

**Ontario Energy Board
Accounting Procedures Handbook
Questions & Answers
June 2000**

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Q.1 We reviewed the USoA and have noted that there were accounts provided for building maintenance such as snow removal/plowing and lawn cutting, for example, in account 5085, Miscellaneous Distribution Expense. However, with respect to our general administrative building, we could not find a related/similar account for expenses such as telephone, water, heating and electricity. Could you please advise where we would record these type of expenses?

A.1 Building services and expenses incurred in connection with the general administration of the utility's operations that are assignable to specific administrative or general departments and are not specifically provided for in other accounts shall be recorded in account 5620, Office Supplies and Expenses.

Building services which are clearly applicable to any group of operating expenses other than the administrative and general group shall be included in the appropriate account in such group.

Lastly, general expenses which apply to the utility as a whole rather than to a particular administrative function shall be included in account 5665, Miscellaneous General Expenses.

Q.2 Section 9.3 of the Rate Handbook identifies various charges. Would you please identify the USoA accounts that should be used to record these various charges?

A.2 The following is a summary of customer charges contained in 9.3 of the Rate Handbook and the corresponding USoA accounts. Note that in applying such charges utilities must comply with Board policies as stipulated in the Rate Handbook.

<u>Charges per Rate Handbook (s 9.3)</u>	<u>Related USoA Account</u>
Late Payment Charge	4225, Late Payment Charges
Collection of Account	5330, Collection Charges
Disconnection of Electricity Service	4235, Miscellaneous Service Revenues
Reconnection of Electricity Service	4235, Miscellaneous Service Revenues
Dispute Involvement Charge	4235, Miscellaneous Service Revenues

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Temporary Electricity Service (Distribution related)	4235, Miscellaneous Service Revenues
Temporary Electricity Service (Non-Utility related)	4375, Revenues from Non-Utility Operations; 4380, Expenses of Non-Utility Operations; 4385, Non-Utility Rental Income
Account Setup Charge	4235, Miscellaneous Service Revenues
Return Cheque Charge	4235, Miscellaneous Service Revenues

To facilitate the recording of items applicable to Temporary Electricity Service (Non-Utility related) and to accommodate the separation of non-utility from distribution activities in the USoA accounts, the following accounts have been revised, and will be updated in a future revision of the APH.

4235 Miscellaneous Service Revenues

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

Separate records shall be maintained for each type of revenue.

Example items

1. Fees for changing, connecting or disconnecting service including reconnection charges and change of occupancy fees.
2. Profit on maintenance of appliances, wiring, piping or other distribution related installations on customers' premises.
3. Net credit or debit (cost less net salvage and less payment from customers) on closing of work orders for plant installed for temporary service (distribution related) of less than one year. (See account 1104, Accounts Receivable Recoverable Work.)
4. Recovery of expenses in connection with current diversion cases (billing for the electricity consumed shall be included in the appropriate electric revenue account).
5. Dispute meter test charges.
6. Account history research charges.

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4375 Revenues from Non-Utility Operations

- A. This account shall include revenues applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation is not defined to be distribution related or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.
- B. The accounts shall be subdivided so as to permit ready summarization of revenues by activity.

Example items

- 1. Street Lighting services.
- 2. Erecting and removing temporary electricity service (non-utility related) such as community decorative lighting.
- 3. Selling of hot water heaters.
- 4. Water and sewer services.
- 5. Electricity generation.
- 6. Electricity transmission.
- 7. Other services not defined as distribution related and not provided for elsewhere in this Uniform System of Accounts.

4380 Expenses of Non-Utility Operations

- A. This account shall include expenses applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation not defined to be distribution related or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.
- B. The expenses shall include all elements of costs incurred in such operations and the accounts shall be subdivided so as to permit ready summarization of expenses by activity as follows:

Operations, Maintenance, Rents and Amortization

Example items:

- 1. Street Lighting services.
- 2. Erecting and removing temporary electricity service (non-utility related) such as community decorative lighting.
- 3. Selling of hot water heaters.
- 4. Water and sewer services.
- 5. Electricity generation.
- 6. Electricity transmission.
- 7. Other services not defined as distribution related and not provided for elsewhere in this Uniform System of Accounts.

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4385 Non-Utility Rental Income

- A. This account shall include all rent revenues and related expenses of land, buildings, or other property included in account 2075, Non-Utility Property Owned or Under Capital Leases or elsewhere, and used for non-utility purposes.
- B. This account shall include all rent revenues related to items included in account 1965, Water Heater Rental Units. (The corresponding expenses will be included in accounts 5185 to 5192 as applicable).
- C. This account shall include all rent revenues related to items included in account 1985, Sentinel Lighting Rental Units. (The corresponding expenses will be included in accounts 5170 and 5172 as applicable).
- D. The expenses shall include all elements of costs incurred in the ownership and rental of property, and the accounts shall be maintained so as to permit ready summarization as follows:

Operations, Maintenance, Rents and Amortization
- E. The accounts shall be subdivided so as to permit ready summarization of rent revenues by activity.

Example items:

- 1. Street Lighting rental.
- 2. Rent related to temporary electricity service (non-utility related) such as community decorative lighting.
- 3. Renting of hot water heaters.
- 4. Renting of sentinel lights.
- 5. Rent derived from water and sewer assets.
- 6. Rent derived from electricity generation assets.
- 7. Rent derived from electricity transmission assets.

4210 Rent from Electric Property

- A. This account shall include rents received for the use by others of land, buildings, and other property devoted to electric operations by the utility.
- B. When property owned by the utility is operated jointly with others under a definite arrangement for apportioning the actual expenses among the parties to the arrangement, any amount received by the utility for interest or return or in reimbursement of taxes or amortization on the property shall be credited to this account.
- C. Records shall be maintained to show each source of rental income by category.

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Example items

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

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

Lastly, the mapping of former “black book” account 9903, Sentinel Light Rental to account 4210, Rent from Electric Property is revised to account 4385, Non-Utility Rental Income.

Q.3 We have many projects that have been ‘energized’ but not totally completed for a period of time thereafter. (Note: these projects were financed by the utility’s own funds). For example, a section of a distribution line was rebuilt with electricity flowing through the new upgraded plant and serving customers. However, the removal and cleaning up of the old distribution line was delayed because the telephone and cable companies have not removed their plant. Consequently, we could not remove the poles.

Please confirm whether the following approach would be acceptable:

- a) Interest capitalization (AFUDC) would cease when the plant is energized?**
- b) The project would remain as construction in process until it is completed?**
- c) The completed project would be transferred to the rate base once completed?**

A.3 Response to a):

The APH provides guidance on this topic in Article 410 (pages 13 to 15) under “Construction in Progress and Related Carrying Costs.” Capitalization of carrying costs including interest should cease when a capital asset is substantially complete and ready for productive use. Determining when a capital asset or a portion 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.

Response to b):

Based on the example provided in your question, it would appear that since your customers are already being serviced by the new section of the distribution line, this would meet the criteria of being substantially complete and ready for productive use as noted above. As a result, interest capitalization should have ceased when that criteria was met and the costs, including accumulated interest, in account 2055, Construction Work in Progress-Electric, should be transferred to the appropriate detail asset accounts (1605 to 1995).

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It should be noted that the other services (i.e. telephone and cable) are unrelated to the electric distribution system and thus should not be a factor to determine whether the new plant is substantially complete and ready for productive use.

Response to c):

As indicated in b) above, the assets should be transferred to the rate base (i.e. detail asset accounts 1605 to 1995). It should be noted that the “old” poles, although not physically removed, should not be included in the rate base. The amounts in the asset accounts related to the “old” plant should be transferred to account 2070, Other Utility Plant until retired.

Q.4 What rate of interest is to be used for capitalization. The actual rate earned on utility working capital or the deemed rate established by the OEB for deemed debt calculations?

A.4 As stated on page 14 of Article 410, 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.

Q.5 Since the utility has not borrowed funds (i.e. it used its own funds) for the construction of the new plant, should the full AFUDC credit be recorded in Account 6042.

A.5 Yes, the full amount of the credit interest arising from the utility’s use of its own funds to finance construction of the new plant should be recorded in account 6042, Allowance For Other Funds Used During Construction-Credit. Again, as indicated in A.4 above, the appropriateness of the AFUDC rate will be subsequently reviewed by the Board, and approved based on the Board’s assessment of the reasonableness of the allowance.

Q.6 Where should the costs of underground cable locates be recorded in the USoA?

A.6 If the underground cable locates is at the request of a customer that are directly related to the customer’s premises, the cost of labour should be recorded in account 5070, Customer Premises - Operating Labour, and material and expenses in account 5075, Customer Premises - Materials and Expenses.

Where the underground cable locates is initiated by the utility for its own purposes, the cost of labour should be recorded in account 5040, Underground Distribution Lines and Feeders -

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Operation Labour, and related suppliers and expenses in account 5045, Underground Distribution Lines and Feeders - Operation Supplies and Expenses.

It should be noted that in the event activities are performed both on and outside of the customer's premises a result of a customer request, all costs should be charged also to accounts 5070 and 5075.

Q.7 Regarding current asset account 1040, Other Special Deposits, please explain the reference "This account shall also include the current portion of customer deposits recorded in account 2335, Long Term Customers Deposit-Non Current Liability."

A.7 Account 1040, Other Special Deposits is provided to record the current asset portion of any customer deposits in accordance with generally accepted accounting principles. This account is provided to include the current asset portions of deposits related to amounts recorded in accounts 2335 and 2340. Note that the non-current asset portions are to be recorded in account 1410, Other Special or Collateral Funds.

Q.8 When should account 1570, Qualifying Transition Costs be used as opposed to account 1606, Organization?

A.8 Expenditures that meet the four criteria test specified in the Rate Handbook (i.e. causality, materiality, inability of management to control and prudence) would qualify as transitional costs and should be recorded in account 1570.

Fees and expenditures incident to organizing the utility and putting it into readiness to do business would be recorded in account 1606, Organization. This account will include legal, consulting and other fees directly related to an incorporation or amalgamation. The Board in its Decision with Reason on Performance Based Regulation stated that these costs are the responsibility of the shareholder and ultimately attributable to the account of the shareholder. Therefore, organizational costs will not qualify as transitional costs.

Q.9 Should account 4225, Late Payment Charges, also include collection charges applied to customers that default on payment?

A.9 No, amounts received with respect to collection charges will be recorded in account 5330, Collection Charges.

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Q.10 We have reviewed the APH Frequently Asked Questions on your Website. Answer 52 states that where the street lighting assets were owned by the LDC, expense accounts 5165, Maintenance of Street Light and Signal Systems and 5060, Street Lighting and Signal System Expenses should be used until S. 71 Draft Guidelines comes into effect. The account description for 5060 (Article 220 page 112) indicates the expenses of this account are related to street lighting assets owned by customers. Could you please clarify?

A.10 Where the LDC owns the street lighting assets (recorded in account 1875), the related “operation” and “maintenance” expenses will be recorded in accounts 5060 and 5165 respectively until S. 71 Draft Guidelines comes into effect.

Accordingly, the description of account 5060 has been revised and will be updated in a future revision of the APH as follows:

“This account shall include the cost of labour, materials used and expenses incurred in the operation of such plant owned by the utility where such work is done regularly as part of the street lighting and signal system service.”

The “Example items” listed below this account description will remain unchanged.

Note also where the LDC does not own the street lighting assets, the revenues and expenses arising from the provision of street lighting services should be recorded in account 4375, Revenues from Non-Utility Operations and 4380, Expenses from Non-Utility Operations respectively.

Q.11 Could you please clarify the meaning of the statement in account 5410, Community Relations-Sundry, “Charges to this account must be directly associated with the operations of the electric utility.”

A.11 This account mirrors former “black book” account 7013. The requirement is to ensure only costs that are directly related to the utility’s regulated activities are recorded in the account and therefore prevent the inclusion of costs related to the utility’s competitive or potentially competitive lines of business.

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Q.12 Given that Section 3461 of the CICA Handbook pertains to benefits for future retirees, it appears that only such related allowances should be charged to USoA account 5645, Employee Pension and Benefits. Would you please clarify the reference made in item 4) of account 5645 “Payments for medical and hospital services and expenses for employees when not the result of occupational injuries.”

A.12 It should be noted that Section 3461 of the CICA Handbook is not limited to post-employment pensions and benefits but includes compensated absences for which it is expected employees will be paid such as parental leaves, accumulating sick days that vest or are paid without an illness-related absence, and sabbaticals that provide compensated, unrestricted time off for past service.

It should also be noted that account 5645 is not limited to CICA Section 3461 type benefits but also includes the cost of benefits that cover employees for accident, sickness, hospital, and death benefits.