Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
December 2005

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Q.1 In order to make the monthly revenue entry from the revenue account (4080) to account 1565, Conservation and Demand Management (CDM) Expenditures and Recoveries, is the LDC required to calculate the specific amounts of revenue for each rate class based on sales volumes?

A.1 This entry to the 1565 account is in accordance with a Board letter of October 29, 2004 to LDCs. This entry is not based on the electricity sales of the LDC. It should be recorded at the control account level of account 4080 at an amount equivalent to 1/12 of approved third instalment of MARR before payment in lieu of taxes. Also, note that the use of contra account 1566 (discussed below in Q.2) reverses this entry to account 4080 in the same accounting period. Therefore it has no effect on the LDC's revenues or income statement. It is for tracking purposes only.

Q.2 The Board ruled in its decision on conservation and demand management (CDM) applications that CDM capital assets should be included in rate base. How does this ruling change the accounting requirements for account 1565, Conservation and Demand Management Expenditures and Recoveries?

A.2 The following accounting requirements are provided to accommodate this Board ruling and to streamline financial reporting requirements. These requirements are effective for 2005 and subsequent years.

A contra asset account 1566, CDM Contra, will be used to record transactions to offset amounts recorded in the CDM account 1565. This will facilitate the maintenance of account 1565 as a "tracking" account and will permit transactions to revert to their accounts of original entry. By means of the postings to the contra account 1566, CDM related revenues and expenses will flow back to the income statement accounts and CDM related capital assets will flow back to fixed assets accounts in the balance sheet. Therefore, this treatment will ultimately allow CDM capital assets to be recognized in the rate base and CDM expenses to be recognized in the revenue requirement of an LDC.

Q.3 Can you provide an illustrative example for the application of this new contra account 1566, CDM Contra?

A.3 In 2005 the Board approved the CDM plan for ABC Utility Ltd of $120,000 to be funded via the third tranche of MARR. The plan is comprised of three programs as follows:

- Program A – customer education was completed on July 31, 2005 at a cost of $20,000.
- Program B – capital asset was started September 1 and completed on September 30, 2005 at a cost of $40,000.
- Program C – capital asset approved for $60,000 was not started in 2005.

The following is a summary of the journal entries for recording the CDM programs using the CDM expenditures and recoveries account 1565 and the related contra account 1566. Note that entries #1 and 2 are required each month until February 1, 2006.

Entry	Date	Account	Description	Debit	Credit
	2005				
1	Mar 01	4080	Distribution Services Revenue	10,000	
		1565	CDM Expenditures and Recoveries		10,000
			To record the deemed 1/12 approved third tranche of MARR		
2	Mar 01	1566	CDM Contra	10,000	
		4080	Distribution Services Revenue		10,000
			To record reversal of 4080 using CDM contra account		
3	Jul 31	1565	CDM Expenditures and Recoveries	20,000	
		5415	Energy Conservation		20,000
			To record expenses of customer education program in 1565		
4	Jul 31	5415	Energy Conservation	20,000	
		1566	CDM Contra		20,000
			To record reversal of 5415 using CDM contra account		

5	Sep 30	2055 2205	Construction Work in Progress (1) Accounts Payable To record expenditures for construction work in progress capital program B	40,000	 40,000
6	Sep 30	18xx-19xx 2055	Capital Asset Construction Work in Progress To record construction work in progress placed in service	40,000	 40,000
7	Sep 30	1565 18xx-19xx	CDM Expenditures and Recoveries Capital Asset To record CDM program B capital asset in 1565	40,000	 40,000
8	Sep 30	18xx-19xx 1566	Capital Asset CDM Contra Account To reverse Capital Asset in 1565 using contra account 1566 (1) For multi-month completion programs, see Q.4 below re the treatment of AFUDC in account 2055 for CDM capital assets under development.	40,000	 40,000

Q.4 What is the accounting treatment of CDM capital projects under development?

A.4 Consistent with the requirements of APH in Article 410, major CDM capital program or initiatives should be recorded in account 2055, Construction Work in Progress – Electric, each under a separate sub-account. No allowance for funds used during construction (AFUDC) is permitted as the Board has approved the funding for these programs through the third instalment of MARR (market adjusted revenue requirement) in 2005/06 rates. Thus the funds are already in the hands of the LDCs. When a capital project is competed, or substantially completed and ready for productive use, the total costs of the asset should be transferred to the appropriate capital asset account (1606 -1990). Concurrent entries are required to recognize the capital program in 1565 and the reversal and offset to the contra account 1566 (as shown in Q.3 above).

Q.5 How should account 1565, Conservation and Demand Management Expenditures and Recoveries, be reported in the distributor quarterly filings (DQF) and CDM filings given the use of contra account 1566?

A.5 For these filings, only information related to account 1565 is to be reported (i.e. 1566 account information should not be netted or included with this information). However, account 1566 will be required to be filed in the annual trial balance in the usual manner with other accounts.

Q.6 In the course of developing and rolling out the CDM programs our LDC uses its existing employees as part of this process. Do the costs for these employees qualify for CDM costs under the approved programs?

A.6 No. Eligibility of any CDM related internal labour costs must be "incremental" employee costs to the LDC. This would otherwise constitute "double counting" of the same costs since the LDCs employee costs are already included in the LDC's revenue requirement. In a previous circumstance related to employee costs, the Board guidelines for transition costs provided specific criteria for the eligibility of the transition costs.

Q.7 What is the accounting treatment for the 10% transition costs write-off for qualifying LDCs that elect to file a minimum review application for regulatory assets (as part of their 2006 EDR application)?

A.7 LDCs that qualify to make such an election should write off 10% of transition costs (before any carrying costs) to 2005 net income as a shareholder expense. Account 4380, Expenses of Non-Utility Operations, should be used to account for the write-off, as this amount is not part of the revenue requirement used for rate setting purposes. Thus the write-off represents a cost to the utility that should not be passed on to consumers.

Q.8 The Board's regulatory asset (Phase II) decision issued on December 9, 2004 approved the recovery of Hydro One Network Inc. (Hydro One) low voltage (LV) charges from embedded LDCs. The decision approved the recovery of these costs on a monthly basis over a three-year period, starting April 1, 2005. It was determined that the appropriate account for LDCs to record these low voltage charges is the RSVAcn (1586) account.

Please provide an example of the accounting treatment applicable to each of the following scenarios:

A) The three embedded LDCs that received approval of their regulatory assets on a final basis (as part of the Phase II hearings), and;
B) All other embedded LDCs that did not receive approval of their regulatory assets on a final basis.

A.8 An example for each of the above scenarios is provided below. The accounting requirements are similar for both scenarios with differences reflected due to amounts approved and not approved on a final basis.

Example for Scenario A:

The Hydro One approved LV charges to Utility A is $90,000 for the period to the end of Dec. 31, 2003 which includes projected interest calculated to the end of the 2004/05 rate year, Mar. 31, 2005.

Utility A reported a 1586 RSVAcn account balance of $170,000 as of Dec. 31/03 arising from the difference between the wholesale market charges and the amounts billed to its customers. This amount is derived by the difference in the charge/expense account 4716 of $390,000 and the billed/revenue account 4068 of $220,000. As at Mar. 31/05 the balance in account 1586 is $180,000, which includes accumulated carrying charges of $10,000 projected to Mar. 31/05.

As a result, the final approved balance in account 1586 is $270,000 (i.e. $180,000 + $90,000). Assume that the Board-approved regulatory assets rate rider for this account recovers an average monthly charge of $7,500 over three years from customers beginning April 1, 2005. In addition, assume the Hydro One monthly invoice to Utility A will be $2,500 over three years to collect $90,000 for LV charges.

The following illustrative journal entries provide the recording of the LV charge in account 1586 (per Board decision) and the close out of the final amount on approval. Note that entries #4 and #5 will continue monthly until the end of the recovery and charge period.

Entry	Date	Account	Description	Debit	Credit
	2005				
1	Mar 31	1586	RSVAcn	90,000	
		2405	Other Regulatory Liabilities / Credits		90,000
			To record Hydro One LV Charge in account 1586 RSVAcn per Board decision and order		
2	Mar 31	1586	RSVAcn	180,000	
		4068	Billed CN	220,000	
		4716	Charges – CN		400,000
			To close out the RSVAcn revenue and expense account amounts approved for disposition including accumulated carrying charges projected to Mar. 31/05		
3	Mar 31	1590	Recovery of Regulatory Asset Balances	270,000	
		1586	RSVAcn		270,000
			To record the close out of 1586 on a final basis per Board approval		
4	Apr 30	4006-4055	Sales of Electricity	7,500	
		1590	Recovery of Regulatory Asset Balances		7,500
			To record Regulatory Asset recovery per rate-rider billed to customers		
5	Apr 30	2405	Other Regulatory Liabilities/ Credits	2,500	
		2205	Accounts Payable		2,500
			To record monthly Hydro One invoice for LV charge		

Example for Scenario B:

The Hydro One approved LV charges to, and other information for Utility B are identical to Utility A. The only difference is that Utility B regulatory asset balances were not approved on a final basis.

The following illustrative journal entries provide the recording of the LV charge in account 1586.

Entry	Date	Account	Description	Debit	Credit
	2005				
1	Mar 31	1586	RSVAcn	90,000	
		2405	Other Regulatory Liabilities/ Credits		90,000
			To record Hydro One LV Charge in account 1586 RSVAcn per Board decision and order		
2	Apr 30	4006-4055	Sales of Electricity	7,500	
		1590	Recovery of Regulatory Asset Balances		7,500
			To record Regulatory Asset recovery per rate-rider billed to customers		
3	Apr 30	2405	Other Regulatory Liabilities/ Credits	2,500	
		2205	Accounts Payable		2,500
			To record monthly Hydro One invoice for LV charge		

Q.9 The Board's 2006 EDR application provides for the submission of additional LV charges for the period from January 1, 2004 to April 30, 2006. How should these amounts be treated?

A.9 The guidance provided for embedded distributors in Q.8, Scenario B, above is applicable for LV charges for this period from January 1, 2004 to April 30, 2006. However, when the Board approves regulatory assets on a final basis as part of the 2006 EDR applications, including LV charges, LDCs are required to record entries #2 and #3 as shown in Q.8, Scenario A, above to close out the approved amounts for accounts 4068, 4716 and 1586.

Q.10 The Board's letter of December 20, 2004 authorized account 1508, Other Regulatory Assets, to record the variance between the OEB annual cost assessment fees previously captured in 2001 rates and amounts charged in 2004 and subsequent years.

The 1999-2000 OEB annual assessment amount captured in our LDC's 2001 base rates is actually for nine months. Since the OEB fiscal year covers the period from April 1, 1999 to March 31, 2000, the amount in our 1999 financial statements is accrued to December 31, 1999, a nine-month period.

Is it correct to record in account 1508, the difference between this 1999 amount (nine-month period) and the OEB annual assessments for 2004 and subsequent years?

A.10 Yes. The OEB cost assessments for 2004 and subsequent years which are in excess of the OEB charges in the 1999 financial statements and which are reflected in the 2001 distribution base rates should be recorded in this account.

Q.11 The Board has communicated that those LDCs who are members of the OMERS pension plan will be permitted to record cash pension costs (and associated carrying charges) in Account 1508 – Other Regulatory Assets, Sub-account Pension Contributions beginning January 1, 2005.

Since our LDC also made cash payments to the OMERS pension plan in 2004, will we be allowed to record these amounts in account 1508?

A.11 The Board has stated in its letter of February 15, 2005 that the applicable years for recording cash pension contributions in this deferral account are for 2005 and subsequent years. The only exception to permit a deferral account for 2004 was for an LDC applying for and receiving ministerial approval in 2004 from the Minister of Energy to make an application to the Board for a deferral account.

Q.12 What rate of interest should be used to calculate the carrying charges applicable to Account 1508 – Other Regulatory Assets, Sub-account Pension Contributions?

A.12 The Board has authorized a rate of interest of 3.88% per annum for this account in 2005. This rate is effective from January 1, 2005 to December 31, 2005 and should be used to calculate the monthly carrying charges based on the account's monthly opening principal balance in this period. An interest rate will not be prescribed for 2006 since the Board plans to have a public consultation in early 2006 regarding the appropriate interest rate methodology to be used for all regulatory accounts going forward.

Q.13 Incremental cost assessments and cash pension contributions were authorized for inclusion in 1508, Other Regulatory Assets, sub-accounts as per Board letters of December 20, 2004 and February 15, 2005 respectively. To which date are the recordings authorized in these sub-accounts?

A.13 These recordings are authorized to April 30, 2006 since effective on May 1, 2006 cost assessments and cash pension contributions amounts are included in the distribution rates of LDCs for the 2006/07 rate year. Monthly carrying charges will be recorded to the permitted time at a rate of interest prescribed by the Board (see answer to Q.12).

Q.14 For LDCs that incur costs for administering the Ontario Price Credit to low volume and designated consumers, is there a deferral account permitted to record these costs?

A.14 A Board letter of December 13, 2005 indicates that electricity distributors may book unforeseen costs related to the payment of the Ontario Price Credit in deferral account 1525 – Miscellaneous Deferred Debits, Sub-account Payments to Customers.

Q.15 Please clarify how the variance account for global adjustments (GA) sub-account of account1588, RSVApower is to be used?

A.15 The global adjustment sub-account is used to capture the following difference in relation to non-regulated price plan (RPP) customers only:

1) amounts charged to LDC's on the IESO monthly invoice for global adjustments (i.e. IESO charge type 146 and others as applicable); and,

2) the amount of the global adjustment applied to non-regulated customers using the preliminary daily global adjustment amounts (which is currently a fixed monthly amount).

For clarification, the monthly IESO invoice shows charge type 146 as the global adjustment amount for the LDC's total volume of electricity withdrawn from the IESO-controlled grid (+/- any embedded generation) x the GA rate applied to market participants. This charge type reflects electricity used by all consumers, including RPP customers.

Therefore, for the purposes of this variance account, an LDC must calculate the volume of electricity for non-RPP customers only x GA rate used on that particular monthly invoice. To determine the variance, this amount is compared to the total global adjustment applied to non-RPP based on the preliminary daily GA amounts. The balance of the IESO GA charge associated with RPP customers is reported to the IESO via Form 1598.

Q.16 Presently the Global Adjustment variance sub-account is not separately reported to the OEB. Will this sub-account be required to be reported separately in the future?

A.16 The global adjustment account balance effective as of December 31, 2005 will be required for separate reporting as part of the distributor quarterly fling (DQF) on January 31, 2006 and in subsequent DQFs. This will facilitate the Board's quarterly reviews of commodity accounts under the Bill 23 accounts guidelines.

Q.17 In its letter of December 2, 2005, the Board has revised the classifications of IESO wholesale market service (WMS) charge types to charge accounts 4708 and 4712 effective for 2006. Will these reclassifications have any impacts on the RSVA account balances accumulated to December 31, 2005?

A.17 There will be no impacts on previous RSVA balances due to the reclassifications of several IESO charge types affecting these charge accounts. The RSVA balances prior to 2006 should be reported under the WMS charge type classifications in effect to December 31, 2005.

Q.18 What are the accounts to use to post the charges/payments for the final regulated price plan (RPP) variance settlement amount when a customer leaves the plan?

A.18 Under the RPP, the "final RPP variance settlement amount" applies to a price plan consumer who: (1) cancels their account and moves outside of the Province of Ontario; (2) switches to a retailer; or (3) elects the spot market pricing option.

In the settlement of these amounts with RPP customers, the Power Purchased (4705) and Sales of Electricity (4006-4055) accounts are applicable. For example, if the current the RPP prices are lower compared to the actual spot market prices, RPP customers leaving the province would owe money for their electricity commodity consumption. In this case, when the LDC bills an RPP customer for an amount owing, the entry for the amount owing would be a debt to

Accounts Receivable and credit to Sales of Electricity accounts. At the time the LDC makes an adjustment to reflect the receipt of this amount from the RPP customer on IESO Form 1598, the entry would be a debit to Power Purchased and a credit to Accounts Payable – IESO.

In summary, these entries have an offsetting effect on the income statement (Sales and Power Purchased) as required to achieve the pass through of the electricity commodity to electricity customers.

Q.19 The 2006 EDR Handbook indicates that the Board will establish a 2006 PILs/taxes variance account in the Accounting Procedures Handbook. Has this account been established?

A.19 The Board has established Account 1592, 2006 PILs and Taxes Variances, for this purpose effective May 1, 2006. This account will capture the tax impact of the following differences:

- any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model,
- any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities, and
- any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
    - received by the distributor after its 2006 rate application is filed, and before May 1, 2007
    - relating to any tax year ending prior to May 1, 2006.

LDCs should follow the guidance provided in Chapter 7 of the 2006 EDR Handbook for the details of the account's requirements. Records shall be maintained at a detail level to support entries in this account. Disposition of the account's balance will be subject to Board review.