Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
February 2001

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Accounting Procedures Handbook

Frequently Asked Questions

Q.1 We are a CA firm conducting an audit of a utility's year-end financial statements. We noted that Article 510 of the APHandbook requires a change in accounting policy for "spare" transformers and meters based on the criteria provided. The audit indicates that the utility is not following the required APH accounting treatment. The utility has argued the transformers that are carried in the inventory account (1330) are not "spares." We disagree and recommend that the transformers should be classified in the capital asset account (1850).

In addition, when the utility replaces a damaged transformer due to a lightning strike, it debits account 5160, Maintenance of Line Transformers and credits account 1330, Plant Materials and Operating Supplies (Inventory). The damaged transformer is not refurbished and is disposed. In effect, the utility leaves the transformer unchanged in the capital asset account and expenses the transformer that is removed from inventory.

In terms of reporting to the OEB, is materiality considered an issue? And what would be the appropriate accounting treatment?

A.1 Article 100 does indicate that the APHandbook need not be applied to immaterial items. However, there is also a requirement for the utility to adhere to the Accounting Procedures and Requirements prescribed in Article 510 for regulatory purposes. Therefore, the utility should comply with the external auditor's recommendation that "spare" transformers should be classified as assets in the capital asset account instead of inventory in order to comply with the APH.

The APH is based on generally accepted accounting principles (GAAP). Charging an asset with a long service/ useful life to expense as described above does not appear to be consistent with the matching principle of GAAP. This accounting treatment understates both the net income and assets of the utility which also is not in accordance with GAAP.

Q. 2 Page 4 of Article 430 in the APH indicates "As of date determined by the Board" with respect to "contributions in aid of construction" that will not be eligible for inclusion in a utility's rate base or revenue requirement. Has the date been decided on yet?

A. 2 The Board's PBR Decision With Reasons RP-2000-0034 (dated January 18, 2000) confirmed the "date determined" to be <u>on or after January 1, 2000</u>. Please note that the March 2000 FAQ #13 (posted on the OEB's Website under the Accounting Procedures Handbook) provides detail on the accounting treatment regarding contributions received on or after January 1, 2000.

Please note that this "date determined" (i.e. on or after January 1, 2000) is also applicable to development charges. See FAQ #5 below for further details.

Q.3 If a customer requests the LDC to install an interval meter on its premises, who is responsible for paying for the meter and associated costs?

A.3 Section 2.10.5 of the Distribution System Code indicates consumers that request interval metering shall compensate a distributor for all incremental costs associated with that meter, including the capital cost of the interval meter, installation costs associated with the interval meter, ongoing maintenance (including allowance for meter failure), verification and re-verification of the meter, installation and ongoing provision of communication line or communication link with the customer' s meter, and cost of metering made redundant by the customer requesting interval metering.

Q.4 Regarding USoA accounts such as 1830, Poles Towers and Conduit, the utility could not determine the opening account balances (as of Jan. 1, 2000) because it has no idea what the split should be as it lacked the detailed records. Can you provide guidance?

A.4 Article 510 provides some guidance on how this could be accomplished. Specifically, page 9 provides details for spare transformers and meters and page 11 for poles, towers and conduits.

In addition, the March 2000 FAQ #16 addressed this issue. Some suggested techniques included analyzing previous records over a representative period of time to determine what the allocation could be, obtaining quotes from external sources, and contacting neighboring utilities that may have more comprehensive records or to corroborate the analysis performed by the utility.

Q.5 For development charges receivable as at December 31, 1999, how do they get treated for purposes of rate filings? Accounting for purposes of the APH? An example of accounting at the cut-off date?

A.5 **Initial filing**

Development Charge Funds that have accrued to the benefit of the LDC as at December 31, 1999 would be accounted for as in the past (i.e. set-up of a deposit/receivable account 271 and a corresponding liability account 371). Consistent with past practice the deposit/ receivable is not included in the rate base. Consequently, for purposes of the initial filing, the rate base will not include Development Charge Fund deposits/receivables.

In order to substantiate the accrual as at December 31, 1999 it is expected that the balance of Development Charge Funds on deposit/ receivable as at December 31 will be disclosed in the LDCs audited financial statements.

Accounting for purposes of the APH

Page 3 of Article 430 of the APH will be revised to reflect the above treatment. The effect of the revision will be to essentially continue the transfer of Development Charge Fund amounts expended on capital works from asset account 1545 (Development Charge Deposits/ Receivables) to the related Detailed Asset Accounts. However, the transfers to equity account 3022 (Development Charges Transferred to Equity) or asset contra account 1995 (Contributions and Grants- Credit) from the liability account 2330 (Development Charge Fund) will depend on whether the expenditure on capital works relates to an amount accrued after December 31, 1999 or before January 1, 2000 as described below.

The last paragraph on page 3 of Article 430 beginning with “In the future, the use of the development charge accounts...” will be replaced with the following:

Prior to January 1, 2000

Development charge funds receivable or on deposit with the LDC prior to January 1, 2000 will be transferred from the non-current liability account (2330, Development Charge Fund) to the following account once the funds have been expended on capital projects:

- account 3022, Development Charges Transferred to Equity. This account shall include the amounts related to Development Charge Funds accrued to the benefit of the utility as at December 31, 1999 and subsequently expended on capital works in accordance with the obligations associated with those Funds.

On or After January 1, 2000

Development charge funds that become receivable or are placed on deposit with the LDC on or after January 1, 2000 will be transferred from the non-current liability account (2330, Development Charge Fund) to the following account once the funds have been expended on capital projects:

- account 1995, Contributions and Grants - Credit. This account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

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

In addition, the description for account 2330, Development Charge Fund will be modified as follows:

- 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 liability relates to an amount accrued prior to January 1, 2000, 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.

  If the liability relates to an amount accrued after December 31, 1999, once the obligation to complete the capital work has been fulfilled, the related amount shall be transferred to asset contra account 1995, Contributions and Grants - Credit.

  Sub-accounts should be maintained to segregate amounts relating to liabilities arising before January 1, 2000 from those arising after December 31, 1999.

An example of the accounting at cut-off date

A simple example is provided below to illustrate the new requirements for development charges based on the cut-off date. In this example, assume that in scenario 1, an LDC collected development charges for a project/ asset in 1999 for $1,000 and the project is competed Sep. 30, 2000. In scenario 2, the LDC collected development charges for another project/ asset on Jun. 30, 2000 for $1,000. The total costs of this project/ asset competed Oct. 31, 2000 is $2000. The asset is amortized straight line over 25 years.

The required accounting entries related to the year 2000 under each scenario are shown in the charts below.

Date	Account	Particulars	Debit	Credit
		Scenario 1: Development Charge Deposit/ Receivable before Jan. 1, 2000		
2000				
Jan 1	1545	Development Charge Deposits/ Receivables (“black book” A/C 271)	1000	
	2330	Development Charge Fund (“black book” A/C 371)		1000
		To record receipt of Funds for Development Charges received before Jan. 1, 2000; transferred from “black book” to related USoA accounts		
Sep 30	2330	Development Charge Fund	1000	
	1545	Development Charge Deposits/ Receivables		1000
		To record fund expended on development charge obligation		
Sep 30	1805 - 1990	Detail Asset Account (as applicable)	1000	
	3022	Development Charge Transferred to Equity		1000
		To record capital asset completed from development charge funds		

Date	Account	Particulars	Debit	Credit
		Scenario 2: Development Charge Deposit/ Receivable on or after Jan. 1, 2000		
2000				
Jun 1	1545	Development Charge Deposits/ Receivables	1000	
	2330	Development Charge Fund		1000
		To record receipt of Funds for Development Charges received		
Oct. 31	2330	Development Charge Fund	1000	
	1545	Development Charge Deposits/ Receivables		1000
		To record fund expended on development charge obligation		
Oct. 31	1805 - 1990	Detail Asset Account (as applicable)	2000	
	1995	Contributions and Grants-Credit		1000
	2225	Notes and Loans Payable		1000
		To record the completion of capital asset		
Dec 31	5705	Amortization Expense	80	
	2105	Accumulated Amortization		80
		To record amortization of capital asset		
Dec 31	1995	Accumulated Amortization (sub-account)	40	
	5705	Amortization Expense		40
		To record amortization of contra asset account 1995		

Q.6 The Board's Electricity Distribution Rate Handbook requires utilities to file audited financial statements by June 1, 2001 for the period January 1 to December 31, 2000. Audited financial statements were prepared when we incorporated, and another set of financial statements are in the process of being prepared covering the period from the date of incorporation to December 31, 2000. I would like to get some clarification on the Board's filing requirements.

A) Does the OEB have an example of prepared financial statements and notes to the financial statement that a utility should use?
B) Can statements be prepared on a company-wide/ "consolidated" basis, or must they be reported for the wires business only?
C) Can I simply submit the two "stub period" financial statements, or do I have to prepare some form of summary to cover the filing period?
D) Would any summary need to be audited?

A.6 The following answers are provided with respect to the above-noted questions.

A) The APH does not specify financial reporting requirements (i.e. how the Uniform System of Accounts is supposed to roll up into the audited financial statements). The APH does however state that the financial statements should be prepared in accordance with the standards set forth in the CICA Handbook, and the APH does explicitly state that the Board may specify reporting standards for regulatory filing requirements (Article 100). With respect to the notes to the financial statements, the utility should ensure that "Recommendations" and "Transitional Provisions" for setting up of accounts in the USoA as described in Article 510, are appropriately disclosed in the notes.

Ultimately it is the trial balance of the accounts provided in the USoA, and the mapping/ reconciliation of those accounts to the financial statements, that the Board is interested in. The combination of audited financial statements and the mapping/ reconciliation provides a level of assurance that all transactions of the utility have been picked up by the financial statements. Submission of the relevant USoA details enables the Board to analyze/report information as it requires, so specific financial statement reporting requirements were not considered necessary at this time.

Where a utility uses more detailed accounts than provided by the USoA, an extra step will be required as utilities will also need to map/reconcile their more detailed account structure to the USoA before mapping/ reconciling those accounts to the audited financial statements.

B) Where a utility has conducted wires and non-wires activities, these activities may be "consolidated" in preparing audited financial statements. Again, the mapping/ reconciliation of the audited statements to the account detail is sufficient for the Board's purposes at this time.

C) While the Board would prefer a summary to cover the filing requirements, the Board anticipates that the database it is developing will be sufficiently flexible to separately accommodate USoA trial balance detail for both stub periods for each utility. Note that the two "stub periods" being combined should only cover the January 1 to December 31, 2000 time period.

D) As long as there is a mapping/ reconciliation between the individual audited statements and the summary, there is no requirement to audit the summary.

Q.7 The LDC was incorporated Oct. 31/2000 and has audited financial statements for the period from Jan. 1 to Oct. 31. Since there is only a two-month period to Dec. 31, are audited financial statements required? And if so, can the utility limit the scope of the audit because the previous 10 months were already audited?

A.7 The OEB requires audited financial statements covering the period Jan. 1 to Dec. 31, 2000 inclusive.

The financial statements are the representations and the responsibility of management. The role of the auditor is to express an opinion on the financial statements in the auditor's report, i.e. whether they are expressed fairly/ free of material misstatements, in accordance with GAAP (generally accepted accounting principles).

The auditor's opinion(s) must cover the January 1 to December 31 time period. While it is likely that the amount of work required to render an opinion will be substantially reduced as the result of the audit work performed on the October 31, 2000 financial statements, there should be no limits placed on the scope of the audit which could impact the auditor's ability to render an opinion for the December 31, 2000 financial statements.

Q.8 Under the Ontario Business Corporations Act an LDC could choose the date of its fiscal year end, but it appears the financial information filing requirements under the Rate Handbook requires it on a calendar year basis. Is this correct?

A.8 An LDC may choose its own year end, but it must file audited financial statements to the Board for a twelve month period ending December 31 of each year (Section 12.2.8 of the Rate Handbook). If the LDC's corporate year-end is August 31 (for example), it will be required to provide audited financial information for 8 months of one fiscal year and 4 months of the next.

Q.9 The utility disposed of a truck (ungrouped basis) and realized a gain on its sale. Could you please advise where this gain should be recorded in the USoA?

A.9 Account 4355, Gain on Disposition of Utility and Other Property will be used to record the gain from sale of truck.

Q.10 The utility will incur staff costs for the billing settlement process with the IMO such as labor meter management and verification of IMO billings etc. Where should these costs be recorded?

A.10 Specific accounting requirements regarding transition costs are provided in Article 480 issued Jan. 17, 2001. If these costs meet the eligibility criteria in the Rate Handbook as qualifying transition costs, they should be recorded in account 1570. Qualifying transition costs will be recorded in separate sub-accounts depending on the "general category of activities" of the cost incurred. Accordingly, the labor meter management and verification of IMO billings would be recorded in the "Wholesale market requirement"non-capital sub-account if they meet the eligibility criteria in the Rate Handbook.

Note that if the expenses are not qualifying transition costs, they should be recorded in a new "IMO Billing/ Wholesale" expense account(s). The OEB will be providing this expense account and other accounts required for wholesale and retail transactions prior to the opening of the electricity market.

Q.11 The LDC received a bill from the "Town" regarding lawyer and consulting fees totaling $200,000. The costs were incurred to determine whether to keep/ sell the LDC, and legal fees when the Town finally decided to keep the LDC (therefore incorporation costs etc.).

Would these costs qualify for transition costs treatment and where do these costs get recorded in the USoA?

A.11 The Board has determined (PR-1999-0034) these costs do not qualify as transition costs. These are expenses to be borne by the shareholder (Town) and therefore should be recorded in account 1606, Organization Cost.

Please note also that Article 480 (page 6) provides other examples of ineligible transition costs that will not qualify for transition cost treatment related to account 1570, Qualifying Transition Costs.

Q.12 Utilities have indicated to the Board an over/ under collection from customers may occur since utilities are billed for cost of power on the basis of time-of-use (TOU) but non-TOU customers of the utility are charged on an average rate. Utilities have questioned whether an account could be used to track these differences in the USoA.

A.12 The Board has determined that utilities shall track these differences in the USoA account described below.

Account 1571, Pre-market Opening Energy Variances
The Board authorizes use of this account for the sole purpose of recording the difference between the utility's purchased cost of power based on time-of-use (TOU) and amounts billed to non-TOU customers charged at an average rate for the same period. Amounts recorded in this account shall be limited to the period starting January 01, 2001 and ending on the date of opening of the competitive electricity market in Ontario. Competitive electricity market transitions shall not be included in this account.

This account shall be further sub-divided by customer classes if the average rates billed by classes are different. Accordingly, sub-accounts shall be maintained by class as follows (or as applicable if the utility uses different/ other rate classes):

Residential Non-Time-of -Use
General Service <50 kW Non-Time-of -Use
General Service >50 kW Non-Time-of -Use
Sentinel Lighting Non-Time-of -Use
Street Lighting Non-Time-of -Use

This account shall be debited/ credited with an amount equal to the difference between the purchased cost of power and amounts billed to non-TOU customers (using an average rate). An offsetting debit/ credit amount is recorded in account 4705, Power Purchased. The expense recorded in account 4705 will therefore equal the revenues as billed to the non-TOU customers, resulting in a "flowthrough" of energy costs. Note also that the energy sales recorded in accounts 4006 to 4035 are not affected by the above-noted treatment.

Amounts recorded in this account do not imply Board acceptance of these amounts. The disposition of amounts recorded herein shall be made in accordance with Board established policies and procedures.

Amounts included in this account shall be classified in such manner as to show the origin of each amount.

Records relating to this account shall be maintained in sufficient detail as to permit review by the Board.

Q.13 We understand when the electricity market opens there will be a requirement for utilities to use a Power Purchase Variance Account (PPVA). Can you provide more information regarding this account?

A.13 Account 1520 discussed below is the new account and account description for the PPVA which will be effective when the competitive electricity market opens. This account will be included in a future revision of the APH prior to the market opening. Board policies and procedures regarding the PPVA are provided in Chapter 10 of the Rate Handbook. Distributors are advised to consult the guidance provided in that chapter regarding the use of the PPVA including "true-ups" and disposition of balances.

The following is a brief summary of the guidance provided in Chapter 10.

- To calculate entries in the PPVA, distributors must refer to the Retail Settlement Code (RSC) which outlines the distributor's settlement cost calculation methodology. The settlement provisions relating to Standard Supply Service are set out in section 7.4 of the RSC and the detailed calculations and settlement pricing formulas in Chapter 3 of the RSC.

- A careful review of the RSC will determine which calculations are appropriate. A distributor shall calculate its aggregated utility PPVA in a manner mathematically equivalent to equation 10-1.

- A debit or credit amount shall be calculated and posted to the distributor's PPVA account at the close of the distributor's standard billing cycle.

Account 1520, Power Purchase Variance Account
This variance account will be used to record the difference between the energy charge billed to a distributor's Standard Supply Service customers using a Board-approved fixed reference price and the cost of power billed to the distributor either by the Independent Electricity Market Operator or a host distributor.

The carrying charge amount for this account shall be calculated and recorded using simple interest on the opening balances at the beginning of the distributor's standard billing cycle (exclusive of accumulated interest). The interest rate shall be the Debt Rate Cost applicable to the distributor, based on its deemed capital structure established in Table 3-1 of the Rate Handbook, and shall be applied to the account's debit or credit balance.

When required by the Board, there shall be a "true-up" of the account balance and disposition in accordance with Board established policies and procedures.

Q.14 On September 1, 2000, the municipality transfers the utility assets of $2,000,000 to the incorporated LDC taking back shares and debt of $2,500,000. The carrying value of the utility is $2,300,000 (with accumulated amortization of $300,000). As the transaction falls within the constraints of the CICA Handbook related parties transactions section, the transaction is recorded at the carrying amount (Section 3840.08). Section 3840.09 requires that the difference in the carrying amounts of the items exchanged, i.e. $500,000 ($2,500,000 - $2,000,000) be recorded as a charge or credit to equity. However, the Transitional Requirements (page 5) of Article 510 appear to override this treatment by requiring that the difference be charged to Account 2060, Electric Plant Acquisition Adjustments.

Is this interpretation correct?

A.14 Yes, for regulatory purposes, account 2060, Electric Plant Acquisition Adjustments should be used by electric utilities to record any difference between the carrying amount as shown on the books prior to the transfer and the exchange amount resulting from the transfer.

Note that the utility may for external financial reporting purposes need to report information differently, such as transferring account 2060 to the equity section of the financial statements.

Q.15 Further to the FAQs that were issued March 2000, please clarify the appropriate accounting treatment as either operating and / or maintenance in the following situations:

a) The utility conducts planned inspections or testing of equipment or assets and during the course of such planned checking it was discovered that the assets/ equipment require some immediate repairs or component replacements. Would the actual work and materials carried out for these repairs be classified as operation or maintenance?

b) Same scenario as above except that due to the nature of the assets there was not an immediate requirement for repairs in order to maintain current system reliability. However a record was kept of the required repairs. Subsequently, a planned maintenance program was put into place to repair large groups of these items. Would these later planned program costs be considered operational or maintenance?

c) After a major storm, while repairs are being made to damaged assets, additional inspection work is concurrently carried out to determine any further damage to the system. Would that inspection work and the related repairs be considered all maintenance or operational?

A. 15 The following are the answers for each of the above-noted scenarios:

a) The criteria previously described in the March 2000 FAQs (26 to 29) were based on whether the O&M work performed was either controlled (i.e. planned) or reactionary (i.e. unplanned such as work caused by a storm). This distinction determined whether the classification of the activity should be either operation or maintenance regardless of when the actual work was done.

In performing planned/ operation activities such as inspections and testing, there could be incidental (minor) work performed in conjunction with such planned activities which normally would be classified as "maintenance." However, to decrease record-keeping requirements it is acceptable to record these minor incidental costs as operations. Conversely, if the major activity being performed was maintenance and some minor incidental operations activities were concurrently performed, it is acceptable to classify these as maintenance.

b) The considerations/ decisions required under this scenario also are based on the answer provided in a) above. First, the activities are described as "planned maintenance" and therefore some recognition that they are maintenance. Secondly, no "incidental" work is actually performed in conjunction with operation activities. The required work is only noted/ recorded at the time of the operation activities performed. A separate program is then established to collectively have all these "maintenance" activities that were noted over a period, carried out. Consequently, these planned maintenance program costs would be classified as maintenance.

c) The repairs performed due to the major storm are considered "unplanned" and therefore classified as "maintenance." If the "additional operational work" is carried out for the purposes of determining further damage that may have been caused by the storm, and the timing of such additional inspections occurs during or immediately after the storm, these too may be classified as maintenance. On the other hand, if the timing of additional inspections work performed, for example, was several weeks after the storm as part of a planned inspection activity, it should be classified as operational.

Q.16 Our utility received an invoice from the OEB regarding payment for the completed generic proceedings on Performance Base Regulations and Standard Supply Service code. Could you please advise where these types of charges should be recorded in the USoA?

A.16 Account 5655, Regulatory Expenses provides that: "this account shall include all expenses....including payments made to a regulatory body for fees assessed against the utility for pay and expenses of such body...". The Board's invoice regarding payment for the generic proceedings on Performance Based Regulation and Standard Supply Service is consistent with that definition and should generally be recorded in that account.

Please note however that the Board has also issued the Electricity Distribution Rate Handbook governing the first generation performance based regulation plan. The Handbook provides guidelines and criteria (e.g. materiality) for the consideration of specific costs as transition costs.

Specific accounting requirements regarding transition costs are provided in Article 480 issued Jan. 17, 2001. If these costs meet the eligibility criteria in the Rate Handbook as qualifying transition costs, they should be recorded in account 1570. Qualifying transition costs will be recorded in separate sub-accounts depending on the "general category of activities" of the cost incurred. Accordingly, the cost of hearings may be recorded in the "Regulatory costs"non-capital sub-account if they meet the eligibility criteria in the Rate Handbook.

Q.17 The OEB previously proposed a revision of the USoA revenue accounts to facilitate the recording of the unbundled revenues for electricity market opening, i.e. separate the recording of the 'unbundled' distribution revenues from the electricity commodity. Has a final decision been made with regard to this proposal?

A.17 The decision about the separation of revenues is that the following accounts will be used to record distribution and electricity revenues:

<u>**Customer Supplier:**</u>	<u>**Distribution Revenue**</u>	<u>**Electricity Sales**</u>
Standard Supply Service	4080 (sub-accounts)	4006 to 4035
Retailer	Same sub-accounts above	4055 (sub-accounts)

<u>Prior to market opening</u>:

- Some utilities may not have a distinction between the electricity distribution and the electricity revenues. Therefore, such utilities will continue to record the total ('bundled') costs in accounts 4006 to 4035 as presently required. Please note however that there is a requirement to record this data in accordance with the customer class structure in the Rate Handbook (see the customer classes below in accounts 4080 and 4055)
- Utilities with unbundled rates prior to market opening should use account 4080 to record distribution revenues (sub-divided by customer class, see account description below for details) and accounts 4006 to 4035 to record the electricity charge (i.e. by customer class as applicable)

<u>On market opening</u>:
Distribution Revenues:

- Distribution revenues derived from the electricity distribution service charge for Standard Supply Service, Retail and Other customers will be recorded in account 4080
- The accounts will be subdivided to record the distribution service revenues related to each class of electricity revenue

Electricity Charges:

- Only the electricity commodity sales for Standard Supply Service customers will be recorded in accounts 4006 to 4035
- Account 4055, Energy Sales For Resale will be used to record the electricity sales applicable to retailer customers, subdivided by electricity classes that correspond with accounts 4006 to 4035
- Accounts 4040 and 4045 will be reserved

To reflect these requirements for market opening/ unbundled rates accounts 4080 and 4055 are revised as follows:

4080 Distribution Services Revenue

This account will be used to record the revenues derived from the electricity distribution service charge for standard supply service, retail and other customers.

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

Residential
Large Use
Street Lighting
Sentinel
General Service - <50 kW
- >50 kW
- Intermediate (if applicable)

4055 Energy Sales For Retailers/Others

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

Sub-accounts shall be used to separately record each of the following classes of electricity sales:
Residential
Large Use
Street Lighting
Sentinel
General Service - <50 kW
- >50 kW
- Intermediate (if applicable)

The above-noted customer/ revenue classes in accounts 4080 and 4055 are specified in the Rate Handbook for the first generation PBR. Utilities using customer classes other than those shown above should consolidate their accounts into the above customer classes.

In addition, separate accounting of revenues as provided above will provide meaningful information related to utility revenues and also facilitate compliance with section 12.4.3 of the Rate Handbook related to the filing of "Energy Delivery Information" according to customer class.

Q.18 Please clarify what items would qualify for inclusion in account 1508, Other Regulatory Assets?

A.18 This account includes amounts attributable to ratemaking actions of the Board that can not be included in other accounts. The amounts included are derived from the regular determination of income in the current period. As an example, a utility may conduct a comprehensive depreciation study at a substantial cost. The utility could be required to phase-in the costs to its customers over of a period of time as a result of the ratemaking process. Consequently, the amounts not included in the current year's approved rates would be charged to this account, if they cannot be included in other accounts, and subsequently be disposed of as directed by the Board.

Q.19 Can you explain the difference between accounts 6040, Allowance for Borrowed Funds Used During Construction - Credit and 6042, Allowance for Other Funds Used During Construction?

A.19 These two accounts were provided in the APH for the purpose of recording the " Allowance for Funds Used During Construction" (AFUDC) capitalized in the "Construction Work in Progress" account. Account 6040 deals with the AFUDC derived from external financing charges- borrowed funds whereas account 6042 deals with the AFUDC derived from funds such as a utility's own cash on hand or other sources.

The Board has not yet addressed utility requirements regarding the AFUDC rate. However, as an interim measure for the first generation PBR period, the Board views the debt cost rate (DCR) established in the Rate Handbook as a reasonable rate to be used as the maximum allowable limit for the AFUDC rate. This applies to borrowed non-borrowed or other/ internal funds. A utility should use Table 3-1 of the Rate Handbook to determine the applicable DCR based on its deemed capital structure. As noted in Article 480 issued Jan. 17, 2000, the Board may revisit the appropriateness of the DCR for purposes of the AFUDC rate for the period after the first generation PBR.

Article 480 should be consulted for details on the treatment of the AFUDC related to qualifying transition costs and assets under "Construction Work in Progress."

Q.20 Where should the "installed costs" including "trenching" be recorded under the following situations:

a) An underground cable is enclosed in a conduit or tunnel?
b) An underground conductor is directly buried in a trench not encased in a conduit?

A.20 The installed costs will be recorded as follows:

a) Account 1840, Underground Conduit would be used where the underground cable is enclosed in a conduit or tunnel. The account description (page 35, Article 220) provides that the account shall include the cost installed of underground conduit and tunnels used for housing distribution cables and wires.

b) Account 1845, Underground Conductors and Devices would be used where the underground conductor is directly buried in a trench not encased in a conduit. The account description (page 36, Article 220) provides that the account shall include the cost installed of underground conductors and devices, including armored conductors, buried/ submarine and trenching.

Q.21 The USoA Index on page 14 of Article 210 shows accounts 5110, Maintenance of Structures and 5115, Maintenance of Station Equipment that do not correspond with the accounts' descriptions shown in Article 220.

What accounts should utilities be using?

A.21 The accounts noted in the Index of Article 210 will be revised in a future revision of the APHandbook to reflect the correct accounts listing shown in Article 220. It is important to note that if a utility has used the Index of Article 210 for the purposes of setting up its USoA accounting system without cross-referencing these accounts to the accounts descriptions in Article 220, it is likely it will need to make a revision as follows-:

From: (current accounts listed in the Index)
5110 - Maintenance of Structures
5115 - Maintenance of Station Equipment

To:
5110 - Maintenance of Building and Fixtures - Distribution Stations
5112 - Maintenance of Transformer Station Equipment
5114 - Maintenance of Distribution Station Equipment