Accounting Procedures Handbook

Table of Contents

Introduction
to the
Accounting Procedures Handbook

Table of Contents

Background

Introduction
to the
Accounting Procedures Handbook

The *Energy Competition Act, 1998* received Royal Assent on October 30, 1998. This legislation set the stage for a competitive electricity market, and the regulation of the monopoly delivery system of the electric industry by the Ontario Energy Board (the "Board").

As of April 1, 1999, Ontario Hydro, a provincial Crown corporation, ceased to conduct business as a self-regulating entity with regulatory control over the electricity distribution sector through its authority under the *Power Corporation Act*. Certain sections of the *Power Corporation Act* were repealed, and Ontario Hydro was restructured into successor companies. Consequently, regulatory authority over the electricity distribution sector passed to the Board.

The *Energy Competition Act, 1998* sets out the Board's powers to issue a distribution licence that must be obtained by any person owning or operating a distribution system pursuant to section 57 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B.* (the "*OEB Act, 1998*" – a component of the *Energy Competition Act, 1998*). The *OEB Act, 1998* allows the Board to prescribe licence requirements and conditions to electricity distributors that may include, among other considerations, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate setting purposes.

The Board undertook an assessment of the adequacy, for regulatory purposes, of the information formerly reported by electric distribution utilities as prescribed by Ontario Hydro. The Board consequently developed this Accounting Procedures Handbook ("APHandbook"), which includes guidance on accounting procedures and requirements and the Uniform System of Accounts ("USoA") in order to: (1) accommodate financial segregation of the regulated monopoly business from potentially competitive activities; (2) incorporate new legislative requirements; (3) support a Performance Based Regulation ("PBR") methodology; and, (4) provide the detail necessary to accommodate unbundled cost allocation and rate design.

Implementation of this APHandbook assists in providing an adequate information base for establishing future rates, monitoring utility performance, and developing Performance Based Regulation. The APHandbook was developed and made available as early as possible in 1999 to minimize complications associated with any potential retroactive restatement of financial information. Electricity distribution utilities and other stakeholders were given the opportunity to comment upon the draft version of this APHandbook before it was received by the Board. The implementation date is January 1, 2000.

The resulting financial accounting and reporting system will provide the structure to be used for financial forecasting, revenue requirement, financial performance bench marking, cost allocation and rate design model(s).

The Board's development of a financial accounting and reporting system included:

Introduction
to the
Accounting Procedures Handbook

- A comparison of the chart of accounts used by Municipal Electrical Utilities ("MEU"), as prescribed by Ontario Hydro (Hydro) pursuant to section 115 of the *Power Corporation Act* and defined in the "Accounting for Municipal Electric Utilities in Ontario" manual, to the system of accounts prescribed by the Federal Energy Regulatory Commission ("FERC") in the United States. The FERC system of accounts is widely used while the Hydro chart of accounts was a unique system applied only in Ontario. This review was undertaken to evaluate the usefulness of the additional details captured in the FERC system of accounts. As the FERC system of accounts is widely used, it provides a sufficient source of comparative information to support the benchmarking activities conducted in support of Performance Based Regulation (which at the time of writing was under consideration by the Board). The USoA contained herein was structured with FERC comparability in mind to facilitate benchmarking (e.g., consolidating FERC account details in order to map to the USoA or vice-versa).

- A review of the specific details of each account currently approved by the Board for use by the larger (Class "A") natural gas utilities in Ontario, and comparison of these details to the Hydro and FERC system of accounts. This review was performed to highlight any actual or potential variances in account usage and to identify areas where reporting and recording details could be enhanced within the context of encouraging symmetry between the regulation of natural gas and electricity to the extent possible.

- A survey of individual electric distribution utilities to gather particulars regarding any differences between the financial reporting used by the electric utility for internal purposes and that required by Ontario Hydro. This review was performed in an attempt to minimize translation requirements of individual electric distribution utilities and identify useful recording and reporting details.

- The selection of a sample of MEUs to provide comments on the content of the proposed account details, account structure and related issues based on their particular circumstances and experiences.

- A review of the new legislation to assess potential new account requirements and accounting issues.

- A review of electric distribution utility USoAs required by other jurisdictions and comparison to the Hydro and FERC USoAs to highlight potentially useful recording differences.

- A review of the adequacy and completeness of accounting policies used in conjunction with the Hydro chart of accounts to evaluate the impact on the proposed account structure. In this regard, the Board obtained external technical resources to assist Board staff in reviewing the "Accounting for Municipal Electric Utilities in Ontario" manual to appraise its substance (adequacy, usefulness, completeness, user friendliness), critique its flexibility (necessity and relevance of available accounting procedure options), and identify deviations from U.S. practices (identify differences and potential reconciliation alternatives to enable financial comparison which may be required under Performance Based Regulation) as listed in the FERC USoA.

Board staff worked closely with the Municipal Electric Association ("MEA") and a sample of MEUs drawn from the MEA's Utility Accounting and Finance Committee (which included representatives from the former Ontario

Hydro) in order to identify relevant recording and reporting requirements and to develop this APHandbook and related USoA.

Activities that are underway and may impact the APHandbook in the near future include:

- identification of additional recording and reporting requirements of Performance Based Regulation. Some performance measures may be included in the Board's PBR model. A separate process is being used by the Board to develop a model accommodating cost of service/PBR. As a result, the USoA will need to be revisited once the PBR model and related performance and service quality measurement factors are approved by the Board;

- identification of additional recording and reporting requirements arising from various other Board initiatives such as the Standard Supply Service Code, etc.

Purpose of the Accounting Procedures Handbook

The APHandbook has been prepared in order to:

- summarize Accounting Procedures and Requirements and provide a USoA for the use of all electric distribution utilities as well as those electric utilities concurrently possessing generation and/or transmission capabilities. The APHandbook is designed for the use of:

  - each electric utility's accounting, financial, and regulatory personnel,
  - the electric utility's external auditors, and
  - the Board's regulatory staff;

- reflect the Board's interpretation, for regulatory purposes, of Generally Accepted Accounting Principles ("GAAP") based on the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook");

- address accounting issues where further guidance specific to Ontario electric utilities is required;

- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises;

- recognize that the regulatory process introduces certain specific cause-and-effect relationships in the matching of a utility's revenues and expenses, which may require special applications of GAAP; and

- encourage consistency in the application of GAAP where choices in its application exist.

The APHandbook 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-regulated activities of electric utilities. Specific accounts have also been included in the USoA to meet future expected PBR requirements.

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.

Electric utilities are advised to use the APHandbook in conjunction with the CICA Handbook 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 GAAP.

Legislative Authority to Prescribe Accounting Procedures and Requirements

The Board's authority to prescribe Accounting Procedures and Requirements is provided pursuant to sections 57, 70 (2) and 78 of the *Ontario Energy Board Act, 1998.*

Pursuant to section 57 of the *OEB Act, 1998*, a licence is required to conduct certain activities. For example a licence is required to:

- own or operate a distribution system;
- own or operate a transmission system;
- generate electricity or provide ancillary services for sale through the IMO-administered markets or directly to another person;
- purchase electricity or ancillary services in the IMO-administered markets or directly from a generator;
- retail electricity; and,
- sell electricity or ancillary services through the IMO-administered markets or directly to another person, other than a consumer.

Section 70 (2) of the *OEB Act, 1998* lists examples of licence conditions, including the following specific requirements:

- provide, in the manner and form determined by the Board, such information as the Board may require;

- 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;

- adhere to specified performance standards, targets and criteria; and,

- meet specified information reporting requirements relating to the source of electricity and emissions caused by the generation of electricity.

Introduction to the Accounting Procedures Handbook

Accordingly, sections 57 and 70 (2) of the *OEB Act, 1998* provide the Board with the legislative authority to prescribe the Accounting Procedures and Requirements contained in this APHandbook.

In regards to the Board's rate regulation powers, pursuant to section 70 (2) (e) of the *OEB Act, 1998*, the conditions of a licence may include provisions specifying methods or techniques to be applied in determining the licensee's rates. In addition, section 78 provides that an order under this section may include conditions, classifications or practices applicable to the transmission, distribution or retailing of electricity, including rules respecting the calculation of rates. Consequently, the ratemaking methodology can also create implications for account structure and accounting policy.

In summary, the Board is authorized to prescribe accounting procedures and information reporting requirements as a condition in the licensing of electric utilities, and as a function of the application of its ratemaking methodology.

Generally Accepted Accounting Principles

As a result of incorporating under the *Ontario Business Corporations Act*, electric utilities will be subject to financial reporting requirements as contained in Part XII—Auditors and Financial Statements of this Act. Specifically, section 155 of the *Ontario Business Corporations Act* requires that financial statements be prepared as prescribed by regulation and in accordance with Generally Accepted Accounting Principles ("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 electric corporations will be required to prepare financial statements based on GAAP as presented in the CICA Handbook.

The term GAAP is further defined in paragraphs 1000.59 to 1000.61 of the CICA Handbook, which notes 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 or contractual requirements. Essentially, the CICA Handbook recognizes that alternative accounting treatment may be warranted due to special circumstances faced by rate-regulated enterprises.

Note that the term "rate-regulated" as used in this APHandbook does not imply a specific methodology for approval or fixing of rates. (Such methodologies are normally referred to as rate based, price cap, social contract, or incentive based regulation, etc.). Instead, the term refers to the fact that rates, however determined, are subject to approval by a legislated body.

The APHandbook provides guidance in those specific areas where electric utilities will be allowed to use alternative accounting treatments due to special circumstances resulting from the regulatory process. A full discussion of GAAP for regulated electric utilities is provided in Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment.

Introduction
to the
Accounting Procedures Handbook

Records

a) Each utility 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 facts relevant thereto. 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, stock books, reports, correspondence, memoranda, etc., that may be useful in developing the history of or facts regarding any transaction.

c) No utility shall destroy any such books or records unless the destruction thereof is permitted by rules and regulations of the Board.

d) Pursuant to section 72 of the *OEB Act, 1998*, each distributor shall keep its financial records associated with distributing electricity separate from its financial records associated with other activities.

e) Unless otherwise provided for in the accounts prescribed in the USoA, electric utilities shall subdivide any and all applicable accounts to record non-electric utility transactions or items that are not normally includible in Ontario electric utility assets, liabilities, revenues or expenses for the purposes of the Board approving or fixing just and reasonable rates for the transmission or distribution of electricity and for the retailing of electricity pursuant to section 78 of the *OEB Act, 1998*.

f) Electric utilities may further subdivide any and all accounts 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 electric-related lines of business and for non-utility activities, electric utilities shall record all transactions in sufficient detail to segregate such activities.

h) Electric utilities may use a different system of account numbers for its own purposes provided that there shall be kept 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 utility's records shall be so kept 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 utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated 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 associated companies shall be recorded in the appropriate accounts for transactions of the same nature. The utility is permitted to subdivide accounts for the purpose of separately recording transactions with associated companies. See also Article 340 – Allocation of Costs and Transfer Pricing.

Financial Statement Presentation for External Reporting Purposes

Section 42 (1) of *Regulation 62, R.R.O. 1990*, made under the *Ontario Business Corporations Act* requires that the financial statements include at least:

a) a balance sheet;
b) a statement of retained earnings;
c) an income statement; and
d) a statement of changes in financial position.

Section 42 (2) states that financial statements need not be designated by the names set out in Section 42 (1). Further guidance on financial statement concepts is provided in Section 1000 of the CICA Handbook. General standards of financial statement presentation are provided in CICA Handbook Section 1500.

Note that the APHandbook does not prescribe how the accounts contained in the USoA are to be rolled up for financial statement reporting purposes. Accordingly, electric utilities should follow the general standards of financial statement presentation contained in the CICA Handbook.

Note however, that the Board may specify reporting standards for purposes of preparing Board approved monitoring reports or as part of the regulatory filing requirements.

Application of the Accounting Procedures Handbook

The APHandbook supersedes the "Accounting for Municipal Electric Utilities in Ontario" manual previously issued by Ontario Hydro. For the initial application of the APHandbook procedures and requirements, refer to Article 510—Interpretation Bulletin—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

It should be recognized that in issuing this APHandbook, 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. (See "Inquiries" below).

No Accounting Procedure or Requirement is intended to override the requirements of a governing statute.
The Accounting Procedures or Requirements in this APHandbook 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 it is probable that its omission or misstatement would influence or change a decision. In determining materiality in a regulated environment, both quantitative as well as qualitative 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 than that for financial reporting purposes. The Board may review information and determine for regulatory policy or other purposes that the accounting treatment should be different than that accorded to the item by the utility, irrespective of the size or nature of the item.

Note that it is the responsibility of management to keep records in accordance with proper accounting methods for the purpose of accurate, complete, timely and proper recording of the electric utility's transactions.

Policy Introduction

(i) Effective Date

Unless otherwise indicated, the Accounting Procedures or Requirements contained in this APHandbook 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 the page unless otherwise noted.

An Accounting Procedure or Requirement remains in force until the effective date noted at the bottom right corner of the page of the new Accounting Procedure or Requirement. However, electric utilities may adopt the new Accounting Procedure or Requirement before the effective date when this practice is authorized by the Board in the release notice.

Guidance on the accounting treatment for a change in accounting policy is contained in Article 320—Accounting Changes.

(ii) Additions and Revisions

Accounting is not static. It has changed in the past and will continue to adapt to meet changes in regulatory methodology, economic, or social conditions. Thus, there will be a periodic review and amendment of material contained herein as circumstances warrant.

In order to establish and improve standards for regulatory accounting and reporting the Board will periodically issue new Accounting Procedures or Requirements. The proposed process for introducing a new Accounting Procedure or Requirement is:

Introduction
to the
Accounting Procedures Handbook

1. The preliminary research and drafting will be conducted by the Board.

2. The draft Accounting Procedure or Requirement will be distributed for comment to the Municipal Electric Association's Utility Accounting and Finance Committee, a sample of some or all electric utilities, external consultants, and stakeholders or any combination of these.

3. After comments are received and reviewed, the Accounting Procedure or Requirement will be revised if necessary. Significant revisions may lead to redistribution of the Accounting Procedure or Requirement for comment as indicated in 2 above.

4. The revised Accounting Procedure or Requirement will be presented to the Board for approval.

5. The approved Accounting Procedure or Requirement will then be distributed to holders of the APHandbook.

Interpretation Bulletins will be issued as required in order to provide guidance on transitional issues, interpret Accounting Procedures or Requirements or address new or contentious issues. Research studies may be commissioned when issues are expected to have a long-term impact and in anticipation of a need for future accounting standards.

Revised and new Accounting Procedures or Requirements and Interpretation Bulletins will be issued periodically by the Board for insertion in the APHandbook. Changes in existing Accounting Procedures or Requirements will be reflected by the replacement of the relevant page(s).

All changes in existing Accounting Procedures or Requirements or new pronouncements will be identified in the APHandbook Revisions Release.

Inquiries

Inquiries in respect to interpretation and clarification of accounting issues relating to specific situations in utilities should be directed to the Board Secretary or the appropriate designated individual at the Ontario Energy Board.

Introduction
to the
Accounting Procedures Handbook

Application of Accounting Concepts
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment

Table of Contents

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:

- provide additional guidance in regard to accounting issues where further guidance specific to electric utilities is required; and
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Application of Accounting Concepts
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment

General Summary

This Article summarizes the sources of Generally Accepted Accounting Principles ("GAAP") for regulated electric utilities.

The Board expects electric utilities to use the APHandbook, 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 capital assets.

Lastly, this Article lists the APHandbook 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:

CICA Terminology	CICA Handbook Section References
Rate-regulated capital assets	Section 3060.12
Rate-regulated enterprise	Section 3465.09 (k)

Accounting Issues

Generally Accepted Accounting Principles for Regulated Electric Utilities

Electric distribution utilities are required to prepare general purpose financial statements according to GAAP.

This APHandbook 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 1000.60); and (2) other authoritative sources on the subject of accounting for rate-regulated enterprises such as SFAS 71 of the US Financial Accounting Standards Board.

Application of Accounting Concepts
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment

Electric utilities are expected to use the APHandbook 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.

Paragraphs 1000.59 to 1000.61 of the CICA Handbook provide a useful interpretation of GAAP. Of particular relevance to regulated electric utilities is CICA Handbook paragraph 1000.59, 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.

The CICA Handbook also recognizes that rate-regulated enterprises with rate-regulated capital assets, 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
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 capital assets are defined in the CICA Handbook as capital assets held for use in operations meeting the criteria a) and b) above and the following:

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 any capitalized costs. (CICA s. 3060.12)

In spite of the current consideration and impending implementation of an alternative method of rate regulation, chiefly Performance Based Regulation (PBR), it is believed that the above definition for rate regulated enterprises and capital assets will continue to be applicable because the proposed price cap in the first generation PBR will be based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also expected to be applicable for the second generation PBR given that it is proposed that a cost of service study will be performed prior to the rebasing of the price cap for the second generation.

Alternative Accounting Treatment for Rate-Regulated Enterprises

This subsection summarizes those CICA Handbook sections that make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated capital assets. This subsection also cross-references other APHandbook Articles where the Board has provided additional guidance on the related accounting issues.

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.

For regulated utilities, the accounting treatment for intercompany gains and losses, in accordance with CICA Handbook, is summarized below.

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). (Reference should 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 3060—Capital Assets
CICA Handbook Section 3060—Capital Assets establishes standards for the measurement, presentation and disclosure of capital assets by profit-oriented enterprises. That CICA Handbook section provides the following Accounting Recommendations for rate-regulated capital assets:

- 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. 3060.26). Further guidance on this accounting issue is provided in Article 410—Capital Assets in the subsection "Capitalization of Carrying Costs Including Interest Costs".

- In determining 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. 3060.50). Further guidance on this accounting issue is provided in Article 410—Capital Assets in the subsection "Capital Asset Disposals and Write Downs".

- 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 (CICA s. 3060.57). Further guidance on this accounting issue is provided in Article 410—Capital Assets 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, with limited application for certain rate-regulated enterprises. That CICA Handbook section provides the following Recommendations for rate-regulated enterprises:

- A rate-regulated enterprise need not recognize future income taxes as otherwise required by the Accounting Recommendations in CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future. However, if rate-regulated enterprises do not account for future income taxes in their financial statements, they must provide disclosure in their financial statements as to the reason future income taxes have not been accounted for and information about the amount of future income taxes that would have otherwise been recorded (CICA s. 3465.102).

- Pending further study of accounting for rate-regulated enterprises as a whole, rate-regulated enterprises are not required to record future income taxes for temporary differences that arise from assets and liabilities relating to their rate-regulated activities to the extent that these future income taxes will be included in the rates charged to customers in the future and will be recoverable at that time (CICA s. 3465.103).

- Future income taxes should be recognized in accordance with CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are not expected to be included in the rates charged to customers in the future. In addition, a rate-regulated enterprise that chooses to recognize future income taxes despite the expectation that they will be included in the rates charged to customers in the future would recognize all future income tax liabilities and future income tax assets in accordance with the requirements of that section (CICA s. 3465.104).

Further guidance on this accounting issue is 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 with a specific exception made for rate-regulated enterprises. For example, the CICA Handbook does 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 is provided in Article 410—Capital Assets in the subsection "Disclosure of Capitalized Interest".

Application of Accounting Concepts
Applying Generally Accepted Accounting Principles in a Rate Regulated Environment

Regulatory Accounting Procedures

This subsection lists Articles that should be referred to for guidance on specific accounting issues affected by the regulatory process:

- Article 330—Matching of Power Costs and Revenues discusses the Board's authority to establish regulatory liabilities and assets through ratemaking actions.

- 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.

- Article 350—Performance Based Regulation describes the Board's authority to implement Performance Based Regulation and identifies the accounts that have been reserved in the USoA for this purpose.

- 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.

Application of Accounting Concepts

Accounting Changes

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 1506—Accounting Changes, which establishes standards for the accounting treatment of a change in accounting policy as well as a change in an accounting estimate and a correction of an error relating to prior period financial statements and prior period adjustments. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to:

- provide additional guidance in regard to accounting changes issues where further guidance specific to electric utilities is required; and
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Application of Accounting Concepts

Accounting Changes

General Summary

This Article describes the recommended accounting treatment for accounting changes.

Where a change in accounting policy affects allowable costs for regulatory purposes, the Board has the flexibility under GAAP, of deciding whether to apply prospective or retroactive restatement for a change in accounting policy. Therefore, the Board will be providing specific guidance as required in the future for such items.

Definitions

Definitions and accounting treatment of the following accounting changes issues are provided in CICA Handbook Section 1506—Accounting Changes and are listed below for ease of reference:

Accounting Changes Terminology	CICA Handbook Section References
Change in an accounting estimate	Sections 1506.22-25
Change in an accounting policy	Sections 1506.02-05
Correction of an error in prior period financial statements	Sections 1506.26-30
Disclosure requirements for a change in accounting policy	Sections 1506.14, 16-21
Prior period adjustments	Sections 1506.31-33
Prospective application	Sections 1506.06 (a), 07, 10
Retroactive application with no restatement of prior periods	Sections 1506.06 (b), 08, 11-13, 15
Retroactive application with restatement of prior periods	Sections 1506.06 (c), 09, 11-13, 15

Accounting Issues

Accounting Changes

This subsection describes the recommended accounting treatment for accounting changes (i.e. change in an accounting policy, change in an accounting estimate, correction of an error relating to prior period financial statements) based on general CICA Handbook guidance and specific U.S. Financial Accounting Standards Board guidance for regulated enterprises.

Application of Accounting Concepts

Accounting Changes

CICA Handbook Section 1506—Accounting Changes provides a detailed discussion of the accounting treatment for a change in accounting policy. There are essentially three options to deal with a change in an accounting policy:

a) prospective application;

b) retroactive restatement with no restatement of prior periods; and

c) retroactive restatement with restatement of prior periods.

The CICA Handbook states that retroactive application with restatement of all prior periods that are presented is the preferred alternative as it provides consistent reporting from one period to another. Following this approach contributes to confidence in financial statement reporting by allowing readers to interpret earnings trends and other analytical data based on comparisons.

The CICA Handbook recognizes that, in certain circumstances, it may be extremely difficult to obtain the necessary financial data to enable a change in an accounting policy to be applied retroactively. In such circumstances, the new accounting policy should be applied prospectively. As a result, an adjustment should be made to the opening balance of retained earnings of the current period, or such earlier period as appropriate, to reflect the cumulative effect of the change on prior periods.

In interpreting GAAP requirements, it is important to note that the appropriate treatment for accounting changes not only depends on the nature of the change (i.e. change in an accounting policy, change in an accounting estimate, correction of an error relating to prior period financial statements) but also on its treatment as prescribed by the regulator. While the CICA Handbook does not provide any specific guidance for rate-regulated enterprises, reference should be made to the U.S. Financial Accounting Standards Board SFAS 71 for guidance. SFAS 71, paragraph 32 offers the following clarification regarding the treatment of accounting changes by a regulated enterprise:

> If a regulated enterprise changes accounting methods and the change does not affect costs that are allowable for ratemaking purposes, the regulated enterprise would apply the change in the same manner, as would an unregulated enterprise. If a regulated enterprise changes accounting methods and the change affects allowable costs for ratemaking purposes, the change generally would be implemented in the way that it is implemented for regulatory purposes.

As a result, if a change in accounting policy affects allowable costs for ratemaking purposes, the Board has the flexibility under GAAP, of specifying either prospective or retroactive restatement for a change in accounting policy. Consequently, the Board will be providing specific guidance as required in the future for such items and the utility should account for the change in the prescribed manner.

Alternatively, if a change in accounting policy does not affect costs that are allowable for rate-making purposes, the electric utility should account for the change in accordance with CICA Handbook Section 1506—Accounting Changes (i.e., using prospective or retroactive restatement as appropriate in the specific circumstances).

Application of Accounting Concepts

Accounting Changes

The APHandbook contains five significant accounting changes and provides specific guidance as to their treatment in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*. The accounting changes were made in the following areas:

- Change in Accounting Policy for Spare Transformers and Meters
- Change in Accounting Policy for Poles, Conductors and Conduit
- Change in Accounting Policy for Gains and Losses from the Retirement or Disposal of Readily Identifiable Assets
- Change in Accounting Policy for Contributions in Aid of Construction
- Change in Accounting Estimate for Amortization of Capital Assets

Application of Accounting Concepts

Matching of Costs and Revenues

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 1000—Financial Statement Concepts and CICA Handbook Section 3400—Revenue.

CICA Handbook Section 1000—Financial Statement Concepts describes the concepts underlying the development and use of accounting principles in financial statements, including the accrual basis of accounting.

CICA Handbook Section 3400—Revenue deals with the timing of recognition of revenue in the financial statements.

Accordingly, this Article should be read in conjunction with the above mentioned CICA Handbook sections.

The purpose of this Article is to provide additional guidance in regard to accounting issues where further guidance specific to electric utilities is required.

Application of Accounting Concepts

Matching of Costs and Revenues

General Summary

This Article begins by explaining the accrual basis of accounting as described in CICA Handbook Section 1000—Financial Statement Concepts as it applies to the matching of costs and revenues. In accordance with the accrual basis of accounting, revenue and expense transactions and events should be recognized in the period in which the related transactions and events occur, regardless of whether there has been a payment or receipt of cash or cash equivalent.

This Article discusses the appropriate accounting treatment of unbilled revenue based on CICA Handbook Section 1000—Financial Statement Concepts and CICA Handbook Section 3400—Revenue. Since unbilled revenue meets the revenue recognition requirements specified in the CICA Handbook, unbilled revenue should be accrued at year-end using the accounts provided in the USoA.

In regard to the measurement of unbilled revenue, the CICA Handbook does not provide any guidance in estimating unbilled revenue for year-end accrual purposes. Therefore, depending upon the circumstances, an electric utility may use one or a combination of three general methods listed herein for calculating unbilled revenue for the period from the previous meter reading date to the utility's fiscal year end. One of the methods, Method C, recognizes that there may be other methods of estimation that result in a reasonable approximation of unbilled revenue.

This Article also discusses the Board's authority to establish regulatory liabilities and assets through rate-making actions pursuant to sections 70 (2) (e) and (f) and section 78 (3) of the *OEB Act, 1998*.

Lastly, this Article specifies the need to separately account for non-utility revenues and expenses pursuant to section 70 (2) (f) of the *OEB Act, 1998*. Note that for accounts provided in the USoA, where the activity envisioned by the account could encompass both regulated and non-regulated activities i.e. tree trimming, metering, billing, etc., the utility should establish sub-accounts within the existing USoA accounts to capture financial information relating to similar activities that may be non-regulated in nature.

Definitions

Definitions and accounting treatment of the following items related to power costs and revenues are provided in the following CICA Handbook sections and are listed below for ease of reference:

CICA Terminology	**CICA Handbook Section References**
Expenses	Section 1000.38
Revenues	Section 1000.37, 47 and Section 3400

Application of Accounting Concepts

Matching of Costs and Revenues

The following definitions are adopted for the purposes of the APHandbook as well as for this specific Article:

Power Cost and Revenue Terminology for Electric Utilities	**Definition**
Non-utility revenues and expenses	Non-utility revenues and expenses arise primarily from competitive or potentially competitive activities conducted within the regulated entity. Non-utility revenues and expenses should be accounted for separately from utility 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 utility 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 the utility's fiscal year end but not billed until the following year.

Accounting Issues

Matching of Costs and Revenues

CICA Handbook Section 1000—Financial Statement Concepts describes the concepts underlying the development and use of accounting principles in financial statements. Specifically, it states that items recognized in financial statements are to be accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting encompasses deferrals that occur when a cash receipt or payment occurs prior to the criteria for recognition of revenue or expense being satisfied.

In accordance with the accrual basis of accounting, revenue and expense transactions and events should be recognized in the period in which the related transactions and events occur, regardless of whether there has been a payment or receipt of cash or cash equivalent. It is the electric utility's responsibility to ensure that revenues recognized in the period are matched to the services, commodity, etc. sold or consumed during the period.

Note that the Board has the authority to prescribe alternative accounting treatment and/or to establish regulatory liabilities and assets as explained later in the subsection “Regulatory Debits and Credits”.

Unbilled Power/ Services Revenue

Unbilled revenue is defined as that amount of revenue for power/ services consumed prior to the utility’s fiscal year end but not billed until the following year.

Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectibility of the consideration exists (CICA s.1000.47). More specific guidance is contained in CICA Handbook Section 3400—Revenue, which recommends that revenue from sales transactions be recognized when the requirements as to performance set out below are satisfied, provided that at the time of performance, ultimate collection is reasonably assured.

In a transaction involving the sale of goods, performance should be regarded as having been achieved when the following requirements have been fulfilled:

a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and

b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned.
(CICA s. 3400.07)

Since unbilled revenue meets the revenue recognition requirements specified in the CICA Handbook, unbilled revenue should be accrued at year-end using the current asset and revenue account, respectively, 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 utility’s fiscal year end but not billed until the following year.

- account 4050, Revenue Adjustment. This account shall include both unbilled revenue adjustments and prior year billing adjustments.

In the subsequent fiscal period, an entry should be recorded to clear the unbilled revenue accrual (account 1120, Accrued Utility Revenues) and distribute the accrual to the applicable sales accounts (accounts 4006 to 4110) based on actual billings rendered. Any significant difference between the estimate of unbilled revenue and the actual billings rendered should be recorded to account 4050, Revenue Adjustment.

The CICA Handbook does not provide any guidance in estimating unbilled revenue for year-end accrual purposes. Therefore, depending upon circumstances, an electric utility may use one or a combination of the three general methods described below for calculating unbilled revenue for the period from the previous meter reading date to the utility’s fiscal year end.

Method A
Where meters are read at year-end, all revenue from the year-end billing (for power/ services consumed in the period from the previous meter reading date to the utility's fiscal year end) is unbilled revenue. Therefore, no pro-rating or estimation is necessary.

Method B
Unbilled revenue is prorated between two financial statement years based on the number of days in the billing period which fall in each year, in situations where:

a) meters are read after year end and include power/ services consumed prior to the utility's fiscal year end in the year covered by the financial statements; and

b) the actual billings are available.

Method C
Unbilled revenue is estimated in situations where:

a) meters are read after year end and include power/ services consumed prior to the utility's fiscal year end in the year covered by the financial statements; but

b) the actual billings are not available.

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.

Regulatory Debits and Credits

This subsection summarizes the Board's authority, pursuant to the *Ontario Energy Board Act, 1998* to establish regulatory debits and credits through regulatory actions. Those actions can result in asset, liability, revenue, or expense items as discussed below.

Pursuant to section 70 (2) (e) of the *Ontario Energy Board Act, 1998*, the licence conditions may specify methods or techniques to be applied in determining the licensee's rates.

Pursuant to section 70 (2) (f) of the *Ontario Energy Board Act, 1998*, licence conditions 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.

Pursuant to section 78 (3) of the *Ontario Energy Board Act, 1998*, the Board may make orders approving or fixing just and reasonable rates for the transmission or distribution of electricity and for the retailing of electricity in order to meet a distributor's obligations under section 29 of the *Electricity Act, 1998*.

The following balance sheet accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA:

- 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 canceled 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 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 1570, Qualifying Transition Costs. When authorized or directed by the Board, this account shall be used to record transition costs that meet the qualifying criteria established in the Electric Distribution Rate Handbook. 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 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 in the Electric Distribution Rate Handbook. 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 utility has determined to be excessive and has decided to defer to future periods.

- 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. 21.

- 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 amortization 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. (See Article 240-- Definitions and Instructions No. 21).

- 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. (See Article 240--Definitions and Instructions No. 21).

- 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 Amortization. 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 amortization program.

- account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs. This account shall be charged with amounts credited to asset account 1572, Extraordinary Event Losses. 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-Utility Revenues and Expenses

Pursuant to section 70 (2) (f) of the *OEB Act, 1998*, 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-utility 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.

Non-utility revenues and expenses should be accounted for separately from utility revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business. Note that for accounts provided in the USoA, where the activity envisioned by the account could encompass both regulated and non-regulated activities i.e. tree trimming, metering, billing, etc., the utility 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-utility assets as provided in the USoA:

- account 2075, Non-Utility Property Owned or Under Capital Leases. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not included in account 2040, Electric Plant Held for Future Use.

The following income statement accounts should be used to record non-utility revenues and expenses as provided in the USoA:

- account 4375, Revenues from Non-Utility Operations. This account shall include revenues 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 is not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.

- account 4380, Expenses of Non-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.

- account 4385, Non-Utility Rental Income. This account shall include all rent revenues and related expenses of land, buildings, or other property included in account 2075, Non-Utility Property Owned or Under Capital Leases, which is not used in operations covered by accounts 4375, Revenues from Non-Utility Operations or 4380, Expenses of Non-Utility Operations. This account shall also include all rent revenues related to items included in account 1965, Water Heater Rental Units.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Table of Contents

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. This Article addresses the following two related legislative requirements:

- Section 70 (2) (f) of the *Ontario Energy Board Act, 1998* which states that 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.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

- Section 72 of the *Ontario Energy Board Act, 1998,* which states that every distributor shall keep its financial records associated with distributing electricity separate from its financial records associated with other activities.

In addition, reference is made to the "Affiliate Relationships Code For Electricity Distributors and Transmitters" ("Affiliate Relationships Code") issued by the Ontario Energy Board.

The purpose of this Article is to:

- Provide regulated utilities 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 regulated utility and its affiliates.

- Provide regulated utilities and their affiliates with an introduction to the Affiliate Relationships Code as it relates to accounting procedures or requirements in this APHandbook.

- Provide the Board with a framework for reviewing the policies and procedures developed by regulated utilities for allocating costs and accounting for affiliate transactions.

General Summary

This Article begins by providing the 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. This Article does not provide guidance related to the allocation of costs to rate classes.

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 indirect costs 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 utility to the Uniform System of Accounts (USoA). Documentation shall be made available to the Board upon request regarding transactions between the regulated utility and its affiliates. Transactions of a commercially sensitive nature may be submitted in confidence to the Board's Energy Returns Officer.

The Article also discusses the need for entities that provide both regulated and non-regulated services or products to maintain documented policies on allocation of costs that are consistently applied and available for Board review.

Transfer pricing principles that should be followed by the regulated utility and its affiliates in accounting for transactions between the regulated utility and its affiliates are also discussed.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

In performing procedures related to the allocation costs, the regulated utility and its affiliates must meet certain documentation and related requirements. Note that pursuant to section 108 of the *Ontario Energy Board Act, 1998*, the energy returns officer and every other person so authorized by the Board may, for the purposes of this Act, the *Electricity Act, 1998* and the regulations made under those Acts, as applicable, conduct an audit, investigation or review.

This Article then 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 generation, transmission and distribution and other expense accounts as provided for in the USoA.

Note that clearing accounts have not been established in the USoA. Instead, it is expected that each electric utility will continue to maintain its own clearing accounts as required. However, each utility should keep records and supporting documentation which provide an audit trail and support the clearing account entries that are transferred to the financial statement accounts.

The basis of overhead allocation should be reviewed regularly by the electric utility. If necessary, the basis of overhead cost allocation should be revised in order to reflect changes in cost relationships and the related cost allocators. Any changes should be documented and the documentation should be available for Board review.

Examples of types of clearing accounts, possible basis for overhead allocation and year-end clearing of residual balances are provided for illustrative purposes.

Lastly, this Article discusses the allocation of joint costs. Where an electric utility incurs costs (e.g. general administration, office staff salaries, and rent) jointly with another utility 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 applied as applicable.

Definitions

The following definitions are adopted for the purposes of the APHandbook as well as for this specific Article.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Allocation of Costs Terminology	Definition
Affiliate	Affiliate has the same meaning as in the *Ontario Business Corporations Act*. Under Part I—Definitions and Application of the *Ontario Business Corporations Act*, 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 *Ontario Business Corporations Act* applies. Accordingly, 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.
Allocation of Costs Document	An allocation of costs document provides formal documentation of a company's allocation of costs policies and related procedures.
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.
Cost allocator	A cost allocator is the method or ratio used to apportion costs. A cost allocator may be based on the origin of costs, as in the case of cost drivers; the cause-and-effect relationship reflecting the linkage between the costs incurred and the activities undertaken to produce the services and products; or 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. Direct costs vary in direct proportion to changes in the related total activity or volume.
Fully allocated cost	When costs are fully allocated to services and products, the fully allocated cost of the services and products include their direct cost plus a proportional share of indirect costs. Note that fully allocated cost and the term "absorption cost" have the same meaning.
Fair market value	Fair market value means the price reached in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act.
Indirect cost	Indirect costs are 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. Indirect costs are fixed costs that can remain unchanged in total for a given time despite wide fluctuations in activity.
Non-regulated	Non-regulated refers to 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.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Regulated	Regulated refers to services and products that are subject to regulation by the Board.

Accounting Issues

Transfer Pricing and Principles Concerning the Allocation of Costs

The following principles related to the allocation of costs 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:

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 regulated utility 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.

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.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Affiliate Transactions

Subsection 2.3 of the Affiliates Relationships Code specifies the following standards of conduct that impact the accounting for transactions between the regulated utility and its affiliates:

1. Where a utility provides a service, resource or product to an affiliate, the utility shall ensure that the sale price is no less than the fair market value of the service, resource or product.

2. In purchasing a service, resource or product, from an affiliate, a utility shall pay no more than the fair market value. For the purpose of purchasing a service, resource or product a valid tendering process shall be evidence of fair market value.

3. Where a fair market value is not available for any product, resource or service, a utility shall charge no less than a cost-based price, and shall pay no more than a cost-based price. A cost-based price shall reflect the costs of producing the service or product, including a return on invested capital. The return component shall be the higher of the utility's approved rate of return or the bank prime rate.

4. A utility shall sell assets to an affiliate at a price no less than the net book value of the asset.

In addition, subsection 2.4 outlines the following standards regarding financial transactions with affiliates:

1. A utility may provide loans, guarantee the indebtedness of, or invest in the securities of an affiliate, but shall not invest or provide guarantees or any other form of financial support if the amount of support or investment, on an aggregated basis over all transactions with all affiliates, would equal an amount greater than 25 percent of the utility's total equity.

2. A utility shall ensure that any loan, investment, or other financial support provided to an affiliate is provided on terms no more favorable than what that affiliate would be able to obtain on its own from the capital markets and in all cases at no more favourable terms than the utility could obtain directly for itself in the capital markets.

Reference should be made to the Affiliate Relationships Code for additional requirements.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Documentation and Related Requirements

Pursuant to section 108 of the *Ontario Energy Board Act, 1998,* the energy returns officer and every other person so authorized by the Board may, for the purposes of this Act, the *Electricity Act, 1998* and the regulations made under those Acts, as applicable, conduct an audit, investigation or review.

For purposes of audit, investigation or review undertaken by the Board, regulated utilities are expected to meet the following requirements as they relate to affiliate transactions:

1. A utility shall maintain updated records in a form and manner as prescribed by the Board.

2. A utility shall be responsible for ensuring compliance with the Affiliate Relationships Code and shall:
   a. perform periodic compliance reviews;
   b. communicate the Code to its employees; and
   c. monitor its employees' compliance with the Code.

3. 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 Code. The Services Agreement shall include, among other items:
   a. the type, quantity and quality of service;
   b. pricing mechanisms; and
   c. cost allocation mechanisms.

4. Each entity that provides both regulated and non-regulated services or products shall maintain cost allocation documentation that is available for Board review. At a minimum, and in accordance with the subsection 2.8 of the Affiliate Relationships Code, the documentation should contain:

   a. a list of all affiliates with whom the utility transacts, including business addresses, a list of the officers and directors, and a description of the affiliates business activity;
   b. a corporate organization chart indicating relationships and ownership percentages; and
   c. the utility's specific costing and transfer pricing guidelines, tendering procedures and Services Agreements.

5. Where the total cost of transactions with a particular affiliate exceeds on an annual basis $100,000 the utility shall maintain, and make available upon request by the Board, separate records showing:
   a. the name of the affiliate;
   b. the product or service in question;
   c. the form of price or cost determination; and
   d. the start date and expected completion date of the transaction.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Clearing Accounts

Electric utilities that allocate overhead costs to more than one account may initially 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.

Note that clearing accounts have not been established in the USoA. Instead, it is expected that each electric utility will continue to 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:

- 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.
- The records shall be maintained in such a manner as to be readily accessible for examination by authorized representatives of the Board.
- The basis of overhead cost allocation should be reviewed periodically by the electric utility. 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.
- Any year-end residual balances remaining after regular distribution, if any, should be cleared on a basis that will distribute the costs equitably.

Examples of types of clearing accounts, possible methods of allocation of costs and year-end clearing of residual balances are provided below for illustrative purposes.

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 and Canada Pension Plan contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance.

Items to include 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, vested sick leave costs, employee training, 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. Most, if not all, labour burden costs do not apply when employees are paid overtime (since overtime is project specific and

therefore could be directly allocated and application of labour burden costs to overtime can distort relative product or service costing). Therefore, the burden rate shall be applied to regular time only.
Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. 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 plant and operating accounts on the same basis as the salaries were distributed to these accounts. The balance remaining would then be attributable to work order labour and the distribution would ordinarily be to plant and operating accounts on the same basis as the labour was distributed to these accounts.

Stores Operation
A stores operation clearing account may be used to accumulate the cost of materials used by electric utilities including the costs associated with the acquiring, handling and storing of materials in addition to the gross purchase price. Labour costs and associated payroll burden of staff working in stores operation, such as the stockkeeper, may be included in this account.

Common stores operations costs may 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 electric utility if this would result in a more equitable allocation of stores operation overhead.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. 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 and equipment, trailers and the like. 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 may include such costs as rolling stock operating and depreciation expense, including 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.

The method of allocating rolling stock operation overhead may be based on a per kilometre rate or per hour of use or available for use basis depending on the various types of rolling stock.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. 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.

Labour costs and the associated payroll burden of staff directly involved in detailed planning and design of utility 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.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. 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 Costs for Services Rendered to Non-Affiliated Entities

Where an electric utility provides a service (e.g. billing and collecting) to the local non-affiliated municipality or to another non-affiliated public utility, such as water or sewage, the charges to the entity should be fair and equitable. A periodic review of these charges should be conducted to ensure that they remain fair and equitable and in compliance with the principles, standards and conditions outlined in this Article.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

The method of calculating the charges for the services rendered should be calculated in accordance with some reasonable method of determining the customer utility's share of the operation involved. For example, the electric utility's total billing and collecting expenses could be allocated between the electric utility and the other public utilities for whom billing services were rendered based on the proportional number of bills rendered for each utility. Other acceptable methods of calculating the charge for the services rendered may involve other cost drivers such as the number of customers served, the number of vouchers passed in the case of a payable service, or a percentage of time allocation.

The costs related to the services rendered may be gathered using expense subaccounts.

Allocation of Joint Costs

Where an electric utility incurs costs (e.g. general administration, office staff salaries, and rent) jointly with another utility 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 and in compliance with the principles, standards and conditions outlined in this Article.

For example, the electric utility'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 utility's business. As another example, rent for shared accommodations could be allocated based on the floor area occupied by each utility's operations.

Application of Accounting Concepts

Allocation of Costs and Transfer Pricing

Application of Accounting Concepts

Performance Based Regulation

Table of Contents

Purpose and Scope

Pursuant to section 83 (1) of the O*EB Act, 1998,* the Board may establish standards, targets and criteria for evaluation of performance by transmitters, distributors and retailers.

For the purposes of this Article, the Board's authority to establish such performance standards, targets and criteria in order to measure the performance of electric utilities is referred to as Performance Based Regulation ("PBR").

The CICA Handbook does not provide any specific guidance for issues related to PBR. Accordingly, the purpose of this Article is to:

- describe the Board's authority to implement PBR; and
- identify the accounts that have been reserved in the Uniform System of Accounts (USoA) in anticipation of the implementation of PBR.

Application of Accounting Concepts

Performance Based Regulation

General Summary

This Article summarizes the Board's authority to measure electric utilities' performance against Board established performance standards, targets and criteria pursuant to the *OEB Act, 1998*.

At this time, PBR standards, targets and criteria have not been established. The Board intends to implement PBR using the due process of consultation. As PBR is defined and implemented, this Article will be updated as appropriate.

This Article also identifies the accounts that have been reserved in the USoA in anticipation of the implementation of PBR.

Accounting Issues

Authority to Implement Performance Based Regulation

The following sections of the *OEB Act, 1998* provide the Board with the authority to implement PBR:

- pursuant to section 70 (2) (g), the conditions of an electric utility's licence may include provisions specifying performance standards, targets and criteria.
- pursuant to section 83 (1), the Board may establish standards, targets and criteria for evaluation of performance by transmitters, distributors and retailers.
- pursuant to section 83 (2), the Board may have regard to the standards, targets and criteria referred to in section 83 (1) in exercising its powers and performing its duties under this or any other Act in relation to transmitters, distributors and retailers, including establishing the conditions of a licence.

PBR Accounts

The following Deferred Charges accounts have been provided in the USoA for PBR purposes:

- account 1570, Qualifying Transition Costs. When authorized or directed by the Board, this account shall be used to record transition costs that meet the qualifying criteria established in the Electric Distribution Rate Handbook. 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 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 in the Electric Distribution Rate Handbook. 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 utility has determined to be excessive and has decided to defer to future periods.

The following Deferred Credit account has been provided in the USoA for PBR purposes:

- account 2435, Accrued Rate-Payer Benefit. This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the PBR plan. This account will include related accrued interest.

The following Other Income/Deductions account has been provided in the UsoA for PBR purposes:

- account 4395, Rate-Payer Benefit Including Interest. This account shall be used to record the amounts returned to ratepayers, including interest, as part of the profit sharing mechanism incorporated in the PBR plan.

  The corresponding Deferred Credit account is 2435, Accrued Rate-Payer Benefit.

The following account has been provided in the USoA to be used to amortize amounts included in the above Deferred Charges accounts:

- account 5740, Amortization of Deferred Charges. This account shall include the amount of amortization charges relating to Deferred Charges and applicable to the current fiscal period.

Example items

Amortization of amounts relating to:

1. Qualifying Transition Costs included in account 1570.
2. Extraordinary Event Losses included in account 1572.
3. Deferred Rate Impact Amounts included in account 1574.
4. Miscellaneous Deferred Debits included in account 1525.

Application of Accounting Concepts

Performance Based Regulation

Accounting for Specific Items

Capital Assets

Table of Contents

Accounting for Specific Items

Capital Assets

c. Amortization Methods

General Summary
Accounting Issues

- **Amortization Methods**
- **Revision of Amortization Method/Estimated Useful Life**

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3060—Capital Assets, which establishes standards for the measurement, presentation and disclosure of capital assets by profit-oriented enterprises. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to:

- provide additional guidance in regard to capital asset accounting issues where further guidance specific to electric utilities is required; and

- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Accounting for Specific Items

Capital Assets

Definitions

Definitions and accounting treatment of the following capital asset issues are provided in CICA Handbook Section 3060—Capital Assets as well as other CICA Handbook sections and are listed below for ease of reference:

CICA Capital Asset Terminology	CICA Handbook Section References
Allowance for funds used during construction	Section 3060.26, 3850.02
Amortization	Sections 3060.31-.33, .35-.38
Assets	Sections 1000.29-.31
Betterment	Sections 3060.29-.30
Capital assets	Section 3060.04
Cost	Sections 3060.07, .18-.30, .34
Disposal (1)	Sections 3060.56-.57
Future removal and site restoration costs	Sections 3060.39-.41
Intangible properties	Sections 3060.06, .23
Net carrying amount	Section 3060.09
Net recoverable amount	Section 3060.10
Property, plant and equipment	Section 3060.05
Rate-regulated capital assets (1)	Section 3060.12 (see also page 5)
Rate-regulated enterprise	Section 3465.09 (k) (see also page 5)
Rental real estate	Section 3060.13
Residual value	Section 3060.14
Salvage value	Section 3060.15
Service potential	Section 3060.16
Useful life	Sections 3060.17, .36, .38
Write downs	Sections 3060.42-.55

Note (1) to Definitions

The CICA Handbook definition for rate-regulated assets recognizes that alternative treatment may be warranted for such assets due to special circumstances faced by rate-regulated enterprises. Accordingly, the CICA Handbook allows losses for disposals and write downs of rate-regulated assets to be deferred to the extent that the regulator allows these losses to be recovered from future rates. A detailed discussion of rate-regulated assets is provided in this Article in the subsection entitled "Capital Asset Cost Deferrals".

Accounting for Specific Items

Capital Assets

The following additional capital asset definitions are adopted for the purposes of the APHandbook as well as for this Article:

Capital Asset Terminology for Electric Utilities	**Definition**
Distribution asset	Pursuant to section 56 of the *OEB Act, 1998* 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.
Generation asset	Pursuant to section 56 of the *OEB Act, 1998* a generation asset is 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.
Grouped assets	Grouped assets are those assets that by their nature make identification of individual components impractical. Examples include transmission lines, distribution lines, low voltage transformers and low value meters.
Group basis of amortization	The group basis of amortization refers to a system of grouping assets for amortization purposes using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. The group system contemplates that some part of the investment in a group of assets will likely be recovered through salvage realizations, and that there will likely be variations in the service lives of the assets constituting the group, even among assets of the same class. The amortization provision determined for the group should be determined based on the estimated average useful life of the respective assets in the group.
Non-utility asset	A non-utility 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-utility capital assets should be accounted for separately from utility capital assets for the purposes of rate regulation to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business.

Accounting for Specific Items

Capital Assets

Readily identifiable asset	A readily identifiable asset is an asset that has a material unit cost for financial reporting purposes and is tracked on an individual unit basis. Examples include buildings, stations and rolling stock. Other examples could include high voltage pole type transformers, pad mounted transformers and meters of significant value.
Transmission asset	Pursuant to section 56 of the *OEB Act, 1998* a transmission asset is used to transmit electricity, and includes any system, structures, equipment or other things used for that purpose. Pursuant to section 89, a transmission asset would include a line, transformers, plant or equipment used for conveying electricity at voltages higher than 50 kilovolts.

a. Expenditures Qualifying As Capital Assets

General Summary

This subsection describes the process and specific criteria used for determining if expenditures should be capitalized on the balance sheet or expensed to operations in the period incurred. In this regard, this subsection covers the following related accounting issues:

- Asset Classification
- Asset Costs
- Asset Recognition—Capitalization Versus Expensing
- Betterments Versus Repairs
- Capital Asset Disposals and Write Downs
- Cost Deferrals

In addition, this subsection provides guidance on the accounting treatment of:

- Readily Identifiable Assets
- Grouped Assets
- Change in Accounting Policy for Spare Transformers and Meters
- Change in Accounting Policy for Poles, Conductors and Conduits
- Change in Accounting Policy for Contributions in Aid of Construction

The purpose of capitalizing expenditures is to provide for an equitable allocation of cost 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 amortization expense.

Accordingly, material expenditures relating to the acquisition or betterment of an asset should be capitalized as an asset and all other expenditures should be expensed in the accounting period incurred.

Accounting Issues

Asset Classification
For a complete discussion on asset classification, refer to CICA Handbook paragraphs 1000.29-.31 for the general definition of an asset and paragraphs 3060.04-.06 and 3060.12 for other related definitions.

In general, CICA Handbook paragraph 1000.29 defines assets as economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows, and, in the case of not-for-profit organizations, to provide services;

b) the entity can control 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.

In addition, in identifying a benefit, there must be:

a) an ability to earn income or supply a service;

b) a reasonable expectation that the benefit will be provided in future periods; and

c) the future period must be identifiable and greater than one year.

The CICA Handbook specifically defines a capital asset as identifiable assets comprising property, plant and equipment and intangible properties that meet all of the following criteria:

a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other capital assets;

b) have been acquired, constructed or developed with the intention of being used on a continuing basis; and

c) are not intended for sale in the ordinary course of business.

(CICA s. 3060.04)

In summary, in order for an expenditure to qualify as a capital asset, it should meet both the definitions of an asset and of a capital asset as discussed above.

Asset Costs

For the complete CICA Handbook discussion on determining the cost of capital assets, refer to CICA Handbook paragraphs 3060.07, .18, .20, .26 **-** .28 and .34.

A capital asset should be recorded at cost, which includes the purchase price and other acquisition costs such as: option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges.

For components of construction cost refer to Article 240, Definitions and Instructions, No. 20.

It should be noted that in determining the allowance for the cost of property 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 determine an allowance for the cost of the property.

Asset Recognition—Capitalization Versus Expensing

In order to recognize capital assets (i.e. by capitalizing the related costs on the balance sheet versus expensing these costs to operations), an expenditure should, subject to materiality considerations, meet the definitions of an asset and a capital asset (as discussed above under the heading "Asset Classification").

In regard to whether to capitalize intangible property costs, the CICA Handbook states that the degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies, and in many cases, the expected future benefits may be too uncertain to justify asset recognition. However, when future benefits are reasonably assured, such costs should be capitalized (subject to materiality considerations) (CICA s. 3060.23).

Betterments Versus Repairs

The CICA Handbook defines the terms "betterment" and "repair" in paragraph 3060.29.

A "betterment" is defined as the cost incurred to enhance the service potential of a capital asset. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved.

A "repair" is defined as the cost incurred in the maintenance of the service potential of a capital asset.

Accordingly, expenditures that meet the definition of a betterment should be capitalized while expenditures that meet the definition of a repair should be expensed.

Lastly, if a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment should be included in the cost of the capital asset.

Capital Asset Disposals and Write Downs

The CICA Handbook definition of rate-regulated assets recognizes that alternative accounting treatment may be warranted due to special circumstances faced by rate-regulated enterprises (see Article 100, page 7, for definition of rate-regulated enterprise).

Rate-regulated capital assets are defined as capital assets held for use in operations meeting 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
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 any capitalized costs.
(CICA s. 3060.12)

In spite of the current consideration and impending implementation of an alternative method of rate regulation, chiefly Performance Based Regulation (PBR), it is believed that the above definition for rate regulated enterprises will continue to be applicable because the proposed price cap in the first generation PBR will be based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also expected to be applicable for the second generation PBR given that it is proposed that a cost of service study will be performed prior to the rebasing of the price cap for the second generation.

As mentioned previously, the term "rate-regulated" as used in this APHandbook does not imply a specific methodology for approving or fixing of rates. Such methodologies are normally referred to as rate based, price cap, social contract, or incentive based regulation, etc. Instead, the term refers to the fact that rates, however determined, are subject to approval by a legislated body.

Note that under Generally Accepted Accounting Principles, losses resulting from capital asset disposals and write-downs are permitted to be deferred under certain specific circumstances. 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 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.
(CICA s. 3060.57)

In relation to capital asset write downs, the CICA Handbook states (as an additional consideration for rate-regulated enterprises) that in determining the net recoverable amount of a rate-regulated capital asset, the enterprise should consider the extent to which rates will provide for the recovery of the cost of the capital asset (CICA s. 3060.50).

In summary, in considering whether to defer or expense losses on capital asset disposals and write downs, electric utilities need to determine whether these losses are to be recovered from future rates. In general, 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.

Specific deferred gain, loss, and related revenue and expense accounts have been provided in the USoA for this purpose as listed below:

- 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. (See account 2040, Electric Plant Held for Future Use.)

- 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.)

- 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 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 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. 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 240-- Definitions and Instructions No. 21(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 240-- Definitions and Instructions No. 21(f)).

Cost Deferrals

For the purposes of this subsection, the cost of a transaction related to capital assets may be deferred when the regulatory process introduces certain specific cause-and-effect relationships in the matching of a utility'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 a betterment to the existing asset. Similarly, repairs due to property losses resulting from extraordinary events such as the January 1998 ice storm in Eastern Ontario may be deferred.

Normally, GAAP 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 and subsequent amortization to operations over a reasonable number of years.

In summary, the cost of a transaction related to capital assets may be deferred subject to the requirements of the regulatory process. 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 form 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.

- 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.

Accounting for Specific Items

Capital Assets

Readily Identifiable Assets
A readily identifiable asset is an asset that has a material unit cost for financial reporting purposes and is tracked on an individual unit basis. Accordingly, any capital asset that is readily identifiable in the plant records should be separately accounted for and amortized 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.

When retired or disposed of, the asset and related accumulated amortization should be removed from the books. Based on the CICA Handbook, any difference between the net proceeds on disposal and the net carrying amount should be recognized in income in the period (i.e. as a gain or a loss on disposal) unless there are other aspects of the transaction that would prevent recognition (CICA s. 3480.56).

Such gains or losses on asset retirement or disposal are considered to result from the risks inherent in an entity's normal business activities and are not considered to be extraordinary. In particular, transactions and events, regardless of size, resulting from normal business activities would not result in extraordinary items (i.e. gains and losses from write-down or sale of property, plant, equipment or other investments) (CICA s. 3480.04).

This CICA Accounting Recommendation differs from the guidance provided in the former Accounting for Municipal Electric Utilities in Ontario manual (section 5101—Fixed Assets Depreciation General, page 2 of 4) in regard to the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. Specifically, it was previously required that any gains and losses on the disposal of readily identifiable assets, if material, be classified as an extraordinary item. The CICA Handbook does not allow gains and losses from the disposal of assets resulting from normal business activities to be accounted for as extraordinary items. Consequently, the size or materiality of the gain or loss is not relevant in determining whether transactions or events should be classified as extraordinary items on the income statement.

A discussion of the recommended treatment of this change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Grouped Assets
Grouped assets are those assets that by their nature make identification of individual components impractical. The group basis of amortization refers to a system of grouping assets for amortization purposes using an amortization 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 individual units are not readily identifiable.

For the purposes of applying the USoA and for financial statement reporting purposes, electric utilities have the option of grouping assets that are not readily identifiable due to the following circumstances:

a) The CICA Handbook recognizes that it may be appropriate to group individually insignificant capital assets together (CICA s. 3060.19). As an example, for some electric utilities, the individual unit cost of certain assets such as transformers and meters does not justify the time and effort to maintain the detailed accounting systems that would be required to track such items.

b) The group basis of amortization 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 electric utilities to group assets provides symmetry with the method permitted for regulated gas utilities.

d) Allowing electric utilities to group assets recognizes the fact that some electric utilities perform less detailed accounting than others and avoids placing an undue burden that would be associated with requiring individually insignificant assets to be separately accounted for.

While the group basis of amortization is acceptable, electric utilities should consider using an ungrouped basis of amortization for pad mounted transformers and high voltage pole-type transformers as well as for those meters that are of material value.

In summary, assets, including those with varying service lives, may be grouped and amortized using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. The amortization provision determined for the group should be determined based on the estimated average useful life of the respective assets in the group. Assets remaining in use after reaching the end of their average useful life are not regarded as fully depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal, and shall be credited with the salvage value and any other amounts recovered. (See account 2105, item B).

Change in Accounting Policy for Spare Transformers and Meters
In most cases, spare transformers and meters should be accounted for as capital assets, as it is expected that:

a) the spare transformers and meters are not intended for resale and cannot be classified as inventory in accordance with CICA Handbook Section 3030;

b) the spare transformers and meters have a longer period of future benefit as compared to inventory items;

c) the spare transformers and meters form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant; and

d) the spare transformers and meters provide future benefits because they are expected to be placed in service.

A discussion of the recommended treatment of spare transformers and meters as capital assets (as opposed to inventory) and the resulting change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Change in Accounting Policy for Poles, Conductors and Conduit

Accounting for Specific Items

Capital Assets

It is recommended that poles, conductors and conduit that have been placed into service be accounted for using the following accounts provided in the USoA:

For transmission:
- account 1720, Towers and Fixtures
- account 1725, Poles and Fixtures
- account 1730, Overhead Conductors and Devices
- account 1735, Underground Conduit
- account 1740, Underground Conductors and Devices

For distribution:
- account 1830, Poles, Towers and Fixtures
- account 1835, Overhead Conductors and Devices
- account 1840, Underground Conduit
- account 1845, Underground Conductors and Devices
- account 1855, Services

A discussion of the recommended treatment of poles, conductors and conduit using the accounts specified above and the resulting change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Note that the accounting treatment of poles and conductors that have not been placed into service is dealt with in Article 420—Inventory.

Change in Accounting Policy for Contributions in Aid of Construction

To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of regulated gas utilities, capital assets funded through contributions in aid of construction and any related amortization expense will be eliminated from the electric utility's rate base and revenue requirement, respectively.

Contributions in aid of construction are to be recorded initially in the cash and customer deposit accounts when received in cash. When monies so received are spent on construction of the agreed upon assets, the cash and customer deposit accounts would be relieved and the value of the assets constructed set up in the capital asset accounts with an equal and offsetting entry to asset contra account 1995, Contributions and Grants-Credit.

Contributions in aid of construction received in the form of services or property should be recorded in the capital asset accounts with an equal and offsetting entry to contra asset account 1995, Contributions and Grants-Credit.

Account 1995, Contributions and Grants - Credit should be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts effectively eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

A discussion of the recommended treatment of contributions in aid of construction using asset contra account 1995, Contributions and Grants-Credit and the resulting change in accounting policy, is discussed in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Article 430—Development Charges and Contributions in Aid of Construction provides a complete discussion of the accounting treatment for Contributions in Aid of Construction.

b. Construction in Progress and Related Carrying Costs

General Summary

This subsection describes the recommended accounting treatment for construction in progress and related carrying costs, including interest on construction costs.

At year end, any capital assets under construction and related carrying costs, including interest, shall be included in "Construction in Progress". 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 capital asset account and amortization shall be calculated from that date.

Accounting Issues

Capitalization of Construction Costs

For the complete CICA Handbook discussion on construction in progress and related interest costs, refer to CICA Handbook paragraphs 3060.22, .23, .26 -.28.

The cost of a capital asset includes direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity (CICA s. 3060.22).

Additional guidance is found in Article 230, Definitions and Instructions, No. 20. Components of construction cost are to include where applicable, the cost of 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; allowance for funds used during construction; and such portion of overhead related costs as may be properly included in construction costs. Note that the capitalization policies for overhead related costs shall be approved by the Board.

Capitalization of Carrying Costs Including Interest Costs

In regard to the measurement of the carrying costs of a capital asset under construction and the capitalization of interest costs, the CICA Handbook notes that the cost of a capital asset that is acquired, constructed, or developed over time includes carrying costs directly attributable to the acquisition, construction, or development activity. For a rate-regulated capital asset, the cost includes the directly attributable allowance for funds used during construction ("AFUDC") allowed by the regulator (CICA s. 3060.26).

Consistent with the CICA Handbook, electric utilities will be allowed to include the cost to the utility for funds used for the purposes of construction. The AFUDC rate should be based on a reasonable allowance for the use of funds expended during the construction period, whether or not such funds have been borrowed for the purposes of the capital project. The appropriateness of the AFUDC rate used by the electric utility will be subsequently reviewed by the Board and will be approved based on the Board's assessment of the reasonableness of the allowance.

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 construction:

- account 6040, Allowance For Borrowed Funds Used During Construction–Credit. This account shall include concurrent credits for Allowance for borrowed Funds Used During Construction ("AFUDC") that has been capitalized during the fiscal year. The concurrent debit shall be to account 2055, Construction Work in Progress - Electric. The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved by the Board.

- account 6042, Allowance For Other Funds Used During Construction– Credit. This account shall include concurrent credits for allowance for other than borrowed funds used during construction. The concurrent credit shall be to account 2055, Construction Work in Progress - Electric. The rate of return shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved by the Board. The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period, whether or not such funds have been borrowed, and shall be approved by the Board.

Ceasing the Capitalization of Carrying Costs
The CICA Handbook specifies that capitalization of carrying costs should cease when a capital asset is substantially complete and ready for productive use. Determining when a capital asset, or a portion thereof, is substantially complete and ready for productive use requires consideration of the industry circumstances. Normally it would be predetermined by management with reference to such factors as productive capacity, occupancy level, or the passage of time (CICA s. 3060.27). The Board will review management's policies in this regard.

Inclusion of Net Revenue or Expense in Cost
The CICA Handbook recommends that net revenue or expense derived from the employment or use of a capital asset prior to substantial completion and readiness for use be included in the cost of the capital asset (CICA s. 3060.28).

Disclosure of Capitalized Interest
Disclosure considerations for capitalized interest are discussed in CICA Handbook Section 3850—Interest Capitalized, Disclosure Considerations.

Based on the CICA Handbook, electric utilities that have an accounting policy of capitalizing interest should disclose this policy as well as the amount of interest capitalized unless the interest capitalized is part of an allowance for funds used during construction when such enterprises disclose AFUDC in the period (CICA s. 3850.01).

c. Amortization Methods

Accounting for Specific Items

Capital Assets

General Summary

This subsection describes acceptable amortization methods and revisions to the amortization method and estimated useful life for capital assets.

The APHandbook does not provide prescriptive guidance for the amortization of capital assets but allows professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to the nature of the capital asset. Note that the Board may review the selected amortization methods, estimated useful lives and amortization rates, as it considers necessary.

Accounting Issues

Amortization Methods
The CICA Handbook states that amortization should be recognized in a rational and systematic manner appropriate to the nature of a capital asset (with a limited life) and to its use by the enterprise. The amount of amortization that should be charged to income is the greater of:

a) the cost less salvage value over the life of the asset; and

b) the cost less residual value over the useful life of the asset.
(CICA s. 3060.31)

The CICA Handbook recognizes that different methods of amortizing a capital asset result in different patterns of charges to income. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations. For example, an increasing charge method may be used when an enterprise can price its goods or services so as to obtain a constant rate of return on the investment in the capital asset. As another example, a decreasing charge method may be appropriate when the operating efficiency of the capital asset declines over time (CICA s. 3060.35).

Note that the CICA Handbook states that factors to be considered in estimating the life and useful life of a capital asset include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable terms (CICA s.3060.36).

In summary, the CICA Handbook does not provide prescriptive guidance for the amortization of capital assets but allows professional judgment to be used in choosing the method that allows 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 contrast, the former Accounting for Municipal Electric Utilities in Ontario manual (section 5102—Fixed Assets Depreciation Rates for General Plant Assets and section 5103—Fixed Assets Depreciation Rates for Other Capital Assets) provided set schedules of asset types, estimated useful life, and depreciation rates based on the straight line method of depreciation.

Accounting for Specific Items

Capital Assets

Consistent with the CICA Handbook, this APHandbook does not provide prescriptive guidance in terms of the amortization methods to be used, the asset categories, the estimated useful lives or amortization rates. Instead, it is expected that in the absence of an objective study to support changes to the current methods, lives or rates, utilities will continue to use methods, lives or rates consistent with past practice. Note that the Board may review the selected amortization methods, estimated useful lives and amortization rates, as it considers necessary.

Revision of Amortization Method/Estimated Useful Life
The CICA Handbook recommends that the amortization method and estimates of the life and useful life of a capital asset be reviewed on a regular basis (CICA s. 3060.37).

Furthermore, there may be a need to revise the amortization method or estimates of the life and useful life of a capital asset due to the following significant events:

a) a change in the extent the capital asset is used; or

b) a change in the manner in which the capital asset is used; or

c) removal of the capital asset from service for an extended period of time; or

d) physical damage; or

e) significant technological developments; or

f) a change in the law, environment, or consumer styles and tastes affecting the period of time over which the capital asset can be used.
(CICA s. 3060.38)

As an example specific to electric utilities, when a capital asset previously classified as experimental electric plant is placed into service and reclassified as electric plant in service, a significant change has occurred in the manner in which the capital asset is used. Accordingly, the amortization method and estimated useful life of a capital asset should be reviewed and revised accordingly in order to comply with GAAP.

Note that in accordance with the CICA Handbook, such a change would be treated as a change in accounting estimate because the change in the method of amortization in this example results from changed circumstances, experience or new information (CICA s. 1506.23). The effect of a change in an accounting estimate should be accounted for in:

a) the period of change, if the change affects the financial results of that period only; or

b) the period of change and applicable future periods, if the change affects the financial results of both current and future periods.
(CICA s. 1506.25)

Accounting for Specific Items

Capital Assets

Accounting for Specific Items

Inventory

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3030—Inventories, which establishes standards for the measurement, presentation and disclosure of inventory. Accordingly, this subsection should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide additional guidance in regard to inventory accounting issues where further guidance specific to electric utilities is required.

Accounting for Specific Items

Inventory

General Summary

This Article discusses the former Accounting for Municipal Electric Utilities in Ontario manual (section 5250—Inventory, page 1 and section 5101—Fixed Assets Depreciation General, page 4 of 4), which recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be accounted for as inventory.

Note that the accounting treatment for spare transformers and meters is found in Article 410—Capital Assets and Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*. These two Articles should be directly referred to for guidance in the accounting treatment of these items as capital assets as opposed to inventory. The treatment of this change in accounting policy is also dealt with in those Articles.

In most cases, spare transformers and meters should be accounted for as capital assets because these items:

- are not intended for resale,
- cannot be classified as inventory in accordance with the CICA Handbook,
- have a longer period of future benefit as compared to inventory items, and,
- form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Materials purchased or returned to stores for future use, that can be classified as "merchandise purchased for resale", "raw materials that are to enter into production" and "inventories of work in process and finished goods", should be accounted for as inventory. This would include, for example, poles, conductors, and water heaters purchased for future use.

This Article also provides a brief discussion of acceptable inventory cost determination methods as fully discussed in CICA Handbook Section 3030—Inventories.

Definitions

Definitions and accounting treatment of the following inventory issues are provided in CICA Handbook Section 3030—Inventory and are listed below for ease of reference:

CICA Inventory Terminology	**CICA Handbook Section References**
Average costing	Section 3030.07 (b)
Cost	Sections 3030.01-06
First In, First Out (FIFO) costing	Section 3030.07 (c)
Last In, First Out (LIFO) costing	Section 3030.07 (d)
Specific item costing	Section 3030.07 (a)

Accounting for Specific Items

Inventory

Other Terminology used in this APHandbook	Definition
Spares	Assets that are not intended for resale, cannot be classified as inventory in accordance with CICA Handbook Section 3030, have a longer period of future benefit as compared to inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Accounting Issues

Treatment of Spare Transformers and Meters as Capital Assets

CICA Handbook Section 3030—Inventories does not specifically define inventory. However, in the discussion of inventory cost elements, references are made to definitions of " merchandise purchased for resale", "raw materials which are to enter into production" and "inventories of work in process and finished goods".

A formal definition provided in the CICA publication entitled "Terminology for Accountants, Fourth Edition" (page 117), defines inventory as:

> Items of tangible property that are held for sale in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale.

The former Accounting for Municipal Electric Utilities in Ontario manual (section 5250—Inventory, page 1) recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be classed as inventory. In addition, section 5101—Fixed Assets Depreciation General (page 4 of 4) recommended that when meters, transformers and water heaters are removed from service, inventory is debited and current year's additions to fixed assets is credited with the market value of the material removed. When items in these categories are subsequently returned to service, inventory is credited and that year's additions to fixed assets is debited with the value established when the material was previously removed from service.

The above Accounting for Municipal Electric Utilities in Ontario recommendations, as they apply to spare transformers and meters, are replaced by Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection "Change in Accounting Policy for Spare Transformers and Meters"). That Article provides a complete discussion of the classification issues leading to the recommendation that that spare transformers and meters be accounted for as a capital asset (i.e. capitalized and amortized over the estimated useful life of the original distribution plant to which they relate) and should be referred to for the treatment of this change in accounting policy.

Accounting for Specific Items

Inventory

Note that Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection "Change in Accounting Policy for Spare Transformers and Meters") makes a clear distinction between regular inventory items and items held as spare capital assets. In most cases, spare transformers and meters should be accounted for as capital assets as they are not intended for resale, cannot be classified as inventory in accordance with CICA Handbook Section 3030, have a longer period of future benefit than do inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Treatment of Poles, Conductors and Water Heaters as Inventory

Assets that can be classified as "merchandise purchased for resale", "raw materials which are to enter into production" and "inventories of work in process and finished goods" should be accounted for as inventory. This would include, for example, poles, conductors, and water heaters purchased for future use.

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 (includes poles and conductors). This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. It shall also include 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 depreciation provision, respectively.
- account 1340, Merchandise (includes water heaters). This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising, jobbing, etc. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.
- account 1350, Other 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 capital asset or expense accounts would be debited by the related amounts. For guidance as to the accounting treatment of poles and conductors classified as capital assets, refer to Article 410—Capital Assets (see subsection "Poles, Conductors and Conduit") and Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection "Change in Accounting Policy for Poles, Conductors and Conduit").

Accounting for Specific Items

Inventory

Acceptable Methods of Cost Determination

This subsection provides a summary of acceptable inventory cost determination methods as fully discussed in CICA Handbook Section 3030—Inventories.

The CICA Handbook states that the selection of the most suitable method for determining the cost will depend upon the particular circumstances of each enterprise and the industry in which it is engaged. In some cases, the choice of method may have little effect on the financial statements. In other cases, where the choice of method of inventory valuation is an important factor in determining income, the most suitable method for determining cost is that which results in charging against operations the costs that most fairly match the sales revenue for the period. The method selected for determining cost should be one that results in the fairest matching of costs against revenues regardless of whether or not the method corresponds to the physical flow of goods.

The methods of cost determination in most common use are specific item costing, average costing, First In, First Out (FIFO) and Last In, First Out (LIFO).

It should be noted that the CICA Handbook does not provide prescriptive guidance for the valuation of inventory but allows professional judgment to be applied.

Consistent with the CICA Handbook, this APHandbook does not provide prescriptive guidance in terms of the inventory valuation methods to be used. Instead, it is expected that electric utilities 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 electric utilities use 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 electric utilities.

Accounting for Specific Items

Inventory

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

Table of Contents

Purpose and Scope

The purpose of this Article is to provide information on the accounting for development charges and contributions in aid of construction.

General Summary

This Article 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.

Development Charges
Part XI of the *Electricity Act*, *1998* specifies transitional requirements associated with the conversion of existing Municipal Electric Utilities ("MEUs") to corporations that will be incorporated under the *Ontario Business Corporations Act*. Development charge funds will be transferred to the incorporated electric utility along with the related obligations to expend the funds on qualifying growth-related capital assets. As a result, USoA accounts have been provided to record the Development Charge deposit/ receivable, liability, and equity amounts associated with those funds.

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

Contributions in Aid of Construction
To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of gas utilities, capital assets funded through contributions in aid of construction and any related amortization expense will not be allowed to be included in the electric utility's rate base and revenue requirement, respectively.

An asset contra account 1995, Contributions and Grants-Credit, will be used to identify contributions in aid of construction received by the utility. Amounts in account 1995, will be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts effectively eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

Definitions

The following definition is adopted for the purposes of the APHandbook as well as for this specific subsection:

Development Charge Terminology for Electric Utilities	**Definition**
Development charges	Amounts collected under the authority of *the Development Charges Act, 1997* or predecessor legislation.

Accounting Issues

Development Charges Transferred to the Electric Utility Incorporated Under Part XI of the *Electricity Act, 1998*

Part XI of the *Electricity Act, 1998* specifies the transitional requirements associated with the conversion of existing MEUs to corporations incorporated under the *Ontario Business Corporations Act*. The transition will require development charge funds collected under the authority of the *Development Charges Act, 1997* or its predecessor Acts, to be transferred from the municipality and/or the MEU to the incorporated electric utility. In the future, neither will the incorporated electric utility nor the municipalities be permitted to collect development charges on behalf of the incorporated electric utility.

Pursuant to section 148 (2) of the *Electricity Act, 1998*, any amount transferred under a transfer by-law to the incorporated electric utility shall be used by the transferee only to pay for capital costs in respect of electrical power services for which the amount transferred was collected.

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

The accounting treatment for development charges transferred to the incorporated electric utility pursuant to the transitional requirements specified in Part XI of the *Electricity Act, 1998* and pursuant to the *Development Charges Act, 1997* is discussed below.

A non-current asset account, non-current liability account and a special equity account have been established in the USoA to account for transactions pertaining to development charges transferred to the incorporated electric utility.

The asset account is:

- account 1545, Development Charge Deposits/Receivables. The purpose of this account is to record funds received or receivable in respect of future capital expenditures pursuant to Part XI of the *Electricity Act, 1998*. It recognizes that these funds should be accounted for separately. Interest earned on the funds must revert back to the fund and is not available for normal operating purposes.

Until the development charges collected are expended on qualifying growth-related capital projects, a non-current liability account is required to reflect the obligations associated with these funds. Accordingly, the following account is provided for in the USoA:

- account 2330, Development Charge Fund. The purpose of this account is to record the liability associated with funds collected for specific, future capital works. This account has been established pursuant to Part XI of the Electricity Act, 1998. This account recognizes that there is an obligation to complete a specific capital work for which the funds were collected. The liability will increase each year by the amount of interest income earned on the fund. Once the obligation to complete the capital work has been fulfilled, the related amount shall be transferred to account 3022, Development Charges Transferred to Equity. In the interim, this account shall also be used to record the liability associated with funds collected prior to incorporation of the electric utility.

In the future, the use of the development charge accounts will cease as the existing development charge funds are converted into the assets to which they relate. As the development charge funds are expended on the capital projects to which they relate, the amounts in the non-current liability account should be transferred to the following USoA account:

- account 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.

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

Contributions in Aid of Construction

This subsection provides the accounting treatment for contributions in aid of construction. In general, contributions in aid of construction may be received in the form of monies (i.e. collected as an average charge), services or property (i.e. capital assets constructed by the developer and transferred to the incorporated electric utility).

In considering the regulatory treatment of contributions in aid of construction, the Board notes that MEUs were permitted to collect contributions in aid of construction. MEUs were able to earn a return on capital assets funded through contributions in aid of construction (i.e. these capital assets were allowed to be included in the MEUs rate base). In addition, the amortization expense associated with these capital assets was allowed to be included in the MEUs revenue requirement.

The past treatment of contributions of aid of construction for electric utilities is inconsistent with the treatment of contributions of aid of construction for regulated gas utilities. First, gas utilities do not include capital assets funded through contributions in aid of construction in the rate base. Second, gas utilities do not include amortization expense associated with capital assets funded through contributions in aid of construction in their revenue requirement.

To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of gas utilities, capital assets funded through contributions in aid of construction and any related amortization expense will not be allowed to be included in the electric utility's rate base and revenue requirement, respectively. When capital assets funded through contributions in aid of construction require rebuilding and therefore funding, the need to collect contributions will be demonstrated through a profitability evaluation presented to the Board.

As of a date to be determined by the Board
When contributions of 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 Portion of Customer Deposits and account 2335, Long Term Customer Deposits.

When these monies are spent on the construction of capital assets, the cash and deposit accounts would be relieved 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 capital assets. To record the value of the contributions in aid of construction, an entry should be made to account 1995, Contributions and Grants - Credit.

When contributions of 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 and the asset contra account (account 1995, Contributions and Grants - Credit).

It should be noted that account 1995, Contributions and Grants - Credit, should be amortized. Given that this account is an asset contra account, amortization should be recorded by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts. Accordingly, amortization expense related to capital assets funded through contributions in aid of construction will be effectively eliminated from the determination of the electric utility's revenue requirement.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario manual account 540, Equity Accumulated Through Contributed Capital, should be transferred to USoA equity account 3030, Miscellaneous Paid-in Capital. Supporting documentation should be maintained for each contribution transferred to this USoA account.

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

Accounting for Specific Items

Future Income Taxes

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3465—Income Taxes, which establishes standards for the recognition, measurement, presentation and disclosure of income and refundable taxes in an enterprise's financial statements, with limited application for certain rate regulated enterprises. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Accounting for Specific Items

Future Income Taxes

General Summary

This Article summarizes the underlying concepts for the accounting treatment of "future income taxes" (formerly referred to as "deferred income taxes") as fully explained in CICA Handbook Section 3465—Income Taxes and describes how "future income taxes" may be accounted for by rate-regulated enterprises.

The CICA Handbook states that a rate-regulated enterprise need not recognize future income taxes in accordance with the Accounting Recommendations in CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future and are expected to be recovered from future customers (CICA s. 3465.102).

The CICA Handbook also states that a rate-regulated enterprise that chooses to recognize future income taxes despite the expectation that they will be included in the rates charged to customers in the future would recognize all future income tax liabilities and future income tax assets in accordance with the requirements of CICA Handbook Section 3465—Income Taxes (CICA s. 3465.104).

It should be noted that the method of accounting for future income taxes will not affect the manner in which just and reasonable rates are set by the Board and the accounts provided in the Uniform System of Accounts (USoA) are provided only for the convenience of the electric utility.

Definitions

Definitions and accounting treatment of the following future income tax issues are provided in CICA Handbook Section 3465—Income Taxes and are listed below for ease of reference:

CICA Future Income Taxes Terminology	**CICA Handbook Section References**
Cost (benefit) of current income taxes	Section 3465.09 (g)
Cost (benefit) of future income taxes	Section 3465.09 (h)
Future income tax assets	Section 3465.02, .04, .05, .07, .09 (d), .10, .15
Future income tax liabilities	Section 3465.03-.04, .07, .09 (e), .10
Income taxes	Section 3465.09 (a)
More likely or not	Section 3465.09 (i)
Public enterprise	Section 3465.09 (j)
Rate-regulated enterprise	Section 3465.09 (k), .102-.104 (See also page 8 of Article 410)
Refundable taxes	Section 3465.09 (b), 3465.71-.78
Taxable income (tax loss)	Section 3465.09 (f)
Temporary differences	Section 3465.09 (c), .11-.17

Accounting for Specific Items

Future Income Taxes

Accounting Issues

Future Income Taxes

This subsection summarizes the underlying concepts for the accounting treatment of “future income taxes” (formerly referred to as “deferred income taxes”) as fully explained in CICA Handbook Section 3465—Income Taxes.

The CICA Handbook sets out standards for the financial statement presentation of the tax benefits and costs related to an income tax asset or liability, and the effects of subsequent adjustment of the corresponding tax liabilities and assets. It also sets out standards for the presentation of assets and liabilities related to income taxes currently payable or recoverable and disclosure requirements for information related to income taxes.

A fundamental principle in the preparation of financial statements is that an asset will be realized for at least its carrying amount in the form of future economic benefits. 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 (CICA s. 3465.02).

Another fundamental principle in the preparation of financial statements is that a liability will be settled for its carrying amount through the future transfer or use of assets, provision of services or other yielding of economic benefits. In some cases, settlement of the liability for the carrying amount will 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 (CICA s. 3465.03).

Consequently, the resulting future tax outflows or inflows from the realization of assets and settlement of liabilities at their carrying amounts meet the conceptual definitions of assets and liabilities. Therefore, a future income tax asset or future income tax liability would be recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount (CICA s. 3465.04).

The assets or liabilities arising from the recognition and measurement of such tax outflows or inflows are referred to as "future income tax assets” and “future income tax liabilities” respectively. Future income tax assets are defined as the amounts of income tax benefits arising in respect of:

a) deductible temporary differences;

b) the carryforward of unused tax losses; and

c) the carryforward of unused income tax reductions, except for investment tax credits.
(CICA s. 3465.09 (d))

Accounting for Specific Items

Future Income Taxes

Future income tax liabilities are defined as the amounts of income taxes arising from taxable temporary differences (CICA s. 3465.09 (e)).

Accounting Treatment of Future Income Taxes for Rate-Regulated Enterprises

This subsection specifies how future income taxes may be accounted for by electric utilities in accordance with CICA Handbook Section 3465—Income Taxes.

The CICA Handbook specifically states that a rate-regulated enterprise need not recognize future income taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future and are expected to be recovered from future customers. However, the rate-regulated enterprise should disclose the following, in addition to the other income tax disclosure requirements specified by CICA Handbook sections 3465.91 and 3465.92:

a) the reason why future income tax liabilities and future income tax assets have not been recognized; and

b) the amount of future income tax liabilities, future income tax assets and future income tax expense that have not been recognized.

Furthermore, the CICA Handbook recommends that pending further study of accounting for rate-regulated enterprises as a whole, rate-regulated enterprises are not required to record future income taxes for temporary differences that arise from assets and liabilities relating to their rate-regulated activities to the extent that these future income taxes will be included in the rates charged to customers in the future and will be recoverable at that time (CICA s. 3465.103).

Where future income taxes are not expected to be included in approved rates or where a rate-regulated enterprise chooses to recognize future taxes despite inclusion in the approved rates, future income tax liabilities and future income tax assets would be recognized in accordance with the normal requirements of CICA Handbook Section 3465.

Regulatory Treatment of Future Income Taxes for Electric Utilities

The method of accounting for future income taxes will not affect the manner in which the Board approves just and reasonable rates. Should an electric utility choose to recognize future income taxes in accordance with CICA Handbook Section 3465—Income Taxes, the following accounts have been provided in the USoA:

- account 2296, Future Income Taxes - Current. This current liability account is provided for those electric utilities that choose to record future income taxes in accordance with CICA Handbook Section 3465—Income Taxes. The current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.

- account 2350, Future Income Taxes - Non-Current. This account is provided for those entities that choose to record future income taxes in accordance with the Recommendations of CICA Handbook Section 3465—Income Taxes as applicable. The non-current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.

- account 6115, Provision for Future Income Taxes. The balance in this account shall represent the amount provided for future income taxes in the fiscal year. The offsetting entry to this provision should be to account 2296, Future Income Taxes - Current for any future income taxes provided with respect to any current timing differences and/or to account 2350, Future Income Taxes - Non-Current with respect to any non-current timing differences.

Payments In Lieu of Taxes

If the electric utility is subject to Payments in Lieu of Taxes ("PILs") and chooses to account for future income taxes, it should use the future income tax accounts listed above to account for any balances. However, in order to record the PILs payable within the period, the utility should use the following accounts:

- account 2294, Accrual for Taxes, "Payments In Lieu of Taxes", Etc. 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.

- account 6105, Taxes Other Than Income Taxes. This account shall include the amounts of ad valorem, gross revenue or gross receipts taxes, "payments-in-lieu of 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.

Accounting for Specific Items

Future Income Taxes

Accounting for Specific Items

Deposits and Collateral Funds

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on:

- CICA Handbook Section 3000—Cash, which specifies certain exclusions from current assets.
- CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation, which prescribes certain requirements for presentation of recognized financial instruments and identifies the information that should be disclosed about both recognized and unrecognized financial instruments.

Accordingly, this Article should be read in conjunction with the CICA Handbook.

Accounting for Specific Items

Deposits and Collateral Funds

General Summary

This Article provides guidance on the accounting treatment of deposits and collateral funds where further guidance specific to electric utilities is required.

Deposits may be collected to guarantee payment of energy bills, performance of contract requirements or payment of construction costs. Collateral funds are customer or other types of funded deposits that have been pledged as security and segregated in special funds.

It is recommended that, at the time of acceptance, bearer bonds received as collateral should be recorded at market value. In regard to the measurement of performance bonds, power bonds and letters of credit, it is recommended that these types of unfunded deposits not be recorded on the books of the utility since they are contingent on a future event that may or may not occur.

This Article also summarizes the underlying concepts for the accounting treatment of financial instruments in accordance with the Accounting Recommendations of CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation.

The Board has not established investment guidelines in the past but reserves the right to review the implications of investment decisions on utility operations.

Definitions

Definitions and accounting treatment of the following items related to deposits and collateral funds are provided in CICA Handbook Section 3860—Financial Instruments and are listed below for ease of reference:

CICA Inventory Terminology	**CICA Handbook Section References**
Equity instrument	Section 3860.05 (d)
Fair value	Section 3860.05 (f)
Financial asset	Section 3860.05 (b)
Financial instrument	Sections 3860.05 (a), .09
Financial liability	Section 3860.05 (c)
Market value	Section 3860.05 (g)

Accounting for Specific Items

Deposits and Collateral Funds

Accounting Issues

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).

In regards to the measurement of cash equivalent type deposits, CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation does not prescribe the basis on which financial assets are recognized and measured. However, the following approaches may be considered:

a) assigning to the less easily measurable component (often an equity instrument) the residual amount after deducting from the instrument as a whole the amount separately determined for the component that is more easily measurable; and

b) measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. (CICA s. 3860.29)

The CICA Handbook concludes that the sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the carrying amount that would be ascribed to the instrument as a whole. No gain or loss arises from recognizing and presenting the components of the instrument separately.

CICA Handbook paragraph 3860.15 states that the ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. The section concludes that, while a contingent right and obligation may meet the definition of a financial asset and a financial liability, many such assets and liabilities do not qualify for recognition in financial statements.

As a result, a financial asset with an absolute right and obligation (e.g. bearer bonds) should be recognized in the financial statements, at market 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 as outlined later in this Article (see "Financial Statement Note Disclosure - Deposits and Collateral Funds").

In regard to financial statement presentation, CICA Handbook Section 3000—Cash specifies that the following should be excluded from current assets:

a) cash subject to restrictions that prevent its use for current purposes; and

b) cash appropriated for other than current purposes unless such cash offsets a current liability.

Essentially, 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.

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 on hand.

  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, Long Term 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

Collateral funds are customer 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, 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.

Financial Instruments

This subsection summarizes the underlying concepts contained in CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation, which provides guidance related to the accounting treatment of financial instruments.

The CICA Handbook prescribes certain requirements for presentation of recognized financial instruments and identifies the information that should be disclosed about both recognized and unrecognized financial instruments.

CICA Handbook paragraphs 3860.18-42 provide Accounting Recommendations dealing with the classification of financial instruments as liabilities and equity, the recording of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities should be offset.

Accounting for Specific Items

Deposits and Collateral Funds

CICA Handbook paragraphs 3860.43-95 provide Accounting Recommendations dealing with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. In addition, these paragraphs encourage disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes that they serve, the risks associated with them and management's policies for controlling those risks.

It should be noted that the CICA Handbook does not prescribe the basis on which financial assets and financial liabilities are recognized and measured.

The following balance sheet accounts have been provided in the USoA to record financial instrument assets and liabilities:

- 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, Long Term 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 Long Term 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.

Accounting for Specific Items

Deposits and Collateral Funds

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. 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.

- 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. 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.

Financial Statement Note Disclosure - Deposits and Collateral Funds

Financial statement disclosure items are mentioned here solely for the benefit of the reader in determining other record keeping requirements that may be needed in addition to the requirements of the USoA and this APHandbook.

Financial statement note disclosure requirements for financial instruments are fully discussed in CICA Handbook Section 3860, paragraphs 3860.43-95. This subsection provides a summary of those CICA Accounting Recommendations relevant to deposits and collateral funds.

The CICA Handbook places significant obligations on financial statement preparers to provide disclosure regarding the terms and conditions, risk exposures due to interest rates or credit quality, and information about the fair value of the financial instruments.

The Board anticipates that in most cases, electric utilities will hold securities for deposits and collateral funds in high quality readily marketable government-backed bonds or debentures. Financial statement disclosures with respect to such funds will be relatively straightforward but should provide summarized information regarding the nature of securities held in the portfolio, market values and other terms necessary to satisfy CICA Handbook disclosure requirements.

If other types of financial instruments are being used, a detailed review of the accounting and disclosure requirements of CICA Handbook Section 3840 and expert professional advice will be warranted.

When an entity carries one or more financial assets at an amount in excess of their fair value, the CICA Handbook recommends the following disclosure:

a) the carrying amount and the fair value of either the individual assets, or appropriate groupings of those individual assets; and

b) the reasons for not reducing the carrying amount, including the nature of the evidence that provides the basis for management's belief that the carrying amount will be recovered.
(CICA s. 3860.89)

Additional disclosures are encouraged when they are likely to enhance financial statement users' understanding of financial instruments. It may be desirable to disclose such information as:

a) the total amount of the change in the fair value of financial assets and financial liabilities that has been recognized as income or expense for the period;

b) the total amount of deferred or unrecognized gain or loss on hedging instruments other than those relating to hedges of anticipated future transactions; and

c) the average aggregate carrying amount during the year of recognized financial assets and financial liabilities, the average aggregate principal, stated, notional or other similar amount during the year of unrecognized financial assets and financial liabilities and the average aggregate fair value during the year of all financial assets and financial liabilities, particularly when the amounts on hand at the balance sheet date are unrepresentative of amounts on hand during the year.
(CICA s. 3860.95)

Accounting for Specific Items

Reserves

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3260—Reserves, which provides guidance on the accounting for reserves. Accordingly, this Article should be read in conjunction with CICA Handbook Section 3260—Reserves.

The purpose of this Article is to provide additional guidance in the accounting for reserves where further guidance specific to electric utilities is required.

General Summary

CICA Handbook Section 3260—Reserves provides guidance on the use of reserves.

Reserves must be accounted for and reported in accordance with GAAP. Reserves are appropriations of retained earnings or surplus and as such are not “expenses”. Specifically, increases or decreases in reserves are not to be a factor in determining net income for the period but are to be shown as an increase or decrease in the statement of retained earnings. Accounts have been provided in the USoA to maintain reserves.

Accounting for Specific Items

Reserves

Definitions

CICA Reserves Terminology	CICA Handbook Section References
Use of the term "reserve"	Section 3260.01

Accounting Issues

Use of Reserves by Electric Utilities

In some cases, electric utilities have established reserves. GAAP permits the use of reserve accounts. However, specific accounting and disclosure requirements must be met. This subsection will outline these requirements for those electric utilities that may wish to continue their reserves subsequent to incorporation pursuant to the *Electricity Act*, 1998. Reference should be made to CICA Handbook Section 3260—Reserves.

Key aspects to be considered in the accounting for reserve accounts by electric utilities are:

1. Based on CICA Handbook Section 3260—Reserves, the use of the term "reserve" should be limited to an amount, which though not required to meet a liability or contingency known or admitted or a decline in value that has already occurred as at the balance sheet date, has been appropriated from retained earnings or other surpluses:

   a) at the discretion of management, e.g. reserve for future decline in inventory values, reserve for general contingencies, reserve for future plant extension; or

   b) pursuant to the requirements of a statute, the instrument of incorporation or by-laws of a company or trust indenture, or other agreement, e.g. sinking fund reserve, general reserve, preferred stock redemption reserve.

2. Reserves are appropriations of retained earnings or surplus and as such are not "expenses". Specifically, increases or decreases in reserves are not to be a factor in determining net income for the period but are to be shown as an increase or decrease in the statement of retained earnings. The following accounts are provided for in the USoA as a control account for the electric utility's reserves:

   - account 3040, Appropriated Retained Earnings. This account shall include retained earnings set aside or reserves maintained by the utility that 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.

   - account 3047, Appropriations of Retained Earnings – Current Period.

Accounting for Specific Items

Reserves

3. Reserves are part of the electric utility's equity and should be reported as such in the financial statements.

4. The electric utility's accounts should be maintained in a manner to facilitate determining any changes in reserves during the period and the financial statements should disclose information to allow the reader to determine the nature of changes in reserves.

Accounting for Specific Items

Reserves

Accounting for Specific Items

Pension Costs and Obligations

Table of Contents

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3460—Pension Costs and Obligations, which deals with the accounting for and disclosure of pension costs and obligations in the financial statements of an enterprise that has established a pension plan or plans to provide retirement income benefits to its employees. CICA Handbook Section 3460—Pension Costs and Obligations applies to all plans whether or not employees make contributions to the pension plan. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide additional guidance in regard to pension issues where further guidance specific to electric utilities is required.

Accounting for Specific Items

Pension Costs and Obligations

General Summary

This Article begins by summarizing the underlying concepts for the accounting treatment of pension costs and obligations as fully explained in CICA Handbook Section 3460—Pension Costs and Obligations.

This Article summarizes the relevant transitional requirements of Part XI of the *Electricity Act, 1998* that pertain to the conversion of existing MEUs to corporations incorporated under the *Ontario Business Corporations Act* and the resulting transfer of existing pension costs and obligations from MEUs to the incorporated electric utility.

Schedule D of the *Energy Competition Act, 1998* is discussed as it provides the required amendments to the Ontario Municipal Employees Retirement System ("OMERS") Act that allows incorporated electric utilities and their employees to continue their pension plan arrangements under OMERS.

The Article also discusses the accounting treatment of multi-employer pension plans such as OMERS. The accounting requirements are relatively straightforward for these since the cost of pension benefits for such plans is equal to the employer's required contribution provided in exchange for employees' service rendered in the period.

In regard to single employer pension plans, pension costs and obligations associated with a defined benefit pension plan should be accounted for in accordance with CICA Handbook Paragraphs 3460.10-61. Pension costs and obligations associated with a defined contribution pension plan should be accounted for in accordance with CICA Handbook Paragraphs 3460.64-75.

This Article discusses vested sick leave as a specific accounting issue. 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.

Lastly, the new CICA Handbook section (issued in March 1999) that will replace CICA Handbook Section 3460—Pensions Costs and Obligations is discussed. The new CICA Handbook section applies to benefits earned by employees that are expected to be provided to them when they are no longer providing active service. According to the new section, an entity will be required to recognize a liability and an expense for employee future benefits provided by a defined benefit plan in the period in which employees render services to the entity in return for the benefits.

Accounting for Specific Items

Pension Costs and Obligations

Definitions

Definitions and accounting treatment of the following pension issues are provided in CICA Handbook Section 3460—Pension Costs and Obligations and are listed below for ease of reference:

CICA Pension Terminology	**CICA Handbook Section References**
Accrued pension benefits	Section 3460.03 (n)
Actuarial assumptions	Section 3460.03 (f), .11
Actuarial present value	Section 3460.03 (e), 11
Actuarial valuation	Section 3460.03 (d), 10-14
Actuarial valuation methods	Section 3460.03 (h), .12, .18-.28
Best estimate assumptions	Section 3460.03 (g), .15-.17
Cost of pension benefits	Section 3460.03 (o), .18-.28, .64
Defined benefit pension plan	Section 3460.03 (b), 08, 10-63
Defined contribution pension plan	Section 3460.03 (c), 09, 64-75
Expected average remaining service life of an employee group	Section 3460.03 (j)
Experience gain or loss	Section 3460.03 (k), .47-.52
Multi-employer pension plan	Section 3460.03 (p), .62-.63
Past service costs	Section 3460.35-.43, .66-.71
Pension fund assets	Section 3460.03 (i), .29-.34
Pension plan	Section 3460.03 (a), 04
Pension plan curtailment	Section 3460.03 (m), .05, .53-.55
Pension plan settlement	Section 3460.03 (l), .05, .53-.55
Vesting	Section 3460.06

Accounting Issues

Pension Costs and Obligations

This subsection summarizes the underlying concepts for the accounting treatment of pension costs and obligations as fully explained in CICA Handbook Section 3460—Pension Costs and Obligations.

CICA Handbook Section 3460—Pension Costs and Obligations deals with the accounting for, and disclosure of, pension costs and obligations in the financial statements of an enterprise that has established a pension plan or plans to provide retirement income benefits to its employees. It applies to all plans whether or not employees make contributions to the pension plan.

Accounting for Specific Items

Pension Costs and Obligations

Proper accounting and disclosure of pension costs and obligations is important because the method of accounting for pension costs and obligations affects the reported net income and financial position of an enterprise. It also affects the comparability of an enterprise's financial statements from one period to another, and with the financial statements of other enterprises (CICA s. 3460.02).

A pension plan is defined as any arrangement (contractual or otherwise) by which a program is established to provide retirement income to employees (CICA s. 3460.03 (a)). The pension plan provides evidence of the promise the employer has made to employees. In accounting for the cost of providing pension benefits, the terms and conditions of the plan determine factors to be considered in measuring the pension costs and obligations (CICA s. 3460.04).

In many cases, pension plans also include provisions for vesting. Vesting is defined as the recognition of the employees' legal rights to receive pension benefits that are no longer conditional on the employees remaining in the service of the employer. The CICA has concluded that the timing of vesting of employees' rights to receive benefits is a matter of plan design and cannot properly serve as a basis for recognizing pension costs. For accounting purposes, the cost of providing benefits would be recognized in the periods in which the employees render the services to which those benefits relate (CICA s. 3460.06).

The employer's objective in accounting for pension costs is distinctly different from the objective in funding a pension plan. The objective of accounting is to provide a proper allocation of the cost of the plan to the years in which the related employee services are rendered. This objective is achieved by allocating that cost in a rational and systematic manner to the employees' pre-retirement years. The objective of funding a pension plan is to provide cash or other consideration to discharge pension obligations and to provide for pension security. Funding is a financing procedure that considers cash requirements and other matters such as pension or income tax legislation. Accordingly, the amount contributed to a pension fund in a period is not necessarily the appropriate amount to be recognized as pension expense of the period (CICA s. 3460.07).

In regard to types of pension plans, the distinction between a defined benefit pension plan and a defined contribution pension plan is based on whether or not the employer assumes economic risks. Single employer defined benefit pension plans should be accounted for in accordance with CICA Handbook Paragraphs 3460.10-61 and single employer defined contribution pension plans should be accounted for in accordance with CICA Handbook Paragraphs 3460.64-75 (as summarized later under “Single Employer Pension Plans”).

Multi-employer pension plans (e.g. OMERS) should be accounted for in accordance with CICA Handbook Paragraphs 3460.62-63 and are summarized later in this Article under “Multi-employer Pension Plans”.

Requirements Pursuant to the *Electricity Act, 1998*

This subsection summarizes the relevant sections of Part XI of the *Electricity Act, 1998* that pertain to the transitional requirements and the resulting transfer of existing pension costs and obligations from MEUs to the incorporated electric utility. Effectively, the requirements of the following sections of the *Electricity Act, 1998* allow the incorporated electric utility to continue accounting for pensions without any changes in accounting procedures.

Accounting for Specific Items

Pension Costs and Obligations

Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may cause a corporation to be incorporated under the *Ontario Business Corporations Act* for the purpose of generating, transmitting, distributing or retailing electricity.

Pursuant to section 145 (1), the council of a municipality may make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal corporation, or of a commission or other body through which the municipal corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity.

Pursuant to section 147 (1) of the *Electricity Act, 1998*, the employment of an employee who is transferred by or pursuant to a transfer by-law is not terminated by the transfer and shall be deemed to have been transferred to the transferee without interruption in service.

Pursuant to section 147 (2) of the *Electricity Act, 1998*, service with the transferor of an employee who is transferred by or pursuant to a transfer by-law shall be deemed to be service with the transferee for the purpose of determining probationary periods, benefits or any other employment-related entitlements under the *Employment Standards Act* or any other Act or under any employment contract or collective agreement.

Multi-Employer Plans

Schedule D of the *Energy Competition Act, 1998* provides the required amendments to *the Ontario Municipal Employees Retirement System Act* ("O.M.E.R.S. Act") that allows incorporated electric utilities and their employees to continue their pension plan arrangements under O.M.E.R.S.. The following sections of Schedule D of the *Energy Competition Act*, *1998* broadens the definition of an "associated employer" under the O.M.E.R.S. Act thereby allowing incorporated electric utilities to remain within their current pension plan arrangements without any changes in accounting procedures.

Pursuant to section 1 (1) of Schedule D of the *Energy Competition Act*, *1998*, "associated employer" is defined as:

a) a person who, under an agreement with a municipality or local board or under an Act, provides a service, program or thing to a person that the municipality or local board is authorized to provide to the person;

b) a corporation incorporated in accordance with section 142 of the *Electricity Act*, *1998* for the purpose of generating, transmitting, distributing or retailing electricity; or

c) a person or association of persons that is designated by the Lieutenant Governor in Council as an associated employer under this Act.

Pursuant to section 1 (2) of Schedule D of the *Energy Competition Act*, *1998*, the definition of an "employer" is broadened to include an associated employer.

Accounting for Specific Items

Pension Costs and Obligations

Pursuant to section 9.1 (1) of Schedule D of the *Energy Competition Act, 1998*, an employee of an associated employer is eligible to be a member of OMERS only if the employee's duties relate primarily to the provision of the service, program or thing provided by the associated employer on behalf of the municipality or local board.

In summary, Schedule D of the Energy Competition Act, 1998 provides that incorporated electric utilities and their employees will continue their pension plan arrangements under OMERS and no changes in accounting procedures will be required.

Since O.M.E.R.S. is a multi-employer pension plan, the accounting requirements are relatively straightforward. The cost of pension benefits is equal to the employer's required contribution provided in exchange for employees' service rendered in the period (see CICA s. 3460.65). Under the provisions of CICA Handbook Paragraph 3460.63, multi-employer pension plans such as O.M.E.R.S. may be accounted for in the same manner as defined contribution pension plans. The cost of pension benefits should be charged to account 5645, Employee Pensions and Benefits as provided in the USoA.

Guidance with respect to the accounting for past service obligations is provided in CICA Handbook Paragraphs 3460.66-71. It will be necessary for the electric utility to review the circumstances giving rise to the past service obligation in relation to the Recommendations of that section. To the extent that it is appropriate for any such past service obligations to be deferred, the USoA provides accounts to record this obligation.

The following accounts in the USoA are applicable to recording pension costs and obligations relating to a multi-employer pension plan such as O.M.E.R.S.:

- account 1465, O.M.E.R.S. Past Service Costs. This account shall include the unamortized portion of O.M.E.R.S. past service costs, which will be expensed in future periods.

- account 2264, O.M.E.R.S. - Current Portion. This account shall include the current portion of amounts payable to O.M.E.R.S. in regard to past service pension costs recorded in account 2348, O.M.E.R.S. - Past Service Liability - Long-Term Portion. Subaccounts should be used to record the current portion of non-O.M.E.R.S past service pension costs, and Employee Future Benefits.

- account 2348, O.M.E.R.S. - Past Service Liability - Long-Term Portion. This account shall include the long-term portion of any known future principal amounts payable to O.M.E.R.S. in regard to past service pension costs. The current portion shall be kept in account 2264, O.M.E.R.S. - Current Portion.

- account 5645, Employee Pensions and Benefits. The cost of pensions expense and benefits expense as determined by Section 3460 of the CICA Handbook would be recorded in this account.

Accounting for Specific Items

Pension Costs and Obligations

Single Employer Pension Plans

This subsection discusses the accounting treatment of single employer pension plans including defined benefit pension plans and defined contribution pension plans.

Defined Benefit Pension Plans
Pension costs and obligations associated with a defined benefit pension plan should be accounted for in accordance with CICA Handbook Paragraphs 3460.10-61. A summary of the related Accounting Recommendations is provided below.

In regard to determining the cost of defined benefit pension benefits, the CICA Handbook recommends that the cost of pension benefits provided in exchange for employees' services rendered in the period be determined using the projected benefit method pro rated on services (i.e. an equal portion of the total estimated future benefit is attributed to each year of service) (CICA s. 3460.28).

In regard to the treatment of past service costs for defined benefit pension plans, the CICA Handbook recommends that adjustments arising from plan initiation or amendment be amortized in a rational and systematic manner over an appropriate period of time, which normally would be the expected average remaining service life of the employee group covered by the plan (i.e. the total number of years of future services expected to be rendered by that group divided by the number of employees in the group) (CICA s. 3460.43).

Similarly, the CICA Handbook recommends that adjustments arising from changes in assumptions be amortized in a rational and systematic manner over the expected average remaining service life of the employee group covered by the plan (CICA s. 3460.46).

In addition, experience gains and losses should be amortized in a rational and systematic manner over an appropriate period of time, which normally would be the expected average remaining service life of the employee group covered by the plan (CICA s. 3460.52). Any gains or losses on plan settlements, partial settlements or curtailments should be recognized in income immediately (CICA s. 3460.54).

The Accounting Recommendation of CICA Handbook Section 3460 should be applied prospectively. For defined benefit pension plans, when the Accounting Recommendations are first applied, an enterprise should determine the actuarial present value of the accrued pension benefits and the value of pension fund assets. The difference between these amounts, whether it represents a net pension asset or a net pension obligation, and to the extent it has not previously been recognized, should be amortized in a rational and systematic manner over an appropriate period of time, which normally would be the expected average remaining service life of the employee group covered by the plan (CICA s. 3460.77).

Accounting for Specific Items

Pension Costs and Obligations

For defined benefit pension plans, the CICA Handbook (s. 3460.56) recommends that pension expense for a period include:

a) the cost of pension benefits provided in exchange for employees' services rendered in the period, as determined under Paragraph 3460.28;

b) the amortization of adjustments arising from plan initiation or amendment, as determined under Paragraph 3460.43;

c) the amortization of adjustments arising from changes in assumptions, as determined under Paragraph 3460.46;

d) the amortization of experience gains and losses, as determined under Paragraph 3460.52;

e) gains or losses on plan settlements, partial settlements or curtailments, as determined under Paragraph 3460.54, which have not been separately disclosed in the income statement; and

f) the amortization of the net pension asset or net pension obligation, as determined under Paragraph 3460.77.

The following accounts have been provided in the USoA to record pension costs and obligations arising from single employer (non-OMERS) pension plans:

- account 1475, Past Service Costs -Other Pension Plans. This account shall include the unamortized portion of past service costs related to pension plans other than O.M.E.R.S. that will be expensed in future periods.

- account 2308, Other Pension Past Service Liability. This account will be used for non-OMERS pension assets/liabilities as required by Section 3460 of the CICA Handbook. See also related account 1475.

- account 2264, O.M.E.R.S. - Current Portion. This account shall include the current portion of amounts payable to O.M.E.R.S. in regard to past service pension costs recorded in account 2348, O.M.E.R.S. - Past Service Liability - Long-Term Portion. Subaccounts should be used to record the current portion of non-O.M.E.R.S past service pension costs, and Employee Future Benefits.

- account 5645, Employee Pensions and Benefits. The cost of pensions expense and benefits expense as determined by Section 3460 of the CICA Handbook (as described above) would be recorded in this account.

Defined Contribution Pension Plans

Pension costs and obligations associated with a defined contribution pension plan should be accounted for in accordance with CICA Handbook Paragraphs 3460.64-75. Those Accounting Recommendations reflect a similar treatment for defined contribution pension costs as those for multi-employer plans such as OMERS, discussed earlier in this Article. However, for the convenience of the reader, the related Accounting Recommendations are summarized as:

- the cost of pension benefits is the employer's required contribution provided in exchange for employees' services rendered in the period (CICA s. 3460.65); and

- costs relating to past services arising from plan initiation or amendment should be amortized in a rational and systematic manner over an appropriate period of time, which normally would be the expected average remaining service life of the employee group covered by the plan (CICA s. 3460.71).

The accounts in the USoA provided to record any pension obligations of defined contribution plans and past service obligations are similar to those provided above for single-employer (non-OMERS) pension plans.

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 and reflected in the operations of the period in which it was earned.

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.

Accounting for Specific Items

Pension Costs and Obligations

The expense side of these entries should be recorded in the following account provided in the USoA:

- account 5645, Employee Pensions and Benefits. The cost of pensions expense and benefits expense as determined by Section 3460 of the CICA Handbook would be recorded in this account.

New CICA Handbook Section on Employees' Future Benefits

This subsection summarizes the new CICA Handbook section issued in March 1999 that will replace CICA Handbook Section 3460—Pensions Costs and Obligations.

The new section will be applicable for fiscal years beginning on or after January 1, 2000, although earlier adoption is encouraged. As a result, electric utilities should ensure that liabilities associated with employee future benefits are properly established and accrued in accordance with the new section for fiscal years beginning on or after January 1, 2000. Account 2306, Employee Future Benefits has been provided in the USoA for this purpose.

The new CICA Handbook section proposes revisions to the existing Accounting Recommendations for accounting for pension costs and proposes new Recommendations for accounting for the cost of other retirement benefits, post-employment benefits, compensated absences, and termination benefits.

The new section will apply to benefits earned by employees that are expected to be provided to them when they are no longer providing active service. These benefits include pension and other retirement benefits such as health care and life insurance, disability income benefits, severance benefits, compensated absences, such as vested sick days and parental leave, and termination benefits.

The new section does not apply to salaries, wages, fringe benefits, occasional sick days and vacation days that do not vest or accumulate, and benefits provided under stock-based compensation arrangements.

In most circumstances, an entity will be required to recognize a liability and an expense for employee future benefits provided by a defined benefit plan in the period in which employees render services to the entity in return for the benefits. However, in the case of post-employment benefits and compensated absences that do not vest or accumulate, the liability and expense is recognized when the event obligating the entity occurs.

The new CICA Handbook section proposes that an entity's obligation for employee future benefits will generally be measured in the same way that pension obligations are currently measured in accordance with CICA Handbook Section 3460—Pension Costs and Obligations, except with respect to the discount rate and the measurement of plan assets. The new section requires future cash flows to be discounted at an interest rate determined by reference to market interest rates on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments, or the interest rate inherent in the amount at which the obligation could be settled. Plan assets must be measured at fair value, although the expected return on plan assets is computed using a long-term rate of return on a market-related value. The cost of benefits is normally attributed over an employee's credited service period up to the date on which the employee becomes entitled to receive all of the benefits expected to be earned, which is not necessarily the expected retirement date.

Pension Costs and Obligations

Past service costs from a plan initiation or amendment are amortized over the period to full eligibility of the employees affected. Actuarial gains and losses are recognized on a systematic and consistent basis, subject to a minimum required amortization as defined in CICA Handbook paragraph 3461.088.

The new section provides additional guidance, on a number of issues, including settlements, curtailments and terminations, limitation on the carrying amount of an accrued benefit asset and multi-employer plans.

The new CICA Handbook section also requires expanded disclosures about employee benefit plans. The disclosure requirements for public enterprises, co-operative organizations, and some other specific entities are more extensive than for other entities. Although a considerable amount of information will be required to be disclosed, the information will be derived from the actuarial valuation and related information that an entity has in its records and will normally not require significant additional effort to produce.

The Accounting Standards Board of the CICA ("AcSB") has expanded and clarified the transitional provisions in the related Exposure Draft but maintained the flexibility originally proposed. In particular:

- The new CICA Handbook section allows either prospective or retroactive application with disclosure of the method chosen.
- The method of adopting the Accounting Recommendations of the new CICA Handbook section is applied on the same basis to all of an entity's benefit plans for which a change in accounting is required.
- The new CICA Handbook section will accommodate as much as possible those entities that previously adopted certain elements of U.S. GAAP (to which the new CICA Handbook Section has been conformed) or that are required to reconcile to U.S. GAAP in Securities Exchange Commission (SEC) filings.

In conjunction with the approval of the new CICA Handbook section, the AcSB has made several consequential amendments to other CICA Handbook sections, including the guidance in CICA Handbook Section 1580—Business Combinations for determining the fair value of an accrued benefit liability or asset. The AcSB also decided to exclude from the scope of CICA Handbook Section 3860—Financial Instruments—Disclosure and Presentation, an employer's obligations for employee future benefits and related plan assets, which are accounted for under the new CICA Handbook section.

Accounting for Specific Items

Pension Costs and Obligations

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Table of Contents

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Purpose and Scope

The purpose of this Article is to provide guidance on the transitional issues relating to record keeping and related compliance issues pursuant to the requirements of the *Energy Competition Act, 1998*.

Most of the transitional issues listed in the Table of Contents to this Article arise directly from the requirements of Part XI of the *Electricity Act, 1998*. For example, the subsection "Replacement of the Accounting for Municipal Electric Utilities in Ontario Manual" as well as the subsections dealing with a change in accounting policy are direct reflections of the need for electric utilities incorporated under the *Ontario Business Corporations Act* to prepare financial statements in accordance with GAAP. As another example, the subsection "Transfer of Assets to the Incorporated Electric Utility" addresses the valuation of assets and liabilities upon their transfer to the electric utility incorporated under the *Ontario Business Corporations Act*, pursuant to Part XI of the *Electricity Act, 1998*.

Other transitional issues discussed in this Article arise from the Board's authority, pursuant to *OEB Act, 1998*, to prescribe accounting practices (See Accounting Procedures Handbook Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment).

Transitional Issues

Replacement of the Accounting for Municipal Electric Utilities in Ontario Manual

The Board assumed responsibility for the regulation of the distribution of electricity effective April 1, 1999. The APHandbook has been prepared to ensure consistency in the recording and reporting of transactions by all organizations distributing electricity in Ontario as of January 1, 2000.

The policies and procedures in the APHandbook are based on GAAP with modifications, where and as necessary for regulatory purposes, to ensure the procedures and requirements are in accordance with the requirements of the *Energy Competition Act*, *1998* as well as the *Ontario Business Corporations Act*.

GAAP for the purposes of this APHandbook is defined in Article 100—Background and Purpose of the Handbook and Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment.

Pursuant to sections 70 (2) of the *OEB Act, 1998*, the Board has the authority to interpret GAAP based on the CICA Handbook and to prescribe the Accounting Procedures or Requirements contained in this APHandbook. Furthermore, in accordance with the CICA Handbook, the Board may interpret GAAP and prescribe alternative accounting treatment if warranted due to special circumstances relating to regulated enterprises.

It is expected that electric utilities will use this APHandbook, 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.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Transitional Requirements
To assist in the transition process, this Article should be used together with Article 520—Superseded Sections of the Accounting for Municipal Electric Utilities in Ontario Manual. Article 520 provides a list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual cross-referenced to this APHandbook, and/or other applicable sources of GAAP.

Note that most of the guidance contained in the former Accounting for Municipal Electric Utilities in Ontario Manual is superseded by related Articles in the APHandbook and/or the CICA Handbook. Some former sections are no longer needed and have been deleted. Article 520 provides a cross-referenced list of sections in the superceded manual to the current guidance.

Transfer of Assets to the Incorporated Electric Utility

Background
The purpose of this subsection is assist utility accounting and finance professionals by referencing guidance that is available with respect to accounting for the transfer of assets and liabilities of an MEU to the incorporated electric utility.

- Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may cause a corporation to be incorporated under the *Ontario Business Corporations Act* for the purpose of generating, transmitting, distributing or retailing electricity.

- Pursuant to section 142(2) of the *Electricity Act, 1998,* every municipal corporation that generates, transmits, distributes or retails electricity, directly or indirectly, shall cause a corporation to be incorporated under section 142(1) no later than the second anniversary of the day this section comes into force. This section came into force on November 7, 1998. Accordingly, the deadline for conversion is November 7, 2000.

- Pursuant to section 142 (4) of the *Electricity Act, 1998,* the municipal corporation or corporations that incorporate a corporation pursuant to section 142 shall subscribe for all the initial shares issued by the corporation that are voting securities.

- Pursuant to section 145 (1) of the *Electricity Act, 1998,* the council of a municipality may make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal corporation, or of a commission or other body through which the municipal corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity by the corporation incorporated pursuant to section 142 of the *Electricity Act, 1998*.

- Pursuant to section 149 of the *Electricity Act, 1998*, a transfer by-law may require the transferor or the transferee to pay for anything transferred by, or pursuant to, the by-law and may specify to whom the payment shall be made.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Accounting Issue
To understand the guidance provided in this subsection, the reader might wish to review the following defined terms from the CICA Handbook:

Carrying amount: is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value (CICA s. 3840.03 (a)).

Exchange amount: is the amount of consideration paid or received as established and agreed to by related parties (CICA s. 3840.03(b)).

Related parties: exist when one party has the ability to exercise, directly or indirectly, control, joint ownership or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence (CICA s. 3840.03 (g)).

Control: of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others (CICA s. 3840.03 (d)).

Utilities will need to carefully consider the control structure of their organizations and the relationship between the municipal corporation, the newly incorporated entity and the commission or body through which it generates, transmits, distributes or retails electricity before and after restructuring. If the transfer of assets takes place between related parties (see the above definition), Section 3840 of the CICA Handbook applies. That section provides that transactions between related parties should be measured at the carrying amount except as specified in Paragraphs 3840.18 and 3840.26.

Paragraph 3840.18 deals with transactions in the normal course of business and is not applicable to this situation.

Paragraph 3840.26 requires certain related party transactions that are not in the normal course of business to be measured at the exchange amount. Transactions that result in a substantive change in ownership interests (defined in CICA s. 3840.31 and .32 as greater than 20% change and/ or a change in the degree of influence) and for which the exchange amount can be supported by independent evidence should be measured at the exchange amount.

In summary, for related party transactions, assuming that the transfers being made do not result in a substantive change in ownership interests, the Accounting Recommendations of the CICA suggest that the transfer should be recorded at the carrying amount.

If a review of the control structure suggests that the transfer of assets has taken place between parties that are not related, CICA Handbook Section 1580—Business Combinations applies. The definition of a business combination includes acquiring a group of assets that constitute a business. According to that section, the acquiring company's interests in the acquired assets is accounted for by the purchase method. Paragraphs 1580.25 through 1580.29 provide guidance on the application of the purchase amount and the determination of cost.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Recommendation
It is recommended that electric utilities follow the guidance contained in CICA Handbook Section 3840—Related Party Transactions and Section 1580—Business Combinations in determining the appropriate value for assets and liabilities transferred to an incorporated utility under the provisions of a transfer by-law.

Note however, that the Board reserves the right to review the accounting treatment applied and recommend a different accounting treatment if deemed appropriate for regulatory purposes.

Transitional Requirements
Account 2060 –Electric Plant Acquisition Adjustments in the USoA should be used by electric utilities to record the difference between the carrying amount as shown on the books prior to the transfer and the exchange amount resulting from the transfer, if necessary. Sufficient supporting information should exist in the electric utility's accounts to detail differences by asset category between the carrying amount prior to the transfer and exchange amount (the value the asset was established at in the incorporated electric utility's accounts).

Change in Accounting Policy for Contributions in Aid of Construction

Accounting Issue
This subsection discusses the accounting treatment of contributions in aid of construction.

Under the former Accounting for Municipal Electric Utilities in Ontario Manual section 7020—Capital Contributions, it was recommended that net fixed assets financed by contributed capital be included in the asset base for rate of return purposes and that the corresponding depreciation be charged to operating costs and hence included in the revenue requirement. In regard to the accounting treatment, the former Accounting for Municipal Electric Utilities in Ontario manual section 5710—Contributed Capital recommended that capital contributions be treated as permanent components of equity of an MEU receiving such contributions. As such, the corresponding assets were to be treated as fixed assets in the asset base of the utility and depreciation charged to operations at rates consistent with rates established for the respective asset class.

The accounting issue centers on how to account for capital assets financed through contributed capital and the resulting impact on the asset base, depreciation expense, and the electric utility's revenue requirement.

As fully discussed in Article 430—Development Charges and Contributions in Aid of Construction, in light of legislative constraints and in order to harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of regulated gas utilities, capital assets funded through contributions in aid of construction and any related amortization expense will not be allowed to be included in the electric utility's rate base and revenue requirement, respectively.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Recommendation
Contributions in aid of construction should be recorded using the accounts provided in the USoA as follows:

a) When contributions of 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 Portion of Customer Deposits and account 2335, Long Term Customer Deposits.

   When these monies are spent on the construction of capital assets, the cash and deposit accounts would be relieved 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 capital assets. To record the value of the contributions in aid of construction, an entry should be made to account 1995, Contributions and Grants - Credit.

b) When contributions of 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 and the contra asset account (account 1995, Contributions and Grants - Credit).

   Account 1995, Contributions and Grants - Credit should be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts effectively eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

These Accounting Procedures or Requirements are also referenced in Article 430—Development Charges and Contributions in Aid of Construction.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario Manual account 540, Equity Accumulated Through Contributed Capital, should be transferred to USoA equity account 3030, Miscellaneous Paid-In Capital. Supporting documentation should be maintained for each contribution transferred to this USoA account.

Transitional Requirements
These Accounting Procedures or Requirements will result in a change in accounting policy for electric utilities. The change in accounting policy relating to the recording of contributions in aid of construction should be applied on a prospective basis.

Change in Accounting Policy for Spare Transformers and Meters

Accounting Issue

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

This subsection explains the accounting treatment for spare transformers and meters. Spare transformers and meters are items that are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired.

Under the former Accounting for Municipal Electric Utilities in Ontario Manual, section 5250—Inventory (page 1), it was recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be classified as inventory.

Further guidance was provided in the former Accounting for Municipal Electric Utilities in Ontario Manual, section 5101—Fixed Assets Depreciation General (page 4 of 4), which recommended that when meters, transformers and water heaters were removed from service, inventory was debited and current year's additions to fixed assets was credited with the market value of the material removed. When items in these categories were subsequently returned to service, inventory was credited and that year's additions to fixed assets was debited with the value established when the material was previously removed from service.

In regard to U.S. accounting practice, it is noted that the past accounting treatment of spare transformers and meters as inventory is inconsistent with guidance provided in the FERC Uniform System of Accounts—Electric.

In regard to Canadian accounting practice, CICA Handbook Section 3030—Inventories and Section 3060—Capital Assets provide guidance on the classification of inventory versus capital assets.

CICA Handbook Section 3030 does not specifically define inventory. However, in the discussion of inventory cost elements contained in CICA Handbook paragraph 3030.02, references are made to the definitions for "merchandise purchased for resale", "raw materials which are to enter into production" and "inventories of work in process and finished goods".

A formal definition is provided in the CICA publication entitled "Terminology for Accountants, Fourth Edition" (page 117), which defines inventory as:

> Items of tangible property that are held for sale in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale.

CICA Handbook paragraph 3060.04 defines a capital asset as an identifiable asset comprising property, plant and equipment and intangible properties that meet all of the following criteria:

a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other capital assets;

b) have been acquired, constructed or developed with the intention of being used on a continuing basis; and,

c) are not intended for sale in the ordinary course of business.

Accordingly, based on the CICA Handbook, spare transformers and meters do not meet the definition of inventory. The key factor that distinguishes inventory from capital assets is the fact that inventory is intended for resale whereas capital assets are not. Secondly, capital assets may be distinguished from inventory by the expected period of benefit as capital assets would have a longer period of future benefit.

In addition to the above two distinguishing criteria, the following three questions should be asked in determining whether spare transformers and meters should be accounted for as a capital asset rather than inventory:

1) Are the spare transformers and meters an integral part of the original distribution plant? If so, spare transformers and meters should be capitalized and amortized over the estimated useful life of the original distribution plant. The definition of "integral" may be assessed by determining whether these spares enhance the system reliability of the original distribution plant. Not all spare transformers and meters may meet the definition of "integral". For example, in utilities located in rapidly growing municipalities, it is common that an inventory of these items is maintained for use in construction of new subdivisions (as opposed to being used to enhance the system reliability of the original distribution plant). In this circumstance, transformers and meters purchased for new service should be inventoried until their initial placement in service. Similarly, if due to system rebuilding, an unreasonable level of "spares" were built up and were unlikely to be used, these spares should be reallocated as inventory and disposed of, retired or written down as warranted.

2) Do the spare transformers and meters provide future benefits? If so, they should be capitalized and amortized over the estimated useful life of the original distribution plant. The identification of future benefits may be assessed by determining the expected use of the spare transformers and meters. If these spares are expected to be placed in service to substitute for original distribution plant transformers and meters when these original plant assets are being repaired, then there are future benefits and these spares should be recorded as capital assets. Alternatively, if these spares are not expected to be placed into service because distribution plant failure is not expected, then they should be recorded as inventory.

3) Is the accounting treatment of spare transformers and meters consistent with the regulatory treatment of spare transformers and meters? In other words, CICA Handbook definitions aside, GAAP for regulated enterprises could require that the spare transformers and meters be accounted for on a basis consistent with the ratemaking process. The accounting treatment required for regulatory purposes would result in the appropriate matching of rate revenues and related costs in the manner required by the Board.

Recommendation

In most cases, spare transformers and meters should be accounted for as capital assets, as it is expected that all of these conditions will be met:

a) the spare transformers and meters are not intended for resale and cannot be classified as inventory in accordance with CICA Handbook Section 3030;

b) the spare transformers and meters have a longer period of future benefit than inventory items have;

c) the spare transformers and meters form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant;

d) the spare transformers and meters provide future benefits because they are expected to be placed in service; and

e) the accounting treatment of spare transformers and meters as capital assets is consistent with the regulatory treatment of spare transformers and meters.

When such assets are removed from service for refurbishing, they should be recorded in a sub-account of the capital assets to which they relate.

Any portion of transformers and meters that does not meet all of the conditions (a) to (e) above should be accounted for as inventory.

These Accounting Procedures or Requirements are also referenced in Article 410—Capital Assets and Article 420—Inventory.

Transitional Requirements

These Accounting Procedures or Requirements may result in a change in accounting policy for some electric utilities. If so, it is recommended that the change in accounting policy relating to the treatment of spare transformers and meters as capital assets be applied on a prospective basis as of the effective date of this APHandbook.

Accordingly, electric utilities will be required to restate their opening account balances (e.g. inventory, capital assets, and/or retained earnings) for the fiscal year beginning on or after the effective date. If accurate and complete financial information is not available to do so, the impacts of this change in accounting policy on opening account balances should be estimated by:

a) applying professional judgment;

b) gathering the necessary data on which to base the accounting estimates;

c) developing reasonable assumptions and a supportable method of calculation;

d) preparing and documenting accounting estimates using qualified personnel and proper management review and approval;

e) considering whether the accounting estimates are reasonable and consistent with the electric utility's operations and business plans;

f) including the accounting estimates in the proper accounts, reclassifying inventory and capital assets, and restating opening balances; and

g) considering financial statement disclosure depending on the materiality of the impact of the accounting estimates in relation to the financial statements as a whole.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts
Pursuant to Part XI of the *Electricity Act, 1998*

Change in Accounting Policy for Poles, Conductors and Conduit

Accounting Issue
This subsection discusses the accounting treatment of poles, conductors and conduit that have been placed into service. Note that the accounting treatment of poles and conductors that have **not** been placed into service is dealt with in Article 420—Inventory.

This accounting issue is specific to electric utilities and there is no guidance provided by the CICA Handbook.

The accounts specified below should be used to record poles, conductors and conduit as provided in the USoA because:

1) This approach allows for enhanced reporting of transmission and distribution assets.

2) Increased precision in the recording of transmission and distribution assets will allow for better matching of transmission revenues and expenses and distribution revenues and expenses.

3) The application of these asset accounts will allow utilities to consider the appropriateness of the amortization method, estimated useful life and amortization rate currently being used to amortize the cost of poles, conductors and conduits and may allow amortization to be recognized in a more rational and systematic manner. (Refer to the subsection entitled "Change in Accounting Estimate for Amortization of Capital Assets" for specific guidance on accounting for a change in amortization method).

Recommendation
It is recommended that poles, conductors and conduit that have been placed into service be accounted for using the following asset accounts provided in the USoA:

For Transmission:
- account 1720, Towers and Fixtures
- account 1725, Poles and Fixtures
- account 1730, Overhead Conductors and Devices
- account 1735, Underground Conduit
- account 1740, Underground Conductors and Devices

For Distribution:
- account 1830, Poles, Towers and Fixtures
- account 1835, Overhead Conductors and Devices
- account 1840, Underground Conduit
- account 1845, Underground Conductors and Devices
- account 1855, Services

This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Transitional Requirements
This Accounting Procedure or Requirement may result in a change in accounting policy for some electric utilities. If so, it is recommended that the change in accounting policy relating to the classification of poles, conductors and conduit using separate asset accounts be applied on a prospective basis as of the effective date of this APHandbook.

Accordingly, electric utilities will be required to reclassify their opening account balances for these transmission and distribution assets for the fiscal year beginning on or after the effective date. If accurate and complete financial information is not available to do so, the reclassification of poles, conductors and conduits should be determined by:

a) applying professional judgment;

b) gathering the necessary data on which to base the accounting estimates and asset reclassifications;

c) developing reasonable assumptions and a supportable method of calculation;

d) preparing and documenting accounting estimates and related asset reclassifications using qualified personnel and proper management review and approval;

e) considering whether the accounting estimates and related asset reclassifications are reasonable and consistent with the electric utility's operations and business plans; and

f) reclassifying the assets using the specified asset accounts provided in the USoA.

Change in Accounting Policy for Gains and Losses from the Retirement or Disposal of Readily Identifiable Assets

Accounting Issue
This subsection explains the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. The change in accounting policy results from the application of CICA Handbook paragraph 3480.04, which supersedes the former Accounting for Municipal Electric Utilities in Ontario Manual section 5101—Fixed Assets Depreciation General, (page 2 of 4).

CICA Handbook paragraph 3480.04 states that transactions and events, regardless of size, resulting from normal business activities would not result in extraordinary items and specifically provides, as one example, gains and losses from write-down or sale of property, plant, equipment or other investments.

This CICA Accounting Recommendation differs from the former recommendation provided in the former Accounting for Municipal Electric Utilities in Ontario Manual (section 5101—Fixed Assets Depreciation General, page 2 of 4) in regard to the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. Specifically, it was previously required that any gains and losses on the disposal of readily identifiable assets, if material, be classified as an extraordinary item.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Recommendation
As noted above, the CICA Handbook does not allow gains and losses from the disposal of assets resulting from normal business activities to be accounted for as extraordinary items. Consequently, the size/materiality of the gain or loss is not relevant in determining whether transactions or events should be classified as extraordinary items in the USoA. Furthermore, it should be noted that the Board has the authority to address the regulatory treatment of such items as deemed appropriate in the circumstances.

The following accounts have been provided for in the USoA to record these transactions:

- account 4345, Gains from Disposition of Future Use Utility Plant
- account 4350, Losses from Disposition of Future Use Utility Plant
- account 4355, Gain on Disposition of Utility and Other Property
- account 4360, Loss on Disposition of Utility and Other Property

This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Transitional Requirements
This Accounting Procedure or Requirement may result in a change in accounting policy for some electric utilities. It is recommended that the change in accounting policy relating to the treatment of gains and losses from the disposal of readily identifiable assets resulting from normal business activities be applied on a prospective basis.

Retroactive restatement is not considered to be necessary because this change in accounting policy does not affect allowable costs for rate-making purposes but merely income statement presentation.

Note that Article 410—Capital Assets provides the recommended accounting treatment for capital asset disposals and write downs and should be referred to for complete guidance on this accounting issue. In particular, that Article recommends that electric utilities consider whether losses on capital asset disposals are to be recovered from future rates in accounting for these transactions.

Change in Accounting Estimate for Amortization of Capital Assets

Accounting Issue
This subsection discusses the accounting treatment for the amortization of capital assets. The change in accounting policy results from the application of CICA Handbook paragraphs 3060.31-36, which supersede the former Accounting for Municipal Electric Utilities In Ontario Manual section 5102—Fixed Assets Depreciation Rates for General Plant Assets and section 5103—Fixed Assets Depreciation Rates for Other Capital Assets.

The CICA Handbook states that amortization should be recognized in a rational and systematic manner appropriate to the nature of a capital asset with a limited life and its use by the enterprise.

The CICA Handbook recognizes that different methods of amortizing a capital asset result in different patterns of charges to income. For example, a straight-line method reflects a constant charge for the service as a function of time whereas a variable charge method reflects service as a function of usage. In addition, other methods may be appropriate in certain situations.

The CICA Handbook does not provide prescriptive guidance for the amortization of capital assets but allows professional judgment to be used in choosing the method that allows 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). This is in contrast to the former Accounting for Municipal Electric Utilities in Ontario manual sections 5102 and section 5103.

Recommendation
This APHandbook does not prescribe the amortization methods, estimated useful lives or amortization rates to be used. Instead, it is expected that, in the interim, electric utilities will continue with the rates and methods previously established until they are able to support changes through independent studies and the changes are approved by the Board.

This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Transitional Requirements
A change in useful lives of these assets and/ or methods of amortization would be considered a change in accounting estimate. The change in amortization period or method should be applied in accordance with CICA Handbook paragraph 1506.25 that states that the effect of a change in an accounting estimate should be accounted for in:

a) the period of change, if the change affects the financial results of that period only; or

b) the period of change and applicable future periods, if the change affects the financial results of both current and future periods.

Note that the Board may specify the manner in which the change should be treated.

Share Capital and Contributed Surplus

Accounting Issue
This subsection summarizes the relevant sections of Part XI of the *Electricity Act, 1998,* which specify the transitional requirements associated with the conversion of existing MEUs to corporations incorporated under the *Ontario Business Corporations Act*. This subsection also identifies the appropriate CICA Handbook sections for incorporated electric utilities to apply in accounting for share capital and contributed surplus transactions.

The relevant sections of Part XI of the *Electricity Act, 1998* that relate to share capital transactions are summarized as:

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

- Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may cause a corporation to be incorporated under the *Ontario Business Corporations Act* for the purpose of generating, transmitting, distributing or retailing electricity.

- Pursuant to section 142 (4) of the *Electricity Act, 1998*, the municipal corporation or corporations that incorporate a corporation pursuant to section 142 shall subscribe for all the initial shares issued by the corporation that are voting securities.

- Pursuant to section 142 (5) of the *Electricity Act, 1998*, a municipal corporation may acquire and hold shares in a corporation incorporated pursuant to section 142 that carries on business in the municipality.

- Pursuant to section 145 (1) of the *Electricity Act, 1998*, the council of a municipality may make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal corporation, or of a commission or other body through which the municipality corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity by the corporation incorporated pursuant to section 142 of the *Electricity Act, 1998*.

- Pursuant to section 149 (1) of the *Electricity Act, 1998*, a transfer by-law may require the transferor or the transferee to pay for anything transferred by, or pursuant to, the by-law and may specify to whom the payment shall be made.

- Pursuant to 149 (3) of the *Electricity Act, 1998*, the transfer by-law may require that the payment be made in cash, by set off, through the issuance of securities or in any other form specified by the by-law.

- Pursuant to 149 (4) of the *Electricity Act, 1998*, if the transfer by-law requires that the payment be made through the issuance of securities, it may specify the terms and conditions of the securities or may authorize a person designated by the by-law to specify the terms and conditions.

In summary, pursuant to Part XI of the *Electricity Act, 1998*, electric utilities will issue shares and will be wholly owned by their local municipality upon incorporation under the *Ontario Business Corporations Act*.

Recommendation
Given the incorporation of the electric utilities, share capital and contributed surplus transactions should be accounted for in accordance with the following CICA Handbook sections:

- CICA Handbook Section 3240—Share Capital deals with disclosure of share capital and acquisition and redemption of shares. The Accounting Recommendations of this CICA Handbook section are in addition to those in CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation.

- CICA Handbook Section 3250—Surplus discusses the use of the term “surplus” and provides standards for the classification and disclosure of surplus.

- CICA Handbook Section 3610—Capital Transactions describes capital transactions and notes that capital transactions should be excluded from the determination of net income.

Note that Article 430—Development Charges and Contributions in Aid of Construction and CICA Handbook Section 3070—Deferred Charges should be referred to for guidance on the accounting treatment of development charges and contributions in aid of construction using the equity accounts provided in the USoA.

Transitional Requirements
The following equity accounts in the USoA should be used to record share capital and contributed surplus transactions:

- account 3005, Common Shares Issued
- account 3008, Preference Shares Issued
- account 3010, Contributed Surplus
- account 3020, Donations Received
- account 3026, Capital Stock Held in Treasury
- account 3030, Miscellaneous Paid-In Capital
- account 3035, Installments Received on Capital Stock

Note that development charges transferred to the incorporated electric utility should be recorded in equity account 3022, Development Charges Transferred to Equity.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario Manual, account 540, Equity Accumulated Through Contributed Capital, should be transferred to USoA equity account 3030, Miscellaneous Paid-In Capital (See Article 430).

Contributions received by the incorporated electric utility in aid of construction should be recorded in account 1995, Contributions and Grants - Credit. (See Article 430).

Retained Earnings

Accounting Issue
This subsection highlights the use of the new retained earnings accounts that have been established in the USoA. Note that Article 460—Reserves should be referred to for guidance in the use of reserves by electric utilities.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

In general, retained earnings have as their source the earnings of the enterprise. The retained earnings account reflects the accumulated balance of income less losses of the enterprise, after taking into account dividends and other appropriate charges or credits. Retained earnings are further classified as “appropriated” and “unappropriated” as explained below.

The measurement of appropriated retained earnings is important because this portion of retained earnings has been transferred to a reserve(s). As a result, dividends may not be distributed to shareholders from appropriated retained earnings.

Account 3040, Appropriated Retained Earnings has been established in the USoA to record the cumulative retained earnings set aside, or reserves maintained, by the utility that are not provided for elsewhere. The accounting entry to transfer the surplus to a reserve would be to debit account 3047, Appropriations of Retained Earnings – Current Period and credit account 3040, Appropriated Retained Earnings.

The measurement of unappropriated retained earnings is important because this portion of retained earnings has not been transferred to a reserve. Therefore, dividends may be distributed to shareholders from unappropriated retained earnings.

Account 3045, Unappropriated Retained Earnings has been established in the USoA to record the accumulated balance of retained earnings arising from earnings and losses of the utility. This account shall not include any amounts representing the undistributed earnings of subsidiary companies (which is to be included in account 3065, Unappropriated Undistributed Subsidiary Earnings). Net changes to this account for the current period are explained by the sum of the activities in accounts 3046 to 3055.

Recommendation

Account 3040, Appropriated Retained Earnings should be used to record those retained earnings set aside, or reserves maintained, that are not provided for elsewhere. This account represents a cumulative balance of appropriations made to the retained earnings.

Account 3045, Unappropriated Retained Earnings should be used to record the accumulated balance of retained earnings arising from earnings and losses of the utility.

Accounts 3046 to 3055, as they relate to account 3045, Unappropriated Retained Earnings, should be used as follows to record transactions related to unappropriated retained earnings:

- Account 3046, Balance Transferred From Income should include the net credit or debit transferred from income for the year.

- Account 3047, Appropriations of Retained Earnings - Current Period should include retained earnings transferred to a reserve for the current period. To record such a transaction, account 3047, Appropriations of Retained Earnings should be debited and 3040, Appropriated Retained Earnings credited.

- Account 3048, Dividends Payable - Preference Shares should include amounts declared payable out of retained earnings as dividends on outstanding preferred capital stock of the utility. At the date of declaration, account 2215, Dividends Declared should be credited and account 3048, Dividends Payable - Preference shares should be debited. At the date of payment, account 2215, Dividends Declared should be debited and account 1005, Cash should be credited.

- Account 3049, Dividends Payable - Common Shares should include amounts declared payable out of retained earnings as dividends on outstanding common capital stock of the utility. At the date of declaration, account 2215, Dividends Declared should be credited and account 3049, Dividends Payable - Common shares should be debited. At the date of payment, account 2215, Dividends Declared should be debited and account 1005, Cash should be credited.

- Account 3055, Adjustments to Retained Earnings should include, with prior Board approval, significant non-recurring transactions accounted for as prior period adjustments, such as correction of a material error in the financial statements of a prior year or other adjustments that may be required by the Board. All other items of profit and loss recognized during a year should be included in the determination of net income for that year. This account should be debited or credited, as appropriate, to reflect the nature of the adjustment and the other side of the accounting entry should be booked to the appropriate related balance sheet or income statement account.

At the beginning of the new accounting period, the amounts in accounts 3046 to 3055 should be closed out to account 3045, Unappropriated Retained Earnings.

Note that in order to account for the earnings of subsidiaries, the USoA provides the following specific accounts:

- Account 4415, Equity in Earnings of Subsidiary Companies. The parent utility's share of the subsidiary's earnings should be recorded to this income statement account.

- Account 3065, Unappropriated Undistributed Subsidiary Earnings. The parent utility's share of the subsidiary's undistributed earnings (included in amounts in 4415) shall be recorded in this account by a debit or credit to account 3047, Appropriations of Retained Earnings - Current Period and an offsetting entry to account 3065, Unappropriated Undistributed Subsidiary Earnings. This account is reduced when dividends are paid by a subsidiary to the parent utility. At that time, account 3065 will be debited and account 3047 credited.

These two accounts carry the subsidiary's earnings on an equity accounting basis. When the accounts are consolidated for financial statement reporting purposes, the consolidation entry will of course, eliminate these account balances.

Transitional Requirements

The following equity accounts are provided in the USoA to record transactions relating to retained earnings:

- account 3040, Appropriated Retained Earnings
- account 3045, Unappropriated Retained Earnings
- account 3046, Balance Transferred From Income
- account 3047, Appropriations of Retained Earnings - Current Period
- account 3048, Dividends Payable - Preference Shares
- account 3049, Dividends Payable - Common Shares
- account 3055, Adjustments to Retained Earnings
- account 3065, Unappropriated Undistributed Subsidiary Earnings

Accounting Procedures Handbook Article 340—Allocation of Costs and Transfer Pricing

Accounting Issue
This subsection highlights Article 340—Allocation of Costs and Transfer Pricing, which provides additional guidance to electric utilities on issues related to the allocation of costs and transfer pricing.

The underlying concept of Article 340 is that there should not be cross-subsidization between regulated and non-regulated lines of business, products or services, or between the regulated utility and affiliates.

There is also a requirement for electric utilities to maintain documentation related to the allocation of costs and detailing: the organizational structure of the regulated utility; information on affiliates; and the allocation and transfer pricing methods being used.

Recommendation
Electric utilities should follow the guidance contained in Article 340—Allocation of Costs and Transfer Pricing, in developing allocation of costs and transfer pricing policies.

Transitional Requirements
Clearing accounts have not been provided for in the USoA. It is expected that each electric utility will continue to maintain its own clearing accounts as required. However, each utility shall keep records and supporting documentation that provide an audit trail and support the clearing account amounts transferred to other accounts.

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

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Table of Contents

Purpose and Scope

For transitional purposes, this Article provides a cross-referenced list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual along with a description of the applicable source(s) of guidance for regulated electric utilities.

Transitional Issues

Superseded Sections of the Accounting for Municipal Electric Utilities in Ontario Manual

As discussed in Article 510, the former Accounting for Municipal Electric Utilities in Ontario Manual will not apply to electric utilities effective January 1, 2000.

Related Articles in this APHandbook and/or CICA Handbook supersede most of the guidance contained in the former accounting manual. Some sections are no longer required and have been omitted from this APHandbook.

For transitional purposes, the following table provides a cross-referenced list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual along with a description of the applicable source(s) of guidance for regulated electric utilities.

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 1000—General Information	
Section 1010—Scope and Purpose of the Manual	APHandbook Article 100—Introduction to the Accounting Procedures Handbook
Section 2000—Chart of Accounts	
Section 2005—Index to Chart of Accounts	APHandbook Article 210—Index
Section 2010—Account Description	APHandbook Article 220—Account Descriptions
Section 3000—Statements and Reports	
Section 3005—Financial Statements	APHandbook Article 100— Introduction to the Accounting Procedures Handbook Accounting Recommendations of the CICA Handbook
Section 3010—Financial Statements - Pro Forma Format	APHandbook Article 100— Introduction to the Accounting Procedures Handbook
Section 3020—Key to Financial Statements - Introduction	Section not included in APHandbook. The Board will establish separate monitoring and reporting requirements. APHandbook Article 100— Introduction to the Accounting Procedures Handbook
Section 3025—Trial Balance to Financial Statements	Section not included in APHandbook. The Board will establish separate monitoring and reporting requirements. APHandbook Article 100— Introduction to the Accounting Procedures Handbook

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 3100—Annual Report	This section provided guidance on information to be submitted to Ontario Hydro for Mudbank and is not included in the APHandbook. The Board will establish separate monitoring and reporting requirements.
Section 4000—Specialized Accounting	
Section 4100—Expenditures Qualifying as Capital	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 4110—Matching of Power Costs and Revenues	APHandbook Article 330—Matching of Power Costs and Revenues
Section 4130—Allocation of Overheads	APHandbook Article 340—Allocation of Costs and Transfer Pricing
Section 4150—Deferment of Debt Retirement Charge Included in the Cost of Power, Power Corporations Act Section 76 (Sinking Fund Relief)	This section provided guidance on the treatment of sinking fund relief accounts pursuant to the former *Power Corporations Act* and is not needed.
Section 5000—Balance Sheet	
Section 5101—Fixed Assets - Depreciation - General	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5102—Fixed Assets - Depreciation Rates - General Plant Assets	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5103—Fixed Assets - Depreciation Rates - Other Capital Assets	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 5104—Fixed Assets - Allocated Depreciation	APHandbook Article 300— Allocation of Costs and Transfer Pricing
Section 5105—Fixed Assets - Capitalization of Interest During Construction	APHandbook Article 410—Capital Assets
	CICA Handbook Section 3060—Capital Assets
	CICA Handbook Section 3850—Interest Capitalized, Disclosure Considerations
Section 5220—Investments - General	Section not required for purposes of this APHandbook. Sufficient guidance provided in sources listed below.
	CICA Handbook Section 3010—Temporary Investments
	CICA Handbook Section 3050—Long-Term Investments
	CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation
Section 5225—Allowance for Doubtful Accounts	Section not required for purposes of this APHandbook. Sufficient guidance provided in sources listed below.
	CICA Handbook Section 3020—Accounts and Notes Receivable
Section 5250—Inventory	APHandbook Article 400—Inventory
	CICA Handbook Section 3030—Inventories
Section 5260—Construction in Progress	APHandbook Article 400—Capital Assets
	CICA Handbook Section 3060—Capital Assets

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 5410—Long-term Debt – General	CICA Handbook Section 3210—Long-Term Debt CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation
Section 5420—Long-term Debt - Bond Discount and Premium	CICA Handbook Section 1520—Income Statement CICA Handbook Section 3070—Deferred Charges CICA Handbook Section 3210—Long-Term Debt
Section 5430—Long-term Debt – Sinking Funds	Not included. This section provided guidance on basic accounting techniques that are beyond the scope of this APHandbook.
Section 5505—Vested Sick Leave	APHandbook Article 470—Pension Costs and Obligations
Section 5610—Deposits	APHandbook Article 450—Deposits and Collateral Funds CICA Handbook Section 3000—Cash CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation
Section 5710—Contributed Capital	APHandbook Article 430—Development Charges and Contributions in Aid of Construction CICA Handbook Section 3240—Share Capital CICA Handbook Section 3250—Surplus CICA Handbook Section 3610—Capital Transactions
Section 5715—Development Charges	APHandbook Article 430—Development Charges and Contributions in Aid of Construction

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 5835—Prior Period Adjustments	APHandbook Article 320—Accounting Changes CICA Handbook Section 1506—Accounting Changes Financial Accounting Standards Board No. 71
Section 5840—Capital Leases	Section not included in the APHandbook. Sufficient guidance provided in source listed below. CICA Handbook Section 3065—Leases
Section 6000—Statement of Operations	
Section 6005—Netting of Revenues And Expenses	This section provided guidance restricting the netting of Revenues and Expenses except in certain specific circumstances. For regulatory purposes Revenues and Expenses should not be netted against one another. The USoA accounts reflect this requirement.
Section 6010—Streetlighting Operating Expenses	This section provided basic guidance on setting up an account receivable for streetlighting expenses recoverable from the municipality and is not needed.
Section 6015—Extraordinary Items – Unusual Items	Section not required for purposes of this APHandbook. Sufficient guidance provided in source listed below. CICA Handbook Section 3480—Extraordinary Items
Section 6020—Pension Costs	APHandbook Article 470—Pension Costs and Obligations CICA Handbook Section 3460—Pension Costs and Obligations
Section 6025—Allocation of Joint Costs for a Public Utility Commission	APHandbook Article 340— Allocation of Costs and Transfer Pricing

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Section 6026—Allocation of Costs re: Services Rendered	APHandbook Article 340— Allocation of Costs and Transfer Pricing

Accounting for Municipal Electric Utilities in Ontario (Superseded)	**Guidance Provided**
Section 6027—Allocation of Joint Costs in a Municipality	APHandbook Article 340—Allocation of Costs and Transfer Pricing
Section 7000—Transition Procedures	
Section 7020—Capital Contributions	APHandbook Article 430—Development Charges and Contributions in Aid of Construction
Section 7060—Changes in Asset Classification and/or Asset Lives	APHandbook Article 410—Capital Assets CICA Handbook Section 1506—Accounting Changes
Section 7070—Fixed Assets -Change in Asset Lives	APHandbook Article 410—Capital Assets CICA Handbook Section 1506—Accounting Changes
Section 8000—Management Reporting	
Section 8010—Cash Flow Information	Section not included in this APHandbook. The Board will establish separate monitoring and reporting requirements. CICA Handbook Section 1540—Cash Flow Statements
Section 8020—Key Indicators	This section provided guidance on information to be submitted to the Municipal Electric Association and is not included for purposes of this APHandbook. The Board will establish separate monitoring and reporting requirements.

Interpretation Bulletin
Superseded Sections of the
Accounting for Municipal Electric Utilities in Ontario Manual

Article 530

Interpretation Bulletin

Clarification of Operation and Maintenance Activities

Table of Contents

Purpose and Scope

Pursuant to section 83(1) and (2) of the *OEB Act, 1998*, the Board may establish standards, targets and criteria for evaluation of performance by transmitters, distributors and retailers. Pursuant to section 83(2) of the *OEB Act, 1998*, the Board may have regard to these standards, targets and criteria in exercising its powers and performing its duties under the Act or any other Act in relation to transmitters, distributors and retailers, including establishing the conditions of a licence.

The purpose of this Article is to clarify the distinction between Operation and Maintenance ("O&M") activities described in the accounts provided in the Uniform System of Accounts ("USoA"). In order to do so, this Article analyzes the O&M account descriptions in the chart of accounts in the Accounting For Municipal Electric Utilities in Ontario Manual ("former accounting manual") and compares those descriptions to the O&M account descriptions found in the USoA. The definitions according to the Oxford Dictionary are also referenced.

The USoA was developed under a number of premises. One underlying premise was that any information captured in the accounts prescribed in the former accounting manual should be preserved where possible and where considered useful. Another premise was that for Performance Based Regulation purposes, the USoA should be constructed in a manner that would facilitate comparability of the activities conducted by a utility with those of another utility. Lastly, where an acceptable and tested method of recording information was in use in another jurisdiction, and that method could readily be adopted for the purpose of regulating Ontario electric utilities, it was considered beneficial, from a comparability standpoint, to incorporate that method in the USoA.

Interpretation Bulletin

Clarification of Operation and Maintenance Activities

General Summary

The O&M account descriptions found in the USoA provide more specific guidance than was provided in the former accounting manual. These detailed account descriptions will enable the user to infer, if necessary, from the examples provided, the types of O&M activities to be classified under the respective accounts.

In addition, 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, 1998*.

Definitions

The Oxford Dictionary provides the following definitions for Operate and Operation respectively:

> "Effect by action or the exertion of force or influence…Cause or direct the functioning of; control the working of (a machine etc.)…Manage, direct…."

> "Exertion of force or influence; working, activity; an instance of this. Also, the way in which a thing works… Power to…produce effects; efficacy, force."

The Oxford Dictionary provides the following definitions for Maintain and Maintenance respectively:

> "Go on with, continue…Preserve…Cause to continue (a state of affairs, a condition, an activity, etc.); keep vigorous, effective, or unimpaired; guard from loss or deterioration…Orig., secure the continuance of…Later, cause to continue in a specified state, relation, or position…Keep in good order…keep (a road, a building, etc.) in repair; take action to preserve (a machine, etc.) in working order."

> "The action of upholding or preserving a cause, state of affairs, etc.; …The action of keeping something in working order, in repair,…the keeping up of a building…by providing means or provision for upkeep…"

These definitions, in conjunction with the analysis below, aid in understanding the characteristics that distinguish Operation and Maintenance activities. Generally, an Operation activity encompasses actions of a detective and/or monitoring nature (i.e. inspecting, patrolling, testing, investigating) whereas maintenance activities are performed in a reactionary manner (i.e. take action to preserve in working order, providing means for upkeep) based on the results of an Operation activity.

Interpretation Bulletin

Clarification of Operation and Maintenance Activities

Clarification of Operation and Maintenance Activities

The following are a sample of O&M accounts that were found in the chart of accounts in the former Accounting For Municipal Electric Utilities in Ontario manual:

Operation Accounts	Corresponding Maintenance Accounts
4021, Subtransmission Feeders- Operation	4024, Subtransmission – Maintenance
4031, Municipal Distribution Station Equipment - Operating Labor, and 4032, Municipal Distribution Station Equipment - Operating Supplies and Expenses	4034, Municipal Distribution Station - Maintenance of Equipment
5011, Overhead Distribution Lines and Feeders – Operating Labor, and 5012, Overhead Distribution Lines and Feeders – Operating Supplies and Expenses	5014, Overhead Distribution Lines and Feeders – Maintenance
5051, Underground Distribution Lines and Feeders - Operating Labor, and 5052, Underground Distribution Lines and Feeders - Operating Supplies and Expenses	5054, Underground Distribution Lines and Feeders – Maintenance
5061, Distribution Transformers - Operation	5064, Distribution Transformers - Maintenance
5091, Distribution Meters - Operation	5094, Distribution Meters - Maintenance

An analysis of the account descriptions for these former O&M accounts revealed very few distinguishing characteristics between Operation versus Maintenance types of activities, as demonstrated below:

Operation	Maintenance
a) Inspecting b) Patrolling c) Testing d) Investigating line trouble e) Investigating cable trouble f) Removing and resetting transformers and devices	a) making repairs and minor replacements to keep the existing equipment in service

The above analysis led to the conclusion that there may have been a deficiency in the former types of O&M accounts and related account descriptions with respect to distinguishing between Operation and Maintenance types of activities. As a result, those former O&M accounts may have been neither understood nor properly and consistently followed by electric utilities in recording O&M expenditures.

Given the above conclusion, the following sample of related accounts provided in the USoA to record O&M expenditures were selected:

USoA Operation Accounts	USoA Corresponding Maintenance Accounts
5030, Overhead Subtransmission Feeders - Operation, and 5050, Underground Subtransmission Feeders – Operation	5120, Maintenance of Poles, Towers and Fixtures, and 5125, Maintenance of Overhead Conductors and Devices
5020, Overhead Distribution Lines and Feeders - Operation Labor, and 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	5120, Maintenance of Poles, Towers and Fixtures, and 5125, Maintenance of Overhead Conductors and Devices
5040, Underground Distribution Lines and Feeders - Operating Labor, and 5045, Underground Distribution Lines and Feeders - Operating Supplies and Expenses	5145, Maintenance of Underground Conduit, and 5150, Maintenance of Underground Conductors and Devices
5035, Overhead Distribution Transformers - Operation, and 5055, Underground Distribution Transformers – Operation	5160, Maintenance of Line Transformers
5065, Meter Expenses	5175, Maintenance of Meters
5015, Station Expense	5115, Maintenance of Station Equipment

Interpretation Bulletin

Clarification of Operation and Maintenance Activities

An analysis of the account descriptions for the above USoA O&M accounts demonstrates the following distinguishing characteristics between Operation and Maintenance types of activities:

Operation	Maintenance
a) inspecting	a) installing
b) patrolling	b) moving line
c) testing	c) moving or changing position of conduit or pipe
d) supervising specific to line operation	d) painting
e) changing line transformer taps	e) readjusting and changing position of guys or braces
f) performing load tests and voltage surveys of feeders and circuits	f) realigning and straightening poles, etc.
g) removing and resetting transformers and devices	g) reconditioning reclaimed pole fixtures
h) disconnecting and reconnecting, removing and re-installing, sealing or unsealing meters and other meter equipment	h) relocating pole fixtures
i) consolidating meter installations	i) repairing
j) changing or relocating meters and other metering equipment	j) repairing circuit breakers, switches, cutouts, etc.
k) adjusting station equipment such as regulating the flow of cooling water, changing voltage of regulators	k) repairing grounds
l) keeping station logs and records and preparing station reports	l) making minor alterations of handholes, manholes, or vaults
m) calibrating station equipment	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

In summary, the O&M accounts and related account descriptions provided in the USoA provide more specific guidance as to the type of activities encompassed by the terms Operation and Maintenance. The USoA O&M account descriptions provide more detail than the former accounting manual and will enable the reader to infer, if necessary, from the examples provided, other types of activities that should be classified under the respective Operation or Maintenance account.

Interpretation Bulletin

Clarification of Operation and Maintenance Activities

Summary of Comments and Revisions to the Accounting Procedures Handbook

The following Article has been prepared based on comments received through the stakeholder consultation process. A summary of each issue (in bold lettering) is provided with references to the "Accounting Procedures Handbook for Electric Distribution Utilities – 1999 May" draft as applicable.

Revisions, where applicable, made to the 1999 May draft of the APHandbook are outlined in the response to each issue. The comments have been addressed in the order found in the APHandbook.

ARTICLES:

1) Article 100

a) Records items a), b), and c) on pages 7 & 8 of Article 100: Comment sought clarification as to what guidelines exist relating to the retention and destruction of records

Please note that the issue related to the retention of records has yet to be considered by the Board. Monitoring guidelines to be developed at a later date will likely address this issue. Board staff has received some examples regarding the "retention and destruction of records system" in use by utilities for consideration in developing any future guidelines.

b) Records items f), and h) of Article 100: Comment suggested that fewer accounts and accounts that were more general in nature would allow each utility the flexibility to set up extra or sub-accounts and allow each utility to obtain the information it requires

Please note that on page 8 of Article 100, under Records, items f) and h) essentially provide that the utilities may further subdivide any and all accounts as needed and that utilities may also use a different numbering system for its own purposes. It should also be noted that the USoA establishes minimum guidelines for utilities in Ontario. It is not intended to replace management information systems or preclude management from subdividing accounts to a greater detail than that provided for in the USoA. In fact, management may find it desirable to supplement this USoA with additional accounts for internal management purposes.

The Ontario Energy Board worked closely with a group of utility stakeholders in developing the account structure and detail in the USoA. At the outset of the development process, the OEB initiated a process to identify utility reporting requirements for management purposes and used the information gathered to shape the current USoA. The detail in the current USoA is to become the cornerstone of any future refinement to a Performance Based Regulation process that could include benchmarking and rebasing of rates using a cost of service model. Accounts of a general nature are not consistent with the standardization necessary to facilitate meaningful benchmarking.

c) Page 8 of Article 100: Comment received related to a utility currently undergoing a computer conversion, and whether the new USoA can be used with the new software

The USoA is the minimum standard that can be used for your conversion. For internal purposes, it is recognized that utilities may need the flexibility to be able to use different account numbers and/or additional accounts beyond those provided in the USoA. This is reflected in Article 100, page 8, items f) and h). Mapping to the USoA will be required for whatever system is used by the utility.

Summary of Comments and Revisions to the Accounting Procedures Handbook

ARTICLES:

1) Article 100: continued

It should be noted that the process of reporting information to the OEB will require utilities to report 1999 fiscal information separately from 2000 fiscal information. As a result, depending on your year end and implementation date of the new system, you will need to ensure that the same basis is used to record and report the information within each of the respective periods.

d) Page 9 of Article 100: Comment sought clarification related to examples where materiality would be different for regulatory purposes

The APH avoids using specific examples that may not be interpreted consistently by all readers. The statement on page 9 stating "As a result, the materiality range for regulatory reporting purposes will be narrower than that for financial reporting purposes" has been revised to read "As a result, the materiality level for regulatory reporting purposes may be different than that for financial reporting purposes. The Board may review information and determine for regulatory policy or other purposes that the accounting treatment should be different than that accorded to the item by the utility, irrespective of the size or nature of the item."

e) Comment requested information on process for incorporating revisions related to various sections that to date have not been fully developed in the APHandbook i.e.- whether changes related to those sections will be circulated for review and/or input

Many of the changes or revisions to sections that have not been fully developed will result from Board decisions that will occur outside of the APHandbook consultation process. The opportunity to comment on those decisions pertaining to such changes or revisions may consequently be provided through some other process.

However, where there are Board decisions that can be accommodated in the APHandbook or USoA by alternative accounting methods, utilities may be asked to review or provide input (in accordance with the "Policy Introduction" process defined in Article 100) so that the method ultimately chosen will reflect industry preference and experience, as well as encourage consistency in recording and reporting of information.

2) Article 210

Comment sought clarification on the need for control account 1600, Electric Plant in Service (page 3 of Article 210) and control account 4000 (page 9 of Article 210)

Control account 1600 has been included in the USoA to help distinguish between assets considered "Electric Plant In Service" (i.e.- accounts 1602 to 1995) from "Other Capital Assets" (i.e.- accounts 2000 to 2075). This distinction is particularly useful in light of references made to "electric plant in service" in some account descriptions and in Article 230, Definitions and Instructions.

Control account 4000 has been removed for the time being and may be reintroduced at a later date along with some other expense related control accounts.

3) Article 220

a) Account 1100 Customer Accounts Receivable – Retail: Comment sought clarification regarding whether account should include distribution tariff
This account has been renamed "Customer Accounts Receivable". The account will include energy sales as well as the distribution tariff. Note that the account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

A comment was also received relating to the number of accounts receivable accounts contained in the USoA. It should be noted that utilities are only expected to use those accounts applicable to their operations. In addition, the APHandbook specifically states that the procedures or requirements need not be applied to immaterial items.

b) Temporary Facilities Account 1520: Comment sought clarification regarding the need for a separate account for temporary services since the item is a Current Asset/ Accounts Receivable type account
This account has been reclassified to the "Current Assets" section of the USoA. This account has been renumbered 1104 and renamed Accounts Receivable - Recoverable Work. For purposes of Article 240 (Mapping), former black book account 245 Accounts Receivable – Recoverable Work has been mapped to renumbered account 1104. In addition, account 1100 has been modified to remove the reference to recoverable work and renamed "Customer Accounts Receivable".

A comment was also received requesting clarification of the term "jobbing" as used in account 1105 and how this differs from the term "recoverable work"
The term "jobbing" can be derived from the term "jobber" which is defined in the Oxford Dictionary as "a person who buys goods, etc. in bulk from a producer or importer and sells them to a retailer or consumer". As a result, jobbing or stock jobbing implies the act of supplying goods or acting as middleman. This is different from the term "recoverable work", which refers to the supply of a service such as the installation of electrical lines for temporary purposes, the cost of which will be recovered from the customer. Items related to recoverable work have been removed from account 1105 and have been included in 1104 as described earlier in response 3 b).

c) Intangible Plant – Account 1602: Comment sought clarification regarding nature and extent of permitted consulting costs that could be classified as organizational start up costs and deferred
The nature of the costs that are considered "transition costs" will be limited to those meeting the qualifying criteria in the Electric Distribution Rate Handbook. All qualifying costs meeting the criteria are to be expensed over the first generation PBR. If significant, these may be posted to a "balancing" or deferral account and amortized. (See item 7 (g) below).

In general, the organizational start-up costs included in account 1602 are of a more limited nature than the transition type expenditures that will be incurred by utilities.

In addition, while no general rule of thumb is applicable regarding the extent of costs, there are some established criteria for balancing account treatment in the Electric Distribution Rate Handbook (see Section 3.3.4 and Chapter 4). The Board does reserve the right to review the amounts claimed and any expenses that appear unreasonable could be challenged or denied in setting rates.

3) Article 220: continued

d) Account 1950 Power Operated Equipment and 1930 Transportation Equipment: Comment sought clarification of phrase "Diggers" and whether this refers to Radial Boom Derricks and the treatment of aerial devices

The phrase "Diggers" in item 1950 refers to earth digging equipment. The Radial Boom Derricks are "generally self-propelled or mounted on moveable equipment" and as a result would be covered by item 5 in account 1950 (i.e.- cranes and hoists). Aerial devices are covered by account 1930, which mentions "aerial ladders".

Generally, the larger equipment would either fall under account 1930 and, if not included there, then under 1950. Account 1950 has been revised to include backhoes as a substitute for "Diggers".

e) Account 2100 Accumulated Amortization of Electric Utility Plant- Property, Plant and Equipment: Comment sought clarification of use of retirement work order, treatment of removal costs/ salvage values, gains/ losses on disposals

The procedure related to the retirement of assets has been modified to conform to that followed by the regulated gas utilities as well as the practice in other jurisdictions for electric utilities. Essentially, a retirement work order serves to document the retirement event and would include removal costs and salvage recoveries. As a result, associated removal costs and salvage recoveries would **not** go to the income statement accounts but instead be applied against/to account 2100.

An asset that is being **retired** would **not** normally have any associated or significant gains or losses that are the subject of accounts 4355, Gain on Disposition of Utility and Other Property and 4360, Loss on Disposition of Utility and Other Property. Instead accounts 4355 and 4360 serve to record gains and losses, respectively, on disposals other than retirements (i.e.- assets with some life left in them).

The above procedure therefore differs from past practice in that removal costs and salvage recoveries related to **retired** assets are applied to account 2100 Accumulated Amortization of Electric Utility Plant- Property, Plant and Equipment, instead of flowed to the income statement.

The mapping in Article 240 (accounts 4355 and 4360) has been modified to exclude amounts in former Black Book accounts 9919 and 9920 related to retirements (i.e.- only include gains and losses on other disposals). In addition, the phrase "This account shall not include gains on retirement of property described above" has been included in accounts 4345 and 4355, and the phrase "This account shall not include losses on the property described above" has been included in accounts 4350 and 4360.

f) Account 2264 O.M.E.R.S. – Current Portion : Comment sought clarification as to whether this account refers to the per pay withholding from payroll

This account relates to 2535 O.M.E.R.S. - Past Service Liability - Long Term Portion (**renumbered 2348**) and not the per pay withholding from employee payroll.

Withholding amounts deducted and payable can be included in a subaccount of account 2292 Payroll Deductions/Expenses Payable.

3) Article 220: continued

g) Account 2292 Payroll Deductions Payable: Comment sought clarification as to whether Employer Health Tax is an item that needed to be included here
The account heading for account 2292 has been modified to read "Payroll Deductions/ Expenses Payable". Also, the account description now includes Employer Health Tax. This account is intended to capture payroll deduction and expense related accruals at year-end.

h) Account 2340 Collateral Funds Liability: Comment suggested that due to the short-term nature of tender deposits this account should be classified as a current liability
This account mirrors former account 365 and covers deposits of a long-term nature. Rather than reclassify this account as a current liability, tender deposits to be refunded within the year can be recorded in account 2220 Miscellaneous Current and Accrued Liabilities. Account 2220 now includes these in the description.

i) Distribution Expenses – Operation: Comment suggested that inconsistency between some operations accounts should be removed
The USoA has been modified. As a result, account 5015, Station Expense has been renumbered 5012 and revised (renamed Station Building and Fixtures Expenses) to contain operation expenses related only to buildings and fixtures. In addition, a **new** account, 5014, has been added to capture Transformer Station Equipment operation expenses (labor) and a **new** account, 5015, will capture Transformer Station Equipment operation expenses (materials and supplies). A **new** account , 5016, will capture Distribution Station Equipment operation expenses (labor) and a **new** account, 5017, will include Distribution Station Equipment operation expenses (materials and supplies). These new accounts will map with former accounts 4011/ 4012 and 4031/4032 respectively and preserve the consistency between labor, and materials and supplies, in the operation expense accounts.

A comment was also received stating that perhaps the distinction between Labour, and Supplies and Expenses should be removed from the USoA, identified separately by utilities, and be available for Board review
The distinction is a carry-forward from the former Black Book accounts and has been retained due to the familiarity utilities have with this treatment. In addition, the Board wishes to preserve accounting information that was collected in the past that could be useful for future Performance Based Regulation mechanisms. Consequently, this suggestion was not adopted.

j) Transmission Expenses – Operation and Maintenance: Comment sought clarification of differences between station expenses and transformer expenses
The titles and descriptions for various accounts mentioned below have been clarified to distinguish between building and fixtures related expenses and transformer equipment related items.

Account 4815 has been renamed Station Buildings and Fixtures Expenses. The account description has been modified such that the expenses included in this account will be those specific to assets included in account 1705, Buildings and Fixtures and 1710, Leasehold Improvements.

3) Article 220: continued

Account 4820 and 4825 descriptions have been modified and make reference to expenses (Labour, and Supplies and Expenses respectively) related to assets contained in account 1715, Station Equipment.

In addition, account 4910 has been renamed Maintenance of Transformer Station Buildings and Fixtures with a minor modification to the account description. Account 4925 (renumbered 4916) now includes all maintenance expenses related to transformer station equipment. Lastly, accounts 4915 and 4920 have been deleted since they were no longer necessary.

k) Tree Trimming and Right of Way Accounts: Comment sought clarification of use of account

Account 4955, Maintenance of Right of Way has been removed and the description has been combined with that of 4940, (renamed Maintenance of Overhead Lines – Right of Way) to remove duplication. Similarly, account 5140 has been removed and combined with 5135, (renamed Overhead Distribution Lines and
Feeders – Right of Way).

l) Allocation of overhead expenses – Comment sought clarification of where over/under allocations would reside

While the USoA does not contain clearing accounts, utilities should maintain these as required. Note that Article 340, Page 7, discusses the use of clearing accounts. In relation to over/ under allocations, the Article states that the basis of overhead cost allocation should be reviewed periodically and, if necessary, adjusted in order to reflect changes in cost relationships and related cost allocators. Any year end residual balances remaining after regular distributions should be cleared on a basis that will distribute the cost equitably.

Dispensing of any monthly over/under allocations will be left to the discretion of the utility.

m) Comment sought definition of the term "payroll burden"

Payroll burden is defined on page 8 of Article 340 as 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. This definition has now been included in the Definitions subsection of Article 340.

4) Article 230

a) Comment sought clarification of "training" costs in paragraph number 20

Paragraph number 20 has been modified to remove references to training costs and to remove note b) related to training costs. Paragraph number 20 will now be consistent with the discussion on page 14 of Article 410 that discusses "Capitalization of Construction Costs". The circumstances in which training costs would be capitalized under Canadian GAAP are limited or unusual and the practice is to normally expense such costs.

4) Article 230: continued

b) Comment sought clarification of whether shared premises requires splitting under Paragraph number 23, Buildings and Fixtures

On a practical level, a building having two uses, for example, administrative and service, would be recorded based on the principal use of the building. As a result, if the building is mainly used by the administrative group, it would appear under 1905, etc.

However, if the service center charged specific rates to recover its costs, perhaps even becoming a competitive line of business, it would become essential for the utility to allocate an appropriate portion of the building overhead expense to that activity in order to prevent cross-subsidization.

5) Article 310

Comment sought clarification of the role of regulator in establishing reporting standards/ generally accepted accounting principles (GAAP)

It is not the intent of this Article or the APHandbook to establish standards for what is normally reported in external financial information. The APHandbook attempts to provide guidance as to the requirements for regulatory accounting and reporting purposes. This guidance will, to the extent possible, reflect GAAP so as to reduce the burden of having to maintain different "books" of accounts, but recognize that the regulatory process introduces certain cause and effect relationships that may require special applications of GAAP. Consequently, utilities are required to use the APHandbook 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, orders, and other pronouncements arising from the regulatory process in the application of GAAP.

Article 310 and related references in the APHandbook has been modified as follows:

i)removed first two paragraphs under "Generally Accepted Accounting Principles for Regulated Electric Utilities" on page 2 of Article 310 and inserted the following:

"Electric distribution utilities are required to prepare general purpose financial statements according to GAAP.

This APHandbook 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 1000.60); and (2) other authoritative sources on the subject of accounting for rate-regulated enterprises such as SFAS 71 of the US Financial Accounting Standards Board.

5) Article 310: continued

Electric utilities are expected to use the APHandbook 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, orders and other pronouncements arising from the regulatory process in the application of GAAP."

ii) removed paragraph on page 3 of Article 310 beginning with "As mentioned in Article 100, due to the current consideration and impending implementation…" and inserted the following:

"In spite of the current consideration and impending implementation of an alternative method of rate regulation, chiefly Performance Based Regulation (PBR), it is believed that the above definition for rate regulated enterprises and capital assets will continue to be applicable because the proposed price cap in the first generation PBR will be based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also expected to be applicable for the second generation PBR given that it is proposed that a cost of service study will be performed prior to the rebasing of the price cap for the second generation."

Note also that the definition for rate-regulated enterprises and the comment regarding the "consideration and impending implementation" of PBR were removed from the top of page 7 of Article 100 to eliminate duplication and increase clarity of that Article.

iii) removed the last paragraph of the subsection entitled "Generally Accepted Accounting Principles for Regulated Electric Utilities" on page 3 of Article 310 and moved the first two paragraphs of page 4 to the top of page 3.

6) Article 340

Comment sought clarification regarding "Compliance Audits" referred to in this Article and the Affiliate Code

The compliance "**reviews**" in this Article are referenced from the Affiliate Code subsection 2.7.1. that states the "utility shall be responsible for ensuring compliance with the Code and shall: (a) perform periodic compliance reviews". The Board has not yet developed any guidelines with respect to the scope of these reviews. These guidelines may be included in future revisions to this APHandbook and/ or communicated to you by some other means.

7) Article 350

While not the result of comments received, the APHandbook has been modified to accommodate the proposals contained in the Electric Distribution Rate Handbook as follows:

a) Account 1570 has been renamed "Qualifying Transition Costs" and the description now reads:

"When authorized or directed by the Board, this account shall be used to record transition costs that meet the qualifying criteria established in the Electric Distribution Rate Handbook. 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."

b) Account 1571 has been renumbered 1574 and renamed "Deferred Rate Impact Amounts" with the following account description:

"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 utility has determined to be excessive and has decided to defer to future periods."

c) Account 1535 has been renumbered 1572 and renamed "Extraordinary Event Losses" with the following account description:

"When authorized or directed by the Board, this account shall be used to record extraordinary event losses that meet the qualifying criteria established in the Electric Distribution Rate Handbook. 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."

d) Account 2435 has been renamed "Accrued Rate-Payer Benefit" with the following description:

"This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the PBR plan. This account will include related accrued interest."

e) Account 2436 has been deleted.

f) Account 4395 has been renamed “Rate-Payer Benefit Including Interest” with the following description:

“This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the Performance Based Regulation plan. This account will also include the related accrued interest, as applicable. The corresponding Deferred Credit account is 2435, Accrued Rate - Payer Benefit.”

7) Article 350: continued

g) Account 5740 has been renamed “ Amortization of Deferred Charges” and revised to read:

“This account shall include the amount of amortization charges relating to Deferred Charges and applicable to the current fiscal period.

Example items

Amortization amounts relating to:
1. Qualifying Transition Costs included in account 1570.
2. Extraordinary Event Losses included in account 1572.
3. Deferred Rate Impact Amounts included in account 1574.
4. Miscellaneous Deferred Debits included in account 1525.”

8) Article 410

a) Comment sought clarification of treatment of pad mounted transformers (page 12)
One of the arguments in favor of the grouped asset method was that the some assets are generally of low value and not readily identifiable. Page 12 of this Article recommends that utilities consider using an ungrouped basis of amortization for pad mounted transformers (as well as high voltage pole type transformers and meters that are of material value). Transformers of this type are generally of high value, easily identifiable and require more attention from an accountability perspective due to their high value. As such, these assets would be prime examples of assets that could be treated as readily identifiable. Consequently, it is recommended that they not be grouped.

b) Comment sought clarification of the requirement to remove fully depreciated grouped assets from the records (page 12)
The phrase beginning “Such assets and accumulated amortization…” on page 12 has been revised to read “ Assets remaining in use after reaching the end of their average useful life are not regarded as fully

depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal, and shall be credited with the salvage value and any other amounts recovered. (See account 2100, item B)."

c) **Comment suggested that while the APHandbook implies that the current straight-line method of depreciation will be continued (Article 410, Page 17, second paragraph) there may be a requirement for the use of Capital Cost Allowance based on fair market value for tax purposes.**
It should be noted that the regulatory accounting treatment could vary from the tax treatment of an item. It is not uncommon in industry for the depreciation policy to differ from the allowed tax treatment.

Further guidance related to amortization rates may be provided as part of the Electric Distribution Rate Handbook.

9) Article 420

Comment sought clarification of the treatment of spares
The purpose of this and related Articles is ensure that transformers and meters that are "in-service" and the related "reserve or spare" assets that are substitutes for the in-service assets receive the same treatment (i.e.- treated as capital assets). This does not necessarily mean that all transformers and meters on hand will be considered capital assets.

As stated in Article 420, page 3, (the Definitions subsection on page 2 has been modified to include this definition), "spares" are those assets that are not intended for resale, cannot be classified as inventory in accordance with the CICA Handbook Section 3030, have a longer period of future benefit as compared with inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Example:
CASE A
Assume that the utility has 100 transformers in service. Assume that it estimates that at any one time 10 additional transformers will be required to substitute for transformers that will need to go out of service for repairs, etc. Also assume that the utility is expecting to provide services to a new subdivision that will require an additional 25 transformers in the immediate future.

The 100 transformers in service and 10 substitute transformers would be grouped together as a capital asset. If the utility purchases the 25 transformers for the new subdivision in advance and holds on to these until needed, these would be treated as inventory until they are put in service. Therefore, in accordance with the APHandbook, a total of 110 transformers would be included in the rate base as capital assets and depreciation expense would be incurred. The 25 transformers for the new subdivision would also be included in the rate base as part of working capital but no depreciation expense would be determined.

CASE B
Same facts as in CASE A above except for the following. It is later found that the new subdivision was downsized and only 15 transformers were in fact needed. The 15 would be treated as capital assets once they were in service and the remaining 10 would continue in inventory until needed and/ or disposed by the

utility *. Therefore, in accordance with the APHandbook, a total of 125 transformers (100+10+15) would be included in the rate base as capital assets and be depreciated. Only the 10 transformers no longer needed for the new subdivision would appear as inventory and would not be depreciated.

(* Note that in determining the working capital allowance for the utility, the Board may review the prudence of management's actions in acquiring, using, and/or disposing of these transformers).

10) Article 430

Comment sought clarification regarding the treatment of development charges and contributions-in-aid in the rate base, the extent of documentation required to transfer amounts to the Miscellaneous Paid in Capital (account 3030), and "grandfathering" provisions

This Article deals with the treatment of contributed capital/ development charges going forward. While there is mention of identifying the past contributed capital by transferring it to a new "Miscellaneous Paid in Capital" account, it should be noted that the Board has not yet made a decision regarding the treatment or grandfathering of past contributions. The current proposal in the Distribution Rate Handbook is that contributions prior to a date yet to be determined will be removed from the rate base in determining the utility's market based return. However, the prior contributions will receive a return equal to the five-year actual average historic return.

When the final decision is made with respect to past contributed capital, the APHandbook will be revised accordingly and/ or the decision will be communicated to you.

11) Article 440

Comment sought clarification regarding the disposition of timing differences (held in the Future Income Tax account) when assets are transferred

Please note that the purpose of the APHandbook is, among other things, to bring about consistency in reporting for regulatory purposes. It is not to geared to address complexities related to audited financial statements prepared for external purposes.

In addition, Article 440 page 2 states: "It should be noted that the method of accounting for Future Income Taxes will not affect the manner in which just and reasonable rates are set by the Board and the accounts provided in the Uniform System of Accounts (USoA) are provided only for the convenience of the electric utility." The APHandbook is not set up to prejudge Board policy. However, the disposition of Future Income Taxes may be further considered based on the specifics of each circumstance.

Summary of Comments and Revisions to the Accounting Procedures Handbook

12) Article 450

Comment sought clarification as to whether guidelines will be issued outlining Board expectations regarding acceptable investments

There will be some freedom in investment practices of the utilities. The General Summary subsection on page 2 has been revised to include the following; "The Board has not established investment guidelines in the past but reserves the right to review the implications of investment decisions on utility operations."

13) Article 460

Comment sought clarification regarding regulatory levels that must be incorporated into any reserve strategy

Note that the former chart of accounts included at least two accounts related to reserves (accounts 650 and 699). In order to accommodate the possibility for the use of reserves it was decided that the APHandbook should include this Article. Please note however, that the APHandbook states (page 1 of this Article) that "Reserves are appropriations of retained earnings or surplus and as such are **not** "expenses". Specifically, increases or decreases in reserves are **not** to be a factor in determining net income for the period but are to be shown as an increase of decrease in the statement of retained earnings."

Consequently, reserve or appropriation levels will ultimately be determined by your shareholders since the potential distribution of earnings to them will be affected. Your ratepayers will not be affected by decisions to maintain such reserves.

14) Article 510

Comment sought clarification between Bill 35 reference to the transfer of assets at fair market value versus discussion in Article 510 of carrying amount or exchange amount

There can be a difference between asset values used as a basis for calculating the transfer tax, asset values for capital cost allowance for income tax or taxes in lieu calculation purposes, and those that will be permitted for inclusion in the rate base for regulatory purposes.

Generally, for regulatory purposes, it will be difficult to justify a change in asset values due simply to a change in ownership where the benefits to the ratepayer are non-existent or not in line with the proposed rate impact. Note that page 7 of the "Discussion Paper for MAADs Draft Filing Guidelines" states:

"The value of the assets to customers does not change with a change in ownership. The utility invested in assets to provide service to customers. Previous Board decisions have generally involved the use of net book values in determining rates after ownership changes. Anticipated efficiencies to be derived from the acquisition of the utility operation may justify a higher asset valuation (with the increased depreciation and return costs offset by efficiency savings). However, these efficiency gains are also reflected in the performance based regulation methodology proposed by the Board and therefore the justification for a higher asset valuation on efficiency grounds may be diminished."

15) Article 530

Page 5: Comment sought clarification as to whether storm restoration is an operating or maintenance activity
Utilities themselves may request, or the Board may authorize, storm restoration that **is significant and extraordinary** in nature to be treated as an extraordinary item and/or as Other Regulatory Assets (account 1505)/ Other Regulatory Liabilities (account 2400). Naturally the distinction between O&M for such items is less relevant since that distinction is geared to gage efficiencies in normal operating circumstances rather than unusual or infrequent circumstances.

15) Article 530: continued

Storm restoration activity that is not significant and extraordinary could have both operating and maintenance characteristics as listed on page 5 of Article 530 and should be apportioned accordingly.

A comment was also received requesting clarification of the distinction and need for operations and maintenance accounts.
Article 530 was specifically added to highlight the differences between Operation activities and Maintenance activities described in the Uniform System of Accounts.

As the Article states, the USoA was developed under a number of premises. One premise was that any information captured in the accounts prescribed in the former accounting manual should be preserved where possible and where considered useful. Another premise was that for Performance Based Regulation purposes, the USoA should be constructed in a manner that would facilitate comparability of the activities conducted by a utility with those of another utility.

It should be noted that the classification of Operation / Maintenance type expenditures could be useful in formulating future service reliability criteria. As described on page 2, Operation activities encompass actions of a detective and/or monitoring nature such as inspecting, patrolling, testing, and investigating while Maintenance activities are performed in a reactionary manner, often based on the results of an Operation activity.

It should also be noted that the distinction between Operation and Maintenance activities is in wide use in other jurisdictions. It was considered beneficial, from a comparability standpoint, to incorporate this in the USoA.

16) GENERAL

Summary of Comments and Revisions to the Accounting Procedures Handbook

a) **Comment sought clarification related to which revenue account should be used to record water heater rentals**
After careful analysis of Article 240 – Mapping of Former Accounts to USoA Accounts, and considering the possible implications of the new Affiliate Relationships Code, water heater rental income will be recorded in account 4385 Non-Utility Rental Income. The use of 4385 for such revenues will free up use of accounts 4375 and 4380 (Revenues and Expenses of Non-Utility Operations respectively) for other possibilities and not require changes to the related water heater and control expense accounts numbered 5185, 5186, 5190, and 5192.

The description for account 4385 has been modified to specifically refer to revenue related to water heater rental units. In addition, Article 240 has been revised to map the Black Book account 9902 to the USoA Account 4385.

16) GENERAL: continued

b) **Request made to have the first five account numbers of each category of the accounts reserved for category headers**
This request has resulted in the following changes to the USoA numbering system in addition to any numbering changes already identified previously in this Article.

Previous Account Number	Revised Account Number
1000	1005
1300	1305
1400	1405
1405	1408
1500	1505
1505	1508
1600	1605
1602	1606
1604	1608
1606	1610
1700	1705
1701	1706
1705	1708
1800	1805
1801	1806
1805	1808
1900	1905
1901	1906
1905	1908
2000	2005

Summary of Comments and Revisions to the Accounting Procedures Handbook

2100	2105
2200	2205
2205	2208
2300	2305
2305	2306
2400	2405
2500	2505
3000	3005
3005	3008
4005	4006
6320	6405
6325	6410
6330	6415

16) GENERAL: continued

c) Miscellaneous changes

i) Non-Current Asset accounts 1470, Past Service Costs – Employee Future Benefits and 1475, Past Service Costs – Other Pension Plans have been added to supplement the 1465, O.M.E.R.S. Past Service Costs account.

ii) Account 2264 has been renamed "Pensions and Employee Benefits – Current Portion" and its account description revised to include current portions of all pension and employee benefits plans.

iii) Account 2308 has been renamed "Other Pensions – Past Service Liability" to better describe its purpose.

iv) Account 2330, Development Charge Fund has been revised to provide more detail on the disposition of amounts in this account and to reflect the wording used in the Electric Distribution Rate Handbook. The account description now reads:

"The purpose of this account is to record the liability associated with funds collected for specific, future capital works. This account recognizes that there is an obligation to complete the specific capital work for which the funds were collected. The liability will increase each year by the amount of interest income earned on the fund.

If the obligation to complete the capital work has been fulfilled prior to the date designated by the Board, the related amount shall be transferred to account 3022, Development Charges Transferred to Equity.

If the obligation to complete the capital work has been fulfilled after the date designated by the Board, the related amount shall be transferred to asset contra account 1995, Contributions and Grants - Credit."

v) Account 2535, O.M.E.R.S. – Past Service Liability – Long Term Portion has been renumbered 2348 to better reflect the nature of this account (i.e. – a Non-Current Liability).

vi) Account 4225: the item “collection charges” has been removed from the description since this item is already included in account 5330. Also, the wording for account 5330 now refers to “imposition of charges” instead of “payment penalties”.

vii) Account 5115 has been divided into two accounts (accounts 5112, Maintenance of Transformer Station Equipment and 5114, Maintenance of Distribution Station Equipment) to separate amounts relating to maintenance of transformer station equipment from those relating to distribution station equipment. This is now more consistent with the changes made to the operation accounts and is in accordance with past practices used to record such expenses.

viii) Page 2 of Article 320. In the Definitions section, beside Prior Period Adjustments, the reference to CICA Handbook Section 3600 has been removed. This section was removed from the CICA Handbook when Section 1506 was revised. The guidance that was contained in Section 3600 is now contained in Section 1506.

16) GENERAL: continued

ix) Page 2 of Article 440. In the Definitions Section, the reference beside Refundable Taxes should be 3465.71-.78 (instead of .80)

x) Account 5730 has been renamed “Amortization of Unrecovered Plant and Regulatory Study Costs” and revised to remove the reference to Extraordinary Property Losses.

d) Comment suggested that the APHandbook assumes a thorough knowledge of corporate accounting principles and the CICA’s accounting rules

It should be noted that the requirement to follow Generally Accepted Accounting Principles does not come from the APHandbook itself, but from the legislative requirement that a “municipal electric utility” (defined in s.88 of the Electricity Act, 1998) be incorporated under the Business Corporations Act. The Business Corporations Act (s.155 and Regulation 62) in turn requires that financial statements be prepared in accordance with GAAP as defined in the CICA Handbook.

The APHandbook provides guidance that reflects GAAP, to the extent possible, in order to reduce the burden of having to maintain different books of accounts: one for the regulator, and the other to comply with the Business Corporations Act.

The APHandbook contains procedures and guidelines that are consistent with many of the requirements that Ontario utilities (particularly MEU’s) have had to follow in the past as well as general accounting principles followed by regulated utilities in other jurisdictions.

e) **Comment suggested that a different version of the APHandbook for smaller utilities would have been useful**
A proposal was originally made by Board staff to have a different set of accounts applied to small distribution utilities. This proposal was rejected early in the USoA development process based on the advice received from external stakeholders involved in the development process. The stakeholders represented a broad spectrum of utilities of various sizes. Some of the reasons for rejecting the proposal for a different set of accounts included: the potential for complications where utilities of various sizes planned to amalgamate; difficulties that would be encountered for benchmarking purposes; administrative problems associated with two accounting standards; and, the proposal could not be justified based on the level of reporting detail that would still be necessary for smaller utilities.

16) GENERAL: continued

f) **Comment suggested that using the Uniform System of Accounts for utility comparison purposes might not be possible due to inherent utility differences**
The information in the USoA is expected to provide input for future benchmarking and variance analysis. This analysis would begin with a comparison of similar utilities and lead to the review of the sources of the differences.

For example, two utilities subject to comparable weather may differ from an overall average by different amounts. Therefore, there may be other factors beyond weather that need to be investigated to fully explain the extent of the variance. The sources of these differences are as important to management as they are to the regulator. Therefore the effort required to gather this information is purposeful and may currently be performed by utilities.

The information gathered during Phase I of the PBR plan proposed by the Board will either highlight benchmarking opportunities or support the consideration of alternative PBR strategies.

Summary of Comments and Revisions to the Accounting Procedures Handbook