TOC A220

Sales Expenses

4. Transportation, meals, and incidental expenses.

5515 Advertising Expenses

This account shall include the cost of labour, materials used and expenses incurred in advertising designed to promote or retain the use of utility service, except advertising the sale of merchandise by the utility.

Example items:

Labour:

1. Direct supervision of department.
2. Preparing advertising material for newspapers, periodicals, billboards, etc., and preparing and conducting motion pictures, radio and television programs.
3. Preparing booklets, bulletins, etc., used in direct mail advertising.
4. Preparing window and other displays.
5. Clerical and stenographic work.
6. Investigating advertising agencies and media and conducting negotiations in connection with the placement and subject matter of sales advertising.

Materials and expenses:

1. Advertising in newspapers, periodicals, billboards, radio, etc., for sales promotion purposes, but not including institutional or goodwill advertising included in Account 5660, General Advertising Expenses.
2. Materials and services given as prizes or otherwise in connection with civic lighting contests, canning, or cooking contests, bazaars, etc., in order to publicize and promote the use of utility services.
3. Fees and expenses of advertising agencies and commercial artists.
4. Novelties for general distribution.
5. Postage on direct mail advertising.
6. Premiums distributed generally, such as recipe books, etc., when not offered as inducement to purchase appliances.
7. Printing booklets, dodgers, bulletins, etc.
8. Supplies and expenses in preparing advertising material.
9. Office supplies and expenses.

Go to TOC A220

Sales Expenses

Note A: The cost of advertisements which set forth the value or advantages of utility service without reference to specific appliances or, if reference is made to appliances invites the reader to purchase appliances from his dealer or refer to appliances not carried for sale by the utility, shall be considered sales promotion advertising and charged to this account. However, advertisements which are limited to specific makes of appliances sold by the utility and prices, terms, etc., thereof, without referring to the value or advantages of utility service, shall be considered as merchandise advertising and the cost shall be charged to Account 4330, Costs and Expenses of Merchandising ,.

Note B: Advertisements which substantially mention or refer to the value or advantages of utility service, together with specific reference to makes of appliances sold by the utility and the price, terms, etc., thereof and designed for the joint purpose of increasing the use of utility service and the sales of appliances, shall be considered as a combination advertisement and the costs shall be distributed between this account and Account 4330 on the basis of space, time, or other proportional factors.

Note C: Exclude from this account and charge to Account 5665, Miscellaneous General Expenses, the cost of publication of stockholder reports, dividend notices, bond redemption notices, financial statements, and other notices of a general corporate character.

5520 Miscellaneous Sales Expenses

This account shall include the cost of labour, materials used and expenses incurred in connection with sales activities, except merchandising, which are not included in other sales expense accounts.

Example items:

Labour:

1. General clerical and stenographic work not assigned to specific functions.
2. Special analysis of customer accounts and other statistical work for sales purposes not a part of the regular customer accounting and billing routine.
3. Miscellaneous labour.

Go to TOC A220

Sales Expenses

Materials and Expenses:

1. Communication service.
2. Printing, postage, and office supplies and expenses applicable to sales activities, except those chargeable to Account 5515, advertising Expenses.

Go to TOC A220

Administrative and General Expenses

5605 Executive Salaries and Expenses

This account shall include the salaries and expenses of the commissioners, presidents, vice-presidents, general managers, etc. of the utility.

5610 Management Salaries and Expenses

This account shall include the utility management salaries of middle managers (i.e. Human Resource managers), etc. with payroll burden and expenses.

5615 General Administrative Salaries and Expenses

This account shall include the salaries with payroll burden and expenses of the staff of the general administration office.

5620 Office Supplies and Expenses

A. This account shall include office supplies and expenses incurred in connection with the general administration of the utility's operations which are assignable to specific administrative or general departments and the expenses are not specifically provided for in other accounts. This includes the expenses of the various administrative and general departments, the salaries and wages of which are included in Account 5615, General Administration Salaries and Expenses.

B. This account may be subdivided in accordance with a classification appropriate to the departmental or other functional organization of the utility.

Note: Office expenses which are clearly applicable to any group of operating expenses other than the administrative and general group shall be included in the appropriate account in such group. Further, general expenses which apply to the utility as a whole rather than to a particular administrative function shall be included in Account 5665, Miscellaneous General Expenses. For employee courses, see Account 5645, item 7.

Example items:

1. Automobile service, including charges through clearing account.
2. Bank messenger and service charges.

Administrative and General Expenses

3. Books, periodicals, bulletins and subscriptions to newspapers, newsletters, tax services, etc.
4. Building service expenses for customer accounts, sales, and administrative and general purposes.
5. Communication service expenses.
6. Cost of individual items of office equipment used by general departments which are of small value or short life.
7. Membership fees and dues in trade, technical, and professional associations paid by a utility for employees. (Company memberships shall be included in Account 5665, Miscellaneous General Expenses.)
8. Office supplies and expenses.
9. Payment of court costs, witness fees and other expenses of legal department.
10. Postage, printing and stationery.
11. Meals, traveling and incidental expenses.

(Note: expenses recorded here should be net of any recoveries from other departments).

5625 Administrative Expenses Transferred - Credit

This account shall be credited with administrative expenses transferred to construction costs or to non-utility accounts from Accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses.

5630 Outside Services Employed

A. This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It shall include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility.

B. This account shall be so maintained as to permit ready summarization according to the nature of service and the person furnishing the same.

Go to TOC A220

Administrative and General Expenses

Example items:

1. Fees, pay and expenses of accountants and auditors, actuaries, appraisers, attorneys, engineering consultants, management consultants, negotiators, public relations counsel, tax consultants, etc.
2. Supervision fees and expenses paid under contracts for general management services.
3. Do not include inspection and brokerage fees and commissions chargeable to other accounts or fees and expenses in connection with security issues which are included in the expenses of issuing securities.
4. To the extent the cost of professional consulting services can be assigned to a particular function, activity or account, such costs shall be directly assigned to the relevant accounts.

5635 Property Insurance

A. This account shall include the cost of insurance to protect the utility against losses and damages to owned or leased property used in its utility operations. It shall also include the cost of labour and related supplies and expenses incurred in property insurance activities.

B. Recoveries from insurance companies or others for property damages shall be credited to the account charged with the cost of the damage. If the insurance proceeds relate to grouped assets and damaged property has been retired, the credit shall be to the appropriate account for accumulated amortization. If the proceeds relate to identifiable assets that have been retired, the proceeds are to be compared to the book value and a gain or loss on disposition is to be recorded, as applicable.

C. Records shall be kept so as to show the amount of coverage for each class of insurance carried, the property covered, and the applicable premiums. Any dividends distributed by mutual insurance companies shall be credited to the accounts to which the insurance premiums were charged.

Example items:

1. Premiums payable to insurance companies for fire, storm, burglary, boiler explosion, lightning, fidelity, riot, and similar insurance.
2. Special costs incurred in procuring insurance.
3. Insurance inspection service.

Administrative and General Expenses

4. Insurance counsel, brokerage fees, and expenses.

Note A: The cost of insurance capitalized shall be charged to construction either directly or by transfer to construction work orders from this account.

Note B: The cost of insurance for the following classes of property shall be charged as indicated.

1. Materials and supplies and stores equipment to the appropriate materials account.
2. Transportation and other general equipment to appropriate clearing accounts that may be maintained.
3. Electric plant leased to others, to Account 4320, Expenses of Electric Plant Leased to Others.
4. Non-utility property, to the appropriate non-utility income account.
5. Merchandise, to Account 4330, Costs and Expenses of Merchandising.

Note C: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in property insurance work may be included in Accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

5640 Injuries and Damages

A. This account shall include the cost of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims. It shall also include the cost of labour and related supplies and expenses incurred in injuries and damages activities.

B. Reimbursements from insurance companies or others for expenses charged hereto on account of injuries and damages and insurance dividends or refunds shall be credited to this account.

Go to TOC A220

Administrative and General Expenses

Example items:

1. Premiums payable to insurance companies for protection against claims from injuries and damages by employees or others, such as public liability, property damages, casualty, employee liability, etc., and amounts credited to Account 2305, Accumulated Provision for Injuries and Damages, for similar protection.
2. Losses not covered by insurance or reserve accruals on account of injuries or deaths to employees or others and damages to the property of others.
3. Fees and expenses of claim investigators.
4. Payment of awards to claimants for court costs and attorneys' services.
5. Medical and hospital service and expenses for employees as the result of occupational injuries, or resulting from claims of others.
6. Compensation payments under worker's compensation laws.
7. Compensation paid while incapacitated as the result of occupational injuries. (See Note A.)
8. Cost of safety, accident prevention and similar educational activities.

Note A: Payments to or on behalf of employees for accident or death benefits, hospital expenses, medical supplies or for salaries while incapacitated for service or on leave of absence beyond periods normally allowed, when not the result of occupational injuries, shall be charged to Account 5645, Employee Pensions and Benefits. (See Note B of Account 5645.)

Note B: The cost of injuries and damages or reserve accruals capitalized shall be charged to construction directly or by transfer to construction work orders from this account.

Note C: Exclude from this account the time and expenses of employees (except those engaged in injuries and damages activities) spent in attendance at safety and accident prevention educational meetings, if occurring during the regular work period.

Note D: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in injuries and damages activities may be included in Accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

Go to TOC A220

Administrative and General Expenses

5645 OMERS Pensions and Benefits

A. The cost of OMERS pension expense and benefits expense as determined by IAS 19 *Employee Benefits* would be recorded in this account.

B. This account shall include pensions paid to or on behalf of retired employees, or accruals to provide for pensions, or payments for the purchase of annuities for this purpose, when the utility has definitely, by contract, committed itself to a pension plan under which the pension funds are irrevocably devoted to pension purposes, and payments for employee accident, sickness, hospital, and death benefits, or insurance therefor. Include, also, expenses incurred in medical, educational or recreational activities for the benefit of employees, and administrative expenses in connection with employee pensions and benefits.

C. The utility shall maintain a complete record of accruals or payments for pensions and be prepared to furnish full information to the Board of the plan under which it has created or proposes to create a pension fund and a copy of the declaration of trust or resolution under which the pension plan is established.

D. There shall be credited to this account the portion of pensions and benefits expenses which is applicable to non-utility operations or which is charged to construction unless such amounts are distributed directly to the accounts involved and are not included herein in the first instance.

E. Records in support of this account shall be so kept that the total pension expense, the total benefits expense, the administrative expenses included herein, and the amounts of pensions and benefits expenses transferred to construction or other accounts will be readily available.

Example items:

1. Payment of pensions under a nonaccrual or nonfunded basis.
2. Accruals for or payments to pension funds or to insurance companies for pension purposes.
3. Group and life insurance premiums (credit dividends received).
4. Payments for medical and hospital services and expenses of employees when not the result of occupational injuries.
5. Payments for accident, sickness, hospital, and death benefits or insurance.

Go to TOC A220

Administrative and General Expenses

6. Payments to employees incapacitated for service or on leave of absence beyond periods normally allowed, when not the result of occupational injuries, or in excess of statutory awards.
7. Expenses in connection with educational and recreational activities for the benefit of employees.

Note A: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in employee pension and benefit activities may be included in Accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

Note B: Salaries paid to employees during periods of non-occupational sickness may be charged to the appropriate labour account rather than to employee benefits.

5646 Employee Pensions and OPEB

The cost of non-OMERS pension expense and OPEB expense as determined by IAS 19 *Employee Benefits* shall be recorded in this account. Sub-accounts should be used to record the components of the expense recognized during each period, for example current service cost, interest cost, expected return on plan assets, actuarial gains and losses and past service costs are reported in separate sub-accounts.

5647 Employee Sick Leave

Employee sick leave expense as determined by IAS 19 *Employee Benefits* is recorded in this account.

5650 Franchise Requirements

A. This account shall include payments to municipal or other governmental authorities, and the cost of materials, supplies and services furnished such authorities without reimbursement in compliance with franchise, ordinance, or similar requirements.

B. The account shall be maintained so as to readily reflect the amounts of cash outlays, utility service supplied without charge, and other items furnished without charge.

Go to TOC A220

Administrative and General Expenses

Note A: Franchise taxes shall not be charged to this account but to Account 6105, Taxes Other Than Income Taxes.

Note B: Any amount paid as initial consideration for a franchise running for more than one year shall be charged to Account 1608, Franchises and Consents.

5655 Regulatory Expenses

A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) applicable to utility operating expenses, incurred by the utility in connection with formal cases before the Board or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory body for fees assessed against the utility for pay and expenses of such body, its officers, agents, and employees.

B. Amounts of regulatory expenses that by approval or direction of the Board are to be spread over future periods shall be charged to Account 1525, Miscellaneous Deferred Debits, and amortized by charges to this account.

C. The utility shall be prepared to show the cost of each formal case.

Example items:

1. Salaries, fees, retainers, and expenses of counsel, solicitors, attorneys, accountants, engineers, clerks, attendants, witnesses, and others engaged in the prosecution of, or defense against petitions or complaints presented to regulatory bodies, or in the valuation of property owned or used by the utility in connection with such cases.

2. Office supplies and expenses, payments to public service or other regulatory bodies, stationery and printing, traveling expenses, and other expenses incurred directly in connection with formal cases before regulatory bodies.

Note A: Exclude from this account and include in other appropriate operating expense accounts, expenses incurred in the improvement of service, additional inspection, or rendering reports, which are made necessary by the rules and regulations, or orders, of regulatory bodies.

Go to TOC A220

Administrative and General Expenses

Note B: Fees paid for permits, inspection and test and approvals performed by the Electrical Safety Authority should be recorded in Account 5680.

Note C: Do not include in this account amounts included in Account 1608, Franchises and Consents, or Account 1425, Unamortized Debt Expense.

5660 General Advertising Expenses

This account shall include the cost of labour, materials used, and expenses incurred in advertising and related activities, the cost of which by their content and purpose are not provided for elsewhere.

Example items:

Labour:

1. Supervision specific to advertising activities.
2. Preparing advertising material for newspapers, periodicals, billboards, etc., and preparing or conducting motion pictures, radio and television programs.
3. Preparing booklets, bulletins, etc., used in direct mail advertising.
4. Preparing window and other displays.
5. Clerical and stenographic work.
6. Investigating and employing advertising agencies, selecting media and conducting negotiations in connection with the placement and subject matter of advertising.

Materials and Expenses:

1. Advertising in newspapers, periodicals, billboards, radio, etc.
2. Advertising matter such as posters, bulletins, booklets, and related items.
3. Fees and expenses of advertising agencies and commercial artists.
4. Postage and direct mail advertising.
5. Printing of booklets, dodgers, bulletins, etc.
6. Supplies and expenses in preparing advertising materials.
7. Office supplies and expenses.

Go to TOC A220

Administrative and General Expenses

Note A: Properly included in this account is the cost of advertising activities on a local or national basis of a good will or institutional nature, which is primarily designed to improve the image of the utility or the industry, including advertisements which inform the public concerning matters affecting the company's operations, such as, the cost of providing service, the company's efforts to improve the quality of service, the company's efforts to improve and protect the environment, etc. Entries relating to advertising included in this account shall contain or refer to supporting documents which identify the specific advertising message. If references are used, copies of the advertising message shall be readily available.

5665 Miscellaneous General Expenses

This account shall include the cost of labour and expenses incurred in connection with the general management of the utility not provided for elsewhere.

Example items:

Labour:

1. Miscellaneous labour not elsewhere provided for.

Expenses:

1. Industry association dues for company memberships.
2. Contributions for conventions and meetings of the industry.
3. Research and development expenses not charged to other operation and maintenance expense accounts on a functional basis.
4. Communication service not chargeable to other accounts.
5. Trustee, registrar, and transfer agent fees and expenses.
6. Stockholders meeting expenses.
7. Dividend and other financial notices.
8. Printing and mailing dividend checks.
9. Directors' fees and expenses.
10. Publishing and distributing annual reports to stockholders.
11. Public notices of financial, operating and other data required by regulatory statutes, not including, however, notices required in connection with security issues or acquisitions of property.

Go to TOC A220

Administrative and General Expenses

5670 Rent

This account shall include rent properly included in utility operating expenses for the property of others used, occupied, or operated in connection with the customer accounts, customer service and informational, sales, and general and administrative functions of the utility. (See Article 230 *Definitions and Instructions* No. 5.)

5672 Lease Payment Expense

This account shall include the lease payments associated with operating leases. Lease payments are recognized as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

5675 Maintenance of General Plant

A. This account shall include the cost assignable to customer accounts, sales and administrative and general functions of labour, materials used and expenses incurred in the maintenance of property, the book cost of which is included in Account 1908, Buildings and Fixtures, Account 1910, Leasehold Improvements, Account 1915, Office Furniture and Equipment, Account 1920, Computer Equipment - Hardware, Account 1925, Computer Equipment - Software, Account 1955, Communication Equipment, and Account 1960, Miscellaneous Equipment.

B. Maintenance expenses on office furniture and equipment used other than in general, commercial and sales offices shall be charged to the following accounts: Power Generation, to Account 4640, Maintenance of Miscellaneous Power Generation Plant. Transmission, to Account 4965, Maintenance of Miscellaneous Transmission Plant. Distribution, to Account 5110, Maintenance of Buildings and Fixtures - Distribution Stations. Merchandise, to Account 4330, Costs and Expenses of Merchandising, to appropriate clearing account.

Note: Maintenance of plant included in other general equipment accounts shall be included herein unless charged to clearing accounts or to the particular functional maintenance expense account indicated by the use of the equipment.

5680 Electrical Safety Authority Fees

This account will include fees paid for permits, inspection and test and approvals performed by the Electrical Safety Authority.

Go to TOC A220

Administrative and General Expenses

5681 Special Purpose Charge Expense

This account shall include the assessment related to the special purpose charge referred to in sections 26.1 and 26.2 of the Ontario Energy Board Act, 1998.

5685 Independent Electricity System Operator Fees and Penalties

This account will include fees paid to the Independent Electricity System Operator. Records shall be kept to separately identify fees and penalties.

5695 OM&A Contra Account

A. This account shall be used for the purposes of recording the offsetting entry for OM&A accounts recorded in Account 1556, Smart Meter OM&A Variance Account.

B. Separate sub-accounts within this OM&A contra account shall be created for the following categories of expenses: operating, maintenance, administration and depreciation or amortization.

Go to TOC A220

Administrative and General Expenses

5705 Depreciation Expense - Property, Plant, and Equipment

A. This account shall include the amount of depreciation expense for all classes of depreciable Electric Property, Plant and Equipment (PP&E) in Service except such depreciation expense as is chargeable to clearing accounts or to Account 4330, Costs and Expenses of Merchandising. For the purposes of this account and items to which depreciation and accumulated depreciation apply, the terms “Electric Plant” and “property, plant and equipment” are used interchangeably.

B. The utility shall keep such records of items of PP&E and PP&E retirements as will reflect the service life of the PP&E which has been retired and aid in estimating probable service life by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric PP&E. (See Account 2105, Accumulated Depreciation of Electric Utility Plant – Property, Plant and Equipment.)

Note A: Depreciation expense applicable to property included in Account 2030, Electric Plant and Equipment Leased to Others, shall be charged to Account 4320, Expenses of Electric Plant Leased to Others.

Note B: Depreciation expenses applicable to transportation equipment, shop equipment, tools, work equipment, power operated equipment and other general equipment may be charged to clearing accounts as necessary in order to obtain a proper distribution of expenses between construction and operation.

Note C: Depreciation expense applicable to transportation equipment used for transportation of fuel from the point of acquisition to the unloading point shall be charged to Account 1305, Fuel Stock.

Note D: Records shall be kept in such a manner that the charges for depreciation are shown separately for each depreciable utility plant account, or group of plant accounts that performs similar functions.

Go to TOC A220

Depreciation and Amortization Expenses

5710 Amortization of Limited Term Electric Plant

This account shall include amortization charges applicable to amounts included in the electric plant accounts for limited term franchises, licenses, patent rights, limited term interests in land, and expenditures on leased property where the service life of the improvements is terminable by action of the lease. The charges to this account shall be such as to distribute the book cost of each investment as evenly as may be over the period of its benefit to the utility. (See Account 2120, Accumulated Amortization of Electric Utility Plant - Intangibles.)

Records shall be kept in such a manner that the charges for amortization are shown separately for each depreciable utility plant account, or group of plant accounts that performs similar functions.

5715 Amortization of Intangible Assets

A. This account shall include charges for amortization of intangible or other electric utility plant with a finite useful life and subject to charges for amortization expense. (See Account 2120, Accumulated Amortization of Electric Utility Plant - Intangibles.)

B. This account shall be supported in such detail as to show the amortization applicable to each investment being amortized, together with the book cost of the investment and the period over which it is being written off.

5720 Amortization of Electric Plant Acquisition Adjustments

This account shall be debited or credited, as the case may be, with amounts authorized to be included in operating expenses, pursuant to approval or order of the Board, for the purpose of providing for the extinguishment of the amount in Account 2060, Electric Plant Acquisition Adjustments.

5725 Miscellaneous Depreciation

This account shall include depreciation charges not included in other accounts. Charges included here, if significant in amount, must be in accordance with an orderly and systematic depreciation program.

Go to TOC A220

Depreciation and Amortization Expenses

5730 Amortization of Unrecovered Plant and Regulatory Study Costs

This account shall be charged with amounts credited to asset Account 1505, Unrecovered Plant and Regulatory Study Costs, when the Board has authorized the amount in that account to be amortized by charges to electric operations.

5740 Amortization of Deferred Charges

This account shall include the amount of the amortization charges relating to Deferred Charges and applicable to the current fiscal period.

Example items:

Amortization of amounts relating to:

1. Extraordinary Event Costs included in Account 1572.
2. Deferred Rate Impact Amounts included in Account 1574.
3. Miscellaneous Deferred Debits included in Account 1525.

Go to TOC A220

Interest Expenses

6005 Interest on Long Term Debt

A. This account shall include the amount of interest on outstanding long term debt issued or assumed by the utility, the liability for which is included in Account 2505, Debentures Outstanding - Long Term, Account 2520, Other Long Term Debt, Account 2525, Term Bank Loans - Long Term.

B. This account shall be so kept or supported as to show the interest expense on each class and series of long term debt.

6010 Amortization of Debt Discount and Expense

A. This account shall include the amortization of unamortized debt discount and expense on outstanding long term debt. Amounts charged to this account shall be credited concurrently to Accounts 1425, Unamortized Debt Expense, and 1445, Unamortized Discount on Long Term Debt Debit.

B. This account shall be so kept or supported as to show the debt discount and expense on each class and series of long term debt.

6015 Amortization of Premium on Debt - Credit

A. This account shall include the amortization of unamortized net premium on outstanding long term debt. Amounts credited to this account shall be charged concurrently to Account 1435, Unamortized Premium on Long Term Debt.

B. This account shall be so kept or supported as to show the premium on each class and series of long term debt.

6020 Amortization of Loss on Reacquired Debt

A. This account shall include the amortization of the losses on reacquisition of debt. Amounts charged to this account shall be credited concurrently to Account 1540, Unamortized Loss on Reacquired Debt.

B. This account shall be maintained so as to allow ready identification of the loss amortized applicable to each class and series of long term debt reacquired.

Go to TOC A220

Interest Expenses

6025 Amortization of Gain on Reacquired Debt - Credit

A. This account shall include the amortization of the gains realized from reacquisition of debt. Amounts credited to this account shall be charged concurrently to Account 2415, Unamortized Gain on Reacquired Debt.

B. This account shall be maintained so as to allow ready identification of the gains amortized applicable to each class and series of long term debt reacquired.

6030 Interest on Debt to Associated Companies

A. This account shall include the interest accrued on amounts included in Account 2550, Advances from Associated Companies, and on all other obligations to associated companies.

B. The records supporting the entries to this account shall be so kept as to show to who the interest is to be paid, the period covered by the accrual, the rate of interest and the principal amount of the advances or other obligations on which the interest is accrued.

6035 Other Interest Expense

This account shall include all interest charges not provided for elsewhere

Example items:

Interest expense on short-term debt:

1. Interest on notes payable on demand or maturing one year or less from date and on open accounts, except notes and accounts with associated companies.

Other interest expense:

1. Interest on customers' deposits.
2. Interest on claims and judgments, tax assessments, and assessments for public improvements past due.
3. Interest expense on customer benefits payable (see Account 2435).

Go to TOC A220

Interest Expenses

6040 Allowance For Borrowing Costs Applied to CWIP - Credit

This account shall include credits for Allowance for Borrowing Costs Applied to construction work in progress ("CWIP") that has been capitalized during the fiscal year for actual borrowing costs incurred on an arm's length basis and in the following circumstance, on a non-arm's length basis. For debt incurred on a non-arm's length basis, actual borrowing costs incurred shall also be used if the actual interest rate is less than the Board's published CWIP interest rates. If the actual interest rate is greater than the Board's published CWIP interest rates, the utility shall use the Board's published rates to calculate borrowing costs included in the construction costs and account 6042 should be used, as described below. The debit shall be to account 2055, Construction Work in Progress - Electric.

6042 Allowance For Other Borrowing Costs Applied to CWIP - Credit

This account shall include credits for the allowable amount for capitalization of the cost of debt in the case where the actual cost of borrowing for debt acquired on a non-arm's length basis exceeds the cost using the Board's published rates as specified above. The debit shall be to account 2055, Construction Work in Progress - Electric.

6045 Interest Expense on Finance Lease Obligations

This account shall include the interest expense portion of the capital lease payments.

The interest expense shall be calculated using the discount rate for computing the present value of the minimum lease payments applied to the remaining balance of the obligation under capital lease.

Go to TOC A220

Taxes

6105 Taxes Other than Income Taxes

A. This account shall include the amounts of ad valorem, gross revenue or gross receipts taxes, “payments-in-lieu of taxes”, capital taxes, payments equivalent to municipal and school taxes, property taxes, property transfer taxes, franchise taxes, commodity taxes, and all other related taxes assessed by federal, provincial, municipal, or other local governmental authorities, except income taxes.

B. This account shall be charged in each accounting period with the applicable amounts of items listed in A above paid or payable with the concurrent credit to made to Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, etc., Account 2290, Commodity Taxes or Account 1180, Prepayments, as appropriate. When it is not possible to determine the exact amounts of taxes, the amounts shall be estimated and adjustments made in current accruals as the actual tax levies become known.

C. The charges to these accounts shall be made or supported so as to show the amount of each tax and the basis upon which each charge is made.

D. Sub-accounts shall be used to separately record each type of tax.

6110 Income Taxes

This account shall be debited (credited) with current provincial and federal income taxes (or PILs allowance thereof) recognized during the period covered by the income statement or other such current taxes not attributable to future periods, to meet the actual liability for such taxes. Concurrent credits (debits) for the tax accruals shall be made to Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, Etc.

Note: Interest on tax refunds or deficiencies shall not be included in these accounts but in Account 4405, Interest and Dividend Income, or Account 6035, Other Interest Expense, as appropriate.

6115 Provision for Deferred Taxes - Income Statement

This account shall be debited/ (credited) with the amounts of deferred taxes included in the determination of profit or loss for the period.

Go to TOC A220

Other Deductions

6205 Donations

This account shall include all payments or donations for charitable, social or community welfare purposes.

6205 Donations, Sub-account LEAP Funding

This account shall include a distributor's payments made for Low-Income Energy Assistance Program (LEAP) emergency financial assistance funding to social agencies for programs the purpose of which is to provide assistance to low income consumers that are customers of the distributor, to assist them with paying their electricity bills.

6210 Life Insurance

This account shall include all payments for life insurance of officers and employees where company is beneficiary (net premiums less increase in cash surrender value of policies).

6215 Penalties

This account shall include payments by the company for penalties or fines for violation of any regulatory statutes by the company or its officials, other than penalties related to Account 5685, Independent Electricity System Operator Fees and Penalties.

6225 Other Deductions

This account shall include other miscellaneous expenses which are non-operating in nature, but which are properly deductible before determining total income before interest charges.

Example items:

1 Loss relating to investments in securities written off or written down.
2 Loss on sale of investments.
3 Loss on reacquisition, resale or retirement of utility's debt securities, when the loss is not material or is not amortized or otherwise required to be treated by the Board.

Go to TOC A220

Other Deductions

4 Preliminary survey and investigation expenses related to abandoned projects, when not written off to the appropriate operating expense account.

5 Costs of preliminary abandonment costs still recorded in Accounts 1572, Extraordinary Event Costs, and 1505, Unrecovered Plant and Regulatory Study Costs, that the Board has not authorized or required to be amortized to Account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs.

Go to TOC A220

Unusual Items

6305 Unusual Income

This account shall be credited with gains of unusual nature and infrequent occurrence, which would significantly distort the current year's income. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in Account 6315, Income Taxes, Unusual Items.

6310 Unusual Deductions

This account shall be debited with losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in Account 6315, Income Taxes, Unusual Items.

6315 Income Taxes, Unusual Items

This account shall include the amount of Provincial and Federal income taxes (or payments in lieu of taxes) which relate to Unusual Items.

Go to TOC A220

Discontinued Operations

6405 Discontinued Operations - Income/Gains

This account shall include the income/gain from discontinued operations. Discontinued operations are the operations of a business segment that has been sold, abandoned, shut down or otherwise disposed. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in Account 6415, Income Taxes, Discontinued Operations.

6410 Discontinued Operations - Deductions/Losses

This account shall include the deductions/losses from discontinued operations. Discontinued operations are the operations of a business segment that has been sold, abandoned, shut down or otherwise disposed. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in Account 6415, Income Taxes, Discontinued Operations.

6415 Income Taxes, Discontinued Operations

This account shall include the amount of Provincial and Federal income taxes (or payments in lieu of taxes) which relates to discontinued operations.

Go to TOC A220

Other Comprehensive Income

7005 Available-for-Sale Financial Asset or Cash Flow Hedge - Other Comprehensive Income

This account shall include the gain or loss on an available-for-sale financial asset (that is not part of a hedging relationship) resulting from a change in fair value; a decline in the fair value of an available-for-sale financial asset; any increase in the fair value of available-for-sale equity instrument after an impairment loss has been recognized, and; for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized.

7010 Pension Actuarial Gains or Losses or Remeasurement Adjustment - Other Comprehensive Income

If a distributor chooses (is required) to recognize actuarial gains and losses (remeasurements of a net defined benefit liability/ asset) in other comprehensive income for each reporting period, the related amounts are recorded in this account.

7020 Current Taxes - Other Comprehensive Income

This account shall be debited or (credited) with Provincial and Federal income taxes (or PILs proxy thereof) recognized on items recorded in other comprehensive income. Concurrent credits (debits) for the tax accruals shall be made to sub-accounts of Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, Etc.

7025 Deferred Taxes - Other Comprehensive Income

This account shall be debited or (credited) with the amounts of deferred taxes recognized in other comprehensive income for the period.

7030 Miscellaneous - Other Comprehensive Income

This account shall include items of other comprehensive income not included in the foregoing accounts. This may include for example gains or losses from foreign currency translation. Separate sub-accounts shall be used for each category of other comprehensive income in this account.

Go to TOC A220

Uniform System of Accounts

Definition and Instructions

TABLE OF CONTENTS

Go To Main APH ToC

With respect to the *Definitions and Instructions* in this Article, it should be noted that including an item of expenditure in an item of property, plant and equipment, as well as intangible assets, does not necessarily mean that the expenditure qualifies for capitalization. As more fully detailed in Article 410 *Property, Plant and Equipment and Intangible Assets*, IFRS and regulatory accounting specify that certain expenditures are not part of the cost of an item of property, plant and equipment and intangible assets. Such expenditures include costs of staff training and administration and other general overhead costs. Therefore, a distributor should exercise care so as to avoid the inadvertent capitalization of such expenditures.

When used in this USoA:

1. Amortization or Depreciation

   For property, plant and equipment ("PP&E"), depreciation provides a rational and systematic basis for allocating the depreciable amount of an item of PP&E over its estimated useful life. Depreciation is calculated by allocating the cost less residual value of an item of PP&E to the periods of service provided by the asset. When it relates to intangible assets, depreciation is generally termed as amortization. The two terms have the same meaning.

2. A. Affiliate: See Definitions subsection in Article 340 *Allocation of Costs and Transfer Pricing.*

   B. Associate, pursuant to section 3 of the Ontario Energy Board Act, 1998, where used to indicate a relationship with any person, means,

      a) Any body corporate of which the person owns, directly or indirectly, voting securities carrying more than 50 per cent of the voting rights attached to all voting securities of the body corporate for the time being outstanding,

      b) Any partner of that person,

      c) Any trust or estate in which the person has a substantial beneficial interest or as to which the person serves as trustee or in a similar capacity,

      d) Any relative of the person, including the person's spouse as defined in the Ontario Business Corporations Act, where the relative has the same home as the person, or

      e) Any relative of the spouse, as defined in the Ontario Business Corporations Act, of the person, where the relative has the same home as the person.

C. Subsidiary, pursuant to section 2 of the Electricity Act, 1998, with respect to a corporation, has the same meaning as in the Ontario Business Corporations Act. Under section 1(2) of the Ontario Business Corporations Act, a body corporate shall be deemed to be a subsidiary of another body corporate if, and only if,

a) it is controlled by,

i) that other, or

ii) that other and one or more bodies corporate each of which is controlled by that other, or

iii) two or more bodies corporate each of which is controlled by that other; or

b) it is a subsidiary of a body corporate that is that other's subsidiary.

Note: That a subsidiary is an enterprise controlled by another enterprise (the parent) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks.

D. Book cost is the amount of consideration given up to acquire, construct, develop or better an item of property, plant or equipment and includes all costs directly attributable to the acquisition, construction, development or betterment of an item of property, plant or equipment including installing it at the location and in the condition necessary for its intended use, and the cost of dismantling and removing the item and restoring the site. Where applicable, the accounting rules for "book cost" will also be used for intangible assets.

E. Original cost, as applied to electric plant, means the cost of such property to the person first placing it into service.

F. Regulatory Assets (debits) and Liabilities (credits): See Definitions subsection of Article 330 *Treatment of Certain Revenues and Expenses.*

G. Payroll burden: The costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer's portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance. See also Article 340.

Go to TOC A230

3. Item Lists

Lists of items appearing in the texts of the accounts or elsewhere in the APH are for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive. As the same item frequently appears in more than one list, the appearance of an item in a list warrants the inclusion of the item in the account only when the text of the account also supports inclusion. The proper entry in each instance must be determined by the texts of the accounts.

4. Supervision and Engineering

The supervision and engineering expense included in the expense accounts shall consist of the pay and expenses of superintendents, engineers, clerks, other employees and consultants engaged in supervising and directing the operation or maintenance of each utility function. Wherever allocations are necessary in order to arrive at the amount to be included in any account, the method and basis of allocation shall be reflected by underlying records.

Examples of expenditure items included as part of supervision and engineering expenses are:

Labour:

A. Special tests to determine efficiency of equipment operation.

B. Preparing or reviewing budgets, estimates, and drawings relating to operation or maintenance for departmental approval.

C. Preparing instructions for operations and maintenance activities.

D. Reviewing and analyzing operating results.

E. Establishing organizational setup of departments and executing changes therein.

F. Formulating and reviewing routines of departments and executing changes therein.

G. General training and instruction of employees by supervisors whose pay is chargeable to this account. Specific instruction and training in a particular type of work is chargeable to the appropriate functional expense account but not capitalized (See *Definitions and Instruction* Item 6).

H. Secretarial work for supervisory personnel, but not general clerical and stenographic work chargeable to other accounts.

Expenses

A. Consultants' fees and expenses.

B. Meals, traveling and incidental expenses.

5. Rents

A. The rent expense accounts provided under the several functional groups of expense accounts shall include all rents, including taxes paid by the lessee on leased property, for property used in utility operations, except rents which are chargeable to clearing accounts, and distributed from the clearing accounts to the appropriate account. If rents cover property used for more than one function, such as production and transmission, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, an estimated basis.

B. When a portion of property or equipment rented from others for use in connection with utility operations is subleased, the revenue derived from such subleasing shall be credited to the rent revenue account in operating revenues; provided, however, that in case the rent was charged to a clearing account, amounts received from subleasing the property shall be credited to such clearing account.

C. The cost, when incurred by the lessee, of operating and maintaining leased property, shall be charged to the accounts that would be appropriate for the expense if the property were owned.

6. Components of construction cost.

The cost of construction properly included in the electric plant accounts shall include where applicable, the cost of directly attributable labour; materials and supplies; transportation; work done by others for the utility; injuries and damages incurred in construction work; privileges and permits; special machinery services; borrowing costs applied to construction work in progress; the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories; and such portion of directly attributable general engineering, salaries and expenses, insurance, taxes, and other similar items as may be properly included in construction costs. The cost of

Go to TOC A230

abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

Note: The cost of individual items of equipment of small value or of short life, including small portable tools and implements, shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction accounts to which such item is used. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages when the compensation becomes receivable.

7. Electric Plant Constructed, Purchased or Sold (Also see Article 460 *Business Combinations)*

General classification of electric plant:

The detailed electric plant Accounts (1606 to 1990, inclusive) shall be stated on the basis of cost to the utility of electric plant constructed by it and the original cost, estimated if not known, of electric plant acquired as an operating unit or system. The difference between the original cost, as above, and the cost to the utility of electric plant after giving effect to any accumulated depreciation or amortization shall be recorded in Account 2060, Electric Plant Acquisition Adjustments. The original cost of electric plant shall be determined by analysis of the utility's records or those of the predecessor or vendor companies with respect to electric plant previously acquired as operating units or systems. The difference between the original cost so determined, less accumulated depreciation and amortization, and the cost to the utility with necessary adjustments for retirements from the date of acquisition, shall be entered in Account 2060, Electric Plant Acquisition Adjustments. Any difference between the cost of electric plant and its book cost, when not properly included in other accounts, shall be recorded in Account 2065, Other Electric Plant Adjustments.

Specific instructions:

A. When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly included in electric plant, shall be charged to Account 2010, Electric Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

1. The original cost of electric plant, estimated if not known, shall be credited to Account 2010, Electric Plant Purchased or Sold, and concurrently debited to the appropriate Electric Plant in Service accounts and to Account 2030, Electric Plant Leased to Others, Account 2040, Electric Plant Held for Future Use, and Account 2055, Construction Work in Progress - Electric, as appropriate.
2. The accumulated depreciation applicable to the original cost of the electric plant purchased shall be debited to Account 2010, Electric Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated depreciation.
3. The cost to the utility of any property, plant and equipment and intangible assets included in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, shall be transferred thereto.
4. The amount remaining in Account 2010, Electric Plant Purchased or Sold, shall then be closed to Account 2060, Electric Plant Acquisition Adjustments.

C. If electric plant acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary substantially to rehabilitate it in order to bring the electric plant up to the standards of the utility, the cost of such work shall be accounted for as a part of the purchase price of the electric plant.

D. When any electric plant acquired as an operating unit or system includes duplicate or other electric plant which will be retired by the acquiring utility in the reconstruction of the acquired electric plant or its consolidation with previously owned electric plant, the proposed accounting for such electric plant shall be presented to the Board.

E. In connection with the acquisition of electric plant constituting an operating unit or system, the utility shall procure; if possible, all existing records relating to the electric plant acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own constructed electric plant.

F. When electric plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in Account 2060, Electric Plant Acquisition Adjustments. The amounts (estimated if not known) carried with respect thereto in the accounts for accumulated depreciation and amortization and in Account 2340, Collateral Funds Liability, shall be charged to such accounts and contra entries made to Account 2010, Electric Plant Purchased or Sold. Unless otherwise ordered by the Board, the difference, if any, between (1) the net amount of debits and credits and (2) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in Account 4355, Gain on Disposition of Property, or Account 4360, Loss on Disposition of Property.

8. Land and Land Rights.

A. The accounts for land shall include the cost of land owned in fee by the utility. Do not include in the accounts for land costs incurred in connection with first clearing and grading of land and the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefitted.

The accounts for land rights shall include the cost of rights, interests, and privileges held by the utility in land owned by others, such as easements, water and water power rights, diversion rights, submersion rights, rights of way, and other like interests in land.

B. The net profit from the sale of timber, cord wood, sand, gravel, other resources or other property acquired with the rights of way or other lands shall be credited to the appropriate plant account to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increases in value, the net profit (after giving effect to the cost of the natural resources) from the sales of timber or its products or other natural resources shall be credited to the appropriate utility operating income account when such land has been recorded in Account 2040, Electric Plant Held for Future Use or classified as plant in service. Otherwise the net profit shall be credited to Account 4390, Miscellaneous Non-Operating Income.

C. Separate entries shall be made for the acquisition, transfer, or retirement of each parcel of land, and each land right, or water right, having a life of more than one year. A record shall be maintained showing:

- the nature of ownership,
- full legal description, area, map reference,
- the city, region, or other entity, from whom purchased or to whom sold,

- purpose for which used by the utility
- payment given or received,
- other costs,
- contract date and number, and
- date of register of purchase.

Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

D. When the purchase of land for electric operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in Account 2040, Electric Plant Held for Future Use, or Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, as appropriate.

E. Land Rights should be amortized to operations over the term of the agreements and immaterial amounts shall be charged to the appropriate operating account in the year of occurrence.

F. Examples of items of cost to be included in the accounts for land are as follows:

1. Purchase price.
2. Unwanted buildings located thereon, and removal costs of unwanted buildings less proceeds from disposal.
3. Clearing, filling, grading and drainage cost.
4. Conveyancers' and notaries' fees.
5. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land.
6. Appraisals prior to closing title.
7. Cost of voiding leases upon purchase to secure possession of land.
8. Surveys in connection with the acquisition.
9. Title, examining, clearing, insuring and registering in connection with the acquisition

G. The items of cost to be included in the accounts for land rights are as follows:

1. Clearing, filling, grading and drainage cost.
2. Conveyancers' and notaries' fees.

3. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land rights.
4. Appraisals prior to closing title.
5. Surveys in connection with the acquisition of the right.
6. Title, examining, clearing, insuring and registering in connection with the acquisition of the right.
7. Labour and expenses in connection with securing rights of way, where performed by company employees and company agents.

9. Buildings and Fixtures

These accounts shall include the cost of all buildings and fixtures for the operation of the electric utility. "Buildings and Fixtures" means permanent buildings and equipment to house or safeguard persons, electric plant (Accounts 1606 to 1990, inclusive), and includes all fixtures permanently attached to and made part of a building.

Examples of items of cost to be included as part of the cost of buildings and fixtures are:

A. Architects' plans.
B. Excavations.
C. Soil investigation for foundations.
D. Foundations.
E. Items of equipment which are associated with and form part of the building, such as plumbing, light, heat, ventilating and elevator, also special foundations and equipment piers for machinery or apparatus constructed as a permanent part of a building.
F. Fencing, except for fencing surrounding transformer station equipment and distribution station equipment (see note below).
G. Landscaping, lawns, shrubbery.
H. Sidewalks and pavements pertaining to the buildings.

Separate buildings shall be entered in such a manner that an accurate record of their individual cost shall be evident.

Note: Fencing and outdoor transformer pads associated with outdoor stations shall be included in Account 1815, Transformer Station Equipment or Account 1820, Distribution Station Equipment, depending upon its location.

Go to TOC A230

10. For the purpose of this system of accounts:

A. Distribution system means a system for distributing electricity, and includes any structures, equipment or other things used for that purpose. This includes a line, transformers, plant or equipment used for conveying electricity at voltages less than 50 kilovolts. A distribution system also includes those items determined by the Board to be part of a distribution system under section 84(a) of the OEB Act.

B. Transmission system means a system for transmitting electricity, and includes any structures, equipment or other things used for that purpose. This includes a line, transformers, plant or equipment used for conveying electricity at voltages greater than 50 kilovolts. A transmission system also includes those items determined by the Board to be part of a transmission system under section 84(b) of the OEB Act.

C. Consistent with section 56 of the OEB Act, a generation asset is a generation facility used to generate electricity or provide ancillary services, other than ancillary services provided by a transmitter or distributor through the operation of a transmission or distribution system, and includes any system, structures, equipment or other things used for that purpose.

D. The USoA includes accounts for an integrated utility or a distributor undertaking other utility lines of business such as transmission. However, for the purposes of recording and reporting by a distributor, only the accounts in relation to the distribution system (defined in A above) should be used. Accordingly, a distributor’s account usage should not include accounts in the transmission and generation series etc., as follows:

- Generation Plant 1615-1685
- Transmission Plant 1705-1745
- Revenues From Services – Transmission 4105-4110
- Generation Expenses – Operation 4505-4565
- Generation Expenses – Maintenance 4605-4640
- Transmission Expenses – Operation 4805-4850
- Transmission Expenses – Maintenance 4905-4965

Go to TOC A230

Application of Accounting Concepts
Applying Regulatory Accounting
in a Rate-Regulated Environment

TABLE OF CONTENTS

Go To Main APH ToC

Application of Accounting Concepts
Applying Regulatory Accounting
in a Rate-Regulated Environment

Purpose and Scope

The purpose of this Article is to provide guidance on the requirements for regulatory filing and reporting given the different accounting frameworks that are available for use by regulated electricity distributors for their general purpose financial statements.

Further, this Article summarizes the modifications made to CICA Handbook *Part I – International Financial Reporting Standards* by the Board for purposes of regulatory accounting and reporting.

General Summary

The Board resolved that it will require all distributors that are required to adopt IFRS by accounting standard setting bodies to report information to the Board using MIFRS for regulatory accounting values. For those few distributors not required to adopt IFRS for financial reporting, the Board has stated that it will generally not require regulatory filing and reporting in MIFRS from those distributors. Accordingly, the distributor will report to the Board using the form of generally accepted accounting principles applicable to it as a regulated distributor and approved by an appropriately authorized oversight body. However, the Board does require distributors not using MIFRS to demonstrate their eligibility to use an alternative standard to IFRS for financial reporting, and set out the advantages and disadvantages of their choice of accounting framework.

In addition, the Board retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among distributors. The Board may also provide a distributor-specific regulatory accounting direction in a decision and order.

Accounting Standards Applicable to Distributors – General Purpose Financial Statements

As discussed in Article 100 *Introduction to the Accounting Procedures Handbook* pursuant to the Ontario Business Corporations Act, GAAP is the prescribed medium for communication of financial information to the public. Ontario electricity distributors will be required to prepare financial statements based on GAAP as presented in the CICA Handbook – *Accounting*. The discussion below considers the sections of the CICA Handbook that are available to regulated distributors.

Go to TOC A315

Accounting Standards available under the CICA Handbook

The CICA Handbook consists of five Parts. Of the five, the three Parts that will be available for use by a distributor for general purpose financial reporting in January 2012 are:

a) Part I – *International Financial Reporting Standards*: this Part of the CICA Handbook applies to publicly accountable enterprises;

b) Part II – *Accounting Standards for Private Enterprises ("ASPE")*: this Part of the CICA Handbook is applicable only to profit-oriented entities that are not publicly accountable enterprises. However, a private enterprise may choose to apply IFRS instead of ASPE; and

c) Part III – *Accounting Standards for not-for-profit organizations*: this Part of the CICA Handbook is applicable only to an entity that is organized and operated exclusively for not-for-profit purposes, normally without transferable ownership interests. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization. An organization that is not-for-profit may choose to apply IFRS instead of Part III of the CICA Handbook.

Paragraph 8 of the preface to the CICA Handbook states that when an entity can choose the standards in more than one Part of the Handbook as its basis of accounting, the entity applies only the standards in the Part it has selected unless that Part specifies otherwise.

It should also be noted that Paragraph 6 of the *Introduction to Public Sector Accounting Standards* states that, for purposes of their financial reporting, government business enterprises should adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook. As a result, government business enterprises are required to adopt IFRS (unless they qualify to adopt US GAAP – see below).

Other Alternative Accounting Standards, including US GAAP

Securities regulators, including the Ontario Securities Commission, may grant reporting issuers exemption from the requirement under section 3.2 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (NI 52-107) that financial statements be prepared in accordance with an alternative standard to the Canadian GAAP applicable to publicly accountable enterprises. This could include an exemption allowing reporting issuers, including those with rate-regulated activities, to use US

GAAP instead of IFRS. The exemption may be time-limited or conditioned by the securities regulators. For example, some regulated entities that are reporting issuers were granted permission by the Ontario Securities Commission to report under US GAAP for financial years that begin on or after January 1, 2012 but before January 1, 2015.

Where a distributor is granted such exemption, it must demonstrate the eligibility of the utility under the relevant securities legislation to report financial information using that standard, provide a copy of the authorization to use the standard from the appropriate Canadian securities regulator showing any conditions or limitations. In addition, it must set out the advantages and disadvantages of the choice of accounting framework.

Applying IFRS in a Rate-Regulated Environment

Unlike US GAAP, IFRS currently does not have any guidance or standard to address the unique issues arising in a rate-regulated environment. Instead, entities that are subject to rate regulation apply the same accounting principles and standards as those applied by non-regulated profit-oriented businesses.

In December 2008, the International Accounting Standards Board ("IASB") initiated a project to address the difference of views in practice about whether it was appropriate for entities to recognize assets and liabilities arising from rate regulation and ongoing requests for guidance on this issue. A key issue was whether regulatory assets and liabilities should be recognized. However, in July 2010 the IASB decided to pause the project until it concludes its ongoing deliberations about its future work plan.

At this point in time, the general understanding is that regulatory assets and regulatory liabilities do not meet the recognition criteria under IFRS unless they qualify for recognition under an existing standard (for example, if they meet the definition of financial instruments and are recognized as financial assets or financial liabilities). As a result, it is expected that most regulatory assets and regulatory liabilities that were previously recognized under previous Canadian GAAP (i.e. recorded to recognize the economic effects of rate regulation) will be derecognized when distributors transition to IFRS on January 1, 2012.

Applying US GAAP and ASPE in a Rate-Regulated Environment

US GAAP includes specific guidance for entities subject to rate regulation. A regulated entity recognizes the economic effects of rate regulation in its general purpose financial statements. Similarly, previous Canadian GAAP included specific accounting guidance for entities subject to rate regulation. The accounting standards for rate-regulated activities under previous Canadian GAAP are included in Article 525 *Applying Generally Accepted Accounting Principles in a Rate Regulated Environment* (Former Article 310*).* This former Article 310 in effect until December 31, 2011 has been retained in this APH for general information and reference purposes only and does not apply to distributors reporting under IFRS. It should also be noted that the specific guidance relating to rate-regulated activities that was included under previous Canadian GAAP was retained in the various sections of the CICA Handbook Part II – ASPE.

The Board's Requirements for Regulatory Accounting

Accounting Standards Applicable to Electricity Distributors – Regulatory Accounting

During 2009, the Board conducted a consultation on the effect of the transition to IFRS, and issued a *Report of the Board, Transition to International Financial Reporting Standards*, EB-2008-0408 ("the Board Report"). Further consultation was held during 2010 and the Board issued an *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* ("the Addendum"). As part of this consultation process, the Board confirmed the following five regulatory principles that are set out in the Board Report:

1) The methodologies used by the Board to establish just and reasonable rates have not always been the same as those used for external financial reporting purposes. The Board has and will retain the authority to establish regulatory accounting and regulatory reporting requirements. While IFRS accounting requirements are an important consideration in determining regulatory requirements, the objective of just and reasonable rates will continue to be the primary driver of such requirements.

2) Future regulatory accounting and regulatory reporting requirements established by the Board will continue to be based on sound regulatory principles. These principles include fairness, minimizing intergenerational inequity and minimizing rate volatility.

3) Future regulatory accounting and regulatory reporting requirements established by the Board will, in taking into account IFRS requirements, balance the effects on both customers and shareholders.

Go to TOC A315

4) Future regulatory accounting and regulatory reporting requirements established by the Board will be aligned with IFRS requirements as long as that alignment is not inconsistent with sound regulatory rate making principles.

5) Future regulatory accounting and regulatory reporting requirements established by the Board will be universal and standardized for all utilities, while recognizing that utility-specific issues can be addressed through a utility's applications. The Board will not require modified IFRS filing and reporting requirements for utilities that are not otherwise required to adopt IFRS for financial reporting purposes.

In applying the above principles, the Board resolved that it will require all distributors that are required to adopt IFRS by accounting standard setting bodies to report information to the Board using MIFRS for regulatory accounting values beginning January 1, 2012. For those few distributors not required to adopt IFRS for financial reporting, the Board has stated that it will not require regulatory filing and reporting in MIFRS from those distributors. However, the Board does require distributors not using MIFRS to demonstrate their eligibility to use an alternative standard to IFRS for financial reporting, and set out the advantages and disadvantages of their choice of accounting framework.

Regulatory Accounting under MIFRS

For regulated distributors that are required to adopt IFRS by accounting standard setting bodies, the Board also requires these entities to apply IFRS for regulatory purposes. However, the Board has also confirmed that it will continue to use deferral and variance accounts for rate making in appropriate circumstances, whether or not these accounts are recognized under IFRS. Further, the Board retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among distributors. The Board may also provide a distributor specific regulatory accounting direction in a decision or order in relation to the distributor's rate application. Consequently, the IFRS accounting policies that are applied by a distributor are "modified" by regulatory requirements or the ratemaking actions of the Board and are thus called "modified IFRS" or "MIFRS" for regulatory accounting and reporting purposes.

Currently, the Board has specifically modified the requirements of IFRS for the items set out in the table below. Note, however, that if the Board has issued specific guidance to a distributor (for example, as part of a rate application), the distributor should follow that specific guidance. Also, if specific regulatory guidance for a particular issue has not been issued by the Board, and that issue is not addressed in the Articles of this APH, generally, a distributor should follow the requirements of IFRS.

	Account / Accounting Issue	Summary of modification to IFRS for regulatory accounting	Relevant Article
1.	Deferral and variance accounts	A distributor recognizes deferral and variance accounts (i.e. regulatory assets and regulatory liabilities) as established by the Board, whether or not these accounts are recognized under IFRS. This also includes a generic IFRS transition PP&E deferral account to record differences arising as a result of accounting policy changes caused by the transition from Canadian GAAP to MIFRS. Further, any regulatory assets or regulatory liabilities that are derecognized or reclassified to other capital asset account categories upon transition to IFRS (for example, smart meters) retain their original treatment for regulatory purposes until their disposition is approved by the Board.	Article 330 Article 490 Article 510
2.	Property, plant and equipment, intangible assets and investment property (“Capital assets”)	For the first-time adoption of IFRS, a distributor is required to use regulated net book value as the basis for setting opening rate base values and reporting to the Board, even though it may have elected to use another measurement basis (e.g. fair value, revalued amount or restated cost) for its capital assets for financial reporting. The Board requires use of historical acquisition cost as a basis for reporting capital assets, even though a distributor may for financial reporting elect to report these assets at revalued amounts as permitted under IFRS. The distributors’ use of historical acquisition cost will occur after the initial reconciliation of capital assets between Canadian GAAP and IFRS at the transition date to IFRS.	Article 410

	Account / Accounting Issue	Summary of modification to IFRS for regulatory accounting	Relevant Article
		Electricity distributors shall use the straight-line method for depreciation, irrespective of other depreciation methods that may have been used for reporting under IFRS.	
3.	Borrowing Cost (Allowance for funds used during construction)	Where incurred debt is not acquired on an arm's length basis, the actual borrowing cost may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, the distributor should use the Board's published rates.	Article 410
4.	Customer contributions (Contributions in aid of construction)	Customer contributions are treated as deferred revenue to be included as an offset to rate base and amortized to income over the life of the facilities to which they relate.	Article 430
5.	Intangible assets	Where IFRS requires certain assets that were previously included in PP&E (e.g. computer software and land rights) to be recorded as intangible assets, electricity distributors shall include such intangible assets in rate base and the amortization expense in depreciation expense.	Article 410
6.	Other Capital assets	Electric plant may have been acquired as operating units or systems from a predecessor distributor or vendor company. The original cost of electric plant shall be determined by analysis of the acquiree's records and the difference between the original cost so determined, less accumulated depreciation or amortization and the cost to the acquirer (or fair value assigned in a business combination) with	Article 460

	Account / Accounting Issue	Summary of modification to IFRS for regulatory accounting	Relevant Article
		necessary adjustments for retirements from the date of acquisition, shall be entered into an Electric Plant Acquisition Adjustments account and be classified as part of "Other Capital Assets."	
7.	Decommissioning, restoration or similar liabilities (asset retirement obligations)	Distributors shall identify separately in their rate applications the depreciation expense associated with amortizing asset retirement costs and the accretion expense associated with the asset retirement obligations.	Article 410
8.	Gains and losses on the disposition of assets	Where a distributor has accounted for the amount of a gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the distributor shall reclassify such gains and losses as depreciation expense and disclose the amount separately. Where a distributor has reported a gain or loss on disposition of individual assets in its IFRS general purpose financial statements, such amounts should be identified separately in rate filings for review by the Board.	Article 410
9.	Asset impairment	Where for general purpose financial reporting under IFRS a distributor has recorded an asset impairment loss, for reporting and rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates.	Article 410
10.	Income taxes	For distributors, the Board will continue with the current practice of using estimated taxes (the current tax or the Payment in lieu of taxes ("PILs") proxy) in revenue requirement	Article 440

	Account / Accounting Issue	Summary of modification to IFRS for regulatory accounting	Relevant Article
		for rate-setting purposes. Tax or PILs related costs as incurred in the future may be recovered in rates when approved in a future rate proceeding.	
11.	Post-employment benefits and other long-term benefits	For electricity distributors, the current practice approved by the Board will continue for pension and other post-employment benefit costs. Any changes to current practice may be sought through an application to the Board.	Article 470
12.	Allocation of costs and transfer pricing	The Board provides specific guidance for transactions between a regulated electricity distributor and its affiliates. Essentially, the methods used to allocate costs should not result in cross-subsidization between regulated and non-regulated lines of business, products or services.	Article 340

Regulatory Accounting under Alternative Accounting Standards, including US GAAP

The Addendum reaffirmed Principle 5 from the Board's Report, and noted that while the use of US GAAP as an alternative to IFRS was not contemplated at the time Principle 5 was developed, the Board remains of the view that to require a distributor to provide regulatory reporting and filing in IFRS when that distributor is performing financial reporting under an entirely different accounting standard is generally not desirable.

For this reason, the Accounting Procedures or Requirements set out in this APH apply only to a distributor that prepares its financial accounting records on the basis of IFRS. A distributor that is granted permission by the Board to prepare its regulatory accounting records using alternative accounting frameworks (e.g. US GAAP, ASPE or not-for-profit) is required to apply those Accounting Procedures or Requirements that are specified to it by the Board when such permission is granted.

Go to TOC A315

In order for the Board to determine the additional regulatory accounting procedures and requirements that would apply for such cases, the Board requires a distributor that adopts US GAAP or an alternative accounting standard other than IFRS, in its first cost of service application following the adoption of the new accounting standard(s), to:

a) Demonstrate the eligibility of the distributor under the relevant securities legislation to report financial information using that standard(s);

b) Include a copy of the authorization to use the standard(s) from the appropriate Canadian securities regulator (if applicable) showing any conditions or limitations; and

c) Set out the benefits and potential disadvantages to the distributor and its ratepayers of using the alternative accounting standard(s) for rate regulation.

The Board retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among utilities.

Reconciliations between IFRS and MIFRS

As more fully discussed in Article 510 *Transitional Issues for the Adoption of IFRS*, the Board has prescribed certain one-time reconciliations for the period of transition to IFRS. The Board does not specify in advance the level of detail at which information supporting a reconciliation must be provided. The necessary level of detail will vary with the nature of a rate application, and the Board considers that distributors should be able to assess the level of detail necessary to support a proposed adjustment. However, it is not the Board's intention to require the maintenance of two sets of books of original entry for both Canadian GAAP and MIFRS, particularly as the requirement for reconciliation between the two accounting frameworks is a response to a transitional problem.

Go to TOC A315

Application of Accounting Concepts

Accounting Policies, Changes in Accounting Estimates and Errors

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TABLE OF CONTENTS

Go To Main APH ToC

Application of Accounting Concepts

Accounting Policies, Changes in Accounting Estimates and Errors

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, *International Accounting Standards* ("IAS") 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), which prescribes the criteria for selecting and changing accounting policies as well as the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Accordingly, this Article should be read in conjunction with IAS 8.

The purpose of this Article is to provide additional guidance in regard to accounting policies, changes in accounting estimates and errors where further guidance specific to electricity distributors is required.

Refer to Article 510 *Transitional Issues Relating to the Adoption of IFRS* for a discussion of the selection of accounting policies by an entity applying IFRSs for the first time.

General Summary

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. IFRS sets out accounting policies that are expected to result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. When specifically addressed by IFRS, a distributor applies the accounting policy or policies required by the applicable IFRS standard to a transaction. When IFRS does not cover a particular issue, a distributor uses judgment in developing and applying an accounting policy that results in relevant and reliable information.

Notwithstanding the above, for purposes of regulatory accounting and reporting, regulatory principles take precedence over external financial reporting requirements. Accordingly, in certain instances the Board has specified accounting treatments for regulatory purposes that differ from the accounting treatments that would otherwise be required under IFRS (MIFRS). Where MIFRS has been provided by the Board for a specific transaction, event or condition, the distributor shall use MIFRS for regulatory accounting and reporting purposes.

Once selected, accounting policies are changed in response to new or revised IFRS principles (or MIFRS) or on a voluntary basis if the new policy will result in a reliable and more relevant presentation.

Application of Accounting Concepts

Accounting Policies, Changes in Accounting Estimates and Errors

Accounting policy changes and correction of material prior period errors are generally accounted for retrospectively by adjusting opening equity and restating comparative figures. However, in certain instances the Board may permit prospective application of a change in accounting policy for regulatory accounting purposes.

Accounting estimates are an essential part of financial reporting and are based on the latest available and reliable information. An estimate is revised if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. Changes in accounting estimates are accounted for prospectively.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 8 and are listed below for ease of reference:

Accounting Changes Terminology	CICA Handbook Section References
Selection and application of accounting policies	IAS 8, Paragraphs 5, 7-13
Changes in accounting policies	IAS 8, Paragraphs 5, 14-21
Retrospective application	IAS 8, Paragraphs 5, 22
Retrospective application, Limitations on	IAS 8, Paragraphs 23-27
Changes in accounting policies, Disclosure of	IAS 8, Paragraphs 28-31
Change in accounting estimates	IAS 8, Paragraphs 5, 32-38
Change in accounting estimates, Disclosure of	IAS 8, Paragraphs 5, 39-40
Prior period errors	IAS 8, Paragraphs 5, 41-49
Retrospective restatement	IAS 8, Paragraph 5
Retrospective restatement, Limitations on	IAS 8, Paragraphs 43-48
Retrospective application and retrospective restatement, Impracticality in respect of	IAS 8, Paragraph 5, 50-53

Accounting Issues

Selection and Application of Accounting Policies

When specifically addressed by IFRS, an entity applies the accounting policy or policies required by IFRS to a transaction (IAS 8 paragraph 7). In the absence of an IFRS principle that specifically applies to a transaction, other event or condition, a distributor is required to use judgment in selecting and applying an accounting policy that results in information that is relevant and reliable. Paragraph 11 outlines the following hierarchy of accounting literature to be used at arriving in the policy selected:

- the requirements in IFRS dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

The hierarchy also permits consideration of the pronouncements of other standard-setting bodies and accepted industry practice to the extent they do not conflict with the standards, interpretations and conceptual framework of IFRS (paragraph 12).

Changes in Accounting Policies

A change in accounting policy that arises from the adoption of new or revised IFRS principles should be accounted for in accordance with the specific transitional requirements of the new or revised standard (paragraph 19). In all other instances, IFRS requires that the impact of a change in accounting policy is accounted for retrospectively and the opening balance of retained earnings and comparative information are restated unless it is impracticable to do so (paragraphs 19 and 23). Paragraphs 50 through 53 provide guidance on when retrospective application or restatement will be impracticable.

Change in Accounting Estimates

As a result of uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated (paragraph 32). Accounting estimates involve judgments based on the latest, most reliable facts and circumstances but change over time as those facts and circumstances change (paragraphs 32 – 34).

Changes in accounting estimates are accounted for in the period in which the change occurs, or in the period of the change and future periods, if the change affects more than one period (paragraph 36).

A change in the estimate of the useful life of an item of property, plant or equipment or an intangible asset is accounted for prospectively as a change in estimate by adjusting depreciation or amortization in the current and future periods (paragraphs 32 and 36 of IAS 8, paragraphs 51 and 61 of IAS 16 and paragraph 104 of IAS 38).

Go to TOC A320

For example, assume a distributor acquired a piece of equipment for $100 at the beginning of 2012 and its useful life was estimated to be 10 years. At the end of 2015 the carrying amount of the equipment was $60. At the beginning of 2016, based on new information, the distributor revises the estimated useful life upwards to a further 8 years from that date. As a result, commencing in 2016, the carrying amount of $60 is depreciated over the next 8 years.

Correction of Errors

Errors result from incorrect application of accounting policies or the misinterpretation of facts and circumstances. Examples include mathematical mistakes, fraud and oversight (paragraph 5).

Material prior period errors must be corrected in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period(s) presented in which the error occurred or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented (paragraph 42).

Regulatory Treatment

In respect of the selection of accounting policies, for regulatory accounting and reporting purposes, a distributor that refers to the hierarchy when selecting an accounting policy should do so with consideration of those areas for which MIFRS has been provided by the Board.

In respect of a change in accounting policy that affects allowable costs for rate-making purposes, for regulatory accounting and reporting purposes the Board may permit the effect of the change to be recognized either prospectively or retrospectively. Determination of the accounting policy changes for which the Board will provide specific transitional guidance is at the discretion of the Board. For those accounting policy changes for which the Board has provided specific guidance, distributors are required to account for the change in the manner prescribed by the Board. For all other changes in accounting policies, the distributor should account for the change in accordance with IAS 8 (i.e., prospectively or retrospectively as appropriate in the specific circumstances).

Go to TOC A320

Application of Accounting Concepts

Treatment of Certain Revenues and Expenses

TABLE OF CONTENTS

Go To Main APH ToC

Application of Accounting Concepts

Treatment of Certain Revenues and Expenses

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, *Conceptual Framework for Financial Reporting* ("Conceptual Framework") and IAS 18 *Revenue* ("IAS 18") which set out the concepts that underlie the preparation and presentation of financial statements and prescribe how and when to recognize revenue in the financial statements. Accordingly, this Article should be read in conjunction with the Conceptual Framework and IAS 18**.**

The purpose of this Article is to provide additional guidance in regard to the treatment of certain revenues and expenses where further guidance specific to electric distributors is required.

General Summary

The Conceptual Framework indicates that under IFRS an entity's financial performance is reflected by accrual accounting. Although accrual accounting involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events, the influence of this matching principle on preparing IFRS financial statements has been de-emphasized in recent years. As a result, revenues and expenses may be deferred in the balance sheet only if they meet the definition of an asset or liability.

Consistent with the requirements of accrual accounting, a distributor must assess whether the financial statements should include an amount of revenue for electricity distributed prior to the end of the period but that will not be billed until the subsequent period (unbilled revenue). To the extent a distributor has any such unbilled revenue that qualifies for recognition, the distributor is required to use an estimation technique to determine the amount of unbilled revenue to be accrued at the end of the period. IFRS does not prescribe how unbilled revenue should be estimated and this Article provides several methods that a distributor may use to determine the appropriate amount to accrue at period end.

Although accrual accounting and other concepts under IFRS are an important consideration in determining regulatory accounting and reporting requirements, the objective of just and reasonable rates is the primary driver of such requirements. As a result, the Board has the authority to establish regulatory debits and credits and therefore require distributors to defer certain amounts recognized as revenues or expenses under IFRS as regulatory assets or regulatory liabilities for regulatory accounting and reporting purposes.

Application of Accounting Concepts

Treatment of Certain Revenues and Expenses

Distributors may undertake transactions that give rise to non rate-regulated revenues and expenses. Non rate-regulated revenues and expenses should be accounted for separately from regulated revenues and expenses to ensure that there is no cross-subsidization between regulated and non rate-regulated lines of business. In instances where activities envisioned by a USoA account could encompass both regulated and non rate-regulated activities e.g., conservation and demand management ("CDM") programs, the distributor should establish sub-accounts within the existing USoA account to capture financial information relating to similar activities that may be non-regulated in nature, or use the specified accounts when prescribed for the non rate-regulated activities in the USoA.

Definitions and References

Definitions and accounting treatment of the following are provided in the Conceptual Framework and IAS 18 and are listed below for ease of reference:

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Income	Conceptual Framework ("CF") 4.29-4.32
Expenses	CF 4.33-4.35
Revenue	CF 4.29, IAS 18.7
Revenue recognition, sale of goods	IAS 18.14-19

The following definitions are adopted for the purposes of the APH as well as for this specific Article:

Go to TOC A330

Treatment of Certain Revenues and Expenses

Regulatory Terminology	Definition
Non rate-regulated revenues and expenses	Non rate-regulated revenues and expenses arise primarily from competitive or potentially competitive activities conducted within the regulated entity. Non-rate-regulated revenues and expenses include those associated with qualifying distributor-owned generation and storage facilities, conservation demand management programs or other initiatives outside the distribution rates framework. Non rate-regulated revenues and expenses should be accounted for separately from regulated revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business.
Regulatory debits Regulatory credits	These items result from the regulatory actions of the Board. They arise from transactions that would otherwise have been included in the net income determination of the period under the general requirements of the USoA but instead will be included in a different period(s). These items are used for purposes of developing rates the distributor is authorized to charge, or in the case of regulatory credits, to record refunds that will be required, and that have not been provided for in other accounts.
Unbilled revenue	Unbilled revenue is defined as that amount of revenue for power consumed prior to a distributor's period end but not billed until the following period.

Accounting Issues

Accrual Basis of Accounting

The Conceptual Framework describes the concepts underlying the preparation and presentation of financial statements. The IASB uses the Conceptual Framework when developing new or revised IFRS principles. The Conceptual Framework also provides a basis for determining accounting policies in the absence of specific guidance in IFRS on a particular subject.

Go to TOC A330

Paragraph OB12 describes that one of the objectives of general purpose financial reports is to provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against the reporting entity, as well as information about the effects of transactions and other events that change a reporting entity's economic resources and claims.

Information about an entity's financial performance helps users of general purpose financial statements understand the return the entity has produced on its economic resources (paragraph OB16). Changes in an entity's economic resources and claims that result from financial performance should be reflected by accrual accounting, whereby the effects of transactions or other events and circumstances on a reporting entity's economic resources and claims are accounted for in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period (paragraph OB17).

Paragraph 4.4 of the Conceptual Framework defines assets and liabilities. The definitions of equity, income and expenses are all derived from the definitions of assets and liabilities (paragraph 4.4, 4.25). An entity analyzing how a transaction should be accounted for should consider the Conceptual Framework's emphasis on assets and liabilities (i.e. a balance sheet orientation).

Income is recognized in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably (paragraph 4.47). Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as matching, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events (paragraph 4.50).

Although matching has historically had a significant influence on the preparation of financial statements, it has been de-emphasized in recent standard setting as the predominance of the balance sheet approach has grown. Accordingly, revenues and expenses may be deferred in the balance sheet only if they meet the definition of an asset or liability (paragraph 4.50).

Unbilled Revenue

If a distributor invoices its customers based on meter readings but the date of the meter reading does not coincide with the date of the end of the financial reporting period ("financial reporting date"), it is likely that at the financial reporting date there would be unbilled revenue for the electricity distributed to customers between the date of the most recent meter reading and the financial reporting date.

Paragraph 14 of IAS 18 indicates that revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

Recognized revenue should be measured at the fair value of the consideration received or receivable (paragraph 9).

At each accounting period end (e.g. monthly, quarterly), a distributor's unbilled revenue likely satisfies the above criteria and therefore qualifies for recognition (although each distributor should perform its own analysis based on its particular facts and circumstances). When unbilled revenue does qualify for recognition in accordance with the above guidance, a distributor must estimate the appropriate amount to accrue at the financial reporting date.

IFRS does not provide any guidance in estimating unbilled revenue at the financial reporting date. Therefore, depending upon circumstances, a distributor may use one or a combination of the three general methods described below for calculating unbilled revenue for the period from the date of the previous meter reading to the financial reporting date, or develop a distributor-specific methodology based on similar principles.

Method A

If the meter read date coincides with accounting period end, all revenue from the period (for power or services consumed in the period from the previous meter reading date to the distributor's financial reporting date) is unbilled revenue. Therefore, unbilled revenue is calculated based on actual meter readings and no pro-rating or estimation is necessary.

Go to TOC A330

Method B

Where a billing period commences prior to the financial reporting date but ends subsequent to that date, and the actual billings based on a meter reading at a date subsequent to the financial reporting date are available, then the unbilled revenue to be recognized at the financial reporting date can be estimated by prorating the actual billings between the two periods based on the number of days in the billing period.

Method C

Where a billing period commences prior to the financial reporting date but ends subsequent to that date, and the actual billings based on a meter reading at a date subsequent to the financial reporting date are not available, then the unbilled revenue to be recognized at the financial reporting date must be estimated by the distributor. Any method of estimation may be used as long as it results in a reasonable approximation of unbilled revenue based on the information available at the time of the estimate. For example, an estimate of unbilled revenue may be calculated by multiplying the number of unbilled days by the average billing amount per day for the previous billing period.

References to billings or billing amounts within the methodologies above could be either the billed revenue or the billed quantities on which rates for the period are applied.

With the increased deployment of smart meters, the need for estimating the amount of electricity distributed since the last meter reading should be decreasing, as smart meters may eventually permit more up to date or real time reading of meters. For purposes of estimating unbilled revenue, distributors should use which ever estimation method (or combination of methods) produces the most reliably and accurate result.

For regulatory accounting and reporting purposes, unbilled revenue should be accrued at the financial reporting date using the following accounts, or in accordance with the guidance provided in Article 490 if applicable, as provided in the USoA:

- Account 1120, Accrued Utility Revenues. This account shall include the amount of revenue for power/ services consumed prior to the distributor’s period end but not billed until the following period.

- Account 4050, Revenue Adjustment. This account shall include both unbilled revenue adjustments and prior period billing adjustments.

In the subsequent period, an entry should be recorded to clear the unbilled revenue accrual (Account 1120, Accrued Utility Revenues) and distribute the actual billings rendered to the applicable sales accounts (Accounts 4006 to 4110).

Regulatory Debits and Credits

The Board's authority pursuant to the OEB Act, includes, but is not limited to, the power to:

- specify methods or techniques to be applied in determining a distributor's rates (section 70 (2) (e));
- require a licensed distributor to maintain specified accounting records prepared according to specified principles (section 70 (2) (f)); and
- make orders approving or fixing just and reasonable rates for the transmission or distribution of electricity and for the retailing of electricity by a distributor (section 78 (3)).

The methodologies used by the Board to establish just and reasonable rates are not always the same as those used for external financial reporting purposes. As noted above, the Board has the authority to establish a distributor's accounting and reporting requirements for regulatory purposes. While IFRS accounting requirements are an important consideration in determining regulatory accounting and reporting requirements, the objective of just and reasonable rates is the primary driver of such requirements.

Regulatory debits and credits (e.g., deferral and variance accounts) result from the regulatory actions of the Board and are used for purposes of developing rates the distributor is authorized to charge, or in the case of regulatory credits, to record refunds that will be required and that have not been provided for in other accounts. The effect of regulatory debits and credits is to defer certain amounts recognized as revenues or expenses under IFRS as regulatory assets and regulatory liabilities on the balance sheet.

The deferral and variance account references provided in this section may include only account description summaries. Article 220 *Account Descriptions* should be referenced for complete details of the account descriptions of all accounts. Deferral and variance accounts for retail services and market settlements are not listed in this Article and should be referenced in Article 490 *Accounting for Specific Items Retail Services and Settlement Variances*.

For regulatory accounting and reporting purposes, the following balance sheet accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA:

Go to TOC A330

- Account 1505, Unrecovered Plant and Regulatory Study Costs. This account shall include: (1) Non-recurring costs of studies and analyses mandated by the Board related to plants in service, transferred from Account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been cancelled or which have been prematurely retired.

- Account 1508, Other Regulatory Assets. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of the Board.

- Account 1508, Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs. A distributor shall use this account to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates.

- Account 1508, Other Regulatory Assets, Sub-account IFRS Transition Costs Variance. A distributor shall use this account to record the variance between the amounts recovered in distribution rates at approved rates and the actual incurred one-time administrative incremental IFRS transition costs. The distributor will record the actual incurred one-time administrative incremental IFRS transition costs in this sub-account. In addition, the amounts recovered in distribution rates will be recorded as credits in this same sub-account. These recoveries are not recorded as credits in the 4000-4499 series of revenue and other income accounts.

- Account 1508, Other Regulatory Assets, Sub-account Incremental Capital Charges. A distributor shall use this account to record the charges arising from the capital relief rate rider. The new incremental capital ("Rider 5") charge arises from an incremental capital module approved for Hydro One Networks Inc. (EB-2008-0187), which was effective on May 1, 2009 but was implemented on June 1, 2009.

- Account 1508, Other Regulatory Assets, Sub-account Financial Assistance Payment and Recovery Variance – Ontario Clean Energy Benefit Act. This account shall be used by a licensed distributor to capture the difference between the amounts of reimbursement claimed from the Independent Electricity System Operator ("IESO") or a host distributor and the financial assistance credited to eligible accounts. This account shall be used by way of exception – if a licensed distributor cannot adapt their invoices as of January 1, 2011 they will require this variance account for Ontario Clean Energy Benefit purposes.

- Account 1521, Special Purpose Charge Assessment Variance Account. This account shall be used by a distributor to record any difference between the amounts remitted to the Minister of Finance for a utility's Special Purpose Charge ("SPC") assessment and the amount that the utility recovers from customers. This amount shall be recorded in "Sub-account 2010 SPC Assessment Variance" of Account 1521. Account 5681, Special Purpose Charge Expense, should be used to record the amount of the SPC assessment , and Account 4324, Special Purpose Charge Recovery, should be used to record amounts collected from customers on account of that assessment.

- Account 1525, Miscellaneous Deferred Debits. This account shall include all debits not elsewhere provided for which will benefit future periods and shall be carried forward and charged to expense over the term of the benefit.

- Account 1530, Deferred Losses from Disposition of Utility Plant. This account shall include losses from the sale or other disposition of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to Account 4350, Losses from Disposition of Future Use Utility Plant.

- Account 1531, Renewable Connection Capital Deferral Account. Investments associated with expansions to connect renewable generation facilities and renewable enabling improvements, both as defined in the Distribution System Code ("DSC"), should be recorded in this capital deferral Account. In addition, the capital cost of changes to a distributor's Customer Information System to enable the automated settlement of Feed-in Tariff ("FIT") or microFIT contracts may be included in this Account.

  The distributor's normal capitalization policies from its last cost of service proceeding should be followed in identifying fixed asset expenditures. Effective on January 1, 2012 (or such other date that a distributor adopted IFRS) the distributor's capitalization policies established on adoption of IFRS should be used.

- Account 1532, Renewable Connection OM&A Deferral Account. Incremental operating, maintenance, amortization and administrative expenses directly related to expansions to connect renewable generation facilities, and renewable enabling improvements, both as defined in the DSC, should be recorded in this operating deferral Account. In addition, costs that can be recorded in this Account include expenses associated with preparing a Green Energy Act ("GEA") Plan and expenses associated with changes to a distributor's Customer Information System to enable the automated settlement of Feed-in Tariff ("FIT") or microFIT contracts.

Distributors should not record in this Account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1531.

- Account 1533, Renewable Generation Connection Funding Adder Deferral Account. This Account will record the revenues collected through a funding adder approved by the Board related to renewable generation connection projects. Separate sub-accounts should be used to record any amounts collected from a distributor's ratepayers and any amounts received from the IESO (pursuant to the provincial pooling mechanism set out in section 79.1 of the OEB Act) in respect of the projects.

- Account 1534, Smart Grid Capital Deferral Account. Investments related to smart grid demonstration projects should be recorded in this capital deferral Account. This Account should also be used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation.

  The distributor's normal capitalization policies from its last cost of service proceeding should be followed in identifying fixed asset expenditures. Effective on January 1, 2012 (or such other date that a distributor adopted IFRS) the distributor's capitalization policies established on adoption of IFRS should be used.

- Account 1535, Smart Grid OM&A Deferral Account. Operating, maintenance, amortization and administrative expenses directly related to the following smart grid development activities should be recorded in this operating deferral Account:

  - smart grid demonstration projects;
  - smart grid studies and planning exercises; and
  - smart grid education and training.

This includes expenses associated with preparing the smart grid portion of a GEA Plan. Distributors should not record in this Account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1534. An investment in a renewable enabling improvement, as defined in the DSC, may incorporate what the distributor believes to be smart grid technologies. In such cases, distributors should allocate any costs associated with the incorporation of smart grid technologies to the smart grid deferral Accounts, with the balance of the costs going to the renewable generation connection deferral Accounts.

- Account 1536, Smart Grid Funding Adder Deferral Account. This Account will record the revenue collected through a funding adder approved by the Board related to smart grid development.

- Account 1555, Smart Meter Capital and Recovery Offset Variance Account. Amounts recorded in this account shall include the revenues from smart meter adders approved by the Board for smart meters and related capital costs incurred by the distributor.

- Account 1555, Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs. This sub-account shall be used to record the stranded costs associated with conventional or accumulation meters removed at the time of installation of smart meters.

- Account 1556, Smart Meter OM&A Variance Account. This account shall be used by the distributor to record incremental operating, maintenance, depreciation/ amortization and administrative expenses directly related to smart meters.

- Account 1562, Deferred Payments In Lieu of Taxes. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end. For a full year each applicable proxy will be divided by 12, and a monthly amount should be posted for each applicable period.

- Account 1563, Contra Account Deferred Payments In Lieu of Taxes. Amounts recorded in this account are applicable to a distributor using the third accounting method approved for recording entries in Account 1562 in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued FAQs on the APH. The offsetting entry of each entry in Account 1562 shall be made to this contra account.

Go to TOC A330

- Account 1572, Extraordinary Event Losses. When authorized or directed by the Board, this account shall be used to record extraordinary event losses that meet the qualifying criteria established by the Board. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. This account shall be credited with the amount expensed in the period.

- Account 1574, Deferred Rate Impact Amounts. This account shall be used to record amounts equal to rate impacts associated with market-based rate of return, transition costs, and extraordinary costs that the Board has authorized or directed to be recorded and deferred to future periods.

- Account 1592, PILs and Tax Variances for 2006 and Subsequent Years. For the period starting May 1, 2006, the distributor shall use this account to record the tax impact of any of the following differences that are not reflected in the distributor's rates:
    1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.
    2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.
    3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
        - received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or
        - relating to any tax year ending prior to May 1, 2006.

- Account 1595, Disposition and Recovery/Refund of Regulatory Balances Control Account. This control account shall be used to record the disposition and recoveries of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process. This control account structure has three generic Sub-accounts for each rate year starting in 2008. For each year that the deferral or variance account balances are approved for disposition by the Board, distributors are required to set-up under this control account, three sub-accounts for the purposes and in the format outline below (i.e., a vintage year identification consisting of three sub-accounts in relation to the year in which the account balances are approved).

- Account 1595, Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances Approved in “20yy”. This account shall be used to record the approved principal account balances in 2009 and amounts recovered (or refunds) in rates through regulatory asset or deferral and variance accounts rate riders.

- Account 1595, Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges Approved in “20yy”. This account shall be used to record cumulative carrying charge account balances upon separation of the principal and interest balances as required for recording purposes, on the transfer of each approved deferral or variance account balance to Account 1595. No additional carrying charges will be applied or added to these carrying charge balances (i.e., no interest on interest is applicable).

- Account 1595, Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges for Net Principal in “20yy”. Net Principal Account Balances. This account shall be used to record the carrying charges calculated on the opening monthly net principal balance (i.e., transferred account principal balances less recoveries) recorded in “Sub-account Principal Balances Approved in “20yy”.

- Account 2010, Electric Plant Purchased or Sold. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Article 230 *Definitions and Instructions* No. 7.

- Account 2060, Electric Plant Acquisition Adjustments. This account shall include the difference between (1) the cost to the acquiring utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated if not known, of such property, less the amount or amounts credited by the acquiring utility at the time of acquisition to accumulated provisions for depreciation and contributions in aid of construction with respect to such property.

- Account 2315, Accumulated Provision for Rate Refunds. This account shall be credited with amounts charged to Account 4240, Provisions for Rate Refunds, to provide for estimated refunds where the utility is collecting amounts in rates subject to refund. When refund of any amount recorded in this account is ordered by the

Board within the next year, such amount shall be charged to this account and credited to Account 2220, Miscellaneous Current and Accrued Liabilities.

- Account 2405, Other Regulatory Liabilities. This account shall include the amounts of regulatory liabilities, not included in other accounts, imposed on the utility by the ratemaking actions of regulatory agencies.

- Account 2410, Deferred Gains From Disposition of Utility Plant. This account shall include gains from the sale or other disposition of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to Account 4345, Gains from Disposition of Future Use Utility Plant.

- Account 3055, Adjustments to Retained Earnings. This account shall, with prior Board approval, include significant non-recurring transactions accounted for as prior period adjustments, such as: (1) correction of a material error in the financial statements of a prior year; and, (2) other adjustments that may be required by the Board.

The following income statement accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA:

- Account 4240, Provision for Rate Refunds. This account shall be charged with provisions for the estimated pretax effects on net income of the portions of amounts being collected subject to refund, which are estimated to be required to be refunded. Such provisions shall be credited to Account 2315, Accumulated Provision for Rate Refunds.

- Account 4305, Regulatory Debits. This account shall be debited, when appropriate, with the amounts transferred to liability Account 2405, Other Regulatory Liabilities, to record regulatory liabilities imposed on the utility by the rate-making actions of the Board. This account shall also be debited, when appropriate, with the amounts drawing down the balance in asset Account 1508, Other Regulatory Assets (concurrent with the recovery of such amounts in rates).

- Account 4310, Regulatory Credits. This account shall be credited, when appropriate, with the amounts transferred to asset Account 1508, Other Regulatory Assets, to establish regulatory assets. This account shall also be credited, when appropriate, with the amounts drawing down the balance in liability Account 2405, Other Regulatory Liabilities (concurrent with the return of such amounts to customers through rates).

- Account 4345, Gains from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to gains from the disposition of future use utility plant including amounts that were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

- Account 4350, Losses from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to losses from the disposition of future use utility plant including amounts which were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

- Account 4355, Gain on Disposition of Utility and Other Property. This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another.

- Account 4357, Gain from Retirement of Utility and Other Property. This account shall be credited with the gain from the retirement of property, plant and equipment or intangible assets.

- Account 4360, Loss on Disposition of Utility and Other Property. This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another.

- Account 4362, Loss from Retirement of Utility and Other Property. This account shall be credited with the loss from the retirement of property, plant and equipment or intangible assets.

- Account 5655, Regulatory Expenses. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) applicable to utility operating expenses, incurred by the utility in connection with formal cases before the Board or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory body for fees assessed against the utility for pay and expenses of such body, its officers, agents, and employees. Amounts of regulatory expenses that by approval or direction of the Board are to be spread over future periods shall be charged to Account 1525, Miscellaneous Deferred Debits, and amortized by charges to this account.

- Account 5720, Amortization of Electric Plant Acquisition Adjustments. This account shall be debited or credited, as the case may be, with amounts authorized to be included in operating expenses, pursuant to approval or order of the Board, for the purpose of providing for the extinguishment of the amount in Account 2060, Electric Plant Acquisition Adjustments.

- Account 5725, Miscellaneous Depreciation. This account shall include amortization charges not included in other accounts. Charges included here, if significant in amount, must be in accordance with an orderly and systematic depreciation program.

- Account 5730, Depreciation of Unrecovered Plant and Regulatory Study Costs. This account shall be charged with amounts credited to asset Account 1572, Extraordinary Event Costs. This account shall also be charged with amounts credited to asset Account 1505, Unrecovered Plant and Regulatory Study Costs, when the Board has authorized the amount in that account to be amortized by charges to electric operations.

Non Rate-Regulated Revenues and Expenses

Pursuant to section 70(2)(f) of the OEB Act, the Board may require the licensee to maintain specified accounting records, prepare accounts according to specified principles and maintain organizational units or separate accounts for separate businesses in order to prohibit subsidies between separate businesses.

Non rate-regulated revenues and expenses arise primarily from competitive or potentially competitive activities conducted within the regulated entity. Such activities will be reviewed by the Board on a stand-alone basis, and will require approval to be retained within the regulated entity.

Under section 71(3) of the OEB Act, subject to certain regulations, a distributor may own and operate renewable energy generation, combined power and thermal (heat) energy generation and energy storage facilities (collectively referred to as qualifying distributor-owned generation facilities). Revenue and expenses associated with distributor-owned generation facilities are non rate-regulated since the existing statutory framework set out in section 78(3) of the OEB Act does not currently give the Board the power to include generation assets in rate base, nor to permit rate recovery for any associated operations and maintenance expenses for distributors.

Go to TOC A330

Application of Accounting Concepts

Treatment of Certain Revenues and Expenses

Revenues and expenses arising from a distributor's CDM activities or other initiatives outside the distribution rates framework are also not regulated by the Board and are therefore also non rate-regulated revenues and expenses.

Non rate-regulated revenues and expenses should be accounted for separately from regulated revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated distributor lines of business. For accounts provided in the USoA, where the activity envisioned by the account could encompass both regulated and non-rate regulated activities (e.g. CDM programs), the distributor should establish sub-accounts within the existing USoA accounts to capture financial information relating to similar activities that may be non-regulated in nature. For activities not already covered by the USoA, the accounts below have been provided.

The following balance sheet account should be used to record non rate-regulated assets, liabilities and shareholders' equity as provided in the USoA:

- Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned or leased under a finance lease by the utility, but not used in utility service and not included in Account 2040, Electric Plant Held for Future Use.

- Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, Sub-account Generation Facility Assets. Amounts recorded in this account shall include qualifying renewable property, plant and equipment and intangible assets. These assets are not included in rate base and the associated amortization expenses are not included in the revenue requirement of the distributor.

- Account 2285, Obligations Under Finance Leases-Current, Sub-account Generation Facility Liabilities. Amounts recorded in this account shall include current liabilities associated with generation. These liabilities shall not be included in the revenue requirement.

- Account 2325, Obligations Under Finance Lease-Non-Current, Sub-account Generation Facility Liabilities. Amounts recorded in this account shall include the liability portion not due within one year associated with generation. These liabilities shall not be included in the revenue requirement.

- Account 3075, Non Rate-Regulated Utility Shareholders' Equity, Sub-account Generation Facilities. This sub-account shall include shares, paid-in capital, appropriated and unappropriated retained earnings, balance transferred from income and dividends associated with distributor-owned generation. Sub-accounts may be used to distinguish the components of non-rate regulated shareholders' equity. Account 3075 is a new account.

The following income statement accounts should be used to record non rate-regulated revenues and expenses as provided in the USoA:

- Account 4375, Revenues from Non Rate-Regulated Utility Operations. This account shall include revenues applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation is not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.

- Account 4375, Revenues from Non-Regulated Utility Operations, Sub-account Generation Facility Revenues. This account shall include revenues applicable to the operations of qualifying generation facilities or assets from all sources, including revenues from Feed-in Tariff contracts. Records shall be maintained to support the entries in this account.

- Account 4380, Expenses of Non Rate-Regulated Utility Operations. This account shall include expenses applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others. The expenses shall include all elements of costs incurred in such operations, and the accounts shall be subdivided so as to permit ready summarization of expenses by activity as follows: Operation, Maintenance, Rents, and Amortization.

- Account 4380, Expenses from Non Rate-Regulated Utility Operations, Sub-account Generation Facility Expenses. This account shall include expenses applicable to the operations of qualifying generation facilities or assets. This account shall be segregated by sub-accounts to record the following categories of costs: (1) energy supply expenses (e.g. fuel), (2) operation, (3) maintenance (4) administration, (5) taxes/ payment in lieu (PILs) and (6) amortization expenses. Records shall be maintained to support the entries in this account.

- Account 4385, Non Rate-Regulated Utility Rental Income. This account shall include all rent revenues and related expenses of land, buildings, or other property included in Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, or elsewhere, and used for non-utility purposes.

- Account 4390, Miscellaneous Non-Operating Income. This account shall include all revenue and expense items not provided for elsewhere.

Go to TOC A330

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

TABLE OF CONTENTS

Go To Main APH ToC

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Purpose and Scope

The underlying concept for this Article is that transfer pricing and allocation of cost methods should not result in cross-subsidization between regulated and non-regulated lines of business, products or services.

The purpose of this Article is to:

a) Provide regulated electricity distributors and their affiliates with a framework for the development of their own policies and procedures for allocating the cost of transactions, products or services between the distributor and its affiliates and the distributor and its non rate-regulated lines of business;

b) Provide distributors and their affiliates with an overview of the *Affiliate Relationships Code for Electricity Distributors and Transmitters* ("ARC") as it relates to accounting procedures or requirements in the APH, and;.

c) Provide the Board with a framework for reviewing the policies and procedures developed by distributors for allocating costs and accounting for affiliate transactions and non rate-regulated activities.

General Summary

This Article provides a framework related to the allocation of costs that should be followed by a distributor and its affiliates in developing policies and procedures for allocating the cost of transactions, products or services between the distributor and its affiliates. Transfer pricing principles that should be followed by a distributor and its affiliates in accounting for transactions between its regulated business and its affiliates are also discussed in this Article. In this Article the terms distributor and utility have the same meaning and are used interchangeably.

Essentially, the methods used to allocate costs should not result in cross-subsidization between regulated and non-regulated lines of business, products or services.

The general method for charging or allocating indirect costs between regulated and non-regulated lines of business, products or services should be on a fully allocated cost basis. To the extent possible, all direct and allocated costs between regulated and non-regulated lines of business, services or products shall be traceable on the books of the regulated business to the Uniform System of Accounts ("USoA"). Where a distributor incurs costs (e.g. general administration, office staff salaries, and rent) jointly with another distributor or with its local municipality, the method of splitting the joint costs should be calculated in accordance with some reasonable method of determining a fair and equitable split. The allocation principles as set out in this Article should be used if applicable.

Transactions of a commercially sensitive nature may be submitted in confidence to an Inspector of the Board. Entities that provide both regulated and non rate-regulated services or products are required to maintain documented policies on allocation of costs that are consistently applied and available for Board review. In performing procedures related to the allocation of costs, the distributor and its affiliates must meet certain documentation and related requirements, and documentation regarding transactions between the regulated business and its affiliates shall be made available to the Board upon request. Note that pursuant to section 108 of the OEB Act, an inspector appointed by the Board may conduct an audit, investigation or review.

This Article also addresses the use of clearing accounts for overhead cost allocation. Electric utilities that allocate overhead costs to more than one account may initially include these costs in a “clearing account”. Once the basis of allocation is determined, the costs contained in the clearing account would then be distributed to the appropriate accounts as provided for in the USoA.

This Article does not provide guidance related to the allocation of costs to rate classes or classification of costs between capital and operating expenditure (for guidance on the latter, see Article 410 *Property, Plant & Equipment and Intangible Assets*).

Requirements for General Purpose Financial Statements

CICA Handbook Part 1 – IFRS does not contain any special accounting requirements relating to the recognition, measurement or pricing of transactions between related parties. Instead, transactions between related parties are recognized and measured in accordance with the requirements of relevant IFRS principles, for example IAS 16 for property, plant and equipment (discussed in Article 410 *Property, Plant & Equipment and Intangible Assets*) and IAS 39 for financial instruments (discussed in Article 450 *Financial Instruments, Deposits and Collateral Funds*).

However, CICA Handbook Part 1 – IFRS, IAS 24 *Related Party Disclosures* (“IAS 24”) sets out the disclosures required in an entity’s financial statements to draw attention to the possibility that the entity’s financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. The disclosure requirements are detailed in the standard and include disclosures about compensation to key management personnel. However, it should be noted that a government-related reporting entity is exempt from providing disclosures in financial statements about related party transactions, commitments and outstanding balances with a government that has control, joint control or significant influence over the reporting entity, as well as with other entities over which the same government has control, joint control or significant influence. However, when the entity takes advantage of the exemption, it is still required to disclose the name of the government, the nature of its relationship with the government and certain additional information regarding transactions which are significant (either individually or in aggregate).

As IFRS does not prescribe any special recognition and measurement requirements for transactions with related parties, distributors may (where considered appropriate based on the specific requirements of other relevant standards in IFRS) develop and implement policies and procedures for transfer pricing and for allocating the cost of transactions, products or services between the distributor and its affiliates for general purpose financial statements that are informed by the regulatory requirements set out in the ARC and this Article.

Go to TOC A340

Requirements for Regulatory Accounting

Definitions

The following definitions are adopted for the purposes of addressing the scope of the issues included in this Article.

Relevant Terminology	Definition
Affiliate	Affiliate has the same meaning as in the *Business Corporations Act (Ontario)*. Under Part I—Definitions, Interpretation and Application of the *Business Corporations Act (Ontario)*, an affiliate means an affiliated body corporate. A body corporate means any body corporate with or without share capital and whether or not it is a corporation to which the *Business Corporations Act* (Ontario) applies. One body corporate shall be deemed to be affiliated with another body corporate if, but only if, one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person.
Affiliate contract	Affiliate Contract means any contract between a utility and an affiliate, and includes a Services Agreement. (Section 1.2 of the ARC).
Common costs	Common costs are the cost of facilities, services and products that are of joint benefit between regulated and non-regulated lines of business.
Confidential information	Information the utility has obtained relating to a specific smart sub-metering provider, wholesaler, consumer, retailer or generator in the process of providing current or prospective utility service (consistent with Section 1.2 of the ARC).

Allocation of Costs and Transfer Pricing

Relevant Terminology	Definition
Cost allocator	A cost allocator is the method or ratio used to apportion costs. A cost allocator may be based on: a) the origin of costs, as in the case of cost drivers; b) the cause-and-effect relationship reflecting the linkage between the costs incurred and the activities undertaken to produce the services and products; or c) one or more overall factors referred to as general allocators.
Cost driver	A cost driver is a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
Direct costs	Direct costs are costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre (Section 1.2 of the ARC).
Energy service provider	Energy service provider means a person, other than a utility or a shareholder of a utility that is a municipal corporation or the provincial government, involved in the supply of electricity or gas or related activities, including: retailing of electricity; marketing of natural gas; generation of electricity; energy management services; conservation or demand management programs; street lighting services; sentinel lighting services; metering (including smart sub-metering that is the subject of the Smart Sub-Metering Code and wholesale metering); billing other than solely for the delivery and supply of electricity or natural gas or for sewer or water services; and appliance (including water heater) sales, service and rentals (Section 1.2 of the ARC).
Fully allocated cost	The sum of direct costs plus a proportional share of indirect costs (Section 1.2 of ARC). Note that fully allocated cost and the term “absorption cost” have the same meaning in this Article.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Relevant Terminology	Definition
Indirect costs	Costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre. Indirect costs include but are not limited to overhead costs, administrative and general expenses and taxes (Section 1.2 of ARC).
Non-regulated	Services and products that are not subject to regulation by the Board.
Payroll burden	The costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer's portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance.
Qualifying Facility	A generation facility or an energy storage facility that meets the requirements set out in subsection 71(3) of the Act. (Section 2.3.4A of ARC).
Shared Corporate Services	Business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee or public affairs. (Section 1.2 of ARC).
Regulated	Services and products that are subject to regulation by the Board.
Services agreement	Services Agreement means an agreement between a utility and its affiliate (Section 1.2 of ARC).
Utility	For the purposes of this Article, "utility" means an electricity transmitter or electricity distributor that is licensed under Part V of the OEB Act.

Transfer Pricing and Principles Concerning the Allocation of Costs

The following principles related to the allocation of costs should be followed by a distributor and its affiliates in developing its policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates:

1. The methods used in the allocation of costs should not result in cross-subsidization between regulated and non-regulated lines of business, products or services;

2. To the maximum extent practicable, in consideration of the benefit versus cost constraint (i.e. the benefits expected to arise from providing information should exceed the cost of doing so), costs should be collected and classified on a direct basis for each product and service provided;

3. The general method for charging indirect costs should be on a fully allocated cost basis;

4. To the extent possible, all direct and allocated costs between regulated and non-regulated lines of business, services or products shall be traceable on the books of the distributor to the USoA;

5. All costs shall be classified to lines of business, services or products that are regulated, non-regulated, or common to both;

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, shall be identified and used to allocate the cost between regulated and non-regulated lines of business, products or services; and

7. The methods used in the allocation of costs should be documented and reviewed on a regular basis. If necessary, the cost methods should be revised in order to reflect changes in cost relationships and the related cost allocators. Any changes in the allocation method or the cost allocators used, including the supporting rationale, should be documented and the documentation should be available for Board review.

Common functions and Shared Corporate Services, such as a distributor performing accounting functions for both electricity distributor and its affiliate, are governed by the ARC.

The sharing of services between the affiliate and the utility should be structured in a manner compliant with the ARC rules.

Go to TOC A340

Affiliate Transactions

The ARC specifies the standards of conduct that impact the accounting for transactions between a regulated utility and its affiliates. Reference should be made to the ARC for these requirements.

Documentation and Related Requirements

Pursuant to section 108 of the OEB Act, an inspector appointed by the Board may, for the purposes of this Act, the Electricity Act, 1998 and the regulations made under those Acts, conduct an audit, investigation or review. A utility is required to maintain updated records in the form and manner prescribed by the Board. (See Article 100 *Introduction to the Accounting Procedures Handbook*, subsection Summary of Specified Accounting Records, item i)). A utility may be required to demonstrate to the inspector, through its records, that it has complied with the ARC.

Where a utility shares services or resources with an affiliate, it shall do so in accordance with a Service Agreement, the terms of which may be reviewed by the Board to ensure compliance with the ARC.

Each entity that provides both regulated and non-regulated services or products shall maintain cost allocation documentation that is available for Board review.

Clearing Accounts

Electricity distributors that allocate overhead costs to more than one account may temporarily include these overhead costs in a “clearing account”. Once the basis of allocation is determined, the overhead costs contained in the clearing account shall be distributed to the appropriate generation, transmission and distribution and other expense accounts as provided for in the USoA. As more fully detailed in Article 410 *Property, Plant and Equipment and Intangible Assets*, IFRS and regulatory accounting specify that certain expenditures are not part of the cost of an item of property, plant and equipment and intangible assets. Such expenditures not qualifying for capitalization treatment include costs of staff training and administration and other general overhead costs. Therefore, when using clearing accounts, a distributor should exercise care so as to avoid the inadvertent capitalization of such expenditures.

Consequently, a distributor should reclassify and record such costs (e.g., labour costs with payroll burden, material, trucking and other expenses) in the applicable operation expense Accounts 5005 to 5096 and maintenance expense Accounts 5105 to 5195 according to the specified plant asset or service for which the operation and maintenance activities are performed. The particulars of the specified plant asset or service activities are included in account descriptions of these accounts in Article 220 *Account Descriptions*. The expenses not directly attributable to activities in the operations or maintenance accounts should be recorded in other expense accounts as provided for in the USoA, such as the administrative and general expense Accounts 5605 to 5695.

Note that clearing accounts have not been established in the USoA and are not prescribed for use by distributors. Accordingly, each distributor may maintain its own clearing accounts as required. In relation to the maintenance of clearing accounts, the allocation principles, standards and conditions discussed in this Article should be followed. In particular:

a) Each clearing account entry shall be supported by such detailed information as will permit ready identification, examination, analysis, and verification of all facts relevant thereto, including a description of the basis of allocation;

b) The records shall be maintained in such a manner as to be readily accessible for examination by authorized representatives of the Board;

c) The basis of overhead cost allocation should be reviewed periodically by the distributor. If necessary, the basis of overhead cost allocation should be revised in order to reflect changes in cost relationships and the related cost allocators. These changes should be documented, with supporting rationale, and the documentation should be available for subsequent Board review; and

d) Any year-end residual balances remaining after regular distribution, if any, should be cleared on a basis that will distribute the costs equitably or rationally.

Examples of typical clearing accounts, possible methods of allocating costs and year-end clearing of residual balances are provided below for illustrative purposes only. Note that including an item of expenditure in a clearing account does not necessarily mean that the expenditure qualifies for capitalization. Distributors should refer to Article 410 *Property, Plant and Equipment and Intangible Assets* for guidance on costs that qualify for capitalization.

Go to TOC A340

Payroll Burden

A payroll burden clearing account may be used to accumulate the costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer's portion of Employment Insurance, Canada Pension Plan and Ontario Municipal Employees Retirement System ("OMERS") contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance.

Items to record in the account for employees whose time may be split between capital, maintenance, recoverable work and burden include vacations, statutory holidays, sick leave and other leaves of absence, sick leave costs, safety programs, unproductive labour, small tools, clothing, etc.

The method of allocating payroll burden may be based on percentages and added to work order labour and salaried payrolls. If this method is applied, the percentages should be calculated separately for each group. Labour burden costs may not apply when employees are paid overtime since overtime is project specific and therefore could be directly allocated. If benefit costs are allocated, they must be supportable by incremental costs incurred by the distributor as a result of the overtime.

If there is a residual balance remaining after regular allocation of costs, such unallocated balance shall be cleared to the applicable capital plant (as appropriate) and operating accounts by apportioning on a basis which will distribute the costs equitably or rationally. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

If required, the unallocated salaried payroll burden may be distributed to capital plant (if appropriate) and operating accounts on the same basis as the salaries were distributed to these accounts.

Stores Operation

A stores operation clearing account may be used to accumulate the cost of materials used by distributors including the costs associated with acquiring, handling and storing materials in addition to the gross purchase price. Labour costs and associated payroll burden of staff working in stores operation, such as the stock keeper, may be included in this account.

Go to TOC A340

Common stores operation costs include such costs as property taxes, light and heat, janitor service, yard maintenance, snow removal, building maintenance, inventory insurance, shipping, storage charges, depreciation on stores equipment, freight-in where not otherwise allocated, and the write-off of overages and shortages and obsolete material. A stores operation account may also include the costs associated with purchasing activities, office clerical and/or computer costs that relate directly to stores operation.

The method of allocating stores operation overhead may be based as a standard percentage of the dollar value of materials issued, regardless of specific handling costs for separate items. However, an exception may be made for specific individual purchases that are unusual, expensive and generally non-recurring. For such specific items, it is appropriate to consider reducing or eliminating the overhead charge. For example, to apply the standard percentage overhead rate on the purchase of a single expensive item would distort the “cost” of that item and result in extreme fluctuations in the general overhead rate from year to year. Therefore, the application of a reduced or nil rate of overhead for specific items should be considered by the distributor if this would result in a more equitable or rational allocation of stores operation overhead.

If there is a residual balance remaining after regular allocation of costs, such unallocated balance shall be cleared to the applicable capital plant (if appropriate) and operating accounts by apportioning on a basis which will distribute the costs equitably or rationally. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Rolling Stock Operation

A rolling stock operation clearing account may be used to accumulate the costs associated with maintaining automobiles, trucks, trailers and equipment. Labour costs and the associated payroll burden of staff directly involved in rolling stock maintenance, such as mechanics, may be included in this account.

Common rolling stock operation costs include such costs as rolling stock operating and depreciation expense, fuel, lubricants, repairs and parts, license fees, insurance and all other items of expense necessary to keep the rolling stock in service. A rolling stock operation account may also include the costs associated with the operation and maintenance of garages and garage equipment as well as related office clerical and/or computer costs that relate directly to rolling stock operation.

Go to TOC A340

The method of allocating rolling stock operation overhead may be based on a per kilometer rate or per hour of use or available for use basis depending on the various types of rolling stock.

If there is a residual balance remaining after regular allocation of costs, such unallocated balance shall be cleared to the applicable capital plant (as appropriate) and operating accounts by apportioning on a basis which will distribute the costs equitably or rationally. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Engineering

An engineering clearing account may be used to accumulate the costs associated with the costs of the engineering operation, including engineering staff. However, a distributor may also choose to record directly attributable engineering time directly to specific capital and maintenance projects.

Labour costs and the associated payroll burden of staff directly involved in detailed planning and design of the distributor capital plant as well as in its operation and maintenance may be included in this account. An engineering clearing account may also include the costs associated with the facilities, equipment and supplies in respect of engineering personnel as well as related office clerical and/or computer costs which relate directly to engineering.

The method of allocating engineering overhead may be charged as a percentage of gross job costs.

If there is a residual balance remaining after regular allocation of costs, such unallocated balance shall be cleared to the applicable capital plant (if appropriate) and operating accounts by apportioning on a basis which will distribute the costs equitably or rationally. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Allocation of Joint Costs

Where a distributor incurs costs (e.g. general administration, office staff salaries and rent) jointly with another entity or with its local municipality, the method of splitting the joint costs should be calculated in accordance with some reasonable method of determining a fair and equitable split. A periodic review of these charges should be conducted to ensure that they remain fair and equitable, in compliance with the principles, standards and conditions outlined in this Article and in compliance with the ARC if appropriate.

For example, the distributor's share of general administration costs could be determined based on its estimated percentage use of general administration services. Shared office staff salaries could be split based on the proportion of time spent by staff on each entity's business. As another example, where rent is a shared accommodation, it could be allocated on the basis of the floor area occupied by each entity's operations.

Go to TOC A340

Accounting for Specific Items

Property, Plant & Equipment and Intangible Assets

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Property, Plant & Equipment and Intangible Assets

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards,* IAS 16 *Property, Plant and Equipment*, which prescribes the accounting treatment for property, plant and equipment, and includes the recognition of assets, the determination of carrying amounts and the depreciation charges to be recognized. This Article also incorporates concepts from CICA Handbook - Part I IFRS – IAS 38 *Intangible Assets* (IAS 38); IAS 23 *Borrowing Costs* (IAS 23); and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). Accordingly, this Article should be read in conjunction with IAS 16, IAS 38, IAS 23 and IAS 37.

The purpose of this Article is to provide additional guidance in regard to property, plant and equipment as well as intangible assets accounting issues where further guidance specific to electricity distributors is required.

Note that users of the APH who are transitioning to IFRS for the first time should refer to Article 510 *Transitional Issues for the Adoption of IFRS* for guidance related to regulatory treatment of property, plant and equipment and intangible assets upon transition.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 16, IAS 38, IAS 23 and IAS 37, and are listed below for ease of reference:

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Assets	Framework for the Preparation and Presentation of Financial Statements paragraphs 49(a), 53-59 IAS 38 paragraph 8
Borrowing costs applied to construction work in progress	IAS 23 paragraphs 5-7
Carrying amount	IAS 16 paragraph 6 IAS 38 paragraph 8
Class of asset	IAS 16 paragraph 37
Cost	IAS 16 paragraphs 6, 7-30 IAS 38 paragraphs 8, 18-67
Decommissioning, Dismantling, Removal,	IAS 16 paragraph 16(c)

Accounting for Specific Items

Property, Plant & Equipment and Intangible Assets

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Restoration and Similar Liabilities	IAS 37 paragraphs 14, 19 IFRIC 1
Depreciation/Amortization	IAS 16 paragraphs 6, 43-62 IAS 38 paragraphs 8, 97-99
Depreciable Amount	IAS 16 paragraphs 6,50 IAS 38 paragraph 8
Derecognition	IAS 16 paragraphs 67-72 IAS 38 paragraphs 112-117
Impairment of Assets	IAS 16 paragraphs 6, 63-66 IAS 38 paragraphs 8, 111 IAS 36
Intangible assets	IAS 38 paragraphs 8 and 18
Investment property	IAS 40 paragraph 5-15
Property, plant and equipment	IAS 16 paragraph 6
Recoverable amount	IAS 16 paragraph 6 IAS 36
Residual value	IAS 16 paragraph 6, IAS 38 paragraph 8, 100-103
Subsequent Costs	IAS 16 paragraphs 12-14 IAS 38 paragraph 20
Useful life	IAS 16 paragraphs 6, 50-51, 56-59 IAS 38 paragraphs 8, 97-110

The following additional definitions are adopted for the purposes of the APH as well as for this Article:

Terminology	Definition
Capital Assets	For the purposes of this Article and this APH, reference to Capital Assets includes Property, Plant and Equipment as well as Intangible Assets.

Terminology	Definition
Distribution asset	Pursuant to section 56 of the OEB Act, a distribution asset is used to distribute electricity, and includes any system, structures, equipment or other things used for that purpose. Pursuant to section 89, a distribution asset would include a line, transformers, plant or equipment used for conveying electricity at voltages of 50 kilovolts or less, or may include such other assets that have been deemed to be distribution assets by the Board.
Like assets	Like assets are those individually insignificant items that by their nature may make identification of individual items impractical for accounting purposes. As such, recognition criteria are applied to the aggregate value rather than to individual items. Examples include poles, conductor, low voltage transformers and low value meters.
Non rate-regulated asset	A non rate-regulated asset is a capital asset that is held by the entity and used primarily in competitive or potentially competitive activities conducted within the regulated entity. Non rate-regulated property, plant and equipment and intangible assets should be accounted for separately from distributor property, plant and equipment and intangible assets for the purposes of rate regulation to ensure that there is no cross-subsidization between regulated and non-regulated or non rate-regulated distributor lines of business.
Readily identifiable asset or component	A readily identifiable asset is an asset that has a significant unit cost for financial reporting purposes and is tracked on an individual unit basis (i.e., not a ‘like asset’ as discussed above). Accordingly, any capital asset that is readily identifiable in the plant records should be separately accounted for and depreciated over its estimated useful life. The asset must remain on the books as long as the asset exists and is capable of providing future benefit.

Terminology	Definition
Vintage basis of depreciation using the straight line method	The vintage basis of depreciation refers to a system of categorizing like assets together for depreciation purposes using a depreciation method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. This accounting treatment recognizes that it is not always practicable to separately track individual units of an insignificant nature, however still requires separate tracking of the aggregate number of units recognized within a particular vintage for depreciation purposes. The vintage basis of depreciation should be applied using the straight line method of depreciation

a. Expenditures Qualifying As Capital Assets

General Summary

This subsection describes the process and specific criteria used for determining if expenditures should be recognized on the balance sheet or expensed to operations in the period incurred. In this regard, this subsection covers the following related accounting issues:

- Recognition of Assets
- Measurement at Recognition
- Subsequent Costs (Capitalization)
- Measurement after Recognition
- Derecognition, Disposal and Retirement
- Provisions for Decommissioning, Restoration and Similar Costs
- Cost Deferrals for Rate-Making Purposes

In addition, this subsection provides guidance on the accounting treatment of:

- Like Assets
- Readily Identifiable Assets
- Major Spare Parts and Stand-by Equipment
- Accounting for Contributions in Aid of Construction

Go to TOC A410

The purpose of capitalizing expenditures for rate-making purposes is to provide for an equitable allocation of costs among existing and future customers. As assets are expected to provide future economic benefits, expenditures incurred for the acquisition, construction or development of assets should be capitalized and allocated over the estimated useful lives of the associated assets in the form of depreciation or amortization expense.

Accordingly, material expenditures relating to the acquisition or eligible subsequent costs (see below) of an asset should be capitalized as an asset and all other expenditures should be expensed in the accounting period incurred.

Accounting Issues

Recognition of Assets

For a complete discussion on the recognition of assets refer to CICA Handbook – Part I IFRS, *Framework for the Preparation and Presentation of Financial Statements* (Framework) paragraphs 49(a), 53-59 for the general definition of an asset, IAS 16 paragraph 6 and IAS 38 paragraph 8 for other related definitions.

Framework paragraph 49(a) defines an asset as "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity." Assets have three essential characteristics:

a) they embody a future economic benefit i.e. they have the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the entity;

b) the entity controls access to the benefit; and

c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

<u>Property, Plant and Equipment (IAS 16)</u>
Paragraph 6 defines property, plant and equipment as tangible items that:

"(a) are held for use in the production or supply of goods or services for rental to others, or for administrative purposes;

(b) are expected to be used during more than one period."

Further, paragraph 7 specifically states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

"(a) it is probable that future economic benefits associated with the item will flow to the entity; and
(b) the cost of the item can be measured reliably."

Intangible Assets (IAS 38)

Paragraph 8 defines an intangible asset as "an identifiable non-monetary asset without physical substance." For distributors, this may include: software, land rights, and capital contributions *paid* by the distributor.

Paragraphs 9 – 17 discuss the 3 attributes that must exist in order to meet the definition of an intangible asset, being: Identifiability, Control and Future economic benefits.

Similar to IAS 16, IAS 38 paragraph 21 states that an intangible asset shall be recognized if, and only if:

"(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
(b) the cost of the asset can be measured reliably."

Capital Assets (includes property, plant and equipment as well as intangible assets)

In summary, in order for an expenditure on a tangible item to qualify as property, plant and equipment, or an intangible item to qualify as intangible assets, it should meet both the definitions of an asset under the Framework and of IAS 16 or IAS 38 as discussed above.

Measurement at recognition

Property, Plant and Equipment (IAS 16)

For a complete discussion on the measurement of property, plant and equipment at recognition, refer to paragraphs 15-22 of IAS 16.

Property, plant and equipment should be measured at its cost, which includes (paragraph 16):

"(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period."

Paragraph 17 outlines examples of directly attributable costs:

"(a) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees."

Also as noted in paragraph 22, borrowing costs (IAS 23) that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset – see section on borrowing costs below.

Paragraphs 19 and 20 describe costs that are not costs of an item of property, plant and equipment and also describe when recognition of costs in the carrying amount ceases.

Examples of costs that are not costs of an item of property, plant and equipment are:

Go to TOC A410

(a) costs of opening a new facility;
(b) costs of introducing a new product or service (including costs of advertising and promotional activities);
(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
(d) administration and other general overhead costs. (paragraph 19)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item is not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
(b) initial operating losses, such as those incurred while demand for the item's output builds up; and
(c) costs of relocating or reorganising part or all of an entity's operations. (paragraph 20)

Intangible Assets (IAS 38)
Paragraphs 25 – 67 include a discussion on recognition and measurement of intangible assets that may be acquired through the following:

Acquisition type	**IAS 38 Section References**
Separate acquisition	Paragraphs 25-32
Acquisition as part of a business combination	Paragraphs 33-43
Acquisition by way of a government grant	Paragraph 44
Exchanges of assets	Paragraphs 45-47
Internally generated goodwill	Paragraphs 48-50
Internally generated intangible assets	Paragraphs 51-67

Go to TOC A410

Distributors that acquire intangible assets other than through separate acquisition (i.e. purchases) as discussed below should refer to the detailed guidance provided in IAS 38.

Paragraph 24 states that an intangible asset shall be measured initially at cost. Where an intangible asset is acquired through separate acquisition, the cost is comprised of the following (paragraphs 27 and 28):

> "(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
> (b) any directly attributable cost of preparing the asset for its intended use.
>
> Examples of directly attributable costs are:
> (a) costs of employee benefits (as defined in IAS 19) arising directly from bringing the asset to its working condition;
> (b) professional fees arising directly from bringing the asset to its working condition; and
> (c) costs of testing whether the asset is functioning properly."

Paragraph 29 provides examples of expenditures that are not part of the cost of an intangible asset:

> (a) costs of introducing a new product or service (including costs of advertising and promotional activities);
> (b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
> (c) administration and other general overheads.

Similar to property, plant and equipment, recognition of costs in the carrying amount of an intangible asset ceases when the asset is "in the condition necessary for it to be capable of operating in the manner intended by management."

<u>Capital Assets (includes property, plant and equipment as well as intangible assets)</u>
For components of construction cost, refer to Article 230 *Definitions and Instructions* No. 6.

Go to TOC A410

The Board requires utilities to adhere to IFRS capitalization accounting requirements for regulatory reporting and rate-making purposes after the date of adoption of IFRS. It should be noted that in determining the cost of property, plant and equipment and intangible assets to be included in the rate base, where the proposed cost is, in the opinion of the Board, not reasonable for inclusion in the rate base, the Board can make its own determination of the cost to be included in rate base.

Subsequent Costs (Capitalization)

Under previous Canadian GAAP, this subsection of Article 410 was labeled "Betterments versus Repairs". While the concepts contained within IFRS are similar to Canadian GAAP, IAS 16 and IAS 38 do not refer to subsequent costs that are eligible for capitalization as 'betterments'. This is mentioned only for the purposes of making the reader aware of the linkage of "subsequent costs" in this discussion to the previous accounting issue.

<u>Property, Plant and Equipment (IAS 16)</u>
Paragraphs 12-14 describe subsequent costs.

"Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment." (paragraph 12)

"Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs (67 - 72)." (paragraph 13)

Go to TOC A410

"A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed." (paragraph 14)

Intangible Assets (IAS 38)
Paragraph 20 describes subsequent costs.

"The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure – expenditure incurred after the initial recognition of an acquired intangible asset of after completion of an internally generated intangible asset – be recognized in the carrying amount of an asset…" (paragraph 20)

Measurement after Recognition

It should be noted that both IAS 16 and IAS 38 include the concept of a "Revaluation Model", whereby property, plant and equipment or intangible assets whose fair value can be measured reliably may be carried at a revalued amount if the entity so chooses. Otherwise, the entity carries such items at historical cost less accumulated depreciation.

The Board requires that for regulatory accounting and rate-making purposes, distributors use historical acquisition cost as the basis for reporting property, plant and equipment as well as intangible assets, even though a distributor may for financial reporting elect to report these assets at revalued amounts as permitted by IFRS.

Go to TOC A410

Derecognition, Disposal and Retirement

Property, Plant and Equipment (IAS 16)

Paragraphs 67 and 68 state the following:

"The carrying amount of an item of property, plant and equipment shall be derecognized:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal." (paragraph 67)

"The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in profit or loss when the item is derecognized (unless IAS 17 *Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue." (paragraph 68)

Intangible Assets (IAS 38)

Similarly, for intangible assets paragraphs 112 and 113 state the following:

"An intangible asset shall be derecognized:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal." (paragraph 112)

"The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in profit or loss when the asset is derecognized (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue." (paragraph 113)

Like Assets

Like assets are those individually insignificant items that by their nature may make identification of individual items impractical for accounting purposes. The vintage basis of depreciation refers to a system of categorizing like assets together for depreciation purposes using a depreciation method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. This accounting treatment recognizes that it is not always practicable to separately track individual units of an insignificant nature, however still requires separate tracking of the aggregate number of units recognized within a particular vintage for depreciation purposes. Refer to discussion below for derecognition treatment where the tracking of the aggregate number of units recognized within a particular vintage is not practicable.

Further, paragraphs 45-47 of IAS 16 state that:

"A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge." (paragraph 45)

"To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts." (paragraph 46)

"An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item." (paragraph 47)

For the purposes of applying the USoA and for regulatory reporting, distributors have the option of categorizing "like assets" together consistent with IAS 16 requirements discussed above, but which is dissimilar to the treatment of readily identifiable, due to the following circumstances:

a) Regulatory accounting practice recognizes that it may be appropriate to categorize individually insignificant capital assets together. As an example, for some distributors, the individual unit cost of certain assets such as poles, conductor, transformers and meters does not justify the time and effort to maintain the detailed accounting systems that would be required to track such items individually.

b) The vintage basis of depreciation will continue to allow the combined cost of the assets to be allocated over their estimated useful life in a rational and systematic manner.

c) Allowing distributors to categorize like assets together avoids placing an undue burden that would be associated with requiring individually insignificant assets to be separately accounted for.

Go to TOC A410

It is difficult to prescribe one method of determining gross asset value for the individual assets in a particular vintage as there are several factors which may affect which approach a utility may use (e.g. state of records). There are a number of implementation alternatives and use of professional judgment is required. For regulatory reporting and rate-making purposes, the vintage basis may be used such that costs of purchases for a year are averaged and the average cost for that year is applied when an asset of that vintage is retired. Where the distributor has not tracked the number of units pertaining to a specific vintage due to impracticability, when a 'like asset' is derecognized, the distributor shall retire the amounts that would otherwise be required for general financial statement reporting purposes, and these amounts should also be used for regulatory accounting purposes to avoid financial differences.

Gains or losses on derecognition, disposal, retirement or impairment of like assets should be recorded in Account 4355, Gain on Disposition of Utility and Other Property, Account 4357, Gain from Retirement of Utility and Other Property, Account 4360, Loss on Disposition of Utility and Other Property or Account 4362, Loss from Retirement of Utility and Other Property, as appropriate. (See account details in Article 220 *Account Descriptions.*)

Where a distributor for general financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the distributor shall reclassify such gains and losses as depreciation expense (on the income statement), and disclose the amount separately.

The gain or loss should be reclassified into the following USoA account under a separate sub-account:

- Account 5705, Amortization Expense. This account shall include the amount of amortization expense for all classes of depreciable Electric Plant in Service except such amortization expense as is chargeable to clearing accounts or to Account 4330, Costs and Expenses of Merchandising.

  The utility shall keep such records of property and property retirements as will reflect the service life of property which has been retired and aid in estimating probable service life by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric plant.

Go to TOC A410

Readily Identifiable Assets

A readily identifiable asset is an asset that has a significant unit cost for general financial reporting purposes under IFRS and is tracked on an individual unit basis (i.e., not a 'like asset' as discussed above). Accordingly, any property, plant and equipment asset that is readily identifiable in the plant records should be separately accounted for and depreciated over its estimated useful life. The asset must remain on the books as long as the asset exists and is capable of providing future benefit.

Gains or losses on derecognition, disposal, retirement or impairment of readily identifiable assets should be recorded in Account 4355, Gain on Disposition of Utility and Other Property, Account 4357, Gain from Retirement of Utility and Other Property, Account 4360, Loss on Disposition of Utility and Other Property or Account 4362, Loss from Retirement of Utility and Other Property, as appropriate. (See account details in Article 220 *Account Descriptions.*)

Where a distributor for general financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate application filings for review by the Board. The Board may require the difference between net carrying amount and the proceeds and disposal/retirement costs on disposal of property, plant and equipment or intangible assets to be considered in the determination of future rates charged to customers. In such circumstances the difference is deferred, provided that there is reasonable assurance that:

a) any excess of net carrying amount over proceeds on disposal will be recovered through future rates; or
b) any excess of proceeds on disposal over net carrying amount will serve to reduce future rates.

In summary, in considering whether to defer or expense gains or losses on derecognition, disposal, retirement or impairment of capital assets, a distributor needs to determine whether these gains or losses are to be recovered from future rates. In general, gains or losses should be deferred if they will be included in future rates. However, the Board reserves the right to review the accounting treatment applied and recommend different accounting treatment if deemed appropriate.

For distributors that have recorded amounts in Account 2040, Electric Plant Held for Future Use, specific deferred gain, loss, and related revenue and expense accounts have been provided in the USoA in relation to Account 2040 listed below:

Go to TOC A410

- Account 1530, Deferred Losses from Disposal of Utility Plant. This account shall include losses from the sale or other disposition of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to Account 4350, Losses from Disposal of Future Use Utility Plant. (See Account 2040, Electric Plant Held for Future Use.)

- Account 2410, Deferred Gains from Disposal of Utility Plant. This account shall include gains from the sale or other disposal of property previously recorded in Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to Account 4345, Gains from Disposal of Future Use Utility Plant. (See Account 2040, Electric Plant Held for Future Use.)

- Account 4345, Gains from Disposal of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to gains from the disposal of future use utility plant including amounts that were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

- Account 4350, Losses from Disposal of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to losses from the disposal of future use utility plant including amounts that were previously recorded in and transferred from Account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

- Account 4355, Gain on Disposal of Utility and Other Property. This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. Gains on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D thereof. (See Article 230 *Definitions and Instructions* No. 7(f)).

- Account 4360, Loss on Disposition of Utility and Other Property. This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. Losses on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D thereof. (See Article 230 *Definitions and Instructions* No. 7(f)).

Provisions for Decommissioning, Restoration and Similar Costs

Provisions for decommissioning, restoration and similar costs (decommissioning liabilities) are addressed in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37).

A decommissioning liability is a present obligation relating to the future retirement or removal of a tangible long-lived asset (previously referred to as an asset retirement obligation). A decommissioning liability may arise from either a legal or constructive obligation.

Paragraph 14 of IAS 37 states that:

> "A provision shall be recognised when:
> (a) an entity has a present obligation (legal or constructive) as a result of a past event;
> (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
> (c) a reliable estimate can be made of the amount of the obligation.
> If these conditions are not met, no provision shall be recognised."

IAS 37, paragraph 10, provides the following definitions.

> "An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
>
> A *legal obligation* is an obligation that derives from:
> (a) a contract (through its explicit or implicit terms);
> (b) legislation; or
> (c) other operation of law.

Go to TOC A410

A *constructive obligation* is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities."

To measure the provision, the best estimate of the amount of cash required to settle the obligation is made at the end of the reporting period. The expected value is used and possible results are weighted with probabilities.

In accounting for decommissioning liabilities, distributors should refer to the guidance provided in IAS 37. The table below provides specific paragraph references to IFRS guidance which is considered relevant to this topic.

IFRS guidance	IAS 37 Section References
Best estimate	Paragraphs 36-41
Risks and uncertainties	Paragraphs 42-44
Present value	Paragraphs 45-47
Future events	Paragraphs 48-50
Expected disposal of assets	Paragraphs 51-52
Changes in provision	Paragraphs 59-60

In addition to the requirements in IAS 37, International Financial Reporting Interpretations Committee Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (IFRIC 1) states that following in paragraphs 4 and 5:

"Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs 5 –7 [of IFRIC 1]." (IFRIC 1.4)

Go to TOC A410

"If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

(c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with IAS 36." (IFRIC 1.5)

Historical acquisition cost should be used as the basis for reporting property, plant and equipment for regulatory purposes. As such the revaluation model as permitted for financial reporting purposes under IFRS for changes in decommissioning liabilities, as described in paragraph 6 of IFRIC 1, shall not be permitted for regulatory purposes.

Paragraphs 7 and 8 of IFRIC 1 provide the following guidance:

"The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognized in profit or loss as they occur. This applies under both the cost model and the revaluation model." (IFRIC 1.7)

"The practice of unwinding the discount shall be recognized in profit or loss as a finance cost as it occurs. Capitalization under IAS 23 is not permitted." (IFRIC 1.8)

An entity records the decommissioning cost as part of the cost of the capital asset and the decommissioning liability as the corresponding liability. Over the life of the related asset, depreciation is computed and charged as an expense in each accounting period. Over the life of the decommissioning liability, interest expense (or accretion), which is the increase in the carrying amount of the decommissioning liability due to the passage of time, is computed and charged in each accounting period with a corresponding amount being applied to increase the decommissioning liability. In the period during which the decommissioning liability is settled, a gain or loss would be computed and reported in profit or loss.

For rate setting and reporting purposes, distributors shall identify separately the depreciation expense associated with depreciating the decommissioning cost included as part of the cost of the asset, and the interest (accretion) expense associated with the amortization of the decommissioning liability. In addition, the distributor should identify the portion of the decommissioning cost that was included as part of the cost of the asset in respect of each applicable asset. This will allow the Board to assess which component of these costs, if any, that should be recovered in the revenue requirement.

Major Spare Parts and Stand-by Equipment

IAS 16 paragraph 8 includes the following discussion:

“Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.”

For rate-making and reporting purposes, in most cases major spare parts and stand-by equipment (e.g. transformers and meters) should be accounted for as property, plant and equipment capital assets, as it is expected that:

a) these items are not held for sale in the ordinary course of business or to be consumed in the production process or rendering of services;

b) they have a longer period of future economic benefit as compared to inventory items;

c) they form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant; and

d) they embody future economic benefits because they are expected to be placed in service.

These conditions are applicable to major spare parts and stand-by equipment to ascertain whether these items should be capitalized in property, plant and equipment. Accordingly, this Article requires all major spare parts and stand-by equipment specifically designated for field service to be capitalized in property, plant and equipment. However, depreciation of the major spare parts and stand-by equipment will depend on the specific facts and circumstances. Although equipment may be on stand-by and is rarely put in use, such stand-by equipment is usually available for its intended use when it is installed. Depreciation of the stand-by equipment therefore begins when the equipment is capable of operating in the manner that is intended by management i.e. when it is in the location and condition necessary for it to act as stand-by equipment. By contrast, major spare parts are usually only able to operate in the manner intended by management from the date that they are installed onto the network rather than from the date that they are acquired. Therefore, the depreciation of major spare parts usually begins when the major spare parts are installed and brought into service.

In summary, the regulatory accounting guidance, which is also considered consistent with IAS 16 and IAS 2 *Inventory* is as follows:

1. Items designated as major spare parts or stand-by equipment are to be classified as property, plant and equipment and depreciated when available for use in the manner that is intended by management.;

2. Any inventory items that will eventually be capital but are not major spare parts or stand-by equipment at the period end should be classified as inventory, until placed in service at which time they would be classified in property, plant and equipment and depreciated when they are available for use in the manner that is intended by management. For example, classifying materials purchased to expand a subdivision or as part of an asset replacement program are initially recognized as inventory until they are transferred to Construction Work In Progress or directly to in-service property, plant and equipment in anticipation of their ultimate inclusion in the cost of in-service plant.

Accounting for Contributions in Aid of Construction

Contributions received by a distributor

Article 430 *Contributions in Aid of Construction* provides a complete discussion of the accounting treatment for contributions received by distributor.

Contributions *paid* by a distributor

In some cases distributors will incur expenditures for amounts paid to other distributors or transmitters for capital projects (i.e. for transmission upgrades or expansion projects).

Distributors who incur such costs, should record the amounts in USoA Account 1609, Intangible Assets – Capital Contributions Paid. Accumulated amortization of intangible assets is recorded in Account 2120, Accumulated Amortization of Electric Utility Plant – Intangibles, and amortization expenses in Account 5715, Amortization of Intangibles and Other Electric Plant. These amounts will typically be included in rate base at the next cost of service rate application.

Cost Deferrals for Rate-Making Purposes

For the purposes of this subsection, the cost of a transaction related to capital assets may be deferred for disposition in a future period when the regulatory process introduces certain specific cause-and-effect relationships in the matching of a distributor's revenues and expenses. For example, there may be a deferral of expenditures where major infrequent repair work involving major repair, rehabilitation or maintenance on existing assets occurs. Alternatively, there may be a deferral due to the regulatory process where the operating plant requires major repair that results in neither the replacement of plant nor subsequent costs (capitilization) to the existing asset. Similarly, repairs due to property losses resulting from unusual or exceptional events such as the January 1998 ice storm in Eastern Ontario may be deferred.

Normally, IFRS would require that such repairs be expensed. However, rate-regulated enterprises face special circumstances due to the regulatory process. Accordingly, where such repairs would cause a significant rate impact, the Board may consider capitalization or deferral and subsequent depreciation to operations over a reasonable number of years.

In summary, if approved by the Board the repairs and maintenance (and similar day-to-day servicing costs) related to property, plant and equipment may be deferred. The following USoA accounts have been provided for this purpose:

- Account 1505, Unrecovered Plant and Regulatory Study Costs. This account shall include: (1) nonrecurring costs of studies and analyses mandated by the Board related to plants in service, transferred from Account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been canceled or that have been prematurely retired.

- Account 1508, Other Regulatory Assets. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of the Board.

Go to TOC A410

- Account 1535, Extraordinary Property Losses. When authorized or directed by the Board, this account shall include extraordinary losses, which could not reasonably have been anticipated and which are not covered by insurance or other provisions, such as unforeseen damages to property. Also included will be losses on property abandoned or retired.

b. Construction in Progress and Related Borrowing Costs

General Summary

This subsection describes the recommended accounting treatment for construction in progress and related borrowing costs (previously referred to as allowance for funds used during construction, or AFUDC).

At year end, any property, plant and equipment under construction or intangible asset under development, and related borrowing costs shall be included in "Construction in Progress" and reported under property, plant and equipment or intangible assets respectively. When the asset is put into service or when construction is substantially complete, the related items in Construction in Progress should be transferred to the appropriate property, plant and equipment or intangible asset accounts and depreciation/amortization shall be calculated from that date.

It should be noted that the capitalization of borrowing costs under IFRS is not an accounting policy choice, rather it is mandatory when such costs are incurred related to qualifying assets (defined below).

Accounting Issues

Capitalization of Borrowing Costs

IAS 23, paragraphs 8 and 9 state:

"An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably…."

A qualifying asset is defined as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale." Note that this may include: property, plant and equipment, intangible assets or inventories.

Paragraphs 10 through 15 of IAS 23 provide guidance on the types of borrowing costs that are eligible for capitalization. The aspects of this guidance most likely relevant to a typical distributor are as follows:

(i) If temporary investment income is earned on funds borrowed for the specific intent of constructing the asset, the amount capitalized is the actual borrowing costs net of such investment income. Paragraph 12 of IAS 23 states:

"To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings."

(ii) Funds need not be borrowed specifically for the purpose of obtaining a qualifying asset, however borrowing costs incurred may still qualify for capitalization. Paragraph 14 of IAS 23 states:

"To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period."

Go to TOC A410

Commencement of Capitalization of Borrowing Costs

Paragraph 17 of IAS 23 describes the commencement of capitalization of borrowing costs.

> "An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:
> (a) it incurs expenditures for the asset;
> (b) it incurs borrowing costs; and
> (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale."

Paragraph 18 of IAS 23 provides guidance related to the expenditures on qualifying assets to which borrowing costs are applied. Specifically, this paragraph states that "the average carrying amount of the asset during a period, ***including borrowing costs previously capitalised***, is normally a reasonable approximation of the expenditures to which the capitalization rate [for borrowing costs] is applied in that period." (Emphasis added)

Suspending and Ceasing the Capitalization of Borrowing Costs

The suspension of capitalization of borrowing costs is described in paragraph 20 of IAS 23.

> "An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset."

Paragraphs 22 and 24 of IAS 23 describe the ceasing of capitalization of borrowing costs.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. (IAS 23.22)

When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale. (IAS 23.24)

Regulatory Treatment

The Board will continue to publish interest rates for Construction Work in Progress (CWIP). Where incurred debt is acquired on an arm's length basis, the actual borrowing costs should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm's length basis, the actual borrowing costs may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, a distributor should use the Board's published rates.

For the purposes of applying the above requirement, distributors are required to apply professional judgement in assessing whether incurred debt is acquired on an arm's length basis by comparing the interest rate charged on debt to market rates.

For example, where a distributor utility is held by a non-regulated parent, and that parent issued debt acquired on an arm's length basis which is flowed through to the regulated subsidiary at the market interest rate, the utility can apply the actual debt cost. The onus will be on the utility to demonstrate that the interest is at the market rate and this will be subject to review by the Board.

The OEB publishes the CWIP rate each quarter on the Board's website (see CWIP account in webpage link):

http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms/Prescribed+Interest+Rates

The following accounts have been provided for in the USoA for the purpose of recording the expense associated with borrowed or other funds used during the acquisition, construction or production of qualifying assets:

- Account 6040, Allowance For Borrowing Costs Applied to CWIP–Credit. This account shall include credits for Allowance for Borrowing Costs Applied to CWIP that has been capitalized during the fiscal year for actual borrowing costs incurred on an arm's length basis and in the following circumstance, on a non-arm's length basis. For debt incurred on a non-arm's length basis, actual borrowing costs incurred shall also be used if the actual interest rate is less than the Board's published CWIP interest rates. If the actual interest rate is greater than the Board's published CWIP interest rates, the utility shall use the Board's published rates to calculate borrowing costs included in the construction costs and Account 6042 should be used, as described below. The debit shall be to Account 2055, Construction Work in Progress - Electric.

- Account 6042, Allowance For Other Borrowing Costs Applied to CWIP– Credit. This account shall include credits for the allowable amount for capitalization of the cost of debt in the case where the actual cost of borrowing for debt acquired on a non-arm's length basis exceeds the cost using the Board's published rates as specified above. The debit shall be to Account 2055, Construction Work in Progress - Electric.

c. Depreciation and Amortization Methods

General Summary

This subsection describes acceptable depreciation and amortization methods and revisions to the depreciation or amortization methods and estimated useful life for property, plant and equipment and intangible assets.

For general purpose financial statement reporting, distributors are required to perform a review of depreciation/amortization methods and useful lives at least at each financial year end. The Board therefore expects to rely on the determinations made under IFRS, for regulatory reporting purposes. However, the Board reserves the right to review the selected estimated useful lives and depreciation rates and require adjustments it considers necessary in approving the revenue requirement of a distributor.

The APH does not provide prescriptive guidance for the depreciation of property, plant and equipment or amortization of intangible assets but allows professional judgment to be used in choosing the method that allows depreciation/amortization to be recognized in a rational and systematic manner appropriate to the nature of the property, plant and equipment or intangible asset. Note that the Board may review the selected depreciation/amortization methods, residual values, estimated useful lives and related depreciation/amortization rates, as it considers necessary for rate making purposes**.**

Go to TOC A410

Accounting Issues

General

<u>Property, Plant and Equipment (IAS 16)</u>

Paragraphs 43 through 59 of IAS 16 provide guidance related to depreciation, depreciable amounts and the depreciation period for property, plant and equipment.

IAS 16 requires that significant parts or components of an asset that are significant in relation to the total cost of an asset be depreciated separately.

In line with the discussion above related to 'like assets', the vintage basis of depreciation is the system of categorizing like assets together for depreciation purposes using a depreciation method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. IAS 16 paragraphs 45 and 46 state the following:

A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. (paragraph 45)

To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts. (paragraph 46)

While depreciation expense is typically included in net income, there are situations where it may be included in the carrying amount of another asset. This is described in paragraph 49 of IAS 16 as follows:

The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IAS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with IAS 38 *Intangible Assets*. (paragraph 49)

The above paragraph may be applicable where a distributor includes in the cost of an asset, amounts related to depreciation of vehicles used in the construction of that asset.

Paragraphs 50, 51, 52, 54 relate to depreciating an asset and the fact that the residual value and useful life shall be reviewed at least every financial year-end. Depreciation of an asset occurs unless the residual amount of the asset is greater than the carrying amount.

Paragraph 6 of IAS 16 defines residual value as follows:

> "The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life."

Paragraph 55 of IAS 16 describes when depreciation should begin – when the asset is available for use. Paragraphs 56 and 57 of IAS 16 further expand on the definition of useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production. (paragraph 55)

The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

Go to TOC A410

(a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases. (paragraph 56)

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. (paragraph 57)

<u>Intangible Assets (IAS 38)</u>

IAS 38 recognizes that for certain intangible assets, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for an entity, and as such introduces the concept of indefinite life intangibles. For further guidance on assessing the useful life of intangible assets, refer to paragraphs 88 through 96 of IAS 38.

An intangible asset with an indefinite useful life shall not be amortized (IAS 38.107). IAS 38 requires such assets to be tested for impairment annually and whenever there is an indication that the intangible asset may be impaired, in accordance with the IFRS impairment standard (IAS 36 *Impairment of Assets*).

For intangible assets with a finite useful life, paragraph 97 of IAS 38 states the following:

“The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin with the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised…the amortization charge for each period shall be recognized in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset."

Depreciation/Amortization Methods

Property, Plant and Equipment (IAS 16)

Paragraphs 60 and 62 describe the depreciation method to be used. Specifically, "the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity."

Paragraph 62 provides examples of different depreciation methods that may apply to property, plant and equipment.

Intangible Assets (IAS 38)

Paragraph 97 states that "…the amortization method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used..."

Regulatory Treatment

Distributors should continue to use the straight-line method of depreciation/amortization.

Revision of Depreciation/Amortization Method and Estimated Useful Life

Both IAS 16 and IAS 38 require that the depreciation/amortization method applied and the useful life of assets be reviewed at least each financial year-end. Changes shall be accounted for as a change in accounting estimate in accordance with IAS 8. See Article 320 *Accounting Policies, Changes in Accounting Estimates and Errors* for a discussion of changes in estimate.

In summary, the CICA Handbook Part I – IFRS does not provide prescriptive guidance for the depreciation of property, plant and equipment and amortization of intangible assets, but allows professional judgment to be used in choosing the method and useful life that allows depreciation/amortization to be recognized in a rational and systematic manner appropriate to the nature of the capital asset (i.e. based on its use by the enterprise and its estimated useful life).

In the past, Appendix B, “Amortization Rates” of the *2006 Electricity Distribution Rate Handbook* provided rates based on the straight line method of depreciation for use by distributors. Distributors that were applying Canadian GAAP prior to transition to IFRS were expected to use those rates until a change was supported by an objective study and the change was authorized by the Board.

In their first application to the Board under IFRS, distributors are expected to reflect their consideration of the information contained in the *Depreciation Study for Use by Electricity Distributors* (EB-2010-0178), (“Kinectrics Report”) July 8, 2010, as they develop asset service lives suitable in their particular circumstances. The Kinectrics Report is intended to assist distributors with their transition to IFRS and thus the Board does not currently plan to update this report or sponsor generic depreciation studies or reviews in the future. Consequently, distributors should review and document observed changes in the residual value and useful life of an asset at least at each financial year-end.

Consistent with the CICA Handbook Part I – IFRS, the APH does not provide prescriptive guidance in terms of the asset categories, the estimated useful lives or depreciation/amortization rates to be used. Instead, it is expected that each distributor will undertake a periodic comprehensive depreciation study, supported by detailed information and analysis, to demonstrate the basis upon which useful lives of assets were determined or modified subsequent to the first cost of service application after adopting IFRS. In preparation for undertaking that study, the distributor must collect and retain empirical data on actual asset retirements, and document the observations made as to the useful lives for each type of asset.

If the distributor seeks to change depreciation rates, the distributor must present at its rebasing application a comprehensive depreciation study that includes a rigorous analysis and its findings based on empirical data on actual asset retirements to support the proposed changes. The comprehensive study could be conducted in-house, by an independent consultant, or on a regional basis with other distributors with similar assets.

The Board is mindful that changes in useful life/depreciation methods for general purpose financial statements could occur annually under IFRS regardless of whether or not the Board has approved such changes. However, the Board’s general position is to encourage, to the extent possible, symmetry between the financial statements and regulatory reporting for capital assets in order to have more readily available and verifiable information to assist with rate base determination through financial statements.

Although distributors are required to review annually useful life/depreciation for financial statements purposes, distributors do have some ability to control the timing as to when changes could be made to useful life/depreciation. For example, it may take several years to collect sufficient data to give effect to any changes to depreciation rates. Accordingly, distributors could give consideration to coordinate such changes in their cost of service applications.

In order to maintain symmetry in financial and regulatory reporting for capital assets, the Board expects distributors' capital assets for regulatory reporting to be presented on the same basis as in the general purpose financial statements. Where there are proposed changes to estimated useful lives or depreciation/amortization rates, the study should be sufficient to support both financial and regulatory reporting. The Board will review the selected estimated useful lives and depreciation rates and require any adjustments it considers necessary in approving the revenue requirement of a distributor.

Go to TOC A410

Accounting for Specific Items

Inventory

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Inventory

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards,* IAS 2 *Inventories* which provides the accounting treatment for inventories. IAS 2 provides guidance on the determination of cost of inventory and its subsequent recognition as an expense, including any write-down to net realizable value. Additionally, it provides guidance on the cost formulas that are used to assign cost to inventories. Accordingly, this subsection should be read in conjunction with IAS 2.

The purpose of this Article is to provide additional guidance in regard to inventory accounting issues where further guidance specific to electricity distributors is required.

General Summary

The key issues in this Article relate to the treatment of spare parts and stand-by equipment, as well as acceptable methods of inventory cost determination.

Note that the accounting treatment for major spare parts and stand-by equipment is found in Article 410 *Property, Plant & Equipment and Intangible Assets*. Article 410 should be directly referred to for guidance on the accounting treatment of these items. No change is expected with respect to the regulatory treatment of major spare parts and stand-by equipment as capital assets included in items of property, plant & equipment as the treatment is in line with IFRS.

The Board does not prescribe which method of inventory cost determination should be used by distributors for general IFRS financial statement purposes, or regulatory reporting and rate-making purposes.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 2, and are listed below for ease of reference:

Go to TOC A420

Accounting for Specific Items

Inventory

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Cost of Inventories	IAS 2, Paragraphs 10-27
Fair value	IAS 2, Paragraph 6
First In, First Out (FIFO) costing	IAS 2, Paragraphs 25, 27
Inventories	IAS 2, Paragraphs 6, 8, 9
Last In, First Out (LIFO) costing	No reference – not permitted under IFRS
Net realisable value	IAS 2, Paragraphs 6, 7, 28-33
Specific identification of cost	IAS 2, Paragraphs 23, 24
Weighted average cost	IAS 2, Paragraphs 25, 27

Accounting Issues

Spare Parts and Stand-by Equipment

IAS 2 defines inventories in Paragraph 6, as stated below:

> "Inventories are assets:
> (a) held for sale in the ordinary course of business;
> (b) in the process of production for such sale; or
> (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services."

In contrast to the above statement, IAS 16 *Property, Plant and Equipment* (IAS 16), paragraph 8 provides the following guidance:

"Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment."

Article 410 of this APH, provides guidance to distributors on the classification of certain major spare parts and stand-by equipment as property, plant, and equipment in accordance with regulatory reporting requirements. Article 410 describes the conditions that warrant such treatment, as well as provides a summary of the scenarios in which items would be recorded in inventory for regulatory reporting and rate-making purposes.

Go to TOC A420

Accounting for Specific Items

Inventory

The remainder of this Article discusses only those accounting issues relating to items that are recorded in inventory.

Acceptable Methods of Inventory Cost Determination

Paragraph 9 of IAS 2 states that "inventories shall be measured at the lower of cost and net realisable value." Paragraph 10 details the costs that inventories are comprised of as follows:

"The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition."

Costs of purchase as per paragraph 11 are as follows:

> "The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase."

IAS 2 includes additional discussion on cost of inventories. Where relevant to a distributor, paragraph references have been provided below:

Costs of Inventories	IAS 2 Section References
Costs of conversion	Paragraphs 12-14
Other costs	Paragraphs 15-18
Cost of inventories of a service provider	Paragraph 19
Techniques for the measurement of cost	Paragraphs 21-22

The methods of cost determination in most common use are specific identification of cost, weighted average costing, and First In, First Out (FIFO) costing. Paragraphs 23 to 27 of IAS 2 outline the cost formulas of inventories, as follows:

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs. (paragraph 23)

Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss. (paragraph 24)

The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using FIFO or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. (paragraph 25)

For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas. (paragraph 26)

The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity." (paragraph 27)

It should be noted that IAS 2 does not provide prescriptive guidance for the determination of cost of inventory but allows professional judgment to be applied.

Consistent with IAS 2, this APH does not provide prescriptive guidance in terms of the inventory cost methods to be used. Instead, it is expected that distributors will use their professional judgment in order to choose the most suitable method of cost determination that results in the fairest matching of costs against revenues. The Board recognizes that the majority of distributors use weighted average costing as their method of determining the cost of inventory. This method of cost determination remains acceptable and is likely the method preferred by most distributors.

Go to TOC A420

Inventory

The USoA provides the following accounts for inventory:

- Account 1305, Fuel Stock. This account shall include the cost of fuel on hand.

- Account 1330, Plant Materials and Operating Supplies. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes.

- Account 1340, Merchandise. This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

- Account 1350, Non Rate-Regulated Materials and Supplies. This account shall include the book cost of other materials and supplies held primarily for non-regulated activities performed within the regulated entity. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

Once inventory items are placed into service, the related inventory accounts would be credited and the related property, plant and equipment asset or expense accounts would be debited for the corresponding amounts.

Net realisable value

Paragraph 6 of IAS 2 defines net realisable value as “the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.”

Paragraphs 28-33 of IAS 2 discuss net realisable value as detailed below. Inventories are written down below cost to net realisable value as assets should not be carried in excess of amounts expected to be realised from their sale or use.

The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use. (paragraph 28)

Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item. (paragraph 29)

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. (paragraph 30)

Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under IAS 37 *Provisions*, *Contingent Liabilities and Contingent Assets*. (paragraph 31)

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. (paragraph 32)

A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased. (paragraph 33)

Given the nature of the rate-regulated industry, it is not expected that a write-down to net realizable value would take place, unless inventory has become obsolete. In such circumstances, where a significant write-down or write-off is required, it should be brought forward to the Board for review.

Go to TOC A420

Accounting for Specific Items

Leases

TABLE OF CONTENTS

Go To Main APH ToC

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards* (IFRS), IAS 17 *Leases* (IAS 17), which prescribes the appropriate accounting policies and disclosures for lessees and lessors to apply in relation to leases. Accordingly, this Article should be read in conjunction with IAS 17**.**

In addition to IAS 17, electricity distributors should consider the applicability of IFRIC 4 *Determining whether an Arrangement contains a Lease* for agreements that do not take the legal form of a lease, such as licensing, rental and certain fixed-price electricity supply contracts. These areas are of higher complexity than included in the scope of this Article.

The following has been excluded from the scope of this Article:

(a) IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* also provide guidance on how to account for certain lease arrangements and transactions. Distributors with significant lease arrangements that fall within the scope of IFRIC 4, SIC-15 and SIC-27, are encouraged to refer to these standards.
(b) Paragraphs 36 to 57 of IAS 17 provide guidance on accounting for leases in the financial statements of lessors. Distributors who are acting in the capacity of a lessor of their assets are encouraged to refer to these paragraphs in IAS 17.
(c) Paragraphs 58 to 66 of IAS 17 provide guidance on accounting for sale and leaseback transactions. Distributors who engage in sale and leaseback transactions are encouraged to refer to these paragraphs in IAS 17.
(d) Under IAS 17, a lessee may classify a property interest held under an operating lease as an investment property. Distributors who hold such property interests are encouraged to refer to the guidance in paragraph 19 of IAS 17. Also, see Article 410 *Property, Plant & Equipment and Intangible Assets*.

The purpose of this Article is to provide additional guidance in regard to lease accounting issues where further guidance specific to distributors, acting as a lessee, is required.

Go to TOC A425

Accounting for Specific Items

Leases

General Summary

The accounting treatment for a lease depends on which party bears risks and rewards incidental to ownership of the leased asset, rather than legal ownership.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Under an operating lease, the lessee recognizes the lease payments as expense over the lease term.

A lease of land and building is treated as two separate leases, a lease of the land and a lease of the building. The two leases may be classified differently.

In determining whether the lease of land is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 17 and are listed below for ease of reference:

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Lease	IAS 17, Paragraphs 4
Finance lease and classification	IAS 17, Paragraphs 4, 8-19
Finance lease – Lessee	IAS 17, Paragraphs 20-30
Finance lease - Lessor	IAS 17, Paragraphs 36-46
Operating lease and classification	IAS 17, Paragraphs 4, 8-19
Operating lease – Lessee	IAS 17, Paragraphs 33-34
Operating lease – Lessor	IAS 17, Paragraphs 49-55
Inception of the lease	IAS 17, Paragraph 4
Commencement of the lease	IAS 17, Paragraph 4

Lease term	IAS 17, Paragraph 4
Minimum lease payments	IAS 17, Paragraph 4
Initial direct costs	IAS 17, Paragraph 4
Interest rate implicit in the lease	IAS 17, Paragraph 4
Lessee's incremental borrowing rate	IAS 17, Paragraph 4
Contingent rent	IAS 17, Paragraph 4

Accounting Issues - Lessee

Classification of Leases

Lease Classification Criteria

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessee or lessor. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return, because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value. [paragraph 7]

Paragraphs 10 and 11 of IAS 17 provide a series of indicators that individually or in combination normally lead to classification as a finance lease. The criteria in paragraph 10 are considered the primary lease classification criteria, and those in paragraph 11 considered the supplemental indicators of a finance lease.

IAS 17 does not provide a hierarchy to be applied when evaluating the primary and supplemental indicators, and these indicators may not be conclusive. If there are other facts or features that make it clear that the lease transfers substantially all risks and rewards incidental to ownership of the leased asset from the lessor to the lessee, then the lease should be classified as a finance lease. [paragraph 12]

The primary lease classification criteria in paragraph 10 are as follows:

(a) The lease transfers ownership of the asset to the lessee by the end of the lease term;
(b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at inception of the lease, that the option will be exercised;

(c) The lease term is for the major part of the economic life of the asset even if title is not transferred;
(d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
(e) The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

The supplemental indicators of a finance lease are set out in paragraph 11 and are as follows:

(a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
(b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee; and
(c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Generally, the presence of any one indicator would point to classification as a finance lease. Ultimately, the lease classification is based on an overall assessment of whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred from the lessor to the lessee.

<u>Land and Building Leases</u>

The classification of a lease that contains both land and building elements will be determined for each element as a finance or an operating lease in accordance with IAS 17, unless the value of the land at the inception of the lease is immaterial or it is clear that both elements are either finance leases or operating leases. Therefore, the minimum lease payments at the inception of the lease are allocated to land and buildings in proportion to the relative fair values of the leasehold interests in the land element and the buildings element. If this allocation cannot be done reliably, then the entire lease is classified as a finance lease unless it is clear that both elements qualify as operating leases. paragraphs 15A-17]

<u>Land Leases</u>

Leases involving land will be classified as operating or finance by reference to the lease classification criteria (see above). In addition, based on facts and circumstances, Land Rights may be recognized and presented as an Intangible Asset. See Article 410 *Property, Plant & Equipment and Intangible Assets*.

Go to TOC A425

In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life. [paragraph 15A]. A lease term for the major part of the economic life of the asset can indicate that a lease is a finance lease, even if title is not transferred. The Basis for Conclusions ("BC") which accompanies, but is not part of, IAS 17 provides additional analysis in determining whether the land element is an operating or a finance lease.

(a) In a 999-year lease of land and buildings, the significant risks and rewards associated with the land during the lease term are transferred to the lessee during the lease term, regardless of whether title will be transferred; and
(b) The present value of the residual value of the property with a lease term of several decades would be negligible and therefore accounting for the land element as a finance lease is consistent with the economic position of the lessee. [BC8B, BC8C]

It follows that a long lease term may indicate that a lease of land is a finance lease. This is not because the lease term will thereby cover the major part of the economic life of the land, but because in a long lease of land the risks and rewards retained by the lessor through its residual interest in the land at the end of the lease are not significant when measured at inception. Conversely, a short term lease of land is unlikely to be a finance lease as the risks and rewards retained by the lessor through its residual interest in the land at the end of the lease are likely to be significant.

For example: Distributor A acquires a long-term right of use of land for an upfront payment. The lease term is for 80 years. Title will not pass to the distributor at the end of the lease term.

- If the land is considered to be a finance lease, Distributor A will recognize the prepayment as a finance lease asset.
- If the land lease is considered to be an operating lease, then the upfront payment made to obtain the right to use the land would be capitalized as a lease prepayment and recognized over the lease term as an operating lease expense.
- In some instances, based on facts and circumstances, Land Rights may be recognized and presented as an Intangible Asset. See Article 410 *Property, Plant & Equipment and Intangible Assets*

Go to TOC A425

Accounting for Leases in the Financial Statements of Lessees

Finance Leases

At the commencement of the lease term, the leased asset and the lease liability are recognized at the lower of the fair value of the leased asset at inception of the lease; or the present value of the minimum lease payments at inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as the leased asset. The discount rate to be used in determining the present value of the minimum lease payments is the interest rate implicit in the lease if known to the lessee. Otherwise, the lessee uses its incremental borrowing rate. [paragraph 20]

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is determined so that a constant periodic rate of interest is recognized on the outstanding balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. [paragraph 25]

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets should be consistent with that for depreciable assets that are owned, and the depreciation recognized should be calculated in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. [paragraph 27]

A determination of whether a leased asset has become impaired should be made in accordance with IAS 36 *Impairment of Assets*. [paragraph 30]

Operating Leases

A lessee under an operating lease does not recognize the leased asset on its statement of financial position, nor does it recognize a liability for rentals in respect of future periods. A lessee recognizes rent expense on a straight-line basis over the lease term, or another systematic basis if it is more representative of the time pattern of benefits to the lessee. [paragraph 33]

Go to TOC A425

Regulatory Treatment Considerations

Under a finance lease:

A "finance" lease is essentially similar to a "capital" lease under previous Canadian GAAP. Accordingly, a finance lease will be given ratemaking consideration for inclusion in rate base.

- The lessor recognizes a finance lease receivable in Account 1407, Finance Lease Receivable and the finance income based on a pattern reflecting a constant periodic rate of return in Account 4410, Lessor's Net Investment in Finance Lease.
- The lessee recognizes the leased asset in Account 2005, Property Under Finance Leases, and a liability for future lease payments in Account 2285, Obligations Under Finance Leases - Current and Account 2325, Obligations Under Finance Leases - Non-current. Account 6045 is used to record Finance Expense on Finance Lease Obligations.

Under an operating lease:

- The lessor recognizes the lease payments as income in Account 4315, Revenues from Electric Plant Leased to Others, and the lessee as an expense in Account 5690, Lease Payment Expense, over the lease term.
- The lessor recognizes the leased asset on its statement of financial position, Account 2030, Electric Plant and Equipment Leased to Others. The lessee does not recognize the asset on its statement of financial position. The lessor records the depreciation expense applicable to property included in Account 2030, Electric Plant and Equipment Leased to Others, as a charge to Account 4320, Expenses of Electric Plant Leased to Others.

Go to TOC A425

Accounting for Specific Items

Contributions in Aid of Construction

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Contributions in Aid of Construction

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, IAS 16 *Property, Plant and Equipment* IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*, which provide guidance for the accounting treatment for transfers of assets from customers. Accordingly, this Article should be read in conjunction with IAS 16, IAS 18 and IFRIC 18.

The terms “contributions in aid of construction” and “customer contributions” are used with the same meaning as the term “transfer of assets from customers” that is used in IFRIC 18. These terms are used interchangeably in this Article.

The purpose of this Article is to provide additional guidance in regard to the accounting for contributions in aid of construction where further guidance specific to electricity distributors is required.

With respect to a distributor making a contribution paid to other distributors or transmitters for capital projects (i.e. for transmission upgrades or expansion projects), refer to the guidance in Article 410, Property, Plant & Equipment and Intangible Assets, for the classification of such distributor paid contributions.

General Summary

If as part of a connection or expansion project a distributor must incur costs to connect a customer to its distribution network, in certain scenarios, the distributor is permitted to recover a portion (or all) of the costs of the connection from the customer (i.e., a contribution in aid of construction is required from the customer). The customer contribution may be in the form of monies, services or property (e.g., plant and equipment constructed by a developer on behalf of the customer and transferred to the distributor).

IFRIC 18 requires an asset transferred to an entity by its customer to be recognized at fair value with a corresponding amount recognized as revenue. The timing of the revenue recognition depends on the nature and extent of performance obligations the entity has as a result of receiving the customer contribution. Under IFRIC 18, contributions in aid of construction received by distributors will most likely be recognized as revenue over the useful life of the related item(s) of property, plant and equipment. In such a case, the property, plant and equipment for which the customer contribution was received will be recognized at cost (or fair value in the case of a contribution of an item of property, plant and equipment) and the amount of the contribution will be recognized as deferred revenue.

For ratemaking purposes, the portion of the cost of property, plant and equipment funded through customer contributions and any related depreciation expense is not allowed to be included in the distributor’s rate base and revenue requirement, respectively. A deferred revenue account will be used to identify and record contributions in aid of construction received by a distributor. Amounts recognized in the deferred revenue account will be amortized to income over the useful life of the property, plant and equipment. The amortization process and deferred revenue account will offset the related depreciation expense and property, plant and equipment accounts respectively, effectively eliminating depreciation expense and property, plant and equipment funded through contributions in aid of construction from the determination of the distributor’s revenue requirement and rate base.

Definitions

The following definition is adopted for the purposes of the APH as well as for this specific Article:

Term	Definition
Contributions in Aid of Construction, Customer Contributions, Transfers of Assets from Customers	Contributions the distributor receives in the form of cash from its customers for the acquisition or construction of items of property, plant and equipment that must be used to connect those customers to the electricity distribution network and provide them with ongoing access to a supply of electricity; or a contribution of property, plant and equipment constructed by a developer on behalf of the customer and transferred to the distributor.

Accounting Issues

Contributions in Aid of Construction

The background section to IFRIC 18 describes how in the utilities industry, an entity may receive from its customers items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may

Go to TOC A430

receive cash from customers for the acquisition or construction of such items of property, plant and equipment.

The scope of IFRIC 18 covers the following two types of agreements:

- Agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.
- Agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both (paragraphs 4 through 6).

When an entity receives from a customer a transfer of an item of property, plant and equipment that the entity has concluded qualifies for recognition as an asset, IFRIC 18, paragraph 11 requires the entity to recognize the item of property, plant and equipment as an asset if it is probable that the future economic benefits associated with the item will flow to the entity and the cost can be measured reliably (paragraph 7 of IAS 16). The cost must be measured on initial recognition at fair value of the acquired asset (paragraph 24 of IAS 16) or at carrying amount of the asset given up if the acquired item is not measured at fair value. When an entity receives a transfer of monies from a customer in a transaction, the cost of an item of property, plant and equipment that is constructed or acquired with the contributed monies is the cash price equivalent at the recognition date (paragraph 23 of IAS 16), to the extent that it qualifies for recognition as an asset.

For all transfers of assets from customers within the scope of IFRIC 18, paragraph 13 requires the amount for the customer contribution received by the entity to be recognized as revenue in accordance with IAS 18. The timing of the revenue recognition depends on the facts and circumstances of the particular arrangement.

IAS 18 paragraph 12, among other things, states that when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. For revenue recognition, IAS 18 paragraph 13 states that it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed.

Paragraph 20 of IFRIC 18 indicates that if an ongoing service is identified as part of the agreement, the period over which revenue shall be recognized for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, which is generally the case in the utilities industry, the revenue shall be recognized over a period no longer than the useful life of the transferred asset(s) used to provide the ongoing service.

It is likely that in most instances the revenue arising from customer contributions received by distributors will be deferred and amortized. At the time the property, plant and equipment is constructed, acquired or transferred, the distributor will recognize the cost of the property, plant and equipment at its cost (or fair value in the case of a contribution of an item of property, plant and equipment). At that time the distributor will also recognize deferred revenue at an amount equal to the customer contribution. The deferred revenue will be amortized to income over the useful life of the related item(s) of property, plant and equipment or by the terms of agreement with the customer.

Regulatory Treatment

Contributions in aid of construction are not eligible for inclusion in a distributor's rate base or revenue requirement. The accounting treatment prescribed in this Article will need to be reflected in the distributor's rate application.

When contributions in aid of construction are initially received in the form of monies, the amount received should be recorded in the cash account (Account 1005, Cash) and in the related customer liability Account 2210, Current Customer Deposits and/or Account 2335, Long Term Customer Deposits.

When these monies are spent on the construction or acquisition of property, plant and equipment, the cash and deposit accounts would be reduced to the extent of monies expended on the capital project and any unspent balance refunded. Entries should be made to the applicable asset accounts to record the value of the constructed or acquired property, plant and equipment. At this time, a distributor should also make an entry to Account 2440, Deferred Revenue, for the amount of the customer contribution received.

Go to TOC A430

Accounting for Specific Items

Contributions in Aid of Construction

When contributions in aid of construction are received in the form of services or property, the value of the contribution should be recorded in the applicable asset accounts (1606 to 1990) and deferred revenue (Account 2440).

For regulatory reporting and ratemaking purposes the deferred revenue arising from customer contributions is to be included as an offset to rate base and amortized to income over the useful life of the property plant and equipment to which it relates. This reclassification is necessary to preserve continuity of the rate base for ratemaking purposes.

Amounts recognized in Account 2440 should be amortized to income over the useful life of the related property, plant and equipment by debiting Account 2440 and crediting Account 4245, Government and Other Assistance Directly Credited to Income. The deferred revenue amortized to income is an offset to the depreciation expense of the related item of property, plant and equipment. This treatment eliminates any inclusion of contributions in aid of construction in the distributor's revenue requirement. The balance in Account 2440 is offset against the property, plant and equipment balance (net of accumulated depreciation) in the determination of rate base.

The period over which any deferred revenue is amortized will depend on the level of componentization of the related items of property, plant and equipment and should be consistent with IFRS requirements and other factors. The amortization period for the deferred revenue should be appropriately adjusted on an ongoing basis to reflect any changes in the remaining useful lives of the underlying capital assets to ensure a consistent matching of the deferred revenues amortized to income and the depreciation expenses. Distributors should confirm in the introduction to their first cost of service rates application after the IFRS transition that the amortization period is being adjusted on an ongoing basis.

For regulatory accounting and reporting purposes, the account description that includes maintenance of records requirements for Account 2440, Deferred Revenues, is provided for in the USoA as follows:

> This account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.
>
> Amounts recognized in this account should be amortized to income over the useful life of the related property, plant and equipment by debiting this account and crediting Account 4245, Government and Other Assistance Directly Credited to Income.

This account shall be maintained so that the distributor can supply information as to the purpose of each contribution or grant, the conditions, if any, on which it was made, the amount of contributions or grants from governments or government agencies, corporations, individuals and others and the amount applicable to each Electric Plant in Service detail account (i.e. Accounts 1606 to 1990).

Records shall be maintained so that the contribution or grant can be directly assigned to specific type of asset for which the contribution was made to ensure the proper offset is made to the asset before inclusion in rate base as prescribed in Article 430 *Contributions in Aid of Construction*.

Illustrative Example

In the following example, the distributor's cost to construct an item of PP&E is $2,000 and on completion at the end of 2012, the item of PP&E has a useful life of 25 years. The distributor funds the PP&E costs through a customer contribution of $1,000 and a loan of $1,000. The customer's cash contribution is recognized as deferred revenue and is amortized over the useful life of the item of PP&E.

Simplified accounting entries are provided below. The accounting entries shown for 2013 will continue each year until the end of the useful life of the item of PP&E. In the accounting effects for ratemaking purposes, the "Government and Other Assistance Directly Credited to Income" amount is an offset to "Depreciation Expense" amount for income statement and revenue requirement purposes. In this example for 2013, the depreciation expense is reduced by half due to the income offset (i.e., 80 – 40 = 40). In addition, the Deferred Revenue balance is an offset amount to the PP&E balance (net of accumulated depreciation) in the rate base. In this example for 2013, the PP&E (NBV) is reduced by half due to the net deferred revenue offset (i.e., 1920 – 960 = 960).

Go to TOC A430

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
2012		**Customer Contributions Deposit/Receivable**		
Jun. 1	1005 2210	Cash Current Customer Deposits *To record receipt of funds for customer contribution received*	1,000	 1,000
Dec.31	2210 2440	Current Customer Deposits Deferred Revenue *To record transfer when monies are spent on construction of PP&E*	1,000	 1,000
Dec.31	1805-1990 1005 2225	Detail PP&E Account (as applicable) Cash Notes & Loans Payable *To record the construction completion of PP&E*	2,000	 1,000 1,000
2013		**Accounting Entries after Completion of Construction**		
Dec. 31	5705 2105	Depreciation Expense Accumulated Depreciation *To record depreciation of PP&E. ($2000/25 = 80)*	80	 80
Dec. 31	2440 4245	Deferred Revenue Government and Other Assistance Directly Credited to Income *To record amortization of deferred revenue account ($1000/25 = 40)*	40	 40

Go to TOC A430

Accounting for Specific Items

The Effects of Changes in Foreign Exchange Rates

TABLE OF CONTENTS

Go To Main APH ToC

The Effects of Changes in Foreign Exchange Rates

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, which prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. Accordingly, this Article should be read in conjunction with IAS 21**.**

IAS 29 *Financial Reporting in Hyperinflationary Economies,* IFRIC 7 *Applying the Restatement Approach under IAS 29* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* also provide guidance on how to account for the impact of foreign currency transactions and foreign operations. However, such guidance has been excluded from the scope of this Article as it is not likely applicable to the transactions undertaken by electricity distributors. Distributors with significant foreign currency transactions or foreign operations are encouraged to refer to this guidance.

The purpose of this Article is to provide additional guidance in regard to the effects of changes in foreign exchange rates issues where further guidance specific to electricity distributors is required.

General Summary

The key issues in this Article are which exchange rate(s) to use and how to report the effects of changes in exchange rates for a distributor's foreign currency transactions.

The assets, liabilities, revenues and expenses of a distributor are measured in its functional currency, which is defined as the currency of the primary economic environment in which the distributor operates. Although an electricity distributor may have operations in foreign countries and/or transact in currencies other than the Canadian dollar, the functional currency of an electricity distributor is unlikely to be a currency other than the Canadian dollar as such foreign operations and transactions typically form only a small part of its total economic activities. For a typical electricity distributor, the majority of its operations and transactions are conducted in Ontario.

All transactions in currencies other than the functional currency are considered foreign currency transactions. Exchange differences arising from the translation of foreign currency transactions into the functional currency are generally recognized in the income statement.

Go to TOC A435

Accounting for Specific Items

The Effects of Changes in Foreign Exchange Rates

Each entity in a group has its own functional currency. There is no concept of a group wide functional currency. A distributor with foreign operations should assess the functional currency of each of its foreign operations.

Once the functional currency has been determined, it is not changed unless there is a change in the relevant underlying transactions, events and circumstances.

Distributors with foreign operations with a functional currency other than that of the distributor must translate the results and financial position of those foreign operations into the distributor's presentation currency for purposes of consolidation (i.e., consolidation must be prepared using a common currency). Exchange differences arising from the translation from a functional currency into the presentation currency are recognized in other comprehensive income.

A distributor may present its audited financial statements in a currency other than its functional currency. However, for regulatory accounting and reporting purposes, the Canadian dollar must be used.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 21 and are listed below for ease of reference:

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Spot rate	IAS 21, Paragraph 8
Functional currency	IAS 21, Paragraphs 8, 9-14, 35-37
Net investment in a foreign operation	IAS 21, Paragraphs 8, 15-15A, 44-49
Monetary items	IAS 21, Paragraphs 8, 16
Presentation currency	IAS 21, Paragraphs 8, 38-41
Foreign currency	IAS 21, Paragraphs 8, 20-22
Exchange differences	IAS 21, Paragraphs 8, 28-34

The guidance provided in relation to the issues most relevant to a typical electricity distributor is summarized below.

Go to TOC A435

Accounting Issues

Functional Currency

Paragraphs 9 through 11 of IAS 21 provide factors to consider in determining the functional currency of an entity. In determining the functional currency, emphasis is given to the currency that determines the pricing of transactions.

The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Paragraph 9 of IAS 21 provides the following factors to consider in determining an appropriate functional currency:

(i) the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled);
(ii) the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and
(iii) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

Paragraph 10 of IAS 21 identifies the following additional or secondary indicators that may provide supporting evidence of an entity's functional currency:
(i) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
(ii) the currency in which receipts from operating activities are usually retained.

The factors in paragraph 9 are considered the primary factors and should be given priority before considering the secondary factors in paragraph 10. For a typical electricity distributor, it will be evident that the functional currency is the Canadian dollar based on an assessment of the primary factors alone; consideration of the secondary factors should not be necessary.

Paragraph 11 provides additional factors to consider in determining the functional currency of a foreign operation. Distributors that have significant foreign operations are encouraged to refer to this guidance.

Go to TOC A435

If the functional currency is not obvious from an assessment of the factors provided, management uses its judgment to determine the most appropriate functional currency (paragraph 12).

Reporting Foreign Currency Transactions in the Functional Currency

Foreign currency transactions are those that are denominated in or require settlement in a foreign currency, including transactions arising when a distributor:

(i) buys or sells goods or services whose price is denominated in a foreign currency;
(ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
(iii) otherwise acquires or disposes of assets or incurs or settles liabilities, denominated in a foreign currency (paragraph 20).

Paragraphs 21 through 34 of IAS 21 provide guidance on accounting for foreign currency transactions. The aspects of this guidance most likely relevant to electricity distributors are summarized as follows:

(i) On initial recognition, foreign currency transactions are recorded in the functional currency by applying the spot rate to the foreign currency amount at the date of the transaction. For practical reasons, an average exchange rate for a specified period may be a suitable approximate rate for transactions during that period (particularly when exchange rates do not fluctuate significantly);
(ii) At the end of each subsequent reporting period, foreign currency denominated monetary items are translated at the closing rate and foreign currency denominated non-monetary items measured at fair value are translated at the exchange rate in effect when the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are translated at the date of transaction; and
(iii) Exchange differences arising on the translation or settlement of foreign currency denominated balances are generally recognized in the income statement.

Go to TOC A435

For example, assume a distributor purchases a piece of equipment from a US supplier. The piece of equipment costs USD $100 and the spot exchange rates are as follows:

DATE	SPOT EXCHANGE RATE
October 15, 2012 - Equipment is ordered	1 USD = 1.1 CAD
December 15, 2012 - Equipment is received (i.e., the date on which the risks and rewards incidental to ownership of the equipment pass to the distributor)	1 USD = 1.2 CAD
December 31, 2012 - Reporting date	1 USD = 1.4 CAD
January 15, 2013 - Equipment is paid for	1 USD = 1.3 CAD

The journal entries that a distributor would record would be as follows:

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
Oct. 15 2012		*No entry is recorded at the time the equipment is ordered (assuming no obligation has been incurred)*		
Dec.15 2012	1805-1990 2205	Detail PP&E account (as applicable) Accounts payable *To recognize the equipment asset at the spot rate of 1.2 (USD 100 x 1.2)*	120	 120
Dec.31 2012	4398 2205	Loss on foreign exchange Accounts payable *To recognize the liability at the reporting date spot rate of 1.4 and the associated foreign exchange loss (USD 100 x 1.4 – 120 [amount already recognized])*	20	 20
Jan.15 2013	2205 4398	Accounts payable Gain on foreign exchange *To recognize the liability at the settlement date spot rate of 1.3 and the associated foreign exchange gain (USD 100 x 1.3 – 140 [amount already recognized])*	10	 10

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
Jan.15 2013	2205 1005	Accounts payable Cash *To reflect the settlement of the liability*	130	 130

Distributors should note in the above example that the item of equipment is recognized using the spot rate at the date of acquisition and is not subsequently remeasured due to changes in the spot rate. This is because non-monetary items are measured at historical cost and thus remain at the exchange rate in effect at the date of the transaction (paragraph 23).

Distributors should also note that the essential feature of a monetary item is a right to receive (or obligation to deliver) a fixed or determinable number of units of currency. Conversely, non-monetary items lack such a feature. Examples of non-monetary items include prepaid expenses, income received in advance, equity securities held, inventories, property, plant and equipment and intangible assets (paragraph 16).

Distributors that have significant foreign operations or those that recognize gains or losses on non-monetary items through other comprehensive income are encouraged to refer to the detailed guidance provided in paragraphs 27 through 34.

Regulatory Treatment Considerations

Foreign exchange gains or losses that arise on translation or settlement of a foreign currency denominated monetary item or non-monetary item measured at fair value should be recorded in Account 4398, Foreign Exchange Gains and Losses, Including Amortization.

Go to TOC A435

TABLE OF CONTENTS

Go To Main APH ToC

Purpose and Scope

The purpose of this Article is to set out the regulatory accounting procedures or requirements for income taxes. Income taxes include all domestic and foreign taxes which are based on taxable profits/income. This Article does not deal with the methods of accounting for government grants or investment tax credits. However, this Article does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

General Summary

CICA Handbook Part I – IFRS, IAS 12 *Income Taxes* prescribes the accounting treatment for income taxes. IAS 12 requires an entity to recognize the current and future tax consequences of transactions and other events of the current period and the future recovery (settlement) of the carrying amount of the assets (liabilities) that are recognized in the entity's statement of financial position. Use of the 'taxes payable method', which only recognizes current tax assets and liabilities, is not permitted.

The Board's practice is to include estimated taxes (the current tax or PILs allowance) in revenue requirement for purposes of setting rates. Tax or PILs related costs as incurred in the future may be recovered in rates when approved in a future rate proceeding. This means that the method of accounting for deferred income taxes will not affect the manner in which just and reasonable rates are set by the Board. Accounts for deferred taxes in the USoA are provided for electricity distributors.

Background Information

Proxy Taxes and Payments-in-Lieu of Corporate Taxes

Subsection 149(1) of the *Income Tax Act* (Canada) ("Income Tax Act") exempts from tax the income of various entities, including corporations, commissions and associations (collectively referred to as "Corporation") for which not less than 90% of the capital is owned by one or more municipalities in Canada. To maintain exempt status, not more than 10% of the income of the Corporation may be earned from activities carried on outside the geographic boundaries of the municipal shareholders. For a Corporation that is a distributor of electricity regulated by the laws of a province, the geographical boundaries are expanded to include the province. As most distributors are wholly-owned municipal corporations, their income is exempt from federal tax payable under the Income Tax Act. Also, pursuant to subsection 27(2) of the *Taxation Act* (Ontario), if a corporation is exempt from income tax by reason of section 149 of the Income Tax

Act, it is also exempt from provincial income tax.

However, subsections 89(1), 90(1), 93(1) and 93(2) of the *Electricity Act, 1998* state that if a distributor is exempt under subsection 149(1) of the Income Tax Act and subsection 27(2) of the Taxation Act (Ontario), it shall pay to the Ontario Electricity Financial Corporation in respect of each taxation year an amount equal to the amount of the tax that it would otherwise be liable to pay if it were a corporation that was not exempt from tax. Therefore, the principle under the Electricity Act is that a distributor should pay payments-in-lieu of corporate tax that approximate the amount of tax that would be payable under federal and provincial corporate tax legislation by a private sector utility.

Impact of Transition to IFRS on Canadian Tax Practice

On May 31, 2010, the Canada Revenue Agency ("CRA") published Income Tax *Technical News* No. 42 to provide guidance on how the requirement for publicly accountable enterprises to adopt IFRS will affect those enterprises' tax reporting. The publication confirmed that the Income Tax Act does not specify that financial statements must be prepared following any particular type of accounting principles or standards to determine profit. In seeking to ascertain profit, the goal is to obtain an accurate picture of the taxpayer's profit, for purposes of section 3 of the Income Tax Act for the given year. The Supreme Court of Canada has stated that a taxpayer is generally free to adopt any method which is not inconsistent with: (a) the provisions of the Income Tax Act; (b) established case law principles; and (c) well-accepted business principles. It is the view of the CRA that financial statements based on IFRS would be an acceptable starting point to determine income for tax purposes.

In addition, where IFRS financial statements are used by a particular entity, it is the CRA's position that references to GAAP in income tax legislation can be read as references to IFRS and all references to GAAP in any Agency publication can also be read as references to IFRS for those entities that report under IFRS.

Requirements for General Purpose Financial Statements

The discussion below summarizes the key requirements of IAS 12 as they relate to distributors. This summary should be read in conjunction with the detailed requirements set out in IAS 12.

The scope of IAS 12 includes all domestic and foreign taxes which are based on taxable profits [paragraph 2]. As discussed above, the obligation for PILs relating to corporate taxes is determined based on a distributor's taxable income. Accordingly, PILs are considered to be within the scope of IAS 12.

According to IAS 12, tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax. Therefore, tax expense (tax income) comprises both current tax expense (current tax income) and deferred tax expense (deferred tax income). Current and deferred tax is recognized as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

a) a transaction or event which is recognized, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity; or
b) a business combination.

An entity is required to account for the tax consequences of transactions and other events in the same way that it accounts for those transactions and other events. Thus, for transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognized outside profit or loss (either in other comprehensive income or directly in equity, respectively). This treatment applies to all changes in the carrying amount of deferred tax assets and liabilities, including a change in tax rates or tax laws, a reassessment of the recoverability of deferred tax assets and a change in the expected manner of recovery of an asset.

Current Tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period [paragraph 46].

Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognized as a current tax asset [paragraphs 12 and 13].

Go to TOC A440

Deferred Taxes

Overview

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, IAS 12 requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions. In some cases, realization of the carrying amount from sale or use of the asset will give rise to an increase or reduction in income taxes payable in the period of realization or later. For example, an asset with a carrying amount of $1,000 may have a tax basis of $600, such that realization of the carrying amount of $1,000 will give rise to income of $400 that is subject to tax, and an increase in income taxes otherwise payable. Settlement of a liability at its carrying amount may also give rise to a decrease or an increase in income taxes payable in the year of settlement or later. For example, an accrued pension liability of $1,000 might be deductible for tax purposes only when an amount is actually paid. Payment of the accrued amount will give rise to a deduction of $1,000 in computing income that is subject to tax, and a reduction in income taxes otherwise payable.

The resulting future tax outflows or inflows from the realization of assets and settlement of liabilities at their carrying amounts meet the definitions of assets and liabilities. The assets and liabilities arising from the recognition of such future tax outflows or inflows are referred to as ‘deferred tax assets’ and ‘deferred tax liabilities’ respectively. IAS 12 requires an entity to recognize a deferred tax liability or deferred tax asset, with certain limited exceptions. A deferred tax asset or deferred tax liability is recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount. Use of accounting methods that only recognize current tax assets and liabilities (for example, ‘taxes payable method’ or ‘the cash-basis of tax method’) is not permitted in general purpose financial statements prepared under IFRS.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credits. Deferred tax liabilities are defined as amounts of income taxes payable in future periods in respect of taxable temporary differences.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods. Temporary differences may be either:

a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Recognition

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

a) the initial recognition of goodwill; or

b) the initial recognition of an asset or liability in a transaction which:
   i. is not a business combination; and
   ii. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax liability is also not recognized with respect to an investment in a subsidiary, branches, associates and interests in joint ventures where:

a) the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and

b) it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

a) is not a business combination; and

b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Go to TOC A440

A deferred tax asset is also not recognized with respect to an investment in a subsidiary, branches, associates and interests in joint ventures unless it is probable that:

a) the temporary difference will reverse in the foreseeable future; and
b) taxable profit will be available against which the temporary difference can be utilized.

A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

a) in a business combination, an entity recognizes any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognizes;
b) if the transaction affects either accounting profit or taxable profit, an entity recognizes any deferred tax liability or asset and recognizes the resulting deferred tax expense or income in profit or loss; and
c) if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an entity does not recognize the resulting deferred tax liability or asset, either on initial recognition or subsequent changes to the initial temporary difference. [paragraph 22].

A deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Measurement

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates and tax laws at the end of the reporting period that are expected to apply to the period when the asset is realized or the liability is settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities [paragraph 47].

Deferred tax assets and liabilities are not discounted. However, the carrying amount of a deferred tax asset is reviewed at the end of each reporting period. An entity reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient future taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be realized. Any such reduction is subsequently reversed to the extent that it becomes probable that sufficient future taxable profit will be available [paragraphs 53 and 56].

Presentation in general purpose financial statements

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it does not classify deferred tax assets (liabilities) as current assets (liabilities).

The conditions for offsetting current and deferred tax assets and liabilities are restrictive and are based largely on those for financial assets and financial liabilities. An entity is required to offset current tax assets and current tax liabilities if, and only if, the entity:

a) has a legally enforceable right to set off the recognized amounts; and
b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, IAS 12 requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Additional guidance is provided for offsetting deferred tax assets and deferred tax liabilities relating to different taxable entities [paragraphs 74 and 75].

Requirements for Regulatory Accounting

The July 2009 *Report of the Board on the Transition to IFRS* confirmed that the Board's policy for the recovery of future income taxes has not changed due to the adoption of IFRS by distributors. Therefore, no amendment to regulatory accounting has been made and the Board does not consider it necessary to approve a deferral account for future income taxes. Specifically, the Board will continue with the current practice of using estimated taxes (the current tax or PILs allowance) to be included in the revenue requirement for rate-setting purposes. Tax or PILs related costs incurred in the future (i.e. deferred taxes) may be recovered in rates when approved in a future rate proceeding.

Go to TOC A440

Income Taxes

Distributors should note that the Board is aware that a difference may exist between the tax or PILs amounts included in rates and the actual amounts paid to tax authorities. However, in its *Addendum to Report of the Board* dated June 13, 2011, the Board was not prepared, on the basis of the record in the IFRS consultation, to undertake a fundamental reconsideration of long-standing Board practice regarding the true-up of tax or PILs amounts in rates. The scope of Account 1592, PILs and Tax Variance for 2006 and Subsequent Years, was therefore not expanded to allow inclusion of any differences between the PILs provision included in rates and actual taxes paid upon the adoption of IFRS. The Board did not create or define a specific account for IFRS impacts on taxes or PILs.

Current Taxes

In order to record income taxes (current taxes or PILs allowance) payable (recoverable) in respect of the taxable profit (tax loss) for a current or prior period, a distributor should use the following accounts:

- Account 2294, Accrual for Taxes, “Payments In Lieu of Taxes”, Etc.
  This account shall be credited (debited) with the amount of taxes, PILs, etc. accrued during the accounting period. Concurrent debits (credits) for the tax accruals shall be made to Account 6110, Income Taxes.
- Account 6110, Income Taxes
  This account shall be debited (credited) with the amount of provincial and federal income taxes (or PILs allowance thereof) on income properly accruable during the period covered by the income statement or other such current taxes not attributable to future periods, to meet the actual liability for such taxes. Concurrent credits (debits) for the tax accruals shall be made to Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, Etc.
- Account 7020, Current Taxes – Other Comprehensive Income
  This account shall be debited (credited) with provincial and federal income taxes (or PILs allowance thereof) recognized on items recorded in other comprehensive income. Concurrent credits (debits) for the tax accruals shall be made to sub-accounts of Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, Etc.
- Account 3080, Current Taxes – Shareholders’ Equity
  This account shall be debited (credited) with provincial and federal income taxes (or PILs allowance thereof) recognized on items recorded directly in equity. Concurrent credits (debits) for the tax accruals shall be made to sub-accounts of Account 2294, Accrual for Taxes, “Payments in lieu of Taxes”, Etc.

Go to TOC A440

The amounts recorded in these accounts may be based upon estimates, but from time to time during the year as the facts become known, the amount of the periodic credits shall be adjusted so as to include as nearly as can be determined in each year the applicable taxes, PILs, etc.

Note that interest on tax refunds or deficiencies shall not be included in these accounts but in Account 4405, Interest and Dividend Income, or Account 6035, Other Interest Expense, as appropriate. However, interest expense related to unpaid or underpaid taxes are not generally recoverable from ratepayers.

Also note that taxes which are not based on taxable income shall not be included in these accounts. Account 6105, Taxes Other Than Income Taxes, is used to record amounts such as ad valorem (i.e., harmonized sales tax), gross revenue or gross receipts taxes, PILs in respect of municipal and school taxes, property taxes, property transfer taxes, franchise taxes, commodity taxes, and all other related taxes assessed by federal, provincial, municipal, or other local governmental authorities, except income taxes.

Deferred Taxes

As detailed above, distributors will be required to recognize deferred tax assets and deferred tax liabilities when general purpose financial statements are prepared under IFRS. Accounts have been provided in the USoA to record these deferred tax balances. However, it should be noted that the method of accounting for deferred taxes in general purpose financial statements will not affect the manner in which just and reasonable rates are set by the Board.

The USoA provides the following accounts for a distributor to record deferred income taxes in accordance with IAS 12:

- Account 1495, Deferred Taxes – Non-Current Assets
  This account shall be debited with the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.
- Account 2350, Deferred Taxes – Non-Current Liabilities
  This account shall be credited with the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- Account 3081, Deferred Taxes – Shareholders' Equity
  This account shall be debited or (credited) with the amounts of deferred taxes recognized directly in equity.

Income Taxes

- Account 6115, Provision for Deferred Taxes – Income Statement
  This account shall be debited or (credited) with the amounts of deferred taxes included in the determination of profit or loss for the period.
- Account 7025, Deferred Taxes – Other Comprehensive Income
  This account shall be debited or (credited) with the amounts of deferred taxes recognized in other comprehensive income for the period.

Go to TOC A440

Accounting for Specific Items

Financial Instruments, Deposits and Collateral Funds

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Financial Instruments, Deposits and Collateral Funds

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*

- IAS 32 *Financial Instruments: Presentation*, which establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to classification of financial assets, financial liabilities and equity instruments from the issuer's perspective; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and liabilities can be offset.

- IAS 39 *Financial Instruments: Recognition and Measurement*, which provides recognition and measurement requirements for financial assets and financial liabilities. This includes both primary financial instruments (such as cash, receivables and debt) and derivative financial instruments (such as forwards, interest rate swaps and currency swaps).

- IFRIC 9 *Reassessment of Embedded Derivatives*, which re-confirms the treatment in IAS 39 that an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. The initial assessment is not revised, unless the contractual terms change and the change significantly modifies the expected future cash flows associated with the embedded derivative, the host contract or both relative to the previously expected cash flows on the contract.

Accordingly, this Article should be read in conjunction with IAS 32, IAS 39 and IFRIC 9.

Article 450 does not however incorporate the guidance provided by the following IFRSs, and therefore the reader should refer to the relevant IFRS for specific guidance:

- IFRS 7 *Financial Instruments: Disclosures*, which provides guidance on the disclosures required in an entity's financial statements to enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, which addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.

This Article provides guidance on the accounting treatment of deposits and collateral funds, and on the accounting treatment of financial instruments, where further guidance specific to electricity distributors is required.

Note: IASB has decided to replace IAS 39 over a period of time. The first instalment, dealing with classification and measurement of financial assets, was issued as IFRS 9 *Financial Instruments* in November 2009. The requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. As a consequence, parts of IAS 39 are being superseded and will become obsolete for annual periods beginning on or after January 1, 2013 – earlier application is permitted in 2010. The remaining requirements of IAS 39 continue in effect until superseded by future instalments of IFRS 9. The IASB expects to replace IAS 39 in its entirety.

More recently, in August 2011, the IASB issued an Exposure Draft proposing to have the mandatory effective date postponed – it would move from January 1, 2013 to January 1, 2015. Early application of both would continue to be permitted.

General Summary

<u>Financial Instruments</u>

Derivative financial instruments:

Derivatives are financial instruments that derive their value from an underlying price or index, which could be for example, an interest rate, a foreign exchange rate or commodity price.

All derivatives are recognized on the statement of financial position and are measured at fair value.

An embedded derivative is not accounted for separately from the host contract when it is closely related to the host contract or when the entire contract is measured at fair value through profit or loss. In other cases, an embedded derivative is accounted for separately as a derivative.

Non-derivative financial instruments:

An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Financial assets and financial liabilities are recognized in the statement of financial position when an entity becomes subject to the contractual terms of the instrument.

A financial asset is derecognized when the contractual rights to the cash flows from that asset expire or when the entity transfers a financial asset and the transfer qualifies for derecognition. A financial liability is derecognized when it is extinguished or when its terms are modified substantially, and any gain or loss on extinguishment is recognized in profit or loss.

All financial instruments are measured initially at fair value.

IAS 39 establishes specific categories into which all financial assets and financial liabilities are classified. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the financial statements of an entity.

Financial assets are measured subsequently at fair value except for loans and receivables and held-to-maturity investments, which are measured at amortized cost. Financial liabilities, other than those held for trading or designated as at fair value through profit or loss, are measured at amortized cost subsequent to initial recognition.

Reclassifications of financial assets between different categories are permitted only if certain criteria are met. Certain items cannot be reclassified.

When there is objective evidence that a financial asset measured at amortized cost, or at fair value with changes recognized in other comprehensive income, may be impaired, the amount of any impairment loss is recognized.

Go to TOC A450

Deposits

Deposits may be collected to guarantee payment of energy bills, performance of contract requirements or payment of construction costs.

Collateral Funds

Collateral funds are customer or other types of funded deposits that have been pledged as security and segregated in special funds.

Definitions

Definitions and accounting treatment of the following are provided in IAS 32 and IAS 39, and are listed below for ease of reference:

Accounting Terminology	**CICA Handbook Part I – IFRS Section References**
Financial instrument	IAS 32, Paragraph 11
Financial asset	IAS 32, Paragraph 11 IAS 32, Appendix A, Paragraphs AG3 to AG12
Financial liability	IAS 32, Paragraph 11 IAS 32, Appendix A, Paragraphs AG3 to AG12
Equity instrument	IAS 32, Paragraph 11 IAS 32, Appendix A, Paragraphs AG13 and AG14
Fair value	IAS 32, Paragraph 11
Liabilities and equity	IAS 32, Paragraphs 15 and 16
Compound financial instruments	IAS 32, Paragraphs 28 to 32 IAS 32, Appendix A, Paragraphs AG30 to AG35
Interest, dividends, losses and gains	IAS 32, Paragraphs 35 to 41 IAS 32, Appendix A, Paragraph AG37

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Definition of a derivative	IAS 39, Paragraph 9 IAS 39, Appendix A, Paragraphs AG9 to AG12A
Embedded derivative	IAS 39, Paragraphs 10 to 13 IAS 39, Appendix A, Paragraphs AG27 to AG33B
Definitions of four categories of financial instruments	IAS 39, Paragraph 9 IAS 39, Appendix A, Paragraphs AG4B to AG4K; Paragraphs AG14 to 26
Definitions relating to recognition and measurement	IAS 39, Paragraph 9 IAS 39, Appendix A, Paragraphs AG34 to AG63; Paragraphs AG64 to AG82; Paragraphs AG83; Paragraphs AG84 to AG93
Definitions relating to hedge accounting	IAS 39, Paragraph 9
Hedging	IAS 39, Paragraphs 71 to 102 IAS 39, Appendix A, Paragraphs AG94 to AG132

Accounting Issues

Financial Instruments

Derivative Financial Instruments

A derivative is a financial instrument or other contract within the scope of IAS 39 and has all of the following characteristics:

- Its value changes in response to some underlying variable,
- It requires no initial net investment or an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and
- It is settled at a future date. [IAS 39, paragraph 9]

Go to TOC A450

The definition of a derivative is complex and fairly wide. In addition to the more commonly used and typical derivative instruments such as forwards, swaps and futures, contracts such a loan commitments, and certain contracts to buy or sell a non-financial item also meet the definition of a derivative.

Embedded derivatives are terms of a contract or instrument that behave like a derivative. Derivatives that are embedded in a host contract should be accounted for separately as stand-alone derivatives if the economic characteristics and risks of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is measured at fair value with changes in fair value recognized directly in profit or loss. [IAS 39, paragraph 11]

The evaluation of whether there is an embedded derivative that requires separation is made only at inception of the contract, unless the contract is significantly modified or a financial asset is reclassified out of fair value through profit or loss category, in which case an assessment is required. [IFRIC 9, paragraphs 7 and 7A]

Separable embedded derivatives are required to be measured at fair value with all changes in fair value recognized in profit or loss unless they form part of a qualifying hedging relationship. [IAS 39, paragraphs 46 and 55]

Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative. In addition, if an instrument has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other. [IAS 39, Appendix A, paragraph AG29]

Non-derivative Financial Instruments

An instrument is recognized in the statement of financial position when the entity becomes party to a contract that is a financial instrument. [IAS 39, paragraph 14]

A financial asset is derecognized only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions. A financial asset is considered to have been transferred if an entity transfers the contractual rights to receive the cash flows from the financial asset or enters into a qualifying ‘pass-through’ arrangement. If a transfer meets the conditions, then an entity evaluates whether or not it has retained the risks and rewards of ownership of the transferred financial asset. An entity derecognizes a transferred financial asset: (1) if it has transferred substantially all of the risks and rewards of ownership; or (2) if it has not retained substantially all of the risks and rewards of ownership and it has not retained control of the financial asset. An entity continues to recognize a financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership, and it has retained control of the financial asset. [IAS 39, paragraphs 15 to 37]

A financial liability is derecognized when it is extinguished or when its terms are modified substantially. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, is recognized in profit or loss. [IAS 39, paragraphs 39 and 41]

On initial recognition, a financial instrument is measured at fair value plus directly attributable transaction costs, except when the instrument is classified as at fair value through profit or loss. Normally, the fair value on initial recognition is the transaction price, namely: the amount of consideration given or received. [IAS 39, paragraph 43; IAS 39, Appendix A, paragraph AG64]

Financial assets are classified into four categories which dictate how these assets are measured subsequently in the financial statements of an entity:

- Loans and receivables,
- Held-to-maturity,
- Fair value through profit or loss, and
- Available-for-sale. [IAS 39, paragraph 45]

Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method. Financial assets at fair value are measured through profit or loss with changes therein included in profit or loss. For available-for-sale financial assets, these are measured at fair value with changes therein included in other comprehensive income. [IAS 39, paragraph 46]

Financial liabilities are classified into two categories which dictate how these liabilities are measured subsequently in the financial statements of an entity:

- Fair value through profit or loss, or
- Other liabilities. [IAS 39, paragraph 47]

Financial liabilities at fair value through profit or loss are measured at fair value with changes therein included in profit or loss. Other financial liabilities generally are measured at amortized cost using the effective interest method with the exception of certain liabilities. [IAS 39, paragraph 47]

Financial assets and financial liabilities classified as at fair value through profit or loss are further subcategorized as held for trading (which includes derivatives) or designated as at fair value through profit or loss on initial recognition.

Under IFRS, the designation of financial instruments as at fair value through profit or loss is permitted, provided that certain specified criteria are met, for any financial instrument other than equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably. The designation is available only on initial recognition of the instrument and is irrevocable. [IAS 39, paragraph 9]

An entity may need to reclassify a financial asset from one category to another subsequent to its initial recognition. However, reclassifications are permitted only if certain criteria are met and may not be allowed at all without tainting implications. The key considerations are as follows:

- Items may not be reclassified into the fair value through profit or loss category after initial recognition.
- An entity may reclassify a non-derivative financial asset out of the held-for-trading category in certain circumstances if it is no longer held for the purpose of being sold or repurchased in the near term.
- An entity may reclassify a non-derivative financial asset from the available-for-sale category to loans and receivables if certain conditions are met.
- Other reclassifications of non-derivative financial assets may be permitted or required if certain criteria are met.
- Reclassifications or sales of held-to-maturity assets may require other held-to-maturity assets to be reclassified as available-for-sale. [IAS 39, paragraphs 50 to 54]

A gain or loss resulting from a change in the fair value of a financial asset or a financial liability that is not part of a hedging relationship is recognized as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized through profit or loss.

Go to TOC A450

- A gain or loss on an available-for-sale financial asset is recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized.
- For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process. [IAS 39, paragraphs 55 and 56]

Addressing the impairment of financial assets is a two-step process. First, the entity assesses whether there is objective evidence that impairment exists for a financial asset or a group of financial assets. This assessment is done at least at each reporting date. If there is no objective evidence of impairment, then generally no further action is required. However, if there is objective evidence of impairment, then the entity calculates the amount of any impairment loss and recognizes it in that reporting period. [IAS 39, paragraph 58]

A financial asset is considered to be impaired only if objective evidence indicates that one or more events, occurring after its initial recognition, have an effect on the estimated future cash flows of that asset. [IAS 39, paragraph 59]

The measurement of the impairment loss, and subsequent reversal, differs for assets carried at amortized cost, at cost, and available-for-sale financial assets.

- For financial assets carried at amortized cost: Impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized in profit or loss. [IAS 39 paragraph 63] If in a subsequent period the amount of any impairment loss decreases due to an event occurring subsequent to the write-down, then the previously recognized impairment loss is reversed through profit or loss with a corresponding increase in the carrying amount of the underlying asset. The reversal is limited to an amount that does not state the asset at more than what its amortized cost would have been in the absence of impairment. [IAS 39, paragraph 65]

- For financial assets carried at cost [IAS 39, paragraph 46(c)]: The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not permitted to be reversed. [IAS 39, paragraph 66]

- For available-for-sale financial assets: When a decline in the fair value of such an asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income should be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. [IAS 39, paragraph 67] The amount of cumulative impairment loss that is recycled to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. [IAS 39, paragraph 68] Impairment losses on an available-for-sale *equity instrument* may not be reversed through profit or loss. Any increase in the fair value of such an instrument after an impairment loss has been recognized is treated as a revaluation and is recognized in other comprehensive income. [IAS 39, paragraph 69] For available-for-sale *debt instruments*, past impairment losses should be reversed through profit or loss when fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. [IAS 39, paragraph 70]

A financial asset and a financial liability are offset only when there are a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously. [IAS 32, paragraph 42]

Deposits

Deposits may be collected by the utility to guarantee:

- Payment of energy bills; or
- Performance of contract requirements; or
- Payment of construction costs.

Deposits should be classified according to their nature and purpose. There are two types of deposits:

- Those in cash or cash equivalent (e.g. bearer bonds); and
- Those which are in effect insurance policies and therefore unfunded (e.g. performance bonds, power bonds and letters of credit).

A financial asset with an absolute right and obligation (e.g. bearer bonds) should be recognized in the financial statements, at fair value, at the time of acceptance. In contrast, a financial asset with a contingent right and obligation (e.g. performance bonds, power bonds and letters of credit) should not be recognized in the financial statements. However, disclosure of unrecognized financial assets in the notes to financial statements may be warranted and should thus be considered by distributors.

Consideration should be given to the purpose for which the deposits were collected in determining whether deposits should be recorded as current or non-current assets as described later in this Article.

To recognize deposits with an absolute right and obligation in the financial statements, a number of current and non-current asset and liability accounts are provided in the USoA. These current and non-current asset and liability accounts are listed later in this Article (see Regulatory Treatment Considerations).

Collateral Funds

Collateral funds are customer-funded or other types of funded deposits that have been pledged as security and segregated in special funds. If collateral funds are established, the following requirements shall apply:

a) In the case of deposits made with cash, a separate bank account or term deposit must be maintained. In the case of deposits made with non-cash financial assets, these non-cash financial assets must be maintained in a safety deposit box.

b) Total assets received as collateral must equal the total collateral funds liability.

In regard to the accounting treatment of collateral funds, a number of non-current asset and non-current liability accounts are provided in the USoA, and should be used to record collateral fund transactions. These non-current asset and non-current liability accounts are listed later in this Article (see Regulatory Treatment Considerations).

Regulatory Treatment Considerations

<u>Financial Instruments</u>

The following balance sheet accounts have been provided in the USoA to record financial instrument assets and liabilities:

Go to TOC A450

Financial Instruments, Deposits and Collateral Funds

- Account 1070, Current Investments. Current investments shall be considered as those that are capable of reasonably prompt liquidation. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are current in nature.

- Account 1405, Non-current Investments in Non-Associated Companies. This account shall include the book cost of investments in securities issued by non-associated companies, investment advances to such companies, and any investments not accounted for elsewhere. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are non-current in nature.

- Account 2225, Notes and Loans Payable. This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable on demand or within a time not exceeding one year from date of issue, to other than associated companies. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are current in nature.

- Account 2520, Other Non-current Debt. This account shall include, until maturity all long-term debt not provided for in any other account. This covers such items as receivers' certificates, real estate mortgages executed or assumed, assessments for public improvements, notes and unsecured certificates of indebtedness not owned by associated companies, receipts outstanding for long-term debt, and other obligations maturing more than one year from date of issue or assumption. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are non-current in nature.

- Account 7005, Available-for-Sale Financial Asset or Cash Flow Hedge - Other Comprehensive Income. This account shall be used as follows:
- A gain or loss on an available-for-sale financial asset (that is not part of a hedging relationship) resulting from a change in fair value therein is recognized in other comprehensive income until the financial asset is derecognized.

- When a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income shall be reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of cumulative impairment loss that is recycled to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

- Impairment losses on an available-for-sale equity instrument may not be reversed through profit or loss. Any increase in the fair value of such an instrument after an impairment loss has been recognized is included in other comprehensive income.

- For cash flow hedges:
  - The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income. [See IAS 39, paragraphs 95(a) and 96]
  - For amounts associated with a hedge of a forecast transaction that are reclassified from other comprehensive income to profit or loss for the period or included in the initial cost/other carrying amount of a non-financial asset or financial liability, see IAS 39, paragraphs 97, 98(a), 98(b), 100 and 101.

The following income statement accounts have been provided in the USoA to record profits and losses from financial instrument hedges and investments.

- Account 4335, Profits and Losses from Financial Instrument Hedges. This account shall be used to record profits and losses from financial instruments used as hedges against financial risks such as price risk (i.e. currency risk, interest rate risk and market risk), credit risk, liquidity risk and cash flow risk.

  For fair value hedges:

  - The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (for a non-derivative hedging instrument) shall be recognized in profit or loss. [See IAS 39, paragraph 89(a)]

- The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset. [See IAS 39, paragraph 89(b)]

For cash flow hedges:

- The ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. [See IAS 39, paragraphs 95(b) and 96(b)]
- For amounts associated with a hedge of a forecast transaction that are reclassified from other comprehensive income to profit or loss for the period, see IAS 39, paragraphs 97, 100 and 101.

- Account 4340, Profits and Losses from Financial Instrument Investments. This account shall be used to record profits and losses from financial instruments entered into for speculative investment purposes. Further, this account shall be used to record a gain or loss resulting from a change in the fair value of a financial asset or a financial liability that is not part of hedging relationship:

  - A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss.
  - For financial assets and financial liabilities carried at amortized cost, a gain or loss when the financial asset or financial liability is derecognized.

  With respect to impairment losses, and subsequent reversals of impairment losses, the following amounts shall be recognized:

  - For financial assets carried at amortized cost: The amount of the impairment loss calculated is recognized in profit or loss. If in a subsequent period the amount of any impairment loss decreases due to an event occurring subsequent to the write-down, then the previously recognized impairment loss is reversed through profit or loss with a corresponding increase in the carrying amount of the underlying asset. The reversal is limited to an amount that does not state the asset at more than what its amortized cost would have been in the absence of impairment.

Go to TOC A450

- For financial assets carried at cost: The amount of the impairment loss calculated is recognized in profit or loss. Such impairment losses are not allowed to be reversed.

- For available-for-sale financial assets: The amount of the impairment loss which has been reclassified out of other comprehensive income into profit or loss. For available-for-sale *debt instruments*, past impairment losses should be reversed through profit or loss when fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Deposits

To recognize deposits with an absolute right and obligation in the financial statements, the following current and non-current asset and liability accounts have been provided in the USoA:

- Account 1040, Other Special Deposits. This account shall include deposits with fiscal agents or others for special purposes other than the payment of interest and dividends. Such special deposits may include cash deposited with federal, provincial, or municipal authorities as a guarantee for the fulfillment of obligations; cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced; cash realized from the sale of the accounting utility's securities and deposited with trustees to be held until invested in property of the utility, etc.

  This account shall also include the current portion of customer deposits.

  Entries to this account shall specify the purpose for which the deposit is made. Deposits for more than one year, which are not offset by current liabilities, shall not be charged to this account but to Account 1410, Other Special or Collateral Funds.

- Account 1410, Other Special or Collateral Funds. This account shall include the amount of cash and book cost of investments that have been segregated in special funds for insurance, employee pensions, and other purposes not provided for elsewhere.

  This account shall include the non-current portion of customer deposits recorded in Account 2335, as well as non-current deposits or securities held as collateral relating to Account 2340, Collateral Funds Liability.

- Account 2210, Current Portion of Customer Deposits. This account shall include the deposits expected to be refunded in the next year.

- Account 2335, Non-current Customer Deposits. This account shall include all deposits except those included in Account 2340, Collateral Funds Liability. The amounts expected to be refunded in the next year shall be included in Account 2210, Current Portion of Customer Deposits.

Collateral Funds

In regard to the accounting treatment of collateral funds, the following non-current asset and non-current liability accounts in the USoA should be used to record collateral fund transactions:

- Account 1410, Other Special or Collateral Funds. This account shall include the amount of cash and book cost of investments that have been segregated in special funds for insurance, employee pensions, and other purposes not provided for elsewhere. This account shall include the non-current portion of customer deposits recorded in Account 2335, as well as non-current deposits or securities held as collateral relating to Account 2340, Collateral Funds Liability.

- Account 2340, Collateral Funds Liability. This account shall include all deposits or securities received from customers or contractors and maintained in a separate bank account or safety deposit box. This account shall only be used in situations where it is necessary to fund customer or other deposits, such as deposits guaranteeing construction costs or contract performance.

Go to TOC A450

Accounting for Specific Items

Interests in Joint Ventures

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Interests in Joint Ventures

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, IAS 31 *Interests in Joint Ventures*, which prescribes the accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers, regardless of the structures of forms under which the joint venture activities take place**.** Accordingly, this Article should be read in conjunction with IAS 31.

The purpose of this Article is to provide additional guidance in accounting for a joint venture where further guidance specific to electricity distributors is required.

Note: On May 2011 the IASB published IFRS 11 *Joint Arrangements*, which supersedes IAS 31 and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 also amends IAS 28 *Investments in Associates* (2008). While IFRS 11 and IAS 28 (2011) are effective for annual periods beginning on or after January 1, 2013, early adoption is permitted.

General Summary

A joint venture is an entity, asset or operation that is subject to contractually established joint control.

For jointly controlled assets, the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output. Similarly, for jointly controlled operations, the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation.

Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements. Unrealized profits and losses on transactions with jointly controlled entities are eliminated to the extent of the investor's interest in the investee.

Definitions and References

Definitions and accounting treatment of the following are provided in IAS 31 and are listed below for ease of reference:

Go to TOC A455

Accounting for Specific Items

Interests in Joint Ventures

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Control	IAS 31, Paragraph 3
Equity method	IAS 31, Paragraphs 3, 38-45B
Investor in a joint venture	IAS 31, Paragraph 3
Joint control	IAS 31, Paragraphs 3, 8, 9-12
Joint venture	IAS 31, Paragraph 3
Proportionate consolidation	IAS 31, Paragraphs 3, 30-37
Venturer	IAS 31, Paragraph 3
Jointly controlled operations	IAS 31, Paragraphs 13-17
Jointly controlled assets	IAS 31, Paragraphs 18-23
Jointly controlled entities	IAS 31, Paragraphs 24-29
Transactions between a venture and a joint venture	IAS 31, Paragraphs 48-50

Accounting Issues

Assessing Whether an Entity is a Joint Venture, and the Type of Joint Venture

Joint ventures take many different forms and structures. IAS 31 identifies three broad types – jointly controlled operations, jointly controlled assets and jointly controlled entities – that are commonly described as, and meet the definition of, a joint venture.

The definition of joint venture has two aspects, both of which must be present in order to conclude that an entity is a joint venture:

(1) a contractual arrangement whereby two or more parties undertake an economic activity,

(2) that is subject to joint control. [paragraphs 3 and 7]

The existence of a contractual arrangement is a key aspect of the definition of a joint venture. An entity that has its shares evenly split amongst its shareholders is not a joint venture unless there is a contractual arrangement that establishes joint control. Joint control exists only when the strategic, financial and operating decisions essential to the accomplishment of the goals of the joint venture require the unanimous consent of the venturers. Joint control does not require a 50:50 interest. Joint control is assessed in terms of the ability to control the key financial and operating policies, and must consider shareholder agreements, financial and governance arrangements, dispute resolution and termination clauses. [paragraphs 3, 9-12]

Go to TOC A455

Jointly Controlled Operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operation. [paragraphs 13 and 14]

The investor includes in its financial statements the assets that it controls and the liabilities and expenses that it incurs in the course of pursuing the joint operation, plus its share of the income from the joint operation. [paragraph 15]

Jointly Controlled Assets

Jointly controlled assets arise from an arrangement that is a joint venture carried on with assets that are controlled jointly, whether or not owned jointly, but not through a separate entity. [paragraphs 18 and 19]

The investor includes in its financial statements its share of the jointly controlled assets, the liabilities and expenses that it incurs and any income from the sale or use of its share of the output of the joint venture. Also, it recognizes any owned assets or liabilities it controls unilaterally. [paragraphs 21 and 22]

Jointly Controlled Entities

A jointly controlled entity is a joint venture activity carried on through a separate entity; e.g. a corporation or partnership. [paragraph 24]

An investor uses either proportionate consolidation or the equity method to account for jointly controlled entities. [paragraph 30] The chosen accounting policy is applied consistently to all jointly controlled entities from period to period.

Proportionate consolidation is a method of accounting whereby a venturer’s share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer’s financial statements or reported as separate line items in the venturer’s financial statements. [paragraphs 32 to 34]

The equity method is a method whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer’s share of net assets of the jointly controlled entity. The profit or loss of the venture includes the venturer’s share of the profit or loss of the jointly controlled entity. [paragraphs 39 and 40]

Go to TOC A455

Profits on transactions are eliminated to the extent of the investor's interest in the jointly controlled entity. If an asset is sold at a loss and the loss provides evidence of impairment, then the full amount of the loss is recognized. [paragraphs 48 and 49]

Regulatory Treatment Considerations

For jointly controlled operations, the venturer recognizes:

- The assets it controls. This could include property, plant and equipment, intangible assets, or investment property.
- The liabilities and expenses that it incurs.
- Its share of the income from the joint operation through a reduction/increase in revenue in Account, 4375 Revenues from Non Rate-Regulated Utility Operations, and a corresponding payable to Account 2240, Accounts Payable to Associated Companies, or receivable from in Account, 1200 Accounts Receivable from Associated Companies, the other venturer.

For jointly controlled assets, the venturer recognizes:

- Its share of the jointly controlled asset. This could include property, plant and equipment, intangible assets, or investment property.
- The liabilities and expenses that it incurs.
- Any income from the sale or use of its share of the output of the joint venture.

For jointly controlled entities:

- Under proportionate consolidation –
  - The venturer's share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined line by line with similar items in the venturer's financial statements.
  - Alternatively, the venturer's share (of each of the assets, liabilities, income and expenses) may be reported as separate line items in the venturer's financial statements.

- Under the equity method –
  - The investment in the joint venture is stated as one line in the statement of financial position at cost plus the venturer's share of the post-acquisition retained profits and other changes in net assets in Account 1481, Investment in Equity-Accounted Joint Venture.
- The venturer's share of the after-tax profit or loss of the joint venture is presented as a single line item in the statement of comprehensive income. Account 4420, Share of Profit or Loss of Joint Venture, is used for this purpose.

Go to TOC A455

Accounting for Specific Items

Business Combinations

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Business Combinations

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook *Part I – International Financial Reporting Standards*, IFRS 3 *Business Combinations*, which establishes principles and requirements for how an acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree,
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Accordingly, this Article should be read in conjunction with IFRS 3.

An electricity distributor may sell or otherwise dispose of its distribution system as an entirety or substantially as an entirety to another distributor; or a distributor may amalgamate with another distributor. These types of transactions and arrangements (including the acquisition of share control) are captured in section 86 of the OEB Act.

The purpose of this Article is to provide additional guidance in accounting for a business combination where further guidance specific to distributors is required.

General Summary

A business combination is a transaction or other event in which an acquirer obtains control over one or more businesses. The legal form of the transaction is not relevant.

All business combinations meeting the requirements of IFRS 3 are accounted for using the acquisition method.

The date of acquisition is the date on which control is transferred to the acquirer.

Consideration transferred by the acquirer, which generally is measured at fair value at the acquisition date, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer, and any contingent consideration.

Go to TOC A460

The measurement principle in accounting for the identifiable assets acquired and liabilities assumed is full fair value, with limited exceptions.

Goodwill or a gain on a bargain purchase is measured as a residual. Goodwill is recognized as an intangible asset. A gain on a bargain purchase is recognized in profit or loss after re-assessing the values used in the acquisition accounting.

There is no specific guidance on accounting for common control transactions.

Definitions and References

Definitions and accounting treatment of the following are provided in IFRS 3 and are listed below for ease of reference:

Accounting Terminology	CICA Handbook Part I – IFRS Section References
Acquiree	IFRS 3, Appendix A
Acquirer	IFRS 3, Paragraphs 6 and 7 IFRS 3, Appendix A IFRS 3, Appendix B, Paragraphs B13 to B18
Acquisition date	IFRS 3, Paragraphs 8 and 9 IFRS 3, Appendix A
Business	IFRS 3, Appendix A
Business combination	IFRS 3, Paragraph 3 IFRS 3, Appendix A IFRS 3, Appendix B, Paragraphs B5 to B12
Control	IFRS 3, Appendix A
Equity interests	IFRS 3, Appendix A
Fair value	IFRS 3, Appendix A
Goodwill	IFRS 3, Paragraphs 32 to 36 IFRS 3, Appendix A
Identifiable	IFRS 3, Paragraphs 10 to 31 IFRS 3, Appendix A
Owners	IFRS 3, Appendix A
Consideration transferred	IFRS 3, Paragraphs 37 to 40
Measurement period	IFRS 3, Paragraphs 45 to 50
Business combinations of entities under common control	IFRS 3, Appendix B, Paragraphs B1 to B4

Accounting Issues

Business Combinations

A business combination must be accounted for by applying the acquisition method, `unless it is a combination involving entities or businesses under common control.

Applying the acquisition method requires:

- identifying the acquirer;
- determining the acquisition date;
- recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- recognizing and measuring goodwill or a gain from a bargain purchase. [paragraph 5]

One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). [paragraph 6] Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations. [paragraph 2]

The date of acquisition is the date on which the acquirer obtains control of the acquiree, namely the date from which the acquirer has the power to govern the financial and operating policies of the acquiree so as to obtain benefits from its activities. [paragraph 8] This is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree, although control may be transferred on an earlier date by a written agreement.

IFRS 3 contains general principles on the recognition and measurement of the identifiable assets acquired and the liabilities assumed as part of a business combination.

- The recognition principle is that the identifiable assets acquired and the liabilities assumed are recognized separately from goodwill at the acquisition date, if they meet the definition of assets and liabilities in the *Conceptual Framework*; and are exchanged as part of the business combination, instead of as a separate transaction. [paragraphs 11 and 12] For example: restructuring costs associated with the acquiree's operations are recognized on acquisition only when they represent a liability that had already been recognized by the acquiree at the acquisition date. There are, however, limited exceptions to the recognition principle. [paragraphs 10 to 14, paragraphs 22 and 23, paragraphs 24 to 28]

Go to TOC A460

- The measurement principle is that the identifiable assets acquired and the liabilities assumed are measured at the acquisition date at their fair values. [paragraph 18] There are, however, limited exceptions to the measurement principle. [paragraphs 24 to 31]

Any classifications or designations made in recognizing the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date. [paragraph 15] There are, however, limited exceptions to the classification and designation principle. [paragraph 17]

Having recognized the identifiable assets, the liabilities and any non-controlling interests, the acquirer is required to identify any difference between:

- The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
- The net identifiable assets acquired. [paragraph 32]

The difference will, generally, be recognized as goodwill. If the acquirer has made a gain from a bargain purchase, that gain is recognized in profit or loss. [paragraphs 34 to 36]

The consideration transferred in a business combination (including any contingent consideration) is measured at fair value. [paragraph 37] Consideration transferred does not include acquisition-related costs. Such costs are expensed as incurred unless they are debt or equity issue costs. The costs to issue debt or equity securities are recognized in accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. [paragraph 53]

Adjustments to provisionally determined amounts in a business combination can be made only within the measurement period, which ends as soon as the acquirer receives all of the necessary information about the facts and circumstances that existed as of the date of the acquisition needed to identify and measure the assets and liabilities acquired, but cannot exceed 12 months from the acquisition date. Adjustments are made retrospectively and comparatives are revised. [paragraph 45]

In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in a business combination after the business combination has been completed in accordance with IFRS. However, IFRS 3 provides accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets. [paragraph 54]

Common Control Transactions

IFRS 3 only prescribes the acquisition method for combinations that are within its scope and does not address the methods of accounting that may be appropriate when a business combination involves entities under common control.

Since there is currently no guidance in IFRS on the accounting treatment for combinations among entities under common control, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that in the absence of specific guidance, management use its judgement to develop and apply a policy that is relevant to the economic decisions of users and that is reliable. There is a hierarchy of accounting literature to be used in arriving at the policy selected, which provides entities with a basic structure for resolving issues in the absence of specific guidance. [paragraphs 10 and 11 of IAS 8] When IFRS do not cover a particular issue, the entity considers:

- The guidance and requirements in standards and interpretations dealing with similar and related issues; and
- The *Conceptual Framework*. [paragraph 11 of IAS 8]

The entity also may consider the pronouncements of other standard-setting bodies and accepted industry practice, to the extent that they do not conflict with the standards, interpretations and the *Conceptual Framework*. [paragraph 12]

In developing and applying an accounting policy for business combinations involving entities under common control, practice suggests that distributors have determined their policy as follows:

- Refer to IFRS 3 and decide to adopt the acquisition method as their policy. In that case, the requirements of IFRS 3 are applied in full.
- Alternatively, use the pooling of interests method. This would be in line with some other jurisdictions (for example, US and UK) that permit the pooling of interests method to be used for group reconstructions and other common control transactions.

Whichever policy is adopted, it should be applied consistently. [IAS 8 paragraph 13]

Selecting an appropriate accounting policy which takes into account all the facts and circumstances of the particular transaction and arrangement may also include consideration of the legislative requirements applicable to distributors. Distributors are encouraged to work closely with their external auditors and/or professional advisors.

Regulatory Treatment Considerations

The detailed electric plant Accounts (1606 to 1990, inclusive) shall be stated on the basis of cost to the distributor of plant constructed by it and the original cost, estimated if not known, of plant acquired as an operating unit or system. The difference between the original (i.e., historic) costs (in Accounts 1606 to 1990) inclusive and the cost to the distributor of electric plant (i.e., at fair value) after giving effect to any accumulated depreciation or amortization, which gives rise to a permanent difference, shall be recorded in Account 2060, Electric Plant Acquisition Adjustments.

The original cost of electric plant shall be determined by analysis of the distributor's records or those of the predecessor or vendor companies with respect to electric plant previously acquired as operating units or systems. The difference between the original cost so determined, less accumulated amortization and the cost to the distributor with necessary adjustments for retirements from the date of acquisition, shall be entered in Account 2060, Electric Plant Acquisition Adjustments. Also refer to Article 230 *Definitions and Instructions* No. 7.

When electric plant constituting an operating unit or system is acquired, the costs of acquisition shall be charged to Account 2010, Electric Plant Purchased or Sold. The accounting for the acquisition shall then be completed as follows:

(1) The original cost of plant shall be credited to Account 2010, Electric Plant Purchased or Sold, and concurrently charged to the appropriate electric plant in service accounts and to Account 2030, Electric Plant Leased to Others, Account 2040, Electric Plant Held for Future Use, and Account 2055, Construction Work in Progress - Electric, as appropriate.

(2) The depreciation and amortization applicable to the original cost of the properties purchased shall be charged to Account 2010, Electric Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation or amortization.

(3) The cost to the distributor of any property included in Account 2075, Non Rate-Regulated Utility Property or Under Finance Lease, shall be transferred into that account.

Go to TOC A460

(4) The amount remaining in Account 2010, Electric Plant Purchased or Sold, shall then be transferred to Account 2060, Electric Plant Acquisition Adjustments.

Illustrative Example

Accounting Treatment in a Cash Acquisition Scenario:

Distributor A pays $600,000 cash for Distributor B. Carrying value (i.e., gross historic costs) of Distributor B is $700,000. Accumulated depreciation to date is $300,000. The two distributors are unrelated to each other. Distributor A has paid a $200,000 premium for Distributor B.

Accounting mechanics of transaction according to specific instructions outlined above:

a. DR: Account 2010, Electric Plant Purchased or Sold $600,000
CR: Account 1005, Cash $600,000
To record purchase of Distributor B

b. DR: Detailed Asset Accounts (1605-1995) $700,000
CR: Account 2010, Electric Plant Purchased or Sold $700,000
To transfer assets at carrying value to detail accounts

c. DR: 2010, Electric Plant Purchased or Sold $300,000
CR: Account 2105, Accumulated Amortization $300,000
To transfer accumulated amortization related to carrying value of assets

d. DR: Account 2060, Electric Plant Acquisition Adjustments $200,000
CR: Account 2010, Electric Plant Purchased or Sold $200,000
To close out Account 2010 and record purchase premium

Accounting Treatment Effects of Journal Entries:

a. Detailed assets in the books of Distributor A (the purchaser) are at same carrying value as they were on the books of the Distributor B (the seller)

b. The balance in Account 2010, Electric Plant Purchased or Sold, is NIL, upon all transfers to appropriate accounts. The purchase premium of $200,000 is contained in Account 2060, Electric Plant Acquisition Adjustments. For ratemaking purposes, this amount is not included in Distributor A’s revenue requirement in the future.

Accounting for Specific Items

Employee Benefits

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Employee Benefits

Purpose and Scope

The purpose of this Article is to set out the regulatory accounting procedures or requirements for employee benefits. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, other than share-based payments. An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis, and include directors and other management personnel.

The employee benefits covered by this Article include those provided:

a) Under formal plans or other formal agreements between a distributor and individual employees, groups of employees or their representatives;

b) Under legislative requirements, or through industry arrangements, whereby distributors are required to contribute to national, state, industry or other multi-employer plans; or

c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

General Summary

CICA Handbook Part 1 – IFRS, IAS 19 *Employee Benefits* prescribes the accounting and disclosure of employee benefits by employers. The Standard identifies four categories of employee benefits; each category has separate and distinct accounting requirements.

Note: During June 2011, the IASB amended key provisions relating to accounting for employee benefits. The amended standard, IAS 19R, is effective for annual periods beginning on or after January 1, 2013; however, earlier application is permitted.

Issues relating to regulatory accounting for pension and other post-employment benefit costs are not the same for all distributors. As such, this APH does not provide generic guidance for accounting for such costs.

Go to TOC A470

Requirements for General-Purpose Financial Statements

IAS 19 requires an entity to recognize:

a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

b) An expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

IAS 19 identifies four categories of employee benefits:

1. Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees.

Short-term employee benefits are recognized when an employee has rendered service in exchange for those benefits. Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

A distributor may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity and jury service. Compensated absences may be accumulating or non-accumulating. A distributor is required to recognize the expected cost of short-term employee benefits in the form of compensated absences as follows:

a) In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and

Go to TOC A470

b) In the case of non-accumulating compensated absences, when the absences occur.

For accumulating compensated absences that are non-vesting (i.e. employees are not entitled to a cash payment for unused entitlement upon leaving employment – for example, sick leave days that exceed the vesting limit), the obligation exists, and is recognized, even if the compensated absences are non-vesting. However, the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

Short-term employee benefits are recorded as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (for example, property, plant and equipment).

2. Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Such benefits include pensions, other retirement benefits, post-employment life insurance and post-employment medical care. The benefits are provided through formal or informal arrangements (i.e. post-employment benefit plans) for one or more employees.

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. All other post-employment benefit plans are defined benefit plans.

IAS 19 also gives specific guidance on the classification and accounting treatment of multi-employer plans, state plans, defined benefit plans that share risks between various entities under common control and plans with insured benefits. Multi-employer plans (for example the Ontario Municipal Employees Retirement System) ("OMERS") and state plans (for example the Canada Pension Plan) are also classified as defined contribution or defined benefit plans. However, if insufficient information is available for a multi-employer or state defined benefit plan to be accounted for as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures are required.

IAS 19 requires an entity to recognize the obligation to make contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

Accounting for a defined benefit plan is, however, more complex and requires the use of actuarial assumptions to make reliable estimates of the benefit that employees have earned in return for their service in the current and prior periods. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.

Therefore, for defined benefit obligations, IAS 19 requires an entity to:

a) Account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices;

b) Determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. An entity is not permitted to set, as its accounting policy, a measurement date that is different from its reporting date (for example, a date up to three months prior to the reporting date) if the amounts recognized in the financial statements would differ materially from the amounts that would be determined at the end of the reporting period;

c) Use the Projected Unit Credit Method to measure its obligations and costs;

d) Attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years. If that is the case, an entity is required to attribute the benefits on a straight-line basis from the date when the employee's service first leads to benefits under the plan until the date when further service by the employee will lead to no material amount of benefits under the plan, other than from further salary increases;

e) Use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and certain changes in state benefits). Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled;

f) Determine the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the postemployment benefit obligations;

g) Deduct the fair value of any plan assets from the carrying amount of the obligation. Certain reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation;

h) Limit the carrying amount of an asset so that it does not exceed the net total of:

   (i) any unrecognized past service cost and actuarial losses; plus

   (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan;

(i) Recognize past service cost (i.e. the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits) on a straight-line basis over the average period until the amended benefits become vested. Past service costs are not recognized over the expected average remaining service period of employees;

(j) Recognize gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss should comprise any resulting change in the present value of the defined benefit obligation and of the fair value of the plan assets and the unrecognized part of any related actuarial gains and losses and past service cost; and

(k) Recognize a specified portion of the net cumulative actuarial gains and losses (i.e. experience adjustments, being the effects of differences between the previous actuarial assumptions and what has actually occurred, and the effects of changes in actuarial assumptions) that exceed the greater of:

(i) 10% of the present value of the defined benefit obligation (before deducting plan assets); and

(ii) 10% of the fair value of any plan assets. IAS 19 neither permits the use of market-related values for this purpose nor in calculating the expected return on plan assets.

The portion of actuarial gains and losses to be recognized for each defined benefit plan is the excess that fell outside the 10% 'corridor' at the end of the previous reporting period, divided by the expected average remaining working lives of the employees participating in that plan.

IAS 19 also permits systematic methods of faster recognition, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. Such permitted methods include immediate recognition of all actuarial gains and losses in profit or loss.

In addition, IAS 19 permits an entity to recognize all actuarial gains and losses in the period in which they occur in other comprehensive income; the actuarial gains and losses are then reported in retained earnings in the period that they are recognized in other comprehensive income and never recycle to the income statement.

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately. The amount recognized in the statement of financial position is the net total of the following amounts:

a) The present value of the defined benefit obligation at the end of the reporting period;
b) Plus any actuarial gains (less any actuarial losses) not recognized;
c) Minus any past service cost not yet recognized; and

Go to TOC A470

d) Minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

An entity is required to recognize the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

a) The increase in the present value of the defined benefit obligation resulting from employee service in the current period ("current service cost");

b) The increase during the period in the present value of the defined benefit obligation because the benefits are one period closer to settlement ("interest cost");

c) The expected return on any plan assets and on any reimbursement rights (i.e. interest, dividends and other revenue derived from the plan assets together with realized and unrealized gains and losses on the plan assets, less any costs of administering the plan);

d) Actuarial gains and losses, as required in accordance with the entity's accounting policy;

e) Past service cost;

f) The effect of any curtailments or settlements; and

g) The effect of the limit on a resulting net asset, unless it is recognized outside profit or loss in accordance with the entity's policy for actuarial gains and losses.

Other Standards (for example, IAS 16 *Property, Plant and Equipment*) require the inclusion of certain employee benefit costs within the cost of an asset. Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components of the benefit costs listed above.

Issues relating to adjustments required upon transition to IFRS are discussed in Article 510 *Transitional Issues for the Adoption of IFRS*.

Go to TOC A470

3. Other long-term benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service. Other long-term employee benefits include, for example, long-term compensated absences such as long-service or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits, profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service and deferred compensation paid twelve months or more after the end of the period in which it is earned.

One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

IAS 19 requires a simpler method of accounting for other long-term employee benefits than for post-employment benefits: actuarial gains and losses and past service cost are recognized immediately. The accounting treatment for all other components is similar to that for defined benefit obligations. Also, like defined benefit obligations, an entity is required to recognize the cost of other long-term benefits as expense or income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset.

4. Termination benefits

Termination benefits are employee benefits payable as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The event which gives rise to an obligation is the termination rather than employee service. Therefore, an entity is required to recognize termination benefits when, and only when, the entity is demonstrably committed to either:

Go to TOC A470

a) Terminate the employment of an employee or group of employees before the normal retirement date; or
b) Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan (with specified minimum contents) for the termination and is without realistic possibility of withdrawal.

Where termination benefits fall due more than 12 months after the reporting period, they should be discounted. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

June 2011 amendments to IAS 19

During June 2011, the IASB amended key provisions relating to accounting for employee benefits. The revised standard, IAS 19R, includes the following amendments. Other requirements in IAS 19 (and discussed above) remain unchanged:

a) The definition of short-term employee benefits and other long-term employee benefits was amended so that the distinction between the two will depend on when the entity expects the benefit to be wholly settled. The amended definitions state that a benefit is short-term when it is expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. If this is not the case, then it is classified as other long-term employee benefits. This amendment could impact the classification of certain accumulating sick leave.

b) All changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognized in the financial statements immediately in the period they occur. The amendment:

- eliminates the ‘corridor method’. Actuarial gains and losses will no longer be deferred; and
- requires that past service costs be recognized in full immediately.

These changes affect both the net defined benefit liability (asset) in the statement of financial position and the amounts recognized in profit or loss.

c) Changes in the net defined benefit liability (asset) are split into the following components, and recognized in the statement of comprehensive income as follows:

- past service cost includes curtailments which arise when an entity significantly reduces the number of employees covered by a plan;
- service cost (including past service cost and settlements) - recognized in profit or loss;
- net interest on the defined benefit liability (asset) - also recognized in profit or loss. The calculation of the net interest is based on the net defined benefit liability (asset) and utilizes the discount rate that is used to measure the defined benefit obligation (generally a high quality corporate bond rate). As a result, the expected return on plan assets (as set out in the standard prior to the amendments) will be calculated based on the rate used to discount the defined benefit obligation under the amended standard; and
- remeasurement of the defined benefit liability (asset) - recognized in other comprehensive income (OCI). This amendment eliminates the ability for entities to recognize actuarial gains and losses in profit or loss (including the corridor method), which currently is allowed under IAS 19. Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognized in other comprehensive income within equity.

Any post-employment benefit costs included in the cost of assets (for example property, plant and equipment, intangible assets and inventories) include the appropriate proportion of these components of defined benefit cost.

d) An entity is required to recognize a liability and expense for termination benefits at the earlier of the following dates:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognizes costs for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

e) Certain amendments and additional requirements for the disclosure of employee benefits.

Go to TOC A470

IAS 19R is effective for annual periods beginning on or after January 1, 2013; however, earlier application is permitted. The revised Standard requires retrospective application when it is applied for the first time, except that:

a) An entity need not adjust the carrying amount of assets outside the scope of the Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts the Standard.

b) In financial statements for periods beginning before January 1, 2014, an entity need not present comparative information for the disclosures required about the sensitivity of the defined benefit obligation.

   Due to the above amendment which eliminated use of the 'corridor method', the revised Standard also removed the elective exemption for employee benefits from IFRS 1 *First-time Adoption of IFRS*.

Requirements for Regulatory Accounting

Transitional requirements relating to the transfer of pension costs and obligations from Municipal Electric Utilities to incorporated electric utilities are set out in Part XI of the *Electricity Act, 1998*.

Schedule D of the *Energy Competition Act, 1998* provides the required amendments to *the Ontario Municipal Employees Retirement System Act* ("OMERS Act") that allowed incorporated distributors and their employees to continue their pension plan arrangements under OMERS. Sections of the OMERS Act broaden the definition of an "associated employer", allowing incorporated electricity distributors to remain within their previous pension plan arrangements without any changes in accounting procedures.

Regulatory Accounting Guidance for Employee Benefits

The Board has issued a *Report of the Board, Transition to International Financial Reporting Standards*, and an *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*.

Go to TOC A470

In those documents, the Board noted that the issues relating to pension and other post-employment benefit costs (“P&OPEB”) are not the same for all distributors. As such, the Board did not change the Board’s approach to P&OPEB and decided not to address specific issues faced by distributors in a generic proceeding. Specifically, the Board made the following decisions:

a) For electrical utilities, the current practice approved by the Board will continue for P&OPEB. Any changes to current practice may be sought through an application to the Board;

b) The Board will not approve the creation of a generic account for IFRS-related impacts on P&OPEB accounts occurring at the date of transition. The option remains for utilities to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS;

c) The Board will not create or define a generic account to address ongoing volatility after rebasing under MIFRS. Utilities can apply to the Board for a utility-specific variance account if they can demonstrate the probability of significant ongoing volatility after rebasing under MIFRS; and

d) The Board will not create or define a generic account to record the impacts of changes in IFRS standards. Any individual utility that anticipates a large impact from a change in IFRS standards can apply to the Board for relief.

As a result of the above decisions by the Board, distributors are expected to continue to account for P&OPEB as they have done in the past. Specifically, those distributors that have been allowed to include P&OPEB in determining revenue requirement under previous Canadian GAAP will continue to do so under MIFRS. However, for such distributors, the recognition and measurement of the P&OPEB cost will be determined based on the requirements of IAS 19 rather than previous Canadian GAAP. Further, unless a distributor applies to the Board and is granted permission to use a deferral/ variance account to address impacts arising from its transition to IFRS, ongoing volatility in P&OPEB after rebasing under MIFRS and/or impacts arising from the recent (and future) changes to IAS 19, P&OPEB costs to be included in revenue requirement will be determined based on IAS 19.

However, the Board retains the authority to require specific accounting standards and practices for regulatory purposes in any case where the Board finds that the public interest requires uniformity in those standards and practices among distributors. The Board may also provide a distributor specific regulatory accounting direction in a decision and order in relation to the distributor’s rate application.

Accounts available in the USoA to record specific employee benefit costs

OMERS Post-employment Plans:
The accounts provided in the USoA and listed below are applicable to recording pension costs and obligations relating to a multi-employer pension. The Board is not aware of any other current multi-employer pension plans for distributors other than OMERS and therefore has defined these accounts as OMERS.

- Account 2264, OMERS - Current. This account shall include the current portion of amounts payable to OMERS in regard to pension costs recorded in account 2348, OMERS - Long-Term. Sub-accounts should be used to record the current portion of non-OMERS past service pension costs, and Employee Benefits;

- Account 2348, OMERS - Long-Term. This account shall include the long-term portion of any known future principal amounts payable to OMERS. The current portion shall be kept in account 2264, OMERS - Current; and

- Account 5645, OMERS Pensions and Benefits. The cost of OMERS pension expense and benefits expense as determined by IAS 19 would be recorded in this account.

Non-OMERS Post-employment Plans

The following accounts in the USoA are applicable to recording non-OMERS P&OPEB costs and obligations:

- Account 2265, Non-OMERS - Current. This account shall include the current portion of non-OMERS pension costs and OPEB, recorded in separate sub-accounts, if the contributions payable to a plan within the next 12 months are determinable and the distributor chooses to separately present such amounts. The non-current portion is recorded in Account 2306, OPEB Liability and Account 2308, Other Pensions Liability;

- Account 2306, OPEB Liability. This account shall include provision for other post-employment benefits, such as health care benefits, life insurance and other benefits provided to employees after retirement as required by IAS 19;

- Account 2308, Other Pension Liability. This account shall be used for non-OMERS pension assets or liabilities as required by IAS 19;

Go to TOC A470

- Account 2312, Past Service Costs - Other Post-employment Benefits. This account shall include the unamortized portion of past service costs related OPEB that will be expensed in future periods;

- Account 2313, Past Service Costs - Other Pension Plans. This account shall include the unamortized portion of past service costs related to pension plans other than OMERS that will be expensed in future periods;

- Account 5646, Employee Pensions and OPEB. The cost of non-OMERS pension expense and OPEB expense as determined by IAS 19 shall be recorded in this account. Sub-accounts should be used to record the components of the expense recognized during each period, for example current service cost, interest cost, expected return on plan assets, actuarial gains and losses and past service costs are reported in separate sub-accounts;

- Account 7010, Actuarial Gains and Losses or Remeasurements – Other Comprehensive Income. If a distributor chooses (is required) to recognize actuarial gains and losses (remeasurements of a net defined benefit liability/ asset) in other comprehensive income for each reporting period, the related amounts are recorded in this account; and

- Account 3090, Accumulated Other Comprehensive Income. If a distributor is required to recognize remeasurements of a net defined benefit liability/ asset in other comprehensive income for each period, the cumulative amount recorded in shareholders' equity is included in this account under a separate sub-account.

Vested Sick Leave

Vested sick leave is that portion of unused sick leave that becomes payable to the employee on termination of employment under the terms of a union agreement or other definite commitment into which the utility has entered. The vested portion of sick leave should be recorded as a liability when an employee has rendered service in exchange for those benefits.

The current portion of the liability should recognize the amount required for the following year's retirements and an estimate of a further amount to cover separations for reasons other than retirements. The current liability portion of vested sick leave should be recorded in the following account provided in the USoA:

- Account 2220, Miscellaneous Current and Accrued Liabilities. This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability.

The non-current liability portion of vested sick leave account should be recorded in the following account provided in the USoA:

- Account 2310, Vested Sick Leave Liability. This account shall include the vested sick leave entitlement as at year-end. Annual credits to this account shall be made in accordance with management or statutory requirements. The current portion of this liability shall be included in Account 2220, Miscellaneous Current and Accrued Liabilities.

The expense side of these entries should be recorded in the following account provided in the USoA:

- Account 5647, Employee Sick Leave. Employee sick leave expense as determined by IAS 19 is recorded in this account.

Accumulating but Non-Vested Sick Leave

Accumulating but non-vested sick leave is that portion of the sick leave that is not entitled to a cash payment upon leaving employment. The obligation for such sick leave entitlement is also recognized. However, the possibility that employees may leave before they use an accumulated non-vested entitlement affects the measurement of that obligation.

Obligations and expenses relating to accumulating but non-vested sick leave should be recorded in sub-accounts of the above accounts used for vested sick leave.

Go to TOC A470

Accounting for Specific Items

Operation and Maintenance Expenses

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Specific Items

Operation and Maintenance Expenses

Purpose and Scope

The underlying concept for this Article is that the cost of operation and maintenance ("O&M") activities should be classified and reported in a manner that facilitates comparability of the activities conducted by each electricity distributor with those of other distributors.

Pursuant to section 83(1) and (2) of the OEB Act, the Board may establish standards, targets and criteria for evaluation of performance by distributors and other licensed entities. Pursuant to section 83(2) of the OEB Act, the Board may have regard to these standards, targets and criteria in exercising its powers and performing its duties under the OEB Act or any other Act in relation to these entities, including establishing the conditions of a licence.

The O&M account structure in the USoA enhances the Board's ability to perform the duties envisioned under section 83(1) and (2) of the OEB Act. In addition, the distinguishing characteristics attributable to O&M activities allow the Board to better understand the nature of distributors' cost components in their rate applications.

The purpose of this Article is to provide detailed guidance on the distinction between O&M activities described in the accounts provided in the USoA.

General Summary

Operation activities are normally planned or scheduled whereas maintenance activities are generally performed in response to an unplanned event. This Article examines a sample of O&M accounts from the USoA and identifies characteristics that distinguish operation activities from maintenance activities.

Article 220 provides detailed descriptions of the O&M accounts. Based on the guidance contained within this Article and the account descriptions provided in Article 220, a distributor should classify its expenditures on O&M activities in the appropriate accounts.

Go to TOC A475

Accounting for Specific Items

Operation and Maintenance Expenses

Definitions

The following definitions are adopted for the purposes of the APH as well as for this specific Article:

Term	Definition
Operation activities	Operation activities are those actions of a detective, preventative and/or monitoring nature. Operation activities are normally planned or scheduled.
Maintenance activities	Maintenance activities are those activities performed in a reactionary manner generally based on results of an operation activity. Maintenance activities are normally performed in response to an unplanned or unscheduled event or due to a breakdown or damage.

The main principle underlying the use of the USoA "Operation" accounts is that an operation activity encompasses actions of a detective, preventative, and/or monitoring nature. The principle underlying the use of the USoA "Maintenance" accounts is that maintenance activity encompasses actions performed in a reactionary manner based on the results of an Operation activity**.** Operation activities are normally planned or scheduled while Maintenance activities are normally activities in response to an unplanned or unscheduled activity or due to a breakdown.

Accounting Issues

Classification of Operation and Maintenance Expenses

The USoA provides a framework where information can be collected in a manner that is uniform across the range of distributors. It is recognized that there will be some difference between the requirements of the USoA and the chart of accounts or other systems in use at a distributor. The purpose of the USoA is to provide a basis for recording expenses so that comparisons among distributors will be meaningful and consistent. These expenses may include supervision, engineering, labour costs, payroll burden, materials, trucking and other expenses associated with Operation and Maintenance classifications in the 5000 and 5100 account series.

The O&M accounts and related account descriptions provided in the USoA (Article 220) specifically identify the type of activities encompassed by the terms Operation and

Maintenance. The specific activities identified in the USoA O&M account descriptions enable the distributor to infer, if necessary, other types of activities that should be classified under the respective Operation or Maintenance account.

The following is a sample of accounts provided in the USoA to record O&M expenses, which shows the relationship between these O&M expenses by their account names and the type of assets for which these services are being provided:

USoA Operation Accounts	USoA Corresponding Maintenance Accounts
5014, Transformer Station Equipment - Operating Labour 5015, Transformer Station Equipment - Operating Supplies and Expenses	5112, Maintenance of Transformer Station Equipment
5016, Distribution Station Equipment - Operating Labour 5017, Distribution Station Equipment - Operating Supplies and Expenses	5114, Maintenance of Distribution Station Equipment
5030, Overhead Subtransmission Feeders - Operation 5050, Underground Subtransmission Feeders – Operation	5120, Maintenance of Poles, Towers and Fixtures 5125, Maintenance of Overhead Conductors and Devices
5020, Overhead Distribution Lines and Feeders - Operation Labor 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	5120, Maintenance of Poles, Towers and Fixtures 5125, Maintenance of Overhead Conductors and Devices
5040, Underground Distribution Lines and Feeders - Operating Labor 5045, Underground Distribution Lines and Feeders - Operating Supplies and Expenses	5145, Maintenance of Underground Conduit 5150, Maintenance of Underground Conductors and Devices
5035, Overhead Distribution Transformers - Operation 5055, Underground Distribution Transformers – Operation	5160, Maintenance of Line Transformers
5065, Meter Expenses	5175, Maintenance of Meters

Go to TOC A475

Accounting for Specific Items

Operation and Maintenance Expenses

The account descriptions for the above USoA O&M accounts demonstrate the following distinguishing characteristics between Operation and Maintenance types of activities:

Operation	Maintenance
a) inspecting b) patrolling c) testing d) supervising specific to line operation e) changing line transformer taps f) performing load tests and voltage surveys of feeders and circuits g) removing and resetting transformers and devices h) disconnecting and reconnecting, removing and re-installing, sealing or unsealing meters and other meter equipment i) consolidating meter installations j) changing or relocating meters and other metering equipment k) adjusting station equipment such as regulating the flow of cooling water, changing voltage of regulators l) keeping station logs and records and preparing station reports m) calibrating station equipment	a) installing b) moving line c) moving or changing position of conduit or pipe d) painting e) readjusting and changing position of guys or braces f) realigning and straightening poles, etc. g) reconditioning reclaimed pole fixtures h) relocating pole fixtures i) repairing j) repairing circuit breakers, switches, cutouts, etc. k) repairing grounds l) making minor alterations of handholes, manholes, or vaults m) cleaning insulators and bushings n) cleaning ducts, etc. o) refusing line cutouts p) resagging, retying q) sampling, testing, changing, purifying, and replenishing insulating oil r) transferring loads, switching, and reconnecting circuits and equipment s) refastening, repairing or moving racks, ladders, or hangers in manholes or vaults

Distributors should use the above information in conjunction with the account descriptions provided in the USoA to properly classify operation and maintenance activities.

It is recognized that in performing an unplanned maintenance activity, some "Operations" type activities may be performed. It is **not** expected that such operations activities incidental to the maintenance work be separated out using the "Operations" accounts. The opposite is also true (i.e. in performing a **planned** operations activity, any maintenance activity incidental to the operations work does not require separate recording using the “maintenance” accounts).

Given the above distinction, for example, should a work crew be assigned (as part of a plan to ensure the integrity of the distribution system) to seek out leaning wooden poles and straighten them in a subdivision, this task would be considered an operation activity and all costs related to that exercise would be recorded to the Operations accounts (i.e. Accounts 5005 to 5096). Consequently, if a pole broke or was considered to be deficient while it was being straightened that required repairs, such incidental maintenance activities would be recorded in Account 5020, Overhead Distribution Lines and Feeders - Operation Labour and Account 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses.

On the other hand, if the work crew responded to a power outage due to lightning, all activities performed to restore such power would be recorded in Maintenance accounts (i.e. Accounts 5105 to 5195). Consequently, in restoring power if a transformer had to be tested and inspected along with repairs to the pole on which it was located, this incidental activity would also be in “Maintenance” accounts (using Account 5160, Maintenance of Line Transformers and Account 5120, Maintenance of Poles, Towers and Fixtures) since the testing and inspection is incidental to the unplanned activity.

Events resulting in asset replacements arising from an operation activity (i.e., a planned inspection) or weather condition (i.e., a major storm) may give rise to treatment that may be capital in nature. In such cases, the accounting guidance in Article 410 *Property, Plant & Equipment and Intangible Assets* should be consulted to determine the appropriate accounting treatments for capitalizing costs and derecognition of replaced assets. In addition, a distributor in the case of asset replacements due to major storm damage may give consideration to Z-factor treatment subject to the criteria established by the Board.

To ensure staff are properly and accurately recording their work activity, proper training should be provided to staff. Also, the distributor’s accounting department should periodically test the accuracy of the work reporting.

Go to TOC A475

Accounting for Specific Items

Retail Services and Settlement Variances

TABLE OF CONTENTS

Go To Main APH ToC

Retail Services and Settlement Variances

Purpose and Scope

The variance accounts described in this Article deal with the costs of certain Independent Electricity System Operator ("IESO") or host distributor charges and their recovery from customers (includes the cost of the energy itself) as well as expenses and revenues relating to the provisions of retail services by the distributor.

The purpose of this Article is to:

- Provide additional guidance relating to accounting for the variance accounts (and the related revenue and expense streams)
- Provide additional guidance relating to accounting for various other recoveries and charges.

General Summary

This Article summarizes the accounting procedures and requirements pertaining to all of the Retail Service Cost Variance Accounts ("RCVA") and Retail Settlement Variance Accounts ("RSVA") as well as miscellaneous recoveries and charges.

This Article emphasizes the need, for regulatory purposes, to provide detailed accounting for the revenue and expense streams associated with the variance accounts. This detail will provide information on the distributor's cash flow and risk exposure and will assist the Board in making further decisions related to the use and disposition of the variance accounts and the appropriateness of Board approved rates, charges or fees.

The reader should note that while there may be alternative approaches to accounting and reporting of the material contained herein for external financial reporting purposes, this Article is primarily concerned with regulatory reporting requirements. As stated in Article 100 of the APH, the Board does not prescribe how the regulatory accounts contained in the USoA are to be rolled up for general purpose financial reporting. Matters relating to general purpose financial statements are left to the discretion of the distributor to determine in order to meet the needs of its financial statement users. In addition, Article 100 emphasizes that the APH provides a sufficient degree of flexibility for the distributor to account for its activities in the manner most appropriate to its specific circumstances with the understanding that distributors are to report information to the Board in the format prescribed in the APH.

Go to TOC A490

Retail Services and Settlement Variances

Definitions

Variance Account	Description
$RCVA_{Retail}$	The Retail Cost Variance Account is used to record net differences in retail service costs other than costs related to the Service Transaction Request
$RCVA_{STR}$	The Retail Cost Variance Account is used to record net differences in costs specifically related to the Service Transaction Request
$RSVA_{WMS}$	The Retail Settlement Variance Account is used to record net differences in Wholesale Market Service Charges, including accruals
$RSVA_{one\text{-}time}$	The Retail Settlement Variance Account used to record net differences in non-recurring Wholesale Market Service Charges, including accruals
$RSVA_{NW}$	The Retail Settlement Variance Account is used to record net differences in Retail Transmission Network Charges, including accruals
$RSVA_{CN}$	The Retail Settlement Variance Account is used to record net differences in Retail Transmission Connection Charges, including accruals
$RSVA_{Power}$	The Retail Settlement Variance Account is used to record net differences between the energy amount charged to customers, including accruals AND the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator
$RSVA_{GA}$	The Retail Settlement Variance Account is used to record the Global Adjustment net differences between the global adjustment amount billed to non-RPP customers, including accruals AND the global adjustment charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator

Regulated Charges

This Article refers to costs incurred to facilitate the operation of the retail market (Retail Service Charges) as well as costs incurred to bring the commodity to the distributor or the wholesale meter (Non-competitive Electricity Charges). Both types of charges are non-competitive in nature and are either regulated by the Board, required under Board codes and guidelines, governed by the Market Rules, or are under the direction of the government of Ontario.

Retail Service Charges

Retail services refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity as set out in the Retail Settlement Code ("RSC").

The Board has reviewed practices in other industries and developed a set of estimates for distributors to charge for retail services with the understanding that the actual costs for providing these services may vary. Consequently, distributors are required to establish variance accounts to record the difference between the rates, charges or fees (collectively "approved rates") and the actual costs of providing these services.

A distributor must establish at least two variance accounts for the purpose of recording variances between reasonable costs incurred for the provision of retail services and the rates for these services in their Board-approved rate order. These are:

i) a Retail Cost Variance Account for Retail Services ($RCVA_{Retail}$) , and
ii) a Retail Cost Variance Account for Service Transaction Requests ($RCVA_{STR}$).

It should be noted that the RCVA relate only to the incremental costs of providing the retail services listed below. Note that "Incremental cost" is defined as the change in total expenses under a new condition (i.e. requirement to provide a new service) in comparison to some given or known condition (i.e. costs incurred prior to the requirement to provide the new service).

Disposition of both the $RCVA_{Retail}$ and $RCVA_{STR}$ accounts follows the process as described in section b) Non-competitive Electricity Charges, under "Disposition".

i) Retail Cost Variance Account for Retail Services ($RCVA_{Retail}$)

This variance account is established to record the difference between the amount billed and the incremental costs of providing retail services other than those related to a Service Transaction Request ("STR"). The distributor may use sub-accounts to capture variances related to the following services as applicable:

Go to TOC A490

a) Establishing Service Agreements
b) Distributor-Consolidated Billing (with further sub-accounts required to capture bill-ready and rate-ready billing options)
c) Retailer-Consolidated Billing

The distributor must also report the RCVA balances as required under the Electricity RRR or as otherwise required by the Board.

ii) **<u>Retail Cost Variance Account for Service Transaction Requests ($RCVA_{STR}$)</u>**

This variance account is established to record the difference between the amount billed in relation to an STR and the incremental costs of providing the initial screening and actual processing services for the STR. The distributor may use sub-accounts to capture variances related to the following items:

a) Request fee
b) Processing fee
c) Information Request fee
d) Default fee
e) Other Associated Costs fee

Mechanics:

The purpose of both of the above variance accounts is to enable an evaluation of the suitability of the approved rates at a later date. To accomplish this objective the variance accounts will need to reflect the net of:

- the revenue stream generated by the services, and
- the costs of providing the service.

Since the approved rates intend to cover the incremental costs (i.e., costs not included in the revenue requirement) of providing the services, the distributor will need to identify amounts equivalent to the incremental costs by analyzing the applicable USoA expense accounts. The incremental costs will, in most cases, be accumulated in existing USoA Account 5315, Customer Billing, and possibly 5305, Supervision and 5340, Miscellaneous Customer Accounts Expenses while the revenues will be accumulated in USoA Accounts 4082, Retail Services Revenue and 4084, STR Revenue described below under “Accounts”.

Go to TOC A490

The cumulative amount of the incremental costs at the end of a month-end period should be compared to the cumulative month-end period totals for the relevant revenue accounts, including accruals recorded to incremental costs and/or revenues where applicable. The accrual basis of accounting is discussed in more detail below in next section for Non-competitive Electricity Charges. It is necessary to perform this comparison and resulting journal entry on a monthly basis, since the net monthly opening balance will attract "Carrying Charges" as discussed below in the section for Non-competitive Electricity Charges. A journal entry to the variance accounts should then be made. The journal entry will decrease the higher of the:

- revenue Accounts 4082 and/ or 4084,

AND

- the expense accounts mentioned above (or other applicable accounts),

and provide an offsetting entry to the respective RCVA account.

Note that sub-accounts should be used within the expense accounts in order to facilitate the accumulation and tracking of incremental costs related to the provision of Retail and STR services.

The balances in the variance accounts will therefore reflect, on a global basis, whether the approved rates are sufficient to cover the estimated incremental expenses or not. The account balances filed as part of the RRR on a quarterly basis are used by the Board to adjust the approved rates for these services and to monitor for disposition of the variance accounts. The disposition process for account balances is discussed in below in next section for Non-competitive Electricity Charges.

Accounts

The following USoA accounts will be used for the purposes of recording the variances mentioned above:

- Account 1518, $RCVA_{Retail}$.

This account shall be used monthly to record the net of:

i) revenues derived from the following services:

   a) Establishing Service Agreements;
   b) Distributor-Consolidated Billing; and
   c) Retailer-Consolidated Billing.

AND

ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs (i.e., costs not included in the revenue requirement) incurred to provide the services in (b) and (c) above, as applicable, and the avoided cost credit arising from Retailer-Consolidated Billing.

Sub-accounts may be used to separately record variances related to items a) to c) above, as well as carrying charges.

- Account 1548, $RCVA_{STR.}$

This account shall be used monthly to record the net of:

i) revenues derived from Service Transaction Request services and charged by the distributor, as prescribed, in the form of a:

  a) Request fee;
  b) Processing fee;
  c) Information Request fee;
  d) Default fee; and
  e) Other Associated Costs fee;

  AND

ii) the incremental cost (i.e., costs not included in the revenue requirement) of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.

Sub-accounts may be used to separately record variances related to the items listed above, as well as carrying charges.

The following USoA accounts will be used for the purposes of recording revenues related to Retail and STR services mentioned above:

- Account 4082, Retail Services Revenues. This account shall be used to record revenues derived from the following services:

  a) Establishing Service Agreements;
  b) Distributor-Consolidated Billing; and

c) Retailer-Consolidated Billing.

Sub-accounts may be used to separately record amounts related to each of the above services.

- Account 4084, STR Revenues. This account shall be used to record revenues derived from Service Transaction Request services and charged by the distributor, as prescribed, in the form of a:

  a) Request fee;
  b) Processing fee;
  c) Information Request fee;
  d) Default fee; and
  e) Other Associated Costs fee;

Sub-accounts may be used to separately record amounts related to the items listed above.

Accounting Entries

Accounting for the revenue side will generally involve a debit to the appropriate accounts receivable account and a credit to the applicable revenue Accounts 4082, Retail Services Revenues and/ or 4084, STR Revenues as services are provided, including monthly accruals where appropriate.

Costs to provide services mentioned in the account description above will generally be accumulated in one or more of Accounts 5315, Customer Billing or 5305, Supervision or 5340, Miscellaneous Customer Accounts and/ or other relevant accounts as they are incurred or accrued.

On a monthly basis, the distributor will compare the balances of the revenue accounts (4082 and/or 4084) to the amounts identified in the relevant expense accounts pertaining to retail services (i.e. incremental costs to provide those services) and enter a journal entry that will reduce the higher of the revenue or expense accounts with the offsetting entry to the $RCVA_{Retail}$ or $RCVA_{STR}$ accounts. The monthly journal entry will be similar to the following:

DR: Revenue Accounts 4082 and/ or 4084
CR: Expense Accounts 5315, 5305, 5340, and/ or other relevant accounts
DR/CR: $RCVA_{Retail}$ and/or $RCVA_{STR}$

Go to TOC A490

To record the monthly difference between the relevant expenses and revenues, decrease the higher of the revenues and expenses and enter an offsetting amount in the applicable RCVA.

At the end of the next month-end period, the entry made in the previous period will be reversed in order to preserve the integrity of the revenue and expense accounts. Then, another comparison of the balances of the revenue accounts (4082 and/ or 4084) to the amounts in the relevant expense accounts (i.e. incremental costs to provide those services) will be performed and a new journal entry similar to that above will be posted for that month-end period. In addition, note that in the last month of the fiscal period the cumulative difference between the revenue and expense accounts will be booked to the relevant RCVA and this amount will be carried forward to the next fiscal period.

Non-competitive Electricity Charges

Chapter 4 of the RSC indicates that all electricity distributors shall settle non-competitive electricity service costs based on rates approved by the Board. Since there will be differences between the amount ultimately owed (i.e. based on the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and retailers (i.e. using Board approved rates and calculated under section 4, 5 and 6 of the RSC), Retail Settlement Variance Accounts shall be used by all distributors to record such differences.

In this section, the RSVA refers to a set of accounts that will separately capture information relating to the following:

a) Wholesale Market Service Charges ($RSVA_{WMS}$)
b) Non-recurring Wholesale Market Service Charges ($RSVA_{One\text{-}time}$)
c) Retail Transmission Network Service Charges ($RSVA_{NW}$)
d) Retail Transmission Connection Service Charges ($RSVA_{CN}$)

Accrual Basis of Accounting

The *Conceptual Framework for Financial Reporting* ("Conceptual Framework") contained in IFRS, indicates that an entity's financial performance is reflected by accrual accounting. Accrual accounting involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events.

Consistent with the requirements of accrual accounting in the Conceptual Framework, a distributor must assess how to include an amount of revenue for electricity distributed prior to the end of the period but that will not be billed until the subsequent period (unbilled revenue). To the extent a distributor has any such unbilled revenue that qualifies for recognition, the distributor is required to use an estimation technique to determine the amount of unbilled revenue to be accrued at the end of the period. The reasonableness of the estimation technique is essential so that the unbilled revenues accrued can reasonably approximate the actual revenues billed in the related period. IFRS does not prescribe how unbilled revenue should be estimated. Article 330, Treatment of Certain Revenues and Expenses, provides several methods that a distributor may use to determine the appropriate amount to accrue at period end.

The discussion below discusses how the accrual basis of accounting applies to the RSVAs listed above. It should be noted that month-end accruals are also required in determining the balances of RCVA accounts, as discussed in the previous section to this Article.

Mechanics

The RSVAs listed above are used to record the net difference between the amount paid in the month (i.e. using the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and retailers in the month based on Board-approved rates.

To accomplish this, distributors will need to compare related revenue and expense streams and record the difference in the appropriate RSVA by way of a monthly journal entry. In doing so, a distributor is required to use the accrual basis of accounting. Under this basis, accruals are recorded monthly for unbilled revenue and for unbilled charges to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator. The difference between the respective revenues and expenses after recording the accruals are recorded into the various RSVA accounts. Monthly carrying charges are then calculated on the total balances. Using the accrual method for RSVAs also facilitates consistency, as distributors are required to accrue for monthly IESO charges and unbilled revenues.

Effective January 1, 2012, where a distributor has to make a change to the accrual method from a previous method (“billed” method/cash accounting), such change is permitted only on a prospective basis. The change must not impact any previous account balances filed for disposition as part of regulatory assets or other reviews for which recoveries (or refunds) have been approved in rates.

In moving from the “billed” method/cash accounting in order to apply the accrual basis of accounting for the calculation of RSVA balances effective January 1, 2012, a distributor shall record the first set of accrual adjustments at the end of the previous period (i.e. in December 2011). This may result in the distributor effectively accounting for 13 periods of IESO, host distributor or embedded generator charges in 2011 (12 periods as normally would have been recorded under the cash basis of accounting, as well as an accrual for the December 2011 settlement invoice, which would have otherwise been recorded in January 2012). Additionally, where billing cycles do not correspond with the 2011 year-end, the distributor will have to account for an additional unbilled revenue "stub" period related to customer billings from the day after the last billing cycle in 2011 through to December 31, 2011. These additional 2011 entries will allow for a prospective transition to comply with the requirements of the accrual basis of accounting, as all 2011 related charges and billings will have been recorded in 2011. The opening January 2012 RSVA balances (which will include the accruals recorded in December as described here) will be subject to carrying charges in accordance with the discussion below.

Distributors may refer to the illustrative example that has been included at the end of this Article which describes the accounting entries required under the accrual basis of accounting.

Accounting for the RSVA will generally involve the following entries:

Entry 1: Posting to the revenue/ "Billed" accounts

When the distributor bills customers, using Board approved rates for the above services, the related revenue will be accumulated in the "Billed" accounts established in the USoA, including accruals for monthly unbilled revenue (see Accounts 4062, 4064, 4066, and 4068 below under "Accounts").

Entry 2: Posting to the expense/ "Charges" accounts

When the IESO (or host distributor) settlement invoice is received, the related expenses will be recorded in the "Charges" Accounts 4708, 4712, 4714 and 4716 (described below under "Accounts") depending on the item (i.e. WMS charges, Retail Transmission Network Charges, etc.), including monthly accruals for amounts not yet invoiced by the IESO (or host distributor).

Go to TOC A490

Entry 3: Calculating the RSVA balance

A comparison of the revenue/ “Billed” accounts to the expense/ “Charges” accounts will result in a journal entry which will reduce the higher of the revenue or expense account with an offsetting entry to the related RSVA Accounts 1580, 1582, 1584, and 1586.

Distributors should maintain detailed documentation of the analysis performed resulting in the entry to the related RSVA accounts.

Entry 4: Calculating carrying charges

In the next month, the opening balance of the RSVA for the month will be used for purposes of calculating carrying charges for the month. The carrying charges will be recorded in a sub-account of the appropriate RSVA. Note that the carrying charges will be calculated on the balance excluding accumulated interest to date (i.e. simple interest).

Entries 1 to 4 above will be repeated for each month in the fiscal period until the last month in the period.

Entry 5: Special entries required in final month of fiscal period

In the last month of the fiscal period the RSVA will need to represent the cumulative net differences between the revenue/ “Billed” and expense/ “Charges” accounts and include carrying charges. Consequently, in the last month of the fiscal period, the distributor will book the cumulative difference for the fiscal period between these accounts, and such cumulative differences will be rolled forward into the RSVA for the next fiscal period (subject to distributor or Board review and request for disposition).

Maintenance and Recording

Each of the above RSVAs shall be maintained at an aggregate level (i.e. not customer specific). A debit or credit to the balances of the variance accounts shall be calculated and posted on a monthly basis. At the end of each fiscal year, any outstanding balances in the variance accounts will be carried forward to the opening balance for the following year, unless otherwise directed by the Board.

Go to TOC A490

Carrying Charges

The carrying charge amounts shall be calculated and recorded in a separate sub-account using simple interest applied to the monthly opening balances in the RSVA. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

This rate shall be applied to any balance in the account, either positive or negative, less any accumulated interest in the account.

Disposition

The Board is required to periodically review distributors' variance and deferral accounts, in order to make an order determining whether and how amounts recorded in these accounts should be reflected in rates. Specifically, the $RSVA_{Power}$ (Account 1588), discussed below, is to be reviewed quarterly, and the remaining accounts are to be reviewed annually. Account 1589, $RSVA_{GA,}$ previously Account 1588 $RSVA_{POWER,}$ Sub-account Global Adjustment, will also be reviewed quarterly.

The Board has established groupings based on the required depth of the review and the process by which account balances are reviewed. The purpose of the groupings is to avoid delays in the Incentive Regulation Mechanism (IRM) rate setting process. As such, those accounts that do not require a review for prudence (Group 1) will be the only accounts reviewed in an IRM application. The following groupings have been established:

Group 1 – includes accounts that do not require a prudence review. This group includes account balances that are cost pass-through and accounts whose original or previous balance were approved by the Board in a previous proceeding. Group 1 includes Accounts 1550 1580, 1584, 1586, 1588, 1589 and 1595.

Group 2 – includes accounts that require a review for prudence.

Disposition and Review Process during IRM

During the IRM plan term, the Board has established a preset disposition threshold of $0.001/KWh. When this threshold is exceeded, a distributor will file a proposal for the disposition of all Group 1 account balances (including carrying charges). The onus is on the distributor to justify why a specific account's balance should not be cleared.

Go to TOC A490

All Group 1 account balances will be reviewed as part of the IRM application regardless of whether the disposition threshold has been met. The balances should represent the most recent period ending December 31 as reported to the Board as of April 30 through the RRR. If the disposition threshold is not exceeded, the balances will generally not be cleared.

Group 2 account balances will be reviewed using the Board's process as outlined in *Guidelines for Review of Electricity Deferral and Variance Accounts, September 28, 2005*. Generally, Group 2 account balances will be reviewed at the time of rebasing.

Disposition and Review Process in a Rebasing Year

At the time of rebasing, all account balances will be reviewed and should be disposed of, unless otherwise justified by the distributor or as required by a specific Board decision or guideline. From a practical perspective, however, if the net balances of all account balances when unitized are lower than \$0.0001/kWh or \$0.0001/kW, the disposition may not occur.

Disposal mechanics

If year end balances in the RSVA are not disposed of, all outstanding balances shall be carried forward into the following year.

Note that the Board will be monitoring activity in these accounts and may order disposition if it determines the outstanding balances warrant such action.

Reporting requirements

Distributors are required to report quarterly all RSVA accounts in the form and manner required by the Board as part of the RRR or as otherwise required by the Board.

Accounts

The following accounts will be used for purposes of recording the variances mentioned above:

Go to TOC A490

i) **Account 1580, RSVA$_{WMS}$.**

This account shall be used monthly to record the net of:

i) the amount charged by the IESO, based on the settlement invoice, for the operation of the IESO administered markets and the operation of the IESO –controlled grid (as defined in the *Electricity Act, 1998*) specified by the Board, including accruals

AND

ii) the amount billed to customers using the Board-approved Wholesale Market Service Rate, including accruals.

If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for wholesale market services and the amount billed to customers using the Board-approved Wholesale Market Service Rate.

A sub-account shall be used to separately record any related carrying charges.

ii) **Account 1582, RSVA$_{one\text{-}time}$.**

This account shall be used monthly to record the net of:

i) the amount charged by the IESO, based on the settlement invoice, for Wholesale Market Service Charges, specified by the Board (these charges are not normally already incorporated in the Wholesale Market Service Rate), including accruals

AND

ii) the amount billed to customers for the same services using the Board-approved Rate, including accruals.

A sub-account shall be used to separately record any related carrying charges.

Go to TOC A490

iii) **Account 1584, $RSVA_{NW}$.**

This account shall be used by distributors deemed to be transmission customers to record monthly the net of:

i) the amount charged by the IESO, based on the settlement invoice, for transmission network services, including accruals

AND

ii) the amount billed to customers for the same services using the Board-approved Transmission Network Charge Rate, including accruals.

If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network services and the amount billed to customers using the Board-approved Transmission Network Charge Rate.

A sub-account shall be used to separately record any related carrying charges.

iv) **Account 1586, $RSVA_{CN}$.**

This account shall be used by distributors deemed to be transmission customers to record monthly the net of:

i) the amount charged by the IESO, based on the settlement invoice, for transmission connection services, including accruals

AND

ii) the amount billed to customers for the same services using the Board-approved Transmission Connection Charge Rate, including accruals.

If applicable, embedded distributors shall also use this account to record the net difference between the amounts charged by the host distributor (based on the settlement invoice) for transmission connection services and the amount billed to customers using the Board- approved Transmission Connection Charge Rate.

A sub-account shall be used to separately record any related carrying charges.

The following revenue accounts will be used to record amounts billed to customers by the distributor:

- Account 4062, Billed - WMS. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers using the Board-approved Wholesale Market Service Rate for specified charge types.

  A distributor includes accruals for monthly unbilled estimates in this account.

  If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Wholesale Market Service Rate.

- Account 4064, Billed - ONE-TIME. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers relating to specified charge types for this account which are not normally already incorporated in the Board-approved Wholesale Market Service Rate.

  A distributor includes accruals for monthly unbilled estimates in this account.

- Account 4066, Billed - NW. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Network Service Rate approved by the Board.

  A distributor includes accruals for monthly unbilled estimates in this account.

  If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Network Service Rate.

- Account 4068, Billed - CN. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Connection Service Rate approved by the Board.

  A distributor includes accruals for monthly unbilled estimates in this account.

Go to TOC A490

If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Connection Service Rate.

The following expense accounts will be used to record service charges incurred by the distributor for services received from the IESO (or host distributor):

- Account 4708, Charges – WMS. A distributor that is a wholesale Market Participant shall use this account to record the amounts charged by the IESO (based on the settlement invoice) for wholesale market service charge types specified by the Board. See Appendix A for the charge types applicable to this account.

  This account includes monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator.

  If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

- Account 4712, Charges - ONE-TIME. A distributor that is a wholesale Market Participant shall use this account to record the charges from the IESO (based on the settlement invoice) specified by the Board (these changes are not normally already incorporated in the Wholesale Market Service Rate). See Appendix A for the charge types applicable to this account.

  This account includes monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator.

- Account 4714, Charges - NW. This account is to be used by distributors deemed by the Board to be transmission customers to record the amounts charged by the IESO (based on the settlement invoice) for retail transmission network services.

  This account includes monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator.

  If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission network services.

Go to TOC A490

- Account 4716, Charges - CN. This account is to be used by distributors deemed by the Board to be transmission customers to record the amount charged by the IESO (based on the settlement invoice) for retail transmission connection service.

  This account includes monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator.

  If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission connection services.

Power Charges

i) **<u>Retail Settlement Variance Account for Power (RSVA$_{Power}$)</u>**

The RSVA$_{Power}$ account is established for the purpose of recording the "net difference" in energy cost only. "Net difference" refers to the difference between the amount charged by the IESO, host distributor or embedded generator based on the settlement invoice for the energy cost and the amount billed to customers for the energy cost, including month-end accruals. Note that these differences could be composed of differences in energy price and/or energy quantities as well as the difference between estimated and actual line loss factors.

As indicated in Section b) above, distributors must use the accrual method for all RSVAs. With respect to the RSVA$_{Power}$ account, a distributor will include accruals for monthly unbilled estimates in Sales of Electricity (Accounts 4006 to 4055, as applicable) and monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator for Power Purchased. The distributor must ensure a proper matching of the billed amounts recorded in the electricity sales accounts to those charges recorded in Account 4705.

For the purposes of the RSVA$_{Power,}$ it is important to note that all components of energy differences shall be recognized and recorded in this account. These components include price and quantity differences (e.g. using the IESO preliminary data compared to the monthly settlement invoices for billing) and the difference between the Board-approved historic loss factor and the actual loss experienced by the distributor. It should be noted that variances recorded in the RSVA$_{Power}$ account are calculated net of credits received by the distributor from the IESO related to Regulated Price Plan (RPP) customers. Such credits arise from a separate settlement process between the IESO and the distributor. This is illustrated in the Illustrative Example provided in this Article.

Mechanics

The amounts to be posted to the $RSVA_{Power}$ are determined by comparing the energy cost on the monthly settlement invoice recorded in Account 4705, Power Purchased, to the energy cost billed to customers recorded in Sales of Electricity Accounts 4006 to 4055, as applicable, including month-end accruals.

Recording procedures similar to those listed for the RSVA for non competitive charges mentioned earlier in this Article apply to the $RSVA_{Power}$ account.

Maintenance and recording

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Carrying Charges

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Disposition

Instructions specifically related to $RSVA_{Power}$ are discussed earlier in this Article or as otherwise specified by the Board.

Reporting Requirements

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Go to TOC A490

Account

The following account will be used for the purposes of recording the $RSVA_{Power}$ variance:

- Account 1588, $RSVA_{Power.}$

This account shall be used monthly to record the net difference between:

i) the energy amount charged to customers, including accruals,

AND

ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator, including accruals.

ii) **Retail Settlement Variance Account for Global Adjustment ($RSVA_{GA}$)**

From January 1, 2005 to December 31, 2011, the global adjustment variance has been recorded in a sub-account of $RSVA_{POWER}$ Account 1588. As of January, 2012, the Board is approving a separate account for this purpose to provide greater transparency for the balances. The $RSVA_{GA}$ account is established for the purpose of recording the "net difference" in the global adjustment attributable to non-regulated price plan ("non-RPP") customers only. "Net difference" refers to the difference between the amount charged/credited by the IESO, host distributor or embedded generator based on the settlement invoice for the global adjustment and the amount billed to non-RPP customers for the global adjustment in Sales of Electricity, Global Adjustment Sub-accounts.

The "global adjustment" arises due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators/suppliers. The legislation requires that the global adjustment be collected and credited or charged back to the various consumers of electricity. The global adjustment came into effect on January 1, 2005.

The global adjustment is treated differently for regulated price plan ("RPP") consumers compared to those that are non-RPP consumers. The global adjustment attributable to RPP consumers is captured in a RPP variance account held by the Ontario Power Authority ("OPA"). For the OPA account, the distributor settles the global adjustment related to RPP customers through a reconciliation and settlement process with the IESO. Consequently, the requirements for account relate to non-RPP customers only.

Mechanics

The amounts to be posted to the $RSVA_{GA}$ account are determined by comparing the global adjustment amount on the monthly settlement invoice recorded in Account 4707, Charges Global Adjustment, to the global adjustment amount billed to customers recorded in Sales of Electricity, Global Adjustment Sub-accounts.

Recording procedures similar to those listed for the RSVAs mentioned earlier in this Article apply to the $RSVA_{GA}$ account.

Maintenance and recording

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Carrying Charges

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Disposition

Instructions specifically related to $RSVA_{GA}$ as specified by the Board.

Reporting Requirements

Distributors should follow the same procedures for the other RSVAs mentioned earlier in this Article, unless specifically directed otherwise in this section or by the Board.

Go to TOC A490

Account

The following account will be used for the purposes of recording the $RSVA_{GA}$ account variance. It should be noted that these accounts are new to distributors, effective January 1, 2012:

- Account 1589, $RSVA_{GA}$

This account shall be used monthly to record the net difference between:
i) the global adjustment amount billed to non-RPP customers, including accruals

AND

ii) the global adjustment charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator, including accruals.

- Account 4707, Charges Global Adjustment.

This account shall be used to record the Global Adjustment charges attributed to non-RPP customers, as a result of the settlement process with the IESO, host distributor or embedded generator.

Other Recoveries and Charges

i) **Standard Supply Service ("SSS") Administration Charge**

The SSS administration charge allows the distributor to recover its cost of providing default supply service. The administration charge is intended to cover only those incremental costs that arise as a sole consequence of the existence of SSS service. These costs shall include customer service call handling related to SSS, Customer Information Systems ("CIS") expenses specifically related to RPP administration, CIS expenses directly related to bill display requirements and power procurement costs/ contract administration costs for distributors who use third party SSS supply. The SSS Code was amended to incorporate the RPP implementation which has been in effect since April 1, 2005.

Go to TOC A490

Account

Distributors will use Account 4086, SSS Administration Revenue, to record revenues generated from the SSS Administration Charge. Distributors must use this account to separately track such revenues effective on January 1, 2012.

ii) **<u>Distribution Wheeling/ Low Volume (LV) Service</u>**

Some distributors supply power to embedded distributors through distribution facilities and other facilities. As a result, a host distributor must apply to the Board for a rate to recover the costs associated with providing this service to an embedded distributor. Similarly, an embedded distributor may apply for a rate or an amount in its revenue requirement to recover these charges from their customers.

Account

Host distributors will use Account 4080, Distribution Services Revenue, to record revenues generated from the Distribution Wheeling Service. Distributors must use a separate sub-account to track such revenues.

Embedded distributors must use Account 1550 to record LV variances arising on or after May 1, 2006.

Account 1550, LV Variance Account

On a monthly basis, this account shall be used to record the net of:

i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services, Account 4750, including accruals

AND

ii) the amount billed to the embedded distributor's customers based on the embedded distributor's latest approved rate(s), Account 4075, including accruals.

The general accounting procedures provided in section b) Non-competitive Electricity Charges are applicable to this account.

Carrying charges will apply to the monthly opening principal balance in the variance account at a rate of interest prescribed by the Board. A sub-account shall be used to separately record these carrying charges.

iii) **Debt Retirement Charge ("DRC")**

The *Electricity Act, 1998* and regulations made under that Act (Ontario Regulations 494/01 and 493/01) establish requirements for the payment and collection of charges to retire the residual stranded debt of the former Ontario Hydro. The DRC established for this purpose is payable by electricity consumed by most industrial, commercial and residential power consumers across the province.

The DRC rate is set by regulation and is applied on a per kWh basis to electricity consumed in most communities.

Account

Distributors shall use Account 2250, Debt Retirement Charges, to record the amounts collected and to be remitted in relation to the Debt Retirement Charge.

iv) **Rural or Remote Electricity Rate Protection ("RRRP")**

The RRRP provides rate protection for certain consumers that are in rural or remote areas of the province. The rules relating to the RRRP are set out in the OEB Act, and in a regulation made under that *Act* (Ontario Regulation 442/01). RRRP is collected by the IESO for each kWh that is withdrawn from the IESO-controlled grid for use by consumers in Ontario.

Accounts

The RRRP is classified by the IESO as a wholesale market service and is charged to distributors on their monthly IESO settlement invoice (see Appendix A for charge type). The 1580, $RSVA_{WMS}$ and related 4062 and 4708 accounts are designated for use with respect to the pass through of the RRRP charges. The rate recovery of the RRRP charges has been incorporated in the Board-approved Wholesale Market Service Rate billed to consumers since the electricity market opening (May 1, 2002).

Go to TOC A490

Accounts Usage Illustrative Example

The following example is provided to illustrate general concepts and accounting policies in relation to this Article. These include the use of the **accrual** method required on a monthly basis for the RSVAs, the reductions of the "higher of" revenue or expense accounts amounts for recording the differences in the respective RSVAs, and the use of the global adjustment new account numbers 1589, $RSVA_{GA}$ and 4707, Charges Global Adjustment. The application of these accounting requirements and procedures is effective prospectively on January 1, 2012.

The calculations methodologies used for the IESO settlement invoices do not represent prescribed methods and are used in this example only to illustrate the accounting procedures and journal entries for the RSVAs. The IESO determines the settlement invoice rules, procedures and processes and thus distributors should follow the IESO requirements.

Accounting – Example

The example below illustrates the journal entries recorded in the months of November and December by a distributor whose billing cycle ends at the 15th of each month, whereas the financial reporting period is the end of the month. As such, accruals for unbilled revenues as well as charges from the IESO are required to be made for the period representing the 16th of each month to the end of the reporting period.

The example depicts a scenario where the distributor's operations commence on November 1, 2012. As such no previous accruals were recorded which require reversals in the month of November, unlike the ones illustrated below for the month of December.

Assumptions for Billing to Customers:

i) New distributor in Ontario commences operations on November 1, 2012. Billing to customers is at the 15th of each month, with the first billing being for November 1 – 15, 2012 (stub billing period).

ii) To simplify this example, all distributor customers have energy only smart meters, the global adjustments charges for "Class A" consumers (under CT 147) are not considered, and line losses are nil.

Go to TOC A490

iii) There are 20,000 customers in the distributor's service area. Half of these customers are on RPP time of use ("TOU") rates and consume one half of the total energy usage. The other half are non-RPP customers and are subject to the spot price (Average Weighted Price) and the global adjustment charges. Assume none of the customers are with retailers. In addition, all customers are billed on an energy usage basis (and there are no demand customers). For unbilled revenue accruals, distributors should use actual volumes per smart meter readings versus estimates when practical to do so. For simplicity, it is assumed there are no price or quantity differences between estimates and the actual amounts for purchased power and the global adjustment at year end.

iv) IESO charged usage is equal to the customer metered usage.

v) Preliminary data: IESO data known by distributor for customer billing purposes. Assume the data in v) and vi) below are the same for November and December 2012:

Billed item	Total	Per unit cost
Energy cost – AWP*	--	0.022 Per kWh
Global Adjustment Estimate charge	--	0.007 Per kWh

*Average Weighted Price

vi) Illustrative Board approved rates:

Billed Item	Board approved rate	
Wholesale market service rate	Per kWh	$ 0.0090
Retail transmission network crate	Per kWh	0.0098
Retail transmission connection rate	Per kWh	0.0105
Energy cost – RPP TOU rate – off-peak	Per kWh	0.0150
Energy cost – RPP TOU rate – mid-peak	Per kWh	0.0250
Energy cost – RPP TOU rate – on-peak	Per kWh	0.0513
Distribution volumetric rate	Per kWh	0.0100
Distribution monthly service charge	Per customer per month	10.0000
SSS Administration charge	per customer per month	0.2500

vii) IESO Settlement Invoice for November 1 – 30, 2012, received December 14, 2012

Charge item	Total	Per unit cost
Total usage	13,500,000 kWh	--
Wholesale market service charges	$ 129,600	
Wholesale market one time charges	$ 50,000	Application fee
Retail transmission network charges	$ 162,000	
Retail transmission connection charges	$ 128,250	
CT 101Energy cost - AWP	$ 324,000	0.024 Per kWh
CT 148 Global Adjustment	$99,900	0.0074 Per kWh
CT 142 RPP Settlement Amount	($22,950)	
TOTAL	$ 870,800	--

Derivation of and components related to charge type 142:

a) 50% split RPP TOU vs. Non-RPP (per assumption iii) above)

b) Global Adjustment attributable to RPP customers:
50% x 13,500,000 x $0.0074 = $49,950

c) Purchased Power attributable to RPP customers:
50% x 13,500,000 x $0.004* = $27,000

*$0.004 = $0.028 (Weighted Average TOU rates charged for the month's usage) – $0.024 (AWP per final invoice from IESO)

d) Difference between c) and b) = $27,000 – $49,950 = -$22,950 receivable from the IESO (shown as a credit amount of ($22,950) in CT 142 RPP Settlement Amount per the settlement invoice from IESO). Note that this amount is determined and provided by the distributor to the IESO to be reflected in the November settlement invoice.

viii) IESO Settlement Invoice for December 1 – 31, 2012, received January 14, 2013

Charge item	Total	Per unit cost
Total usage	14,000,000 kWh	--
Wholesale market service charges	$ 134,400	
Wholesale market one time charges	$ NIL	Application fee
Retail transmission network charges	$ 168,000	
Retail transmission connection charges	$ 133,000	
CT 101Energy cost - AWP	$ 336,000	0.024 Per kWh
CT 148 Global Adjustment	$103,600	0.0074 Per kWh

CT 142 RPP Settlement Amount	($30,800)	
TOTAL	$ 844,200	--

Derivation of and components related to charge type 0142:

a) 50% split RPP TOU vs. Non-RPP (per assumption iii) above)

b) Global Adjustment attributable to RPP customers:
50% x 14,000,000 x $0.0074 = $51,800

c) Purchased Power attributable to RPP customers:
50% x 14,000,000 x $0.003* = $21,000

*$0.003 = $0.027 (Weighted Average TOU rates charged for the month's usage) – $0.024 (AWP per final invoice from IESO)

d) Difference between c) and b) = $21,000 - $51,800 = - $30,800 receivable from IESO (shown as a credit amount of ($30,800) in CT 142 RPP Settlement Amount per the settlement invoice from IESO). Note that this amount is determined and provided by the distributor to the IESO to be reflected in the December settlement invoice.

Accounting Entries:

<u>November Month-End Entries</u>
November 15, 2012

a) Record amounts billed to customers using the AWP, Global Adjustment Estimate, and Board approved rates as applicable (Billing Cycle #1: November 1 - 15, 2012). Assume volume is exactly half of usage per IESO's November invoice.

Account	Source of Rate	Rate per unit	Units	Total
4062, Billed - WMS	Board	$ 0.009/ kWh	6,750,000	$60,750
4064, Billed -One-time	N/A	N/A	N/A	N/A
4066, Billed - NW	Board	$ 0.0098/kWh	6,750,000	66,150
4068, Billed - CN	Board	$ 0.0105/kWh	6,750,000	70,875
4006, Residential Energy Sales – RPP TOU – off-peak	Board	$ 0.0150/kWh	2,000,000	30,000
4006, Residential Energy Sales – RPP TOU – mid-peak	Board	$ 0.0250/kWh	1,000,000	25,000
4006, Residential Energy Sales – RPP	Board	$ 0.0513/kWh	375,000	19,250

TOU – on-peak				
4035, General Energy Sales non-RPP	AWP	$ 0.022/kWh	3,375,000	74,250
4035, Sub - account General Energy Sales non-RPP, Global Adjust.	GA Estimate Charge	$ 0.007/kWh	3,375,000	23,625
4080 Sub - account	Board	$10.00/ customer x ½ month	20,000	100,000
4080 Sub - account	Board	$ 0.01 / kWh	6,750,000	67,500
4086, SSS Administration Revenue	Board	$ 0.25 / customer x ½ month	20,000	2,500

Rounding may result in minor calculation differences in the above chart

Description	DR Amount	CR Amount
Accounts Receivable	$539,900	
4062, Billed - WMS		$ 60,750
4064, Billed - One-time		--
4066, Billed - NW		66,150
4068, Billed - CN		70,875
4006, Residential Energy Sales- RPP TOU (Combined)		74,250
4035, General Energy Sales non-RPP		74,250
4035, Sub-account General Energy Sales non-RPP, Global Adjust.		23,625
4080, Distribution Service Revenue		
sub-account Monthly Service Charge		100,000
sub-account Volumetric Charge		67,500
4086, SSS Administration Revenue		2,500
	$539,900	$539,900

To record Billing Cycle #1 (November 1 – 15, 2012) billing to customers based on the AWP, GA Estimate Charge, and Board approved rates.

November 30, 2012

b) Accrue for unbilled revenue from November 16, 2011 up to end of month (November 30, 2012) related to Billing Cycle #2 (November 16 to December 15, 2012). Assume that second half of November equals (usage and rates) first half of the month, per entry a) above.

Description	DR Amount	CR Amount
Accounts Receivable	$539,900	
4062, Billed - WMS		$ 60,750
4064, Billed - One-time		--
4066, Billed - NW		66,150
4068, Billed - CN		70,875
4006, Residential Energy Sales- RPP TOU (Combined)		74,250
4035, General Energy Sales non-RPP		74,250
4035, Sub-account General Energy Sales non-RPP, Global Adjust.		23,625
4080, Distribution Service Revenue		
sub-account Monthly Service Charge		100,000
sub-account Volumetric Charge		67,500
4086, SSS Administration Revenue		2,500
	$539,900	$539,900

To record Billing Cycle #2 billings to customers accrual, up to the month-end (November 30, 2012).

December 14, 2012

c) Accrue for amounts to be paid to IESO for November month-end based on IESO settlement invoice.

Description	DR Amount	CR Amount
4708, Charges WMS	$ 129,600	
4712, Charges One-time	50,000	
4714, Charges NW	162,000	
4716, Charges CN	128,250	
4705, Power Purchased*	351,000	
4707, Charges Global Adjustment	49,950	
2256, Accounts Payable (IESO)		$ 870,800
	$ 870,800	$ 870,800

To record November 1 – 30, 2012 expense based on IESO settlement invoice.

* this was derived per amounts calculated in vii) above, i.e., $351,000 = CT 101 $324,000 + CT 142 $-22,950 + GA attributable to RPP of $49,950.

December 15, 2012

d) Perform an analysis of account balances to determine adjustment required to higher balances and journal entry to RSVA as at November 30, 2012.

Charges / Expenses		**Variance Account DR/(CR) for difference**	**Billed / Revenues**	
Account	**Month-end balance**		**Month-end balance***	**Account**
4708, Charges WMS	$ 129,600	$ 8,100	$ 121,500	4062, Billed - WMS
4712, Charges One-time	50,000	50,000	Nil	4064, Billed - One-time
4714, Charges NW	162,000	29,700	132,300	4066, Billed - NW
4716, Charges CN	128,250	(13,500)	141,750	4068, Billed - CN
4705, Power Purchased	351,000	54,000	148,500 148,500 297,000	4006, Residential Energy Sales 4035, General Energy Sales non-RPP
4707, Charges Global Adjustment	49,950	2,700	47,250	4035, Sub-account General Energy Sales non-RPP, Global Adjustment

* Sum of entries a) and b) above.

Description	**DR Amount**	**CR Amount**
1580, RSVA$_{\text{WMS}}$	$ 8,100	
1582, RSVA $_{\text{One-time}}$	50,000	
1584, RSVA $_{\text{NW}}$	29,700	
4068, Billed - CN	13,500	
1588, RSVA$_{\text{Power}}$	54,000	
1589, RSVA$_{\text{GA}}$	2,700	
4708, Charges WMS		$ 8,100
4712, Charges One-time		50,000
4714, Charges NW		29,700
1586, RSVA $_{\text{CN}}$		13,500

4705, Power Purchased		54,000
4707, Charges Global Adjustment		2,700
	$ 158,000	$ 158,000

To record the monthly adjustment to the "higher of" accounts and to the respective variance accounts for November 30, 2012.

<u>December Month-End Entries</u>

December 15, 2012

a) Calculate the carrying charges on the December opening balances from November month-end. There would be no carrying charges accrued in November as the opening November balances would be zero.

Assume that the prescribed rate set by the Board for all distributors is 5.00%.

Description	DR Amount	CR Amount
1580, $RSVA_{WMS}$	$ 34	
1582, $RSVA_{\text{One-time}}$	208	
1584, $RSVA_{NW}$	124	
1588, $RSVA_{Power}$	225	
1589, $RSVA_{GA}$	11	
1586, $RSVA_{CN}$		$ 56
4405, Interest and Dividend Income		546
	$ 602	$ 602

To record carrying charges as calculated on December opening balances of the variance accounts using the prescribed rate.

December 15, 2012

b) Reverse accrual for unbilled revenue from November month-end, related to November 16 – 30, 2012 usage (entry b) from November month-end above).

Description	DR Amount	CR Amount
Accounts Receivable		$ 539,900
4062, Billed - WMS	$ 60,750	

Description	DR Amount	CR Amount
4064, Billed - One-time	--	
4066, Billed - NW	66,150	
4068, Billed - CN	70,875	
4006, Residential Energy Sales- RPP TOU (Combined)	74,250	
4035, General Energy Sales non-RPP	74,250	
4035, Sub-account General Energy Sales non-RPP, Global Adjust.	23,625	
4080, Distribution Service Revenue		
sub-account Monthly Service Charge	100,000	
sub-account Volumetric Charge	67,500	
4086, SSS Administration Revenue	2,500	
	$539,900	$539,900

To reverse Billing Cycle #2 billings to customers accrual, up to the month-end (November 30, 2012).

December 15, 2012

c) Reverse November adjustment to the “higher of” accounts and their respective variance accounts (Note: this is done in order to be able to perform a cumulative calculation for December month-end. See entry g) below).

Description	DR Amount	CR Amount
1580, $RSVA_{WMS}$		$ 8,100
1582, $RSVA_{One\text{-}time}$		50,000
1584, $RSVA_{NW}$		29,700
4068, Billed - CN		13,500
1588, $RSVA_{Power}$		54,000
1589, $RSVA_{GA}$		2,700
4708, Charges WMS	$ 8,100	
4712, Charges One-time	50,000	
4714, Charges NW	29,700	
1586, $RSVA_{CN}$	13,500	
4705, Power Purchased	54,000	
4707, Charges Global Adjustment	2,700	
	$ 158,000	$ 158,000

To reverse the November adjustment to the “higher of” accounts and their respective variance accounts.

Go to TOC A490

December 15, 2012

d) Record amounts billed to customers using the AWP, GA Preliminary charge, and Board approved rates as applicable (Billing Cycle #2: November 16 – December 15, 2012). Assume volume from December 1 – 15, 2012 is exactly half of usage per IESO's December invoice. Total volume = 6,750,000 kWh (November 16-30) + 7,000,000 kWh (December 1-15) = 13,750,000 kWh

Account	Source of Rate	Rate per unit	Units	Total
4062, Billed - WMS	Board	$ 0.009/ kWh	13,750,000	$123,750
4064, Billed -One-time	N/A	N/A	N/A	N/A
4066, Billed - NW	Board	$ 0.0098/kWh	13,750,000	134,750
4068, Billed - CN	Board	$ 0.0105/kWh	13,750,000	144,375
4006, Residential Energy Sales – RPP TOU – off-peak	Board	$ 0.0150/kWh	4,000,000	60,000
4006, Residential Energy Sales – RPP TOU – mid-peak	Board	$ 0.0250/kWh	2,138,000	53,450
4006, Residential Energy Sales – RPP TOU – on-peak	Board	$ 0.0513/kWh	737,000	37,800
4035, General Energy Sales non-RPP	AWP	$ 0.022/kWh	6,875,000	151,250
4035, Sub - account General Energy Sales non-RPP, Global Adjustment	GA Estimated Charge	$ 0.007/kWh	6,875,000	48,125
4080 Sub - account	Board	$10.00/ customer	20,000	200,000
4080 Sub - account	Board	$ 0.01 / kWh	13,750,000	137,500
4086, SSS Administration Revenue	Board	$ 0.25 / customer	20,000	5,000

Rounding may result in minor calculation differences in the above chart

Description	DR Amount	CR Amount
Accounts Receivable	$1,096,000	
4062, Billed - WMS		$ 123,750
4064, Billed - One-time		--

Description	DR Amount	CR Amount
4066, Billed - NW		134,750
4068, Billed - CN		144,375
4006, Residential Energy Sales- RPP TOU (Combined)		151,250
4035, General Energy Sales non-RPP		151,250
4035, Sub-account General Energy Sales non-RPP, Global Adjust.		48,125
4080, Distribution Service Revenue		
sub-account Monthly Service Charge		200,000
sub-account Volumetric Charge		137,500
4086, SSS Administration Revenue		5,000
	$1,096,000	$1,096,000

To record Billing Cycle #2 (November 16 – December 15, 2012) billing to customers based on the AWP, GA Preliminary Charge, and Board approved rates.

December 31, 2012

e) Accrue for unbilled revenue from December 16, 2011 up to end of month (December 31, 2012) related to Billing Cycle #3 (December 16 to January 15, 2013). Assume that second half of December usage equals first half of the month (i.e. 7,000,000 kWh).

Account	Source of Rate	Rate per unit	Units	Total
4062, Billed - WMS	Board	$ 0.009/ kWh	7,000,000	$63,000
4064, Billed -One-time	N/A	N/A	N/A	N/A
4066, Billed - NW	Board	$ 0.0098/kWh	7,000,000	68,600
4068, Billed - CN	Board	$ 0.0105/kWh	7,000,000	73,500
4006, Residential Energy Sales – RPP TOU – off-peak	Board	$ 0.0150/kWh	2,000,000	30,000
4006, Residential Energy Sales – RPP TOU – mid-peak	Board	$ 0.0250/kWh	1,138,000	28,450
4006, Residential Energy Sales – RPP TOU – on-peak	Board	$ 0.0513/kWh	362,000	18,570
4035, General Energy Sales non-RPP	AWP	$ 0.022/kWh	3,500,000	77,000
4035, Sub - account General Energy Sales	GA Preliminary	$ 0.007/kWh	3,500,000	24,500

Account	Source of Rate	Rate per unit	Units	Total
non-RPP, Global Adjustment	Charge			
4080 Sub - account	Board	$10.00/ customer x ½ month	20,000	100,000
4080 Sub - account	Board	$ 0.01 / kWh	7,000,000	70,000
4086, SSS Administration Revenue	Board	$ 0.25 / customer x ½ month	20,000	2,500

Rounding may result in minor calculation differences in the above chart

Description	DR Amount	CR Amount
Accounts Receivable	$556,120	
4062, Billed - WMS		$ 63,000
4064, Billed - One-time		--
4066, Billed - NW		68,600
4068, Billed - CN		73,500
4006, Residential Energy Sales- RPP TOU (Combined)		77,020
4035, General Energy Sales non-RPP		77,000
4035, Sub-account General Energy Sales non-RPP, Global Adjust.		24,500
4080, Distribution Service Revenue		
sub-account Monthly Service Charge		100,000
sub-account Volumetric Charge		70,000
4086, SSS Administration Revenue		2,500
	$556,120	$556,120

To record Billing Cycle #3 billings to customers accrual, up to the month-end (December 31, 2012).

January 14, 2013

f) Accrue for amounts to be paid to IESO for December month-end based on IESO settlement invoice.

Go to TOC A490

Retail Services and Settlement Variances

Description	DR Amount	CR Amount
4708, Charges WMS	$ 134,400	
4714, Charges NW	168,000	
4716, Charges CN	133,000	
4705, Power Purchased*	357,000	
4707, Charges Global Adjustment	51,800	
2256, Accounts Payable (IESO)		$ 844,200
	$ 844,200	$ 844,200

To record December 1 – 31, 2012 expense based on IESO settlement invoice.

* this was derived per amounts calculated in viii) above, i.e., $357,000 = CT 101 $336,000 + CT 142 $–30,800 + GA attributable to RPP customers of $51,800.

January 15, 2013

g) Perform an analysis of account balances to determine adjustment required to higher balances and journal entry to RSVA as at December 31, 2012.

Charges / Expenses		Variance Account DR/(CR) for difference	Billed / Revenues	
Account	Month-end balance		Month-end balance*	Account
4708, Charges WMS	$ 264,000	$ 16,500	$ 247,500	4062, Billed - WMS
4712, Charges One-time	50,000	50,000	Nil	4064, Billed - One-time
4714, Charges NW	330,000	60,500	269,500	4066, Billed - NW
4716, Charges CN	261,250	(27,500)	288,750	4068, Billed - CN
4705, Power Purchased	708,000	102,980	302,520 302,500 605,020	4006, Residential Energy Sales 4035, General Energy Sales non-RPP
4707, Charges	101,750	5,500	96,250	4035, Sub-account

Retail Services and Settlement Variances

<table>
<tr><th colspan="2">Charges / Expenses</th><th rowspan="2">Variance Account DR/(CR) for difference</th><th colspan="2">Billed / Revenues</th></tr>
<tr><th>Account</th><th>Month-end balance</th><th>Month-end balance*</th><th>Account</th></tr>
<tr><td>Global Adjustment</td><td></td><td></td><td></td><td>General Energy Sales non-RPP, Global Adjustment</td></tr>
</table>

* Sum of previous month balance plus entries b), d) and e) above (from December month end).

Description	DR Amount	CR Amount
1580, $RSVA_{WMS}$	$ 16,500	
1582, $RSVA_{One\text{-}time}$	50,000	
1584, $RSVA_{NW}$	60,500	
4068, Billed - CN	27,500	
1588, $RSVA_{Power}$	102,980	
1589, $RSVA_{GA}$	5,500	
4708, Charges WMS		$ 16,500
4712, Charges One-time		50,000
4714, Charges NW		60,500
1586, $RSVA_{CN}$		27,500
4705, Power Purchased		102,980
4707, Charges Global Adjustment		5,500
	$ 262,980	$ 262,980

To record the monthly adjustment to the "higher of" accounts and to the respective variance accounts for December 31, 2012.

Note - In January, the distributor will record the following entries, prior to recording January's billings and charges:

1) Carrying charges on the opening January 1, 2013 RSVA principal balances from December 31, 2012 year-end (excluding December's carrying charges from the calculation– therefore simple interest method used, not compound interest method)
2) Reverse the December 16 – December 31, 2012 accrual for unbilled revenues (entry e) above)

Go to TOC A490

Retail Services and Settlement Variances

Note also that the distributor will not reverse the recording of the monthly adjustment to the "higher of" accounts and their respective variance accounts, as a new fiscal year has commenced. 2013 balances will accumulate on a monthly basis, beginning January 2013.

Go to TOC A490

Appendix A

<table>
<tr><th>IESO Charge Type Number</th><th>IESO Charge Type Name of Non-Competitive Wholesale Market Electricity (WMS) Service Charges</th><th>Electricity USoA</th></tr>
<tr><td>150</td><td>Net Energy Market Settlement Uplift
• Line Losses
• Intertie Offer Guarantee</td><td rowspan="4">Account 4708, Charges WMS</td></tr>
<tr><td>155</td><td>Congestion Management Settlement Uplift</td></tr>
<tr><td>

250
251
252
253
254
255
450
452
454
550</td><td>Ancillary Services
Operating Reserve:
• 10 Minute Spinning Market Reserve Hourly Uplift
• 10 Minute Spinning Market Reserve Shortfall Debit
• 10 Minute Non-Spinning Market Reserve Hourly Uplift
• 10 Minute Non-Spinning Market Reserve Shortfall Debit
• 30 Minute Operating Reserve Market Hourly Uplift
• 30 Minute Operating Reserve Market Shortfall Debit
Black Start Capability Settlement Debit
Reactive Support and Voltage Control Settlement Debit
Regulation Service Settlement Debit
Must Run Contract Settlement Debit</td></tr>
<tr><td>
102
118
163
164
165
166
167
168
169
170
183
184
186
460
700
750
751
753
754
850
1188
1463</td><td>Other Wholesale Market Service Uplifts
Transmission Rights Clearing Account Credit
Emergency Energy Rebate
Additional Compensation for Administrative Pricing Debit
Outage Cancellation/Deferral Debit
Unrecoverable Testing Costs Debit
Tieline Reliability Maintenance Debit
Emergency Energy and EDRP Debit
Transmission Rights Market Shortfall Debit
Station Service Reimbursement Debit
Local Market Power Rebate
Generator Cost Guarantee Recovery Debit
Demand Response Debit
Intertie Failure Charge Rebate
IESO-Controlled Grid Special Operations Debit
Dispute Resolution Settlement Credit
Dispute Resolution Settlement Debit
Dispute Resolution Board Service Debit
Rural and Remote Settlement Debit
OPA Administration Debit
Market Participant Default Settlement Debit (Recovery)
Day-Ahead Fuel Cost Compensation Debit
Renewable Generation Connection – Monthly Compensation Settlement Debit (continued on next page)</td></tr>
</table>

Retail Services and Settlement Variances

1550 1560 9990 N/A	Enhanced Day Ahead Commitment – Production Cost Guarantee Enhanced Day Ahead Commitment – Generation Withdrawal Charge IESO Administration Charge IESO Application Fee	
N/A	Administrative Penalties (e.g. late payment charges)	**Account 4712, WMS Charges – One - Time**

Go to TOC A490

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Part I – IFRS, IFRS 1 *First-time Adoption of International Financial Reporting Standards* which sets forth the transitional requirements for the first-time adoption of IFRS. Accordingly, this Article should be read in conjunction with IFRS 1**.**

The purpose of this Article is to provide additional guidance in regard to the first-time adoption of IFRS where further guidance specific to electricity distributors is required. This guidance is in relation to the one-time transitional accounting adjustments required on January 1, 2012 (for most distributors) on adoption of IFRS and there is no intent to suggest the need for "a second set of books" for regulatory purposes to complete these IFRS 1 adjustments.

The accounting changes in the IFRS transition year (2011 for most distributors) arises from financial reporting requirements, more specifically, the IFRS 1 requirement to present the comparative year in accordance with IFRS. All adopters of IFRS are in effect required to prepare "two sets of accounting books" for the 2011 comparative year (one in previous Canadian GAAP and one in IFRS). The guidance in this Article allows a distributor to, in many respects except for specified regulatory requirements, align its "regulatory accounting books" with its "financial accounting books" at January 1, 2012 on adoption of IFRS.

Through its *Report of the Board, Transition to International Financial Reporting Standards*, and its *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*, the Board has required some modifications to IFRS for regulatory purposes. In this Article, the term "MIFRS" is used in the discussion of IFRS requirements for which the Board has established regulatory modifications. This would include references to rate applications and regulatory accounting and reporting in general, as these items will contain some elements of MIFRS.

General Summary

IFRS 1 sets out all of the transitional requirements and exemptions available on the first-time adoption of IFRS. Generally, IFRS 1 requires full retrospective application of IFRS in a first-time adopter's first IFRS financial statements, although there are mandatory exceptions and optional exemptions that provide specific relief from this requirement in certain areas.

Go to TOC A510

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

For financial reporting purposes, a distributor adopting IFRS is required to present one year of comparative information in its first IFRS financial statements. The first day of the comparative year is referred to as the “transition date” (January 1, 2011 for most distributors). The first day of the year in which the distributor has chosen to adopt IFRS for financial reporting purposes is referred to as the “changeover date” (January 1, 2012 for most distributors).

An entity is required to present an opening IFRS balance sheet at the transition date, which is the starting point for accounting in accordance with IFRS.

A first-time adopter typically will generate a series of adjustments in preparing its opening IFRS balance sheet. Any required opening IFRS balance sheet adjustments are generally recognized directly in retained earnings (or, if appropriate, another category of equity) at the transition date.

A first-time adopter must explain in its first IFRS financial statements how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows.

All distributors that adopt IFRS must continue to report information to the Board using previous Canadian GAAP until and including the fiscal year prior to the year in which the distributor has chosen to adopt IFRS for financial reporting (fiscal 2012 for most distributors). The reporting under Canadian GAAP continues until fiscal 2011 for items such as the audited financial statements and the USoA trial balance. Effective on the year in which the distributor has chosen to adopt IFRS for financial reporting, a distributor is required to report information to the Board using MIFRS for regulatory accounting values. Those few distributors that have not adopted IFRS for financial reporting must report information to the Board using the form of generally accepted accounting principles applicable to them as regulated entities.

The vast majority of distributors will adopt IFRS in fiscal 2012. For financial reporting purposes, such distributors will be required to present financial information for fiscal 2011 in accordance with IFRS as comparative information in the fiscal 2012 financial statements. As a result, fiscal 2011, which would have already been reported under previous Canadian GAAP, will be restated in accordance with IFRS starting on January 1, 2011 (the transition date).

For regulatory accounting and reporting purposes, a distributor adopting IFRS in fiscal 2012 must begin using MIFRS as of January 1, 2012 (the changeover date). At this date, the distributor is required to compare the balances of the regulatory accounts contained in the USoA as determined under previous Canadian GAAP at December 31, 2011 to the corresponding balances at December 31, 2011 determined in accordance with MIFRS. For any account balances with different carrying amounts, the distributor must record journal entries such that the resulting account balances are in compliance with MIFRS.

Therefore, while a distributor adopting IFRS in fiscal 2012 will recognize any adjustments arising from the transition to IFRS on January 1, 2011 for financial reporting purposes, adjustments arising from the transition to IFRS will not be recognized for regulatory accounting and reporting purposes until January 1, 2012. The adjusting entries recognized on that date will reflect any differences arising on the transition date as well as differences arising during the 2011 fiscal year.

As noted above, adjustments required at the transition date are generally recognized directly in opening retained earnings. Correspondingly, any adjustments required at the changeover date should also generally be recognized in retained earnings. In respect of PP&E, a distributor must use deferral Account 1575, IFRS-CGAAP Transitional PP&E Amounts, to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to MIFRS. A generic deferral account is not available for other IFRS related impacts occurring at the transition date. The option remains for distributors to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS.

For purposes of Reporting and Record-keeping Requirements, a distributor must provide certain reconciliations between financial reporting under IFRS and regulatory accounting information.

Definitions and References

Definitions and accounting treatment of the following are provided in IFRS 1 and are listed below for ease of reference:

CICA Handbook Part I – IFRS 1, First-Time Adoption of International Financial Reporting Standards	Paragraph References
Opening IFRS balance sheet	Paragraph 6
Accounting policies	Paragraphs 7 – 12
Exceptions to the retrospective application of other IFRS	Paragraphs 13 – 17
Exemptions from other IFRS	Paragraph 18
Comparative information	Paragraphs 21 – 22
Explanation of transition to IFRS	Paragraphs 23 – 33
Use of deemed cost for operations subject to rate regulation	Paragraph 31B

The guidance provided in relation to the issues most relevant to a typical electricity distributor is summarized below.

Accounting Issues

First-time Adoption of IFRS and Application of IFRS 1

General Approach

An entity applying IFRS for the first time (first-time adopter) must apply IFRS 1 in its first IFRS financial statements and each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements (paragraph 2).

A first-time adopter's transition date is the beginning of the earliest period for which the entity presents full comparative information under IFRS in its first IFRS financial statements (Appendix A of IFRS 1). An IFRS balance sheet must be prepared as at the transition date (opening balance sheet); this is the starting point for its accounting in accordance with IFRS (paragraph 6).

IFRS 1 generally requires full retrospective application of IFRS in a first-time adopter's first IFRS financial statements, although there are mandatory exceptions and optional exemptions that provide specific relief from this requirement in certain areas.

Preparation of the opening balance sheet is the starting point for the preparation of a first-time adopter's first IFRS financial statements. The methodology for applying the general recognition and measurement requirements of IFRS 1 in the opening balance sheet is prescribed in paragraphs 1 through 12 and can be summarized into the following steps:

1) select IFRS accounting policies;
2) recognize and derecognize assets and liabilities in accordance with IFRS;
3) reclassify assets, liabilities and components of equity as necessary; and
4) measure all recognized assets and liabilities in accordance with IFRS.

Go to TOC A510

Each of these steps is discussed below:

Select IFRS accounting policies

In preparing its first IFRS financial statements, a first-time adopter must select accounting policies based on IFRS that are effective as at the reporting date for the first annual IFRS financial statements (paragraph 7). A first-time adopter has a choice in selecting the IFRS accounting policies that it will use on an on-going basis; the constraints on changing accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply (paragraph 27).

The transitional requirements in other IFRS applicable to existing users of IFRS do not apply to first-time adopters unless specifically referred to in IFRS 1 (paragraph 9).

Recognize and derecognize assets and liabilities in accordance with IFRS

In accordance with paragraph 10, those assets and liabilities that should be recognized under IFRS but were not recognized under previous GAAP are recognized in the opening balance sheet and those assets and liabilities that do not qualify for recognition under IFRS but were recognized under previous GAAP are derecognized.

Reclassify assets, liabilities and components of equity as necessary

Paragraph 10 also requires a first-time adopter to reclassify items that it recognized under previous GAAP as one type of asset, liability or component of equity, but which is a different type of asset, liability or component of equity under IFRS.

Measure all recognized assets and liabilities in accordance with IFRS

The last step requires the application of the relevant IFRS measurement criteria effective as at the reporting date for all assets and liabilities recognized in the opening balance sheet (paragraph 10).

Paragraph 11 indicates that the resulting adjustments arising from the application of the general recognition and measurement requirements of IFRS 1 are generally recognized directly in retained earnings (or, if appropriate, another category of equity) at the transition date.

Go to TOC A510

Mandatory Exceptions to Retrospective Application

Although retrospective application of IFRS is the general approach to be followed by a first-time adopter, IFRS 1 explicitly prohibits retrospective application in respect of certain aspects of the following:

1) accounting estimates;
2) derecognition of financial assets and financial liabilities;
3) hedge accounting;
4) non-controlling interests;
5) classification and measurement of financial assets; and
6) embedded derivatives

Each of these exceptions is discussed below:

Accounting estimates

An entity's estimates in accordance with IFRS at the transition date shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraph 14).

An entity may need to make estimates in accordance with IFRS at the transition date that were not required at that date under previous GAAP. To achieve consistency with IAS 10 *Events after the Reporting Period*, those estimates in accordance with IFRS shall reflect conditions that existed at the transition date. In particular, estimates at the transition date of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date (paragraph 16).

Estimates made at and prior to the transition date under previous GAAP should not be changed (other than to comply with accounting policies under IFRS for those estimates) unless there is objective evidence that those estimates were in error.

Derecognition of financial assets and financial liabilities

Paragraph B2 requires a first-time adopter to apply the derecognition requirements in IFRS 9 prospectively for transactions occurring on or after the transition date. For example, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the transition date, it shall not recognize those assets and liabilities in accordance with IFRS (unless they qualify for recognition as a result of a later transaction or event).

Despite the above, paragraph B3 permits an entity to apply the derecognition requirements in IFRS 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply IFRS 9 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

To prevent a first-time adopter from using hindsight to achieve a specific hedging result, paragraph B6 prohibits a first-time adopter from retrospectively designating derivatives and other qualifying instruments as hedges. A first-time adopter is required to apply hedge accounting prospectively from the transition date if the criteria for hedge accounting in IFRS are met.

Non-controlling interests

In accordance with paragraph B7, first-time adopters are required to apply the following requirements of IFRS 10 prospectively from the transition date:

a) the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
b) the requirements in paragraphs 23 and B93 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
c) the requirements in paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Notwithstanding the above, first-time adopters electing to apply IFRS 3 retrospectively to past business combinations must also apply IFRS 10 in accordance with paragraph C1 of IFRS 1.

The consequential amendments to IFRS 1 introduced by IFRS 9 results in two additional mandatory exceptions. These mandatory exceptions are only applicable to entities that will apply IFRS 9 in their first IFRS financial statements.

Go to TOC A510

Transitional Issues Relating to the Adoption of IFRS

Classification and measurement of financial assets

A first-time adopter must assess whether a financial asset meets the criteria for amortized cost classification based on the facts and circumstances that exist at the transition date (paragraph B8).

Embedded derivatives

A first-time adopter must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of IFRS 9.

Optional Exemptions from Retrospective Application

Appendices C through E of IFRS 1 provide first-time adopters certain optional exemptions from retrospective application of some aspects of other IFRS standards and interpretations. A first-time adopter may elect to use one or more of the optional exemptions provided. Some of the optional exemptions apply to classes of items or transactions, whereas others may be elected on an item-by-item basis. Paragraph 18 clarifies that the optional exemptions are specific and cannot be applied to other items by analogy.

The optional exemptions most likely relevant to an electricity distributor are as follows:

Rate-regulated deemed cost

The exemption permits an entity which holds items of PP&E or intangible assets that are used, or were previously used, in operations subject to rate-regulation to elect to use the previous GAAP carrying amount of such items on the transition date as deemed cost.

Fair value deemed cost

The exemption permits an entity to use the fair value of an item of PP&E at the transition date as the item’s deemed cost at that date.

Go to TOC A510

Transitional Issues Relating to the Adoption of IFRS

Decommissioning liabilities included in the cost of PP&E

The exemption provides a simplified method to re-measure an entity's decommissioning provisions on the transition date.

Employee benefits

This exemption permits an entity to recognize all cumulative actuarial gains and losses in opening retained earnings on the transition date independent of the previous accounting policy under previous GAAP.

A second optional exemption is available in respect of the employee benefit related comparative disclosures required under IFRS.

Transfer of assets from customers

This exemption permits an entity to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the transition date or, if designated, an earlier date.

Leases

IFRIC 4 requires an entity to assess whether an arrangement contains a lease at its inception. IFRS 1 provides an optional exemption that permits a first-time adopter to assess arrangements existing at the transition date based on facts and circumstances at that date.

A second optional exemption related to leases is available for instances where a first-time adopter made the same determination of whether an arrangement contains a lease under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4. In such instances, by electing this second optional exemption, the first-time adopter need not reassess that determination for such arrangements at the transition date.

Designation of previously recognized financial instruments

This exemption permits an entity to designate, at the transition date, any financial asset or liability at fair value through profit or loss provided that doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The exemption is also available when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Transitional Adjustments

A first-time adopter typically will generate a series of adjustments in preparing its opening balance sheet.

Paragraph 23 requires a first-time adopter to explain in its first IFRS financial statements how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows. To facilitate the explanation, several reconciliations are required to be included in a first-time adopter's first IFRS financial statements.

Paragraph 25 clarifies that the reconciliations must show the material adjustments made to amounts reported under its previous GAAP in order to determine corresponding amounts under IFRS. A detailed narrative explaining each of the adjustments is required to accompany the reconciliations.

Regulatory Considerations

All electricity distributors that are required to adopt IFRS by accounting standard setting bodies must report information to the Board using MIFRS for regulatory accounting values beginning with the year in which the distributor has chosen to adopt IFRS for financial reporting (fiscal 2012 for most distributors). Those few distributors not required to adopt IFRS for financial reporting must report information to the Board using the form of generally accepted accounting principles applicable to them as regulated entities.

All distributors are required to continue to report information to the Board using previous Canadian GAAP until and including the fiscal year prior to the year in which the distributor has chosen to adopt IFRS for financial reporting.

As noted in Article 100, the Board does not prescribe how the regulatory accounts contained in the USoA are to be rolled up for general purpose financial reporting. Matters related to general purpose financial statements are left to the discretion of the distributor to determine in order to meet the needs of its financial statement users. The discussion in the subsections that follow describes the adjustments necessary to transition the balances in the regulatory accounts contained in the USoA from previous Canadian GAAP to modified IFRS.

Go to TOC A510

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

Transitional Adjustments

The vast majority of distributors will adopt IFRS in fiscal 2012. The remainder of this Article contemplates such a scenario. To the extent a distributor adopts IFRS subsequent to fiscal 2012, that distributor should inquire of the Board whether the following guidance should be applied by analogy.

For financial reporting purposes, distributors will be required to present financial information for fiscal 2011 in accordance with IFRS as comparative information in the fiscal 2012 financial statements. As a result, fiscal 2011, which would have already been reported under previous Canadian GAAP, will be restated in accordance with IFRS starting on January 1, 2011 (the transition date).

For regulatory accounting and reporting purposes, a distributor adopting IFRS in fiscal 2012 must begin using MIFRS as of January 1, 2012 (the changeover date). At this date, the distributor is required to compare the balances of the regulatory accounts contained in the USoA as determined under previous Canadian GAAP at December 31, 2011 to the corresponding balances at December 31, 2011 determined in accordance with MIFRS. For any account balances with different carrying amounts, the distributor must record journal entries such that the resulting account balances are in compliance with MIFRS.

Therefore, while a distributor adopting IFRS in fiscal 2012 will recognize any adjustments arising from the transition to IFRS on January 1, 2011 for financial reporting purposes, adjustments arising from the transition to IFRS will not be recognized for regulatory accounting and reporting purposes until January 1, 2012. The adjusting entries recognized on that date will reflect any differences arising on the transition date as well as differences arising during the 2011 fiscal year.

As noted above, adjustments required at the transition date are generally recognized directly in opening retained earnings for accounting purposes. Correspondingly, any adjustments required at the changeover date should also generally be recognized in retaining earnings except in the case of PP&E or intangible assets differences which are recorded in Account 1575, IFRS-CGAAP Transitional PP&E Amounts. Whether or not the impact of such adjustment should be recovered from or refunded to ratepayers is a separate ratemaking consideration for which the Board may or may not provide specific guidance.

The following are areas where it is considered likely that a distributor may have an adjustment to recognize at the changeover date. Not all of these areas may be applicable to all distributors. Furthermore, there may be additional areas that give rise to required adjustments that are not described in this Article. In such situations, a distributor should recognize the required changeover date adjustment by analogizing to the guidance provided in this Article.

For purposes of this sub-section of the Article, the offset to all adjusting entries required at the changeover date is recognized in retained earnings. The sub-section entitled Deferral Accounts discusses the extent to which adjustments to retained earnings can be reversed and recognized through a deferral account to be recovered or refunded to ratepayers.

Property, plant and equipment and intangible assets

At the transition date (January 1, 2011 for most distributors) it is likely that most distributors will elect to utilize the rate-regulated deemed cost exemption for qualifying items of PP&E and intangible assets. As a result, on January 1, 2011, the IFRS carrying amount of the items for which the rate-regulated deemed cost exemption was elected will be equal to the previous Canadian GAAP carrying amount of these items as at December 31, 2010.

When the rate-regulated deemed cost exemption is used to establish the cost of an item of PP&E, the deemed cost becomes the new IFRS cost basis at that date; the accumulated depreciation recognized under previous Canadian GAAP is set to nil. An adjusting entry is required at the changeover date to reflect the fact that the accumulated depreciation was set to nil under MIFRS at the transition date.

The Board requires regulated net book value to be used as the basis for setting opening rate base values and reporting to the Board at the time of the first report to the Board or rate application for periods subsequent to the adoption of IFRS. To establish continuity of historical cost, the statement of opening value for regulated net book value includes providing gross capital cost and accumulated depreciation, subject to additional breakout of amounts as necessary to support other regulatory accounting requirements.

A distributor adopting IFRS in 2012 will be required to maintain the detail of the gross capital cost and accumulated depreciation of the items included in rate base as reported under previous Canadian GAAP at December 31, 2011 until the distributor’s next rebasing. Therefore, while a distributor electing the rate-regulated deemed cost exemption must record an adjusting entry in the USoA at the changeover date to reflect the fact that accumulated depreciation was set to nil under MIFRS at the transition date, the historical previous Canadian GAAP gross amounts must be maintained until the first rebasing under MIFRS.

Go to TOC A510

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

The Board does not prescribe the manner in which the historical Canadian GAAP gross amounts must be maintained, but distributors must do so with sufficient detail to support the continuity of the historical cost or rate base. This requirement should not result in the maintenance of two set of books of original entry as this information is not expected to be on a transactional level of detail. Distributors will already have a level of detailed information available to support the external audit of the opening balances as at January 1, 2011, the activity for 2011 and the closing balances as at December 31, 2011 for previous Canadian GAAP. That level of information would be a good starting point for the distributor to judge the level of detail necessary to support the requirements of the gross asset costs. In addition, the Board anticipates that the information to support additions, deletions and the depreciation calculation in previous Canadian GAAP for each year beginning with 2012 can be derived analytically from the underlying acquisition, disposal and depreciation calculations otherwise recorded using IFRS, and provided in the same asset categories, in the accounts as required in the Board's prescribed USoA.

Although use of the rate-regulated deemed cost exemption will not result in any adjustment to the net carrying amount of PP&E and intangible assets at the transition date, due to the IFRS accounting requirements for certain PP&E and intangible asset related areas (e.g., capitalized indirect costs, useful lives, interest capitalization, customer contributions), the IFRS carrying amount of items of PP&E and intangible assets for which the rate-regulated deemed cost exemption was elected will not likely be equal to the previous Canadian GAAP carrying amount of these items as at December 31, 2011. For any difference in carrying amount that exists at the changeover date, a distributor must record a journal entry such that the resulting balance recorded in the regulatory accounts contained in the USoA is in compliance with IFRS. The offset to this adjusting entry should be recorded in Account 1575, IFRS-CGAAP Transitional PP&E Amounts.

Post-employment benefits

Distributors with defined benefit post-employment plans that used the corridor method to recognize actuarial gains and losses under previous Canadian GAAP will have unamortized actuarial gains and losses at the transition date. It is likely that most distributors in such a situation will utilize the available optional exemption and elect to recognize all cumulative actuarial gains and losses in opening retained earnings on the transition date.

Distributors that recognized a transitional obligation upon adoption of CICA Handbook section 3461 *Employee Future Benefits* may still be carrying a portion of that transitional obligation under previous Canadian GAAP at the transition date. Such an obligation does not qualify for recognition under IFRS, and as a result must be recognized in opening retained earnings on the transition date.

The actuarial valuation of a defined benefit post-employment plan obligation under IFRS may differ from the actuarial valuation of the plan that was obtained under previous Canadian GAAP. In such instances, an adjusting entry is required at the transition date to remeasure the obligation to the IFRS compliant carrying amount. The offset to this adjusting entry should be recognized in opening retained earnings.

If a distributor is affected by one or more of the above described differences, the IFRS carrying amount of its defined benefit post-employment plan obligation will not be equal to the previous Canadian GAAP carrying amount of the obligation as at December 31, 2011. For any difference in carrying amount that exists at the changeover date, a distributor must record a journal entry such that the resulting balance recorded in the regulatory accounts contained in the USoA conforms to IFRS. The offset to this adjusting entry should be recognized in opening retained earnings.

Decommissioning obligations

Distributors may have determined that additional decommissioning liabilities (asset retirement obligations) are required under IFRS as compared to previous Canadian GAAP. In such instances, an adjusting entry is required at the transition date to recognize the additional decommissioning liabilities. The offset to this adjusting entry should be pro-rated between opening retained earnings and the underlying item(s) of PP&E in the manner prescribed by IFRS 1.

Decommissioning liabilities are measured initially at management’s best estimate of the expenditure expected to be incurred under IFRS whereas such liabilities were measured initially at fair value under previous Canadian GAAP. In addition, the present value of a decommissioning liability was determined under previous Canadian GAAP using a credit-adjusted risk-free discount rate whereas IFRS requires the obligation to be discounted using a rate specific to the liability. As a result of these two measurement differences, an adjusting entry may be required at the transition date to remeasure existing decommissioning liabilities to the IFRS compliant carrying amount. The offset to this adjusting entry should be pro-rated between opening retained earnings and the underlying item(s) of PP&E in the manner prescribed by IFRS 1.

Distributors may have recognized a decommissioning liability under previous Canadian GAAP and then subsequently disposed of the underlying item of PP&E. In certain instances, the distributor may not have derecognized the decommissioning liability at the time the PP&E was disposed and may still be recognizing the liability under previous Canadian GAAP at the transition date. To the extent the distributor is not obligated to perform any further decommissioning activities in respect of the disposed PP&E, the decommissioning liability may not qualify for recognition under IFRS and should therefore be recognized in opening retained earnings on the transition date.

If a distributor is impacted by one or more of the above described differences, the IFRS carrying amount of its decommissioning liabilities will not be equal to the previous Canadian GAAP carrying amount of the liabilities as at December 31, 2011. For any difference in carrying amount that exists at the changeover date, a distributor must record a journal entry such that the resulting balance recorded in the regulatory accounts contained in the USoA is in compliance with IFRS. The offset to this adjusting entry should be recognized in opening retained earnings

Customer contributions

At the transition date it is likely that most distributors will elect to use the exemption and apply IFRS to customer contributions received on or after the transition date.

Under previous Canadian GAAP, customer contributions were recognized in a contra asset account such that the item of PP&E to which the contribution related was effectively recognized on a net basis. Subsequent to the changeover date, for regulatory reporting purposes, customer contributions are recognized as deferred revenue and amortized to income over the useful life of the assets to which they relate. The effect of this accounting requirement is that the item of PP&E to which a contribution relates will be recognized on a gross basis.

Although the use of the exemption will not result in any differences arising at the transition date, due to the IFRS accounting requirements for customer contributions, an adjustment will be required at the changeover date to reclassify the unamortized balance of customer contributions received subsequent to the transition date from the contra asset account in which the contributions were recorded for previous Canadian GAAP to deferred revenue.

For ratemaking purposes, the balance of the deferred revenue account will be included as an offset to rate base. Furthermore, distributors should confirm in their first rates application after the IFRS transition that the amortization period of the deferred revenue is being appropriately adjusted on an ongoing basis to reflect any changes in the remaining useful lives of the underlying capital assets to ensure a consistent matching of the revenues and the depreciation expenses.

Go to TOC A510

Transitional Issues Relating to the Adoption of IFRS

Illustrative Example

The following example illustrates application of a selection of the above concepts and requirements.

Distributor (a rate-regulated electricity distributor) will prepare its first IFRS financial statements for the year ended December 31, 2012 and will therefore have a transition date of January 1, 2011 and a changeover date of January 1, 2012.

The amount of relevant account balances at December 31, 2010 as per Distributor's audited previous Canadian GAAP financial statements were as follows:

Account	**Previous Canadian GAAP carrying amount at December 31, 2010**
Property, plant and equipment (all of which is used in rate-regulated activities)	1,000
Unamortized Customer contributions recognized as an offset to property, plant and equipment	(100)
Accumulated depreciation	(200)
Net property, plant and equipment	700
Employee future benefit liability	500
Unamortized actuarial losses	50
Unamortized transitional obligation	10

Distributor records its employee future benefits expense in Accounts 5645 and 5646 in accordance with Article 470.

At the transition date, Distributor elects to utilize the following optional exemptions:

- rate-regulated deemed cost
- recognition of unamortized actuarial losses
- prospective treatment for customer contributions

Additionally, the amount of relevant balances during the year ended and as at December 31, 2011 as per Distributor's audited previous Canadian GAAP financial statements and MIFRS calculations were as follows:

Accounting for Transitional Issues

Transitional Issues Relating to the Adoption of IFRS

Account	CGAAP	MIFRS
Gross PP&E at Jan 1, 2011[1]	1,000	700
Additions to PP&E during 2011[2]	260	240
Gross PP&E at Dec 31, 2011	**1,260**	**940**
Accumulated depreciation at Jan 1, 2011[1]	(200)	Nil
Depreciation expense during 2011[3]	(13)	(10)
Accumulated depreciation at Dec 31, 2011	**(213)**	**(10)**
Unamortized customer contribution offset at Jan 1, 2011[4]	(100)	Nil
Customer contributions received during 2011[4]	(40)	Nil
Amortization of previous customer contributions during 2011[5]	5	
Amortization of contributions received during 2011[5]	2	Nil
Customer contribution offset at Dec 31, 2011[4,5]	**(133)**	**Nil**
Net PP&E at Dec 31, 2011	**914**	**930**
Deferred revenue at Jan 1, 2011[4, 5]	Nil	Nil
Customer contributions received during 2011[4]	Nil	40
Amortization of contributions received during 2011[5]	Nil	(1)
Deferred revenue at Dec 31, 2011[4, 5]	Nil	39
Employee future benefit liability at Jan 1, 2011[6]	500	560
Employee future benefit expense during 2011[7]	40	30
Employee future benefit liability at Dec. 31, 2011[8]	530	580

1. When the rate-regulated deemed cost exemption is used, the deemed cost becomes the new IFRS cost base at that date; the accumulated depreciation and unamortized customer contributions recognized under previous Canadian GAAP are set to nil
2. Distributor's capitalization policies under IFRS differ from previous Canadian GAAP policies
3. Previous Canadian GAAP depreciation expense is based on different useful lives than IFRS expense
4. Under previous Canadian GAAP customer contributions are recognized as an offset to PP&E (in USoA Account 1995, Contributions and Grants-Credit). Under IFRS, customer contributions received

subsequent to the transition date are recognized as deferred revenue. Note that customer contributions recognized prior to the transition date are not reclassified to deferred revenue as a result of electing the optional exemptions

5. Under previous Canadian GAAP the amortization of customer contributions in Account 1995 is recognized as an offset to depreciation expense. However, under IFRS the amortization of the deferred revenue is recognized as income (in Account 4245, Government and Other Assistance Directly Credited to Income), which is an offset to depreciation expense.
6. At the transition date the unamortized actuarial losses and transitional obligation are recognized in opening retained earnings, resulting in an increase in the employee future benefit liability
7. Previous Canadian GAAP employee future benefit expense includes the amortization of unamortized actuarial losses and transitional obligation as at transition date. IFRS expense does not include any such amounts since the unamortized amounts at the transition date were recognized in opening retained earnings
8. The previous Canadian GAAP employee future benefit liability is reduced by the unamortized actuarial losses and transitional obligation. The IFRS liability is not reduced by such amounts since the unamortized amounts at the transition date were recognized in opening retained earnings. The 50 difference between the carrying amount of the employee future benefit liability at Dec 31, 2011 is comprised of the 60 difference that existed at January 1, 2011 (described in footnote 6 above) less 10 of amortized actuarial loss during 2011

Based on the above information, the following illustrates the entries to be recorded by Distributor at the changeover date of **January 1, 2012** for purposes of transitioning the USoA account balances from previous Canadian GAAP to MIFRS.

Note that for purposes of this example, Distributor has used Account 1575, IFRS-CGAAP Transitional PP&E Amounts, to record PP&E differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to MIFRS. Absent such a deferral account, these PP&E differences would be recognized directly in retained earnings. Deferral accounts are further discussed in the sub-section that follows.

ACCOUNT	PARTICULARS	DEBIT	CREDIT
1575 1805-1990	IFRS-CGAAP Transitional PP&E Amounts Detail PP&E Accounts (as applicable) *To recognize the cumulative effect of the deemed cost exemption and the application of IFRS accounting policies during 2011 (1,260 – 940)*	320	 320

2105 1575	Accumulated depreciation IFRS-CGAAP Transitional PP&E Amounts *To recognize the cumulative effect of the deemed cost exemption and the application of IFRS accounting policies during 2011 (213-10)*	203	 203
1995 1575 2440	Contributions and Grants - Credit IFRS-CGAAP Transitional PP&E Amounts Deferred Revenue *To recognize the cumulative effect of the deemed cost exemption and the application of IFRS accounting policies for customer contributions during 2011*	133	 94 39
3045 2306	Unappropriated Retained earnings Employee future benefit liability *To recognize the cumulative effect of the actuarial loss exemption, the derecognition of the transitional obligation and the application of IFRS accounting policies for employee future benefits during 2011 (580-530)*	50	 50

Deferral Account

As noted above, adjustments required at the transition date are generally recognized directly in opening retained earnings. In respect of PP&E, a distributor must use Account 1575, IFRS-CGAAP Transitional PP&E Amounts, to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified IFRS as follows (for purposes of this account, PP&E includes rate base related intangible assets):

A. Distributors shall maintain records using previous Canadian GAAP of the amounts in the PP&E accounts that will be included in rate base, commencing at their last rebasing under previous Canadian GAAP, and continuing until their first rebasing under modified IFRS. The PP&E accounts noted above may also include items of PP&E recorded in PP&E related deferral accounts, if applicable (e.g., Accounts 1555, 1531 and 1534). This will produce a figure for the PP&E accounts that is consistent with their last rebasing. Records should be kept to at a level of detail sufficient to support the analysis and justification of the entries made to the account.

B. Distributors shall also calculate "adjusted rate base" values for the PP&E components of rate base using the accounting system applicable in each year between rebasing under previous Canadian GAAP and the first rebasing under MIFRS. For example, if a distributor rebased using previous Canadian GAAP in 2010, and continued with previous Canadian GAAP in 2011, and then moved to IFRS for financial reporting for 2012 and 2013, it would calculate the PP&E components of rate base using previous Canadian GAAP in 2010 and 2011, and MIFRS in 2011, 2012 and 2013. (2011 must be included in MIFRS because the year before the move to IFRS has to be restated under IFRS.)

C. Distributors shall record in the deferral account the cumulative difference between items 1 and 2 above. The calculations for the balance in this account (which does not accrue carrying charges) provide the Board with the evidence to consider an adjustment to the opening values of the PP&E components of rate base up or down in the first MIFRS rebasing year to match the "adjusted rate base" figure above. For that rebasing year, and every subsequent year, rate base will be calculated on a MIFRS basis.

D. The amount of the cumulative adjustment up or down (unamortized balance of the deferral account) should be recorded as a balance to be recovered from, or refunded to, ratepayers and as an adjustment to opening rate base in the year of rebasing (with rate base otherwise calculated on an MIFRS basis).

E. Distributors shall reflect the deferral account balance as an adjustment to MIFRS calculated rate base going forward, and amortize that adjustment over a period of time approved by the Board. The rate base, upon which the distributor's return on rate base calculation is based in the cost of service application, will therefore include two components: the MIFRS based elements of PP&E, and the unamortized balance in the deferral account. Thus the unamortized balance in the deferral account will attract the same level of return in determining revenue requirement in a cost of service application as other PP&E balances. The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement.

The Board will determine the period of time for amortization on a case-by-case basis and will be guided primarily by such considerations as the impact on rates, implications of any other IFRS transition matters and any requirements for rate mitigation.

Amortization of the adjusting amount for the disposition of account balance, up or down, shall be reflected in any applicable rate application as an adjustment to depreciation expense (the refund or recovery of the amount of the adjustment over time) and the return on rate base calculation on the unamortized balance shall be included in applicable revenue requirement calculations in the same way as for any other component of rate base.

Distributors must propose the level and pattern of recovery in rates of the amounts in the account for consideration by the Board in their next cost of service application after adopting IFRS. In general, the account will be cleared at the first rebasing under MIFRS. In individual cases, the Board may decide to clear only a portion of the balance, and await actual results for the clearance of the remainder of the account.

The Board has not approved the creation of a generic account for other IFRS related impacts occurring at the transition date. The option remains for distributors to seek an individual account if they can demonstrate the likelihood of a large cost impact upon transition to IFRS.

Required Reconciliations

For purposes of RRR, a distributor must provide reconciliations between financial reporting under IFRS and regulatory accounting information as follows:

For fiscal years beginning with the year in which the distributor chose to adopt IFRS for financial reporting, reconciliations between IFRS for financial reporting and MIFRS.

Distributors are required to include in their annual RRR filing a reconciliation of reported annual performance. Specifically, the following is required:

- A one-time reconciliation between the 2011 previous Canadian GAAP audited financial statement figures and the 2011 IFRS audited financial statement comparative figures that were reported as part of the 2012 IFRS audited financial statements to be performed and submitted with the RRR annual performance reporting for 2012 (filed in 2013).

- A one-time mapping and reconciliation between the 2011 USoA balances and the 2011 IFRS audited financial statement comparative figures that were reported as part of the 2012 IFRS audited financial statements to be submitted with the RRR annual performance reporting for 2012 (filed in 2013).

- Where an electricity distributor has not rebased under MIFRS, a reconciliation is to be provided each year during an IRM period for Group 1 deferral and variance accounts between amounts recorded under previous Canadian GAAP and MIFRS. A distributor must submit this reconciliation with the RRR annual performance reporting for each year for the period beginning with the year of adoption of IFRS and ending in the year in which it rebases under MIFRS.

- All distributors must provide, when reporting annually in RRR the balance in the deferral account (1575) created to record differences in PP&E arising from the transition from previous Canadian GAAP to MIFRS, a reconciliation each year between reported amounts calculated using previous Canadian GAAP and amounts calculated using MIFRS. This reconciliation is required up to and including the year of first rebasing under MIFRS.

Audit assurance is required for the third reconciliation listed (Group 1 deferral and variance accounts), to be provided by an external auditor to the "review level of assurance" specified in the CICA Handbook. For the other reconciliations listed, no audit assurance is required.

Go to TOC A510

Accounting for Transitional Issues Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

TABLE OF CONTENTS

Go To Main APH ToC

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

Background

This Article was included in the previous version of the APH (July 1, 2007) as Article 310, but was removed when regulated utilities transitioned to IFRS and MIFRS effective from January 1, 2012. A new Article 315 *Applying Regulatory Accounting Requirements in a Rate-Regulated Environment* was created to address the application of regulatory accounting in a rate-regulated environment.

This Article, renumbered Article 525, has been included for general information purposes only and is **not applicable** to a distributor that prepares its financial accounting under IFRS. The accounting policies, practices and procedures discussed herein were acceptable for both general purpose financial reporting and regulatory accounting prior to the adoption of IFRS and MIFRS (i.e. January 1, 2012). These accounting practices are currently not acceptable for financial reporting from January 1, 2012. Refer to Article 100 *Introduction to the Accounting Procedures Handbook* and Article 315 for details of the accounting practices under IFRS and MIFRS to be applied from January 1, 2012.

Lastly, there is benefit in keeping this former Article as a reference to the regulatory accounting which was in force under previous Canadian GAAP. There are other forms of GAAP that allow regulatory accounting within their accounting frameworks. There also is the possibility of future work on this subject by the IASB. It should be noted that certain aspects of this article were updated including references to US GAAP, which addresses regulatory accounting in Accounting Standard Codification (“ASC”) 980.

Note that all references to the CICA Handbook contained in this Article relate to “pre-changeover accounting standards” in effect to December 31, 2011 i.e. those standards applied by an entity prior to its adoption of IFRS. In addition, all references to various Articles are based on the APH version of July 2007.

Go to TOC A525

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

Purpose and Scope

The underlying accounting concepts for this Article are based on certain sections of the CICA Handbook, as referenced herein, which make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated capital assets. Accordingly, this Article should be read in conjunction with these referenced CICA Handbook sections.

The purpose of this Article is to:

a) Provide additional guidance in regard to accounting issues where further guidance specific to electric utilities is required; and

b) Provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

General Summary

This Article summarizes the sources of GAAP for regulated electric utilities.

The Board expects electric utilities to use the APH, with due regard for the need to reflect Board decisions or orders arising from the regulatory process, in the application of GAAP and, in conjunction with the CICA Handbook, in the determination of appropriate accounting policies and practices.

This Article also summarizes those CICA Handbook sections that make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated property, plant and equipment.

Lastly, this Article lists the APH subsections that should be referred to for guidance on specific accounting issues affected by the regulatory process.

Definitions

Definitions of the following terms are provided in the CICA Handbook sections listed below:

Go to TOC A525

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

CICA Terminology	CICA Handbook Section References
Rate regulation	Section 1100.32B
Rate-regulated property, plant and equipment	Section 3061.10
Rate-regulated enterprise	Section 3465.09 (k)

Generally Accepted Accounting Principles for Regulated Electric Utilities

Distributors are required to prepare general purpose financial statements according to GAAP.

This APH was prepared to provide a useful source of information for electric distribution utilities. Accounting guidance has been provided that is specific to Ontario electric utilities and encourages consistency in the application of GAAP that is used in the preparation of financial information required for regulatory purposes.

Guidance relating to GAAP for regulated electric utilities in Ontario arises from two principal sources:

1) The CICA Handbook and supporting releases and literature (see CICA Handbook paragraph 1100.12) including Accounting Guidelines issues by the CICA; and
2) Other authoritative sources on the subject of accounting for rate-regulated enterprises such as Accounting Standards Codification 980 (formerly FAS 71) *Regulated Operations* ("ASC 980") of the US Financial Accounting Standards Board ("FASB").

Electric utilities are expected to use the APH in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices, but with due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of GAAP.

Go to TOC A525

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

Paragraph 1100.04 states that:

“When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity, or additional guidance is needed to apply a primary source to specific circumstances, an entity should adopt accounting policies and disclosures that are:

a) consistent with the primary sources of GAAP; and

b) developed through the exercise of professional judgment and the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000.

Paragraphs 1100.12 and .23-26 of the CICA Handbook provide a useful interpretation of GAAP. Of particular relevance to regulated electric utilities is CICA Handbook paragraph 1100.12, which acknowledges that there are special circumstances where a different basis of accounting may be appropriate, for example, in financial statements prepared in accordance with regulatory legislation. Further, paragraphs 1100.23-26 permit a regulated utility to consult accounting pronouncements published with the authority of the FASB. For this reason, where an accounting issue is not specifically addressed under the primary sources of GAAP, it is expected that a Canadian regulated utility will consult ASC 980.

The CICA Handbook also recognizes that rate-regulated enterprises with rate-regulated property, plant and equipment, such as electric utilities, may follow a different basis of accounting due to special circumstances such as the need to follow regulatory requirements (see next subsection entitled “Alternative Accounting Treatment for Rate-Regulated Enterprises”).

A rate-regulated enterprise is defined as an enterprise that meets all of the following criteria:

a) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products;

b) The regulated rates are designed to recover the cost of providing the services or products; and

Go to TOC A525

c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for amounts recorded as recoverable under the rate formula. (CICA s. 3465.09 (k))

Rate-regulated property, plant and equipment are defined in the CICA Handbook as property, plant and equipment held for use in operations meeting the criteria a) and b) above and the following:

d) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for any capitalized costs. (CICA s. 3061.10)

In spite of the Board's implementation of alternative methods of rate regulation, such as Performance Based Regulation (PBR) or Incentive Regulatory Mechanism (IRM), it is believed that the above definition for rate regulated enterprises and property, plant and equipment will continue to be applicable because the price cap used in the first generation PBR was based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also applicable for the second and third generation IRM since cost of service rebasing applications were reviewed by the Board for the 2006 rate year prior to the application of the price cap for the second and third generation IRM. In addition, distributors cost of service rates to be established in the 2008-10 rate year period will be rebased on historical and forward test information.

Alternative Accounting Treatment for Rate-Regulated Enterprises

This subsection summarizes those CICA Handbook sections and Accounting Guidelines issued by the CICA that make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated capital assets in addition to the general guidance set out in Section 1100. This subsection also cross-references other APH *Articles* where the Board has provided additional guidance on the related accounting issues.

Go to TOC A525

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

CICA Handbook Section 1600—*Consolidated Financial Statements*

CICA Handbook Section 1600 *Consolidated Financial Statements* deals with the preparation of consolidated financial statements where the related business combination was accounted for by the purchase method. To the extent that transactions between the parent and its subsidiaries (i.e., "intercompany transactions") result in intercompany gains or losses, such gains or losses should be eliminated in preparing a consolidated income statement. However, for regulated utilities, the accounting treatment for intercompany gains and losses that arose prior to January 1, 2011, in accordance with the CICA Handbook, is summarized below.

Prior to January 1, 2011, where a parent or subsidiary manufactures or constructs facilities for a regulated public utility in the consolidated group, any intercompany gain or loss is deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a government regulatory body (*CICA s. 1600.29*). Intercompany gains and losses that arise during the year ended December, 2011 are accounted for in accordance with ASC 980 – such intercompany gains and losses are not eliminated if the sales price is reasonable and it is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated entity's use of the products. Reference should also be made to Article 340 *Allocation of Costs and Transfer Pricing* for transfer pricing guidelines.

As a result, electric utilities will first need to consider whether any intercompany gains or losses will be permitted in future rates prior to determining the appropriate accounting treatment. It should be noted however, that the Board reserves the right to review the accounting treatment applied and recommend a different accounting treatment, as it deems appropriate, for ratemaking purposes.

CICA Handbook Section 3061—*Property, Plant and Equipment*

CICA Handbook Section 3061 *Property, Plant and Equipment* establishes standards for the measurement, presentation and disclosure of property, plant and equipment by profit-oriented enterprises. That CICA Handbook section provides the following Accounting Recommendations for rate-regulated property, plant and equipment:

a) For a rate-regulated capital asset, the cost to be included in the cost of a capital asset that is acquired, constructed, or developed over time should include the directly attributable allowance for funds used during construction allowed by the regulator (CICA s. 3061.23). Further guidance on this accounting issue was provided in Article 410 *Property, Plant and E*quipment in the subsection "Capitalization of Carrying Costs Including Interest Costs".

b) In determining the costs to be capitalized (and the net recoverable amount) of a rate-regulated capital asset, an enterprise should consider the extent to which rates will provide for the recovery of the cost of the capital asset *(CICA s. 3061.10).* Further guidance on this accounting issue was provided in Article 410 *Property, Plant and Equipment* in the subsection "Capital Asset Disposals and Write Downs".

c) For rate-regulated operations, the regulator may require the difference between net carrying amount and the proceeds on disposal of a capital asset to be considered in the determination of future rates charged to customers. In such circumstances, the difference is deferred, provided there is reasonable assurance that:

- any excess of net carrying amount over proceeds on disposal will be recovered through future rates; or
- any excess of proceeds on disposal over net carrying amount will serve to reduce future rates.

(CICA s. 3475.26).

Further guidance on this accounting issue was provided in Article 410 *Property, Plant and Equipment* in the subsection "Capital Asset Disposals and Write Downs".

CICA Handbook Section 3465—Income Taxes

CICA Handbook Section 3465 *Income Taxes* establishes standards for the recognition, measurement, presentation and disclosure of income and refundable taxes in an enterprise's financial statements. A rate-regulated enterprise is required to recognize future income taxes in accordance with this Section.

However, as a result of an action by a regulator, future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered from or returned to future customers. To the extent this is the case, an enterprise recognizes an asset or liability for that expected future revenue or reduction in future revenue. Such an asset or liability is:

Go to TOC A525

a) A temporary difference for which a future income tax liability or asset is recognized; and

b) Presented separately from future income tax liabilities and future income tax assets, in accordance with paragraph 3465.86.

(CICA 3465.102-103).

Further guidance on this accounting issue was provided in Article 440 *Future Income Taxes*.

CICA Handbook Section 3850—*Interest Capitalized*

CICA Handbook Section 3850 *Interest Capitalized* deals with disclosure of the amount of interest capitalized but a specific exception is made for rate-regulated enterprises. Specifically, the disclosure requirements do not apply to interest capitalized by rate-regulated enterprises as part of an allowance for funds used during construction when such enterprises disclose the allowance for funds used during construction in the period.

Further guidance on this accounting issue was provided in Article 410 *Property, Plant and Equipment* in the subsection "Disclosure of Capitalized Interest".

Accounting Guideline AcG-19 Disclosure by Entities Subject to Rate Regulation

The CICA Accounting Guideline *Disclosures by Entities Subject to rate Regulation* ("AcG 19") became effective for fiscal years ending on or after December 31, 2005. It addresses the disclosure and presentation of information in the financial statements of entities providing services or products for which customer rates are established, or subject to approval, by a regulator or a governing body empowered by statute or contract to set rates. The objective of AcG 19 is to ensure that financial statement users are better informed about the existence, nature and effects of all forms of rate regulation.

In order to meet the needs of financial statement users, entities subject to rate regulation should disclose general information facilitating an understanding of the nature and economic effects of rate regulation, as well as additional information on how rate

regulation has affected the entity's financial statements. The information should be presented in such a manner as to enable a clear understanding of these effects.
The guideline states that when rate regulation has affected the accounting for a transaction or event, the entity should state this fact and disclose additional information about the effect on its financial statements. This information should include, at a minimum, the following:

- The specific financial statement items affected;
- For each item, how it has been reflected in the financial statements, as well as:
    - the rationale for this treatment, including information about either the supporting regulatory action, for example, issuance of a final rate order or approval to accumulate amounts pending final disposition at a later date (the date being disclosed, when known), or the expectations of the entity regarding future regulatory actions; and
    - how it would have been reflected in the absence of rate regulation;

- When a separate asset or liability has been recognized solely as a result of the effects of rate regulation:
    - the carrying amount of the asset or liability, as at the most recent balance sheet date, and the balance sheet line item that includes it when it is not otherwise evident
    - the income statement effect of such recognition for the current period;
    - the remaining period over which the carrying amount of the asset is expected to be recovered or the liability is expected to be settled;
    - a description of the regulatory risks and uncertainties affecting the eventual recovery of the asset or settlement of the liability and its timing, consistent with Section 1508 *Measurement Uncertainty*;
    - when the regulator does not include a return on investment in the rate base for the asset during its recovery period, a statement to that effect; and

- When accounting for the effects of rate regulation has been discontinued since the last financial statements issued, a statement to that effect, together with the reasons for the discontinuance and identification of the rate-regulated operations affected.

Further, AcG 19 provides guidance on the offset of assets and liabilities arising from the actions of a regulator. Assets and liabilities, including those recognized as a result of the effects of rate regulation, should be offset only when specifically permitted or required by another Section or Guideline.

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

Summary of Approved Regulatory Accounting Procedures

This subsection lists *Articles* that provided guidance on specific accounting issues affected by the regulatory process:

a) Article 330 *Treatment of Certain Revenues and Expenses* discusses the Board's authority to establish regulatory liabilities and assets through ratemaking actions;

b) Article 340 *Allocation of Costs and Transfer Pricing* provides principles related to the allocation of costs that should be followed by the regulated utility and its affiliates in developing its policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates;

c) Article 430 *Development Charges and Contributions in Aid of Construction* provides guidance on the accounting treatment of development charges transferred to the incorporated electric utility as well as contributions-in-aid of construction received by the incorporated electric utility; and

d) Article 480 *Incentive Regulation and Deferral Accounts* describes the Board's authority to implement performance based or alternative regulation and identifies the accounts that have been reserved in the USoA for this purpose.

Other Considerations Regarding Accounting Standards for Rate Regulated Enterprises

It should be noted that in March 2002 the Accounting Standards Board ("AcSB") had approved a project examining the need for modifications to the Handbook to address rate-regulated operations more comprehensively. Although considerable progress had been made towards resolution of these issues, the AcSB reconsidered this project in light of the Strategic Plan it adopted in January 2006 and the impending move to IFRS for publicly accountable enterprises. Since publicly accountable enterprises were expected to follow IFRS in the near future, any guidance resulting from the project would be short-lived and potentially require two accounting changes within a relatively short period. Therefore, the AcSB decided that the project, as it was originally envisaged, should be discontinued. Similarly, the AcSB decided against incorporating into the Handbook the additional guidance on rate-regulated operations found in US GAAP in an attempt to provide more comprehensive guidance for this sector. Doing so would have rectified the Handbook's current piecemeal approach to dealing with rate-regulated operations. However, the AcSB noted that such guidance would be short-lived given the impending adoption of IFRS for publicly accountable enterprises.

As a result, in December 2007 the AcSB issued *Accounting Revisions* Release No. 47 to make specific changes to Sections 1100 and 3465 only. The effect of these changes has been included in the discussions above. The amendments became effective for fiscal years beginning on or after January 1, 2009.

It is also important to note that the AcSB decided that Accounting Revisions Release No. 47 should not express any views on the issue of whether ASC 980 is acceptable as an "other source of GAAP" within the Canadian GAAP hierarchy. The AcSB noted that expressing such views would, at the same time, be taking a position on the compatibility of ASC 980 with IFRS, given the similarities between the conceptual frameworks underlying Canadian GAAP and IFRS. Judgments on this issue were left for individual reporters and their auditors. As the AcSB further noted that the factors that would influence a determination of whether ASC 980 is compatible with the Canadian GAAP hierarchy had not changed as a result of its decisions, regulated utilities were not precluded from consulting US GAAP on this issue (see the discussion under the section on “Generally Accepted Accounting Practice for Regulated Electric Utilities” above).

It should be noted that the AcSB previously indicated that any entity choosing to rely on the guidance set out in ASC 980 in accordance with the provisions of Section 1100 must meet the criteria specified in ASC 980. ASC 980-10-15-2 specifies the following criteria:

“The guidance in the *Regulated Operations* Topic applies to general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

a) The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.

b) The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form. If an entity's regulated rates are based on the costs of a group of entities and the entity is so large in relation to the group of entities that its costs are, in essence, the group's costs, the regulation would meet this criterion for that entity.

Accounting for Transitional Issues
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment (Former Article 310)

In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. This last criterion is not intended as a requirement that the entity earn a fair return on shareholders' investment under all conditions; an entity can earn less than a fair return for many reasons unrelated to the ability to bill and collect rates that will recover allowable costs. For example, mild weather might reduce demand for energy utility services. In that case, rates that were expected to recover an entity's allowable costs might not do so. The resulting decreased earnings do not demonstrate an inability to charge and collect rates that would recover the entity's costs; rather, they demonstrate the uncertainty inherent in estimating weather conditions. This requirement must also be evaluated in light of the circumstances. For example, if the entity has an exclusive franchise to provide regulated services or products in an area and competition from other services or products is minimal, there is usually a reasonable expectation that it will continue to meet the other criteria. Exclusive franchises can be revoked, but they seldom are. If the entity has no exclusive franchise but has made the very large capital investment required to provide either the regulated services or products or an acceptable substitute, future competition also may be unlikely."

Go to TOC A525