

Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
December 2003

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Q.1 The description for account 3055, Adjustments to Retained Earnings indicates that Board authorization is required for its use. How do I obtain Board authorization to use account 3055?

A.1 Account 3055, Adjustments to Retained Earnings has been provided in the Accounting Procedures Handbook (APH) to capture accounting changes to the retained earnings.

Accounting changes to financial information that has already been disclosed are rare. Occasionally they do occur and guidance as to how such changes should be treated is provided by Generally Accepted Accounting Principles (GAAP) found in the CICA Handbook.

The treatment of accounting changes needs to be carefully considered from a financial reporting perspective since a basic tenet of financial reporting is that information is presented on a consistent basis. This may result in the restatement of comparative financial information.

The types of accounting changes which may require an entry to retained earnings (i.e. result in retroactive adjustments to the financial statements and affect retained earnings balances) are: changes in accounting policy and a correction of errors in prior periods.

The Board will allow utilities the flexibility to determine the appropriate accounting treatment for “accounting changes” (normally expected to be determined in conjunction with their external auditors and supported by appropriate disclosure in the audited financial statements), and make changes to the appropriate USoA accounts (including 3055). Consequently, Board authorization to use account 3055 will **not** be required.

However, utilities will be required to re-file USoA data for each year affected by the changes so that the Board will have relevant data on hand for monitoring and analysis purposes.

The account description for account 3055, will be revised to remove the requirement for “Board authorization” prior to its use and replace it with the requirement to refile USoA data for each year affected by the changes.

Q.2 Please confirm the treatment of Prudential Deposits from Retailers that would be consistent with the Accounting Procedures Handbook (USoA)?

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A.2 Prudential deposits represent security from retailers for protection against risks of payment default by retailers. Account 1005, Cash-Prudential Deposits (sub-account) and Account 1040, Other Special Deposits are debited and Account 2425, Other Deferred Credits is credited upon the receipt of the deposit from the retailer. When the deposits become due in the current year, Account 2425 is debited and Accounts 1005, Cash-Prudential Deposit and Account 1040, Other Special Deposits is credited upon the return or use of these deposits.

For purposes of maintaining a record of the details of this deposit, separate sub-accounts should be maintained for each deferred credit.

Account 1040 definition in the USoA will be revised to include prudential deposits.

Q.3 In Retailer Consolidated Billing, where is the avoided cost credit (e.g. mailing) which the distributor pays the retailer, recorded in the GL?

A.3 Article 490, pages 5 to 7 provide guidance in the recording of the avoided cost credit arising from Retailer Consolidated Billing. Avoided costs credit is an amount paid by the distributor to the retailer and therefore should be charged to Account 5315, Customer Billing, under a sub-account - Avoided Cost Credit and credited to Account 1005, Cash.

Q.4 As established by Bill 210, new subsection 79.12, (2) of the Ontario Energy Board Act states “a distributor may establish a deferral account - that if the distributor made a payment to a consumer under subsection 79.1 (1) not later than December 31, 2002, records the amounts of other expenses incurred by the distributor in making that payment”. Which APH deferral account should be used to record these expenses (related to the \$75 refund)?

A.4 Where a distributor elects to establish a deferred account for the purposes of subsection 79.12 (2), it shall use Account 1525, Miscellaneous Deferred Debits, sub-account “Payments to Customers,” to record all other expenses incurred in making the payments under subsection 79.1 (1) on or before December 31, 2002.

Records supporting the entries to this sub-account should be kept for providing full information for each deferred debit in this sub-account.

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Q.5 The LDC has received a rate order from the OEB approving transformation service rates of \$1.50/ kW with respect to a new transformer station owned by the LDC. The rate order indicates that the LDC will use accounts 1586 (Sub-account LDC Transformer Services) and 4090 (Electric Services Incidental to Energy Sales) to record the revenues associated with the incremental transformation services. Could you please provide an example of the general accounts usage?

A.5 The following information is provided to illustrate the journal entries in a simplified example below. Assume that your LDC in September 2003 provided incremental transformation services of 100 kW's (i.e. the amount in excess of the Minimum Average Monthly Peak Load specified in the rate order). Also assume that the transformation connection services on the September IMO invoice was \$5,250. The LDC billed customers for these services (using the OEB-approved Transmission Connection Charge Rate) at \$3,500 for September and \$4,000 for October. All account balances are assumed to be nil and the DCR of 7.25% (per the Distribution Rate Handbook) applies to your LDC.

No.	Account	Entry	Debit - \$	Credit - \$
1	1100 4068	Customer Accounts Receivable Billed CN To record September transformation charges billed to customers	3500	3500
2	4716 2256	Charges - CN Accounts Payable To record September IMO settlement invoice for Transformation charges	5250	5250
3	1586 4068 4716	RSVA _{cn} Billed CN Charges - CN To record the monthly adjustment to the revenue and expense accounts and an offsetting entry to the RSVA _{cn} account	1750 3500	5250
4	sub-1586 4090	LDC Transformation Services Electric Services Incidental to Energy Sales (may use a subaccount) To record LDC incremental transformation revenues at \$1.5 per kW for September	150	150

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5	sub-1586 sub-1586 4405	LDC Transformation Services Carrying Charges Carrying Charges Interest and Dividend Income To record carrying charges on the October monthly opening balances of the 1586 RSVA _{cn} account and sub-1586 in applicable carrying charges subaccounts	1 11	12
6	1586 4068 4716	RSVA _{cn} Billed CN Charges - CN To reverse the previous month adjustment to the revenue and expense accounts and offsetting entry to the RSVA _{cn} account	5250	1750 3500
7	1100 4068 sub-1586	Customer Accounts Receivable Billed CN LDC Transformation Services To record the October transformation charges to customers	4150	4000 150
<p>Summary of Entries:</p> <p>1 The accounting for connection and transformation services are unchanged (as required in Article 490) for accounts 4068-Billed CN, 4716-Charges CN, 1586 RSVA_{cn} and Carrying Charges [Entries 1 to 3]</p> <p>2 LDC transformation services approved in an OEB rate order are recorded in subaccount 1586 LDC Transformation Services and account 4090 Electric Service Incidental to Energy Sales (revenues should be maintained in a separate subaccount if there are other revenues) [Entry 4]</p> <p>3 Carrying charges are calculated on the monthly opening balances in accounts 1586 RSVA_{cn} and sub-1586 LDC Transformation Services in related subaccounts [Entry 5]</p> <p>4 The IMO transformation changes for October and the LDC's transformer services (at \$1.5/kW) are billed to customers. Note that the latter occurred after the September billing (entry 1) therefore it is combined with the October billing [Entry 7]</p>				

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Q.6 In example 2 of Article 490, page 33, journal entry “H” shows both accounts 4006 and 4035, having an amount of \$57,930 each. However, my calculations show that each should be \$47,975. Are they correct?

A.6 You are correct in stating that the amounts in journal entry H on page 33 should be \$47,972 and not \$57,930. A revised General Ledger and journal entry “H” had been provided to reflect the revised amounts as well as the impact and revised balances.

Please see attached **Exhibit 1** (revised journal entry “H”) and **Exhibit 2** (revised GL).

Q.7 What account should be used for the refund that is on our IMO bill as of today? Would an account in between 2256 and 2260 such as 2258 Customer Refunds be appropriate?

A.7 Ontario Regulation 341/02 made under the **Ontario Energy Board Act** governs the money flows among the Ontario Electricity Financial Corporation (OEFC), the IMO, distributors, embedded distributors and retailers for the payment of the \$75 first installment refund. The money for the refund will be provided by OEFC and will be channeled thru the IMO to the distributors, embedded distributor and retailers.

The distributor should use Account 2205, sub-account - Accounts Payable to Customers.

Q.8 Please provide an example on how to record LDC energy purchases from the IMO (at spot versus fixed price) under the following situations:

- 1. SSS customer that is either a low volume or designated customer;**
- 2. Low volume or designated customer that signed a contract with a retailer (at 6.0 cents /kWh); and**
- 3. SSS customer that is neither a low volume nor a designated customer (i.e. not eligible for 4.3 cents fixed price).**

A.8 The accounting procedures and applicable accounts are illustrated in an example (below) based on the three scenarios mentioned.

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EXAMPLE

SCENARIO 1 - *SSS customer that is either a low volume or designated customer*

Assume an LDC purchases 1,000,000 kWh for a month at a wholesale market price (WAHSP) of 4.5 cents per kWh and pays the IMO \$45,000 based on this price. The fixed price for the commodity is 4.3 cents per kWh specified in Bill 210. The LDC bills and collects \$43,000 from customers based on 4.3 cents per kWh, and gets a credit for the difference (spot - fixed price) on its monthly IMO invoice (i.e. this will be netted against the total amount owing for the same month where the LDC provides necessary information within the time period specific by the IMO). The difference of \$2,000 is debited to the Account 1110 (sub-account - Other Accounts Receivable - IMO), with the offsetting credit to Account 4705 (Power Purchased).

SCENARIO 2 - *Low volume or designated customer that signed a contract with a retailer (at 6.0 cents /kWh)*

If the customer signs a contract before December 9, 2002, the LDC will charge the customer 4.3 cents per kWh (Bill 210 applies) and set up an entry as above in Scenario 1. In addition, assuming distributor consolidated billing (bill ready), the LDC will set up an account receivable account from the IMO (Account 1110 sub-account - Other Accounts Receivable - IMO) and a payable account to the Retailer (Account 2205) for the difference between the contract price of \$60,000 and spot price of \$45,000 (which is \$15,000). It should be noted where the settlement leads to a payment by the retailer to the LDC (spot price greater than contract price), the LDC will pay this amount to the IMO.

If the customer signs a contract on or after December 9, 2002, the LDC will bill and collect \$60,000 from customer based on the contract price of 6.0 cents per kWh (Bill 210 does not apply). Under consolidated distributor billing, the LDC sets up a payable to the retailer for the difference of \$15,000 (which is the difference between the contract price of \$60,000 and the spot price of \$45,000) and credits account 4055 (Energy Sales for Retailer/ Others) for \$45,000.

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SCENARIO 3 - *SSS customer that is neither a low volume nor a designated customer (i.e. not eligible for 4.3 cents fixed price)*

Under this scenario Bill 210 does not apply. The accounting procedures described above in Scenario 2 (second paragraph) should be used.

Q.9 **We give a discount to customers that own their transformers. Originally we recorded the sale to Account 4080. Should we continue this treatment?**

A.9 Yes, as a debit to Account 4080.

Q.10 **What should the correct APH account for the OPGI Market Power Mitigation Agreement Rebate?**

A.10 Account 2315, Accumulated Provision for Rate Refund should be used.

The definition of Account 2315 in the USoA will be revised to include the OPGI Market Power Mitigation Agreement Rebate.

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EXHIBIT 1

NOTE: Refer to page 33 of Article 490 of the APHandbook. Highlighted portions reflect the required changes.

	<u>Account</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
H	12/31	4062	Billed WMS	\$ 36,598
		4066	Billed NW	21,911
		4068	Billed CN	75,547
		Sub-4006	Residential Energy Sales	47,972
		Sub-4055	Energy Sales for Retailers	47,972
		1582	RSVA - One time	50,000
		4712	Charges One time	\$ 50,000
		1580	RSVA - WMS	36,598
		1584	RSVA - NW	21,911
		1586	RSVA - CN	75,547
		1588	RSVA - Power	<u>95,944</u>
				<u>\$280,000</u> <u>\$280,000</u>

To permanently reduce the greater of the Billed and Charges accounts (for the year-end RSVA purposes). (See General Ledger Summary on Exhibit 3).