Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
March 2000

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Accounting Procedures Handbook

Frequently Asked Questions

Q.1 With respect to the Affiliate Relationship Code (ARC) transactions, and as mentioned in Article 340 in the APH, how is fair market value (FMV) determined where there just aren't any competitors in the area to permit a "valid tendering process"? How would the price charged by an affiliate to the electric utility and be determined to be fair?

A.1 As mentioned in both the ARC and the APH, when purchasing a service, resource or product from an affiliate, a utility must ensure that it pays no more than the FMV. For the purposes of purchasing, a valid tendering process will be evidence of FMV. Where the FMV is not available for a product, service or resource, a utility must charge no less than a cost-based price, and will pay no more than a cost-based price. A cost-based price must reflect the cost of producing the service or product and include a return on the invested capital.

Q.2 How will the OEB determine what FMV for the services rendered by an affiliate to a Utility should be? To give an example, the price charged by the affiliate to the utility is $10.00 but another company is charging $6.50 for the same service. How would the OEB determine which is the fair value of such service? Would the OEB disallow the $10.00 charged by the affiliate?

A.2 Utilities will be required to support the transfer prices used. The OEB will determine whether the FMV is just and reasonable through a review, audit or by other means including the rate setting process.

The Board will review the transaction based on the specific circumstances prevailing at the time the purchase was made. A good test would be the lowest price charged by an arm's length party. The Board will consider other factors that may have an impact on the transfer price (i.e. ongoing supplier relations, whether the purchase is part of a bundle of purchases, etc.). All things being equal, the utility cost will be adjusted to the fair market price with the residual considered a non-utility expense.

Q.3 What are "periodic compliance reviews" mentioned in Article 340 and relating to the Affiliate Relationship Code?

A.3 As mentioned under subsection 2.7.1 of the ARC, electric utilities are required to conduct reviews of operations or activities impacted by the requirements of the ARC to ensure that there has been compliance with all aspects of the ARC. This is an internal review to be performed by utility management in discharging its responsibilities as they relate to overseeing utility operations. The Board may then conduct selective reviews of these internal reviews or perform its own compliance reviews.

Q.4 Can the accounting department of the LDC perform the accounting functions for both the LDC and its affiliate (such as a retailer)?

A.4 No further details were submitted with respect to the definition of "accounting functions". Reference should be made to the Affiliate Relationship Code. In particular, section 2.2.1 specifies that a service agreement is required where a utility shares services or resources with an affiliate. Section 2.2.2 requires that where there is sharing of information services all confidential information must be protected from access by the affiliate. Section 2.2.3 requires that where employees are shared with an affiliate the employees cannot be involved in collecting or have access to confidential information. Lastly, section 2.2.4 states that a utility shall not share with an affiliate that is an energy service provider, employees that carry out the day to day operation of the utility's transmission or distribution network.

Q.5 How should sharing of services between the affiliate and the utility be structured in order to comply with the rules relating to the confidentiality of information?

A.5 Reference should be made to the Affiliate Relationship Code. The ARC defines "confidential information" as information the utility has obtained relating to a specific consumer, retailer or generator in the process of providing current or prospective utility service.

See **Q. 4** above regarding section 2.2.3 and 2.2.4 of the ARC. See also section 2.6 of the ARC that deals with the rules around the disclosure of confidential information.

It is the responsibility of the utility to ensure that their activities with affiliates are in compliance with the ARC.

Q.6 Is an amortization study required by the Electric Utility in order to change its amortization rate(s)?

A.6 Yes, any changes to current methods, estimated useful lives or amortization rates must be supported by an objective study. Note that Board authorization is required before any change to amortization rates can be implemented.

In addition, while the APH does not provide any prescriptive guidance on amortization methods, estimated useful lives or amortization rates, it should be noted that, in the interim, such guidance will be provided in the Rate Handbook.

Q.7 If the MEA or an independent consultant were to conduct an amortization study for a group of utilities, would such a study be acceptable to the OEB?

A.7 There are no restrictions in place with respect to the number of utilities that can benefit from a single study.

The purpose of any study should be to provide sufficient support to justify a change in amortization rates, etc. for a particular utility. It should be noted that generally accepted accounting principles require that amortization 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). Consequently, the utilities that are party to any joint study should ensure that their specific circumstances are consistent with the remainder of the group covered by the study in order for the results of the study to be applicable to them.

Q.8 In relation to an amalgamation, merger, acquisition, etc., if a utility had two separate plant locations with identical assets could different useful lives be used (or be applicable) or would there be a requirement to harmonize amortization rates?

A.8 Again, generally accepted accounting principles require that amortization 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).

There could be valid reasons to support differences in amortization rates both before and after a change in ownership. Pending an objective study of the estimated useful lives of asset types for the combined utility, a blended rate determined by weighting the differing estimated useful lives by the APH asset account values should be used.

The Board will review each situation on a case by case basis.

Q.9 Do the gas utilities have the same amortization rates for tax and regulatory purposes?

A.9 Generally, the straight line method of amortization is used by gas utilities for regulatory purposes. For tax purposes, the prescribed rates in the *Income Tax Act* may vary from the amortization rates used for regulatory purposes i.e. certain asset classes are permitted an accelerated capital cost allowance rate.

Q.10 In accordance with the CICA Handbook, the transfer of assets from a municipal electric utility to the incorporated electric utility should be at carrying cost (net book value). However, for income tax purposes there is a requirement to account for the transfer at fair market value (FMV). Will utilities be able to re-value assets on their books?

A.10 For answer please refer to Article 540, page 13, item 14). See also discussion in **A.11** regarding asset valuation.

At the present time, for regulatory reporting purposes, the income tax expenses claimed by utilities should be consistent with the asset values and amortization permitted for rate making purposes. This issue will be revisited by the Board in the near future.

Q.11 At what value should a regulated utility transfer water heaters to its affiliate?

A.11 As summarized in Article 510 (page 4) and in accordance with generally accepted accounting principles, 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 distributes electricity before and after restructuring to determine how to measure the value of the assets transferred.

This transaction would also involve consideration of the requirements of the Affiliate Relationship Code with respect to transfer values.

In addition, this transaction would involve a consideration of the transfer alternatives available to the utility (i.e. sales to third parties). The Board expects utility management will structure the transaction to maximize benefits to its ratepayers.

Lastly, it should be noted that the Board reserves the right to review the accounting treatment applied and recommend a different accounting treatment if deemed appropriate for regulatory purposes.

Q.12 If assets such as transformers and meters are refurbished, how would they be treated?

A.12 Page 7 of Article 410 discusses "Asset Recognition - Capitalizing Versus Expensing" and "Betterments Versus Repairs". Generally, if refurbishing enhances the service potential of the transformers and meters, the expenditures would be considered a betterment and capitalized. 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.

As an aside, the implication on the calculation of depreciation expense will vary depending on whether the above assets are treated as readily identifiable assets or grouped assets. If they are treated as grouped assets, the refurbishing costs would be capitalized and depreciated at the same rate as the original asset. If they are treated as readily identifiable assets, the refurbishing costs would be capitalized and depreciated over the newly estimated life of the refurbished asset.

Q.13 Our advisors are under the impression that contributed capital (CC) received after January 1, 2000 will be recorded in account 1995 (the asset contra account) and that it will not be included in rate base nor will the related depreciation expense be permitted in the revenue requirement. We are also advised that the related Operations and Maintenance expenses will not be permitted as expenses. Is this correct?

A.13 Effective January 1, 2000 contributions received with respect to capital assets will not be allowed to be included in the electric utility's rate base and any related amortization expense will not be allowed in its revenue requirement. When these capital assets require rebuilding and therefore funding, the need to collect contributions may be demonstrated through a profitability evaluation presented to the Board.

When contributions in aid of construction are received in the form of services or property, the value of the contribution will be recorded in the applicable asset accounts and the asset contra account (account 1995, Contributions and Grants - Credit). 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 thus eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

The APH does not distinguish between utility assets provided through contributed capital and assets financed by debt or equity for purposes of determining the eligibility of operations or maintenance expenses. Therefore, operations and maintenance expenses incurred as regular activities of the distribution system will be considered legitimate expenses of the utility.

Q.14 Where should engineering costs be charged prior to allocating to the respective construction in progress accounts, capital accounts, recoverable works, etc.?

Should clearing accounts still be used to allocate costs related to trucks, etc.?

How are clearing accounts cleared? Is there a procedure for this?

A.14 Please note that clearing accounts have not been included in the USoA. However, it is expected that utilities will continue to maintain clearing accounts as applicable. The Board's objective is to obtain the most accurate (i.e. reasonable and supportable) allocation to accounts as possible. If a utility determines the use of clearing accounts supports that objective, they should be used. In relation to using clearing accounts, the principles, standards and conditions discussed in Article 340 should be followed.

As indicated in page 10 of Article 340, an engineering clearing account may be used to accumulate the costs associated with the engineering operation, including engineering staff. Some guidance regarding a clearing account for rolling stock is provided at the bottom of page 9 of Article 340.

With respect to clearing accounts procedures, any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis that 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.

Q.15 For collateral funds received, is there a requirement to have separate bank accounts for each customer?

A.15 Collateral funds are recorded in account 1410, Other Special or Collateral Funds.

There is no requirement to keep separate bank accounts for each customer deposit. However, separate sub-accounts should be maintained with respect to each type of deposit in account 1410 i.e. - Other Special Deposits, Collateral Funds, etc.

Q.16 For some of the accounts in the new USoA we will not have the detail to accurately allocate capital costs of prior years into the proper accounts. Does the OEB have any guidance on the allocation of those costs to the new accounts?

A.16 The APH requires that there be detailed recording of component assets relating to overhead lines, underground lines, and services. More specifically, accounts are provided to capture the capital cost relating to poles, towers and fixtures in account 1830 and overhead conductors and devices in account 1835. Similarly, account 1840 has been provided to capture capital cost relating to underground conduit and 1845 for underground conductors and devices. Lastly, account1855 is to be used to capture the capital cost relating to services.

Article 510 on page 11 provides general guidance in situations where a potential change in an accounting policy with respect to poles, conductors and conduits may require restatement of opening balances (i.e. January 1, 2000).

Specific guidance as to how the allocation of past amounts is to be performed is not provided due to the fact that the state of records and extent of record keeping varies among utilities. However, some suggested techniques include 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. The utility should ensure any allocation performed is adequately supported and properly documented.

Q.17 Since we are referring to the asset lives listed in the former Black Book as the default for utilities to use, should this not also be included in the APH at least on an interim basis?

A.17 The APH does not provide any prescriptive guidance on amortization methods, estimated useful lives or amortization rates. As stated on page 16 of Article 410, it is expected that, in the interim, utilities will continue to use rates and methods previously established until such time as changes to those can be supported through independent studies, and the changes are approved by the Board. Amortization rates, useful lives and the amortization expense resulting therefrom are rate making considerations. As a result, the previously established rates and methods (found in the former Black Book) will be contained in the final Electric Distribution Rate Handbook for reference.

Q.18 The OEB does not intend to prescribe depreciation rates. The former Black Book has a generic rate of 60 years useful life for the generation assets. Now that the USOA has unbundled the station into component parts, it is possible that the 60 year rate is no longer appropriate for equipment and other parts of the station. Is there any guidance as to how we would come up with rates that would be acceptable to the OEB?

A.18 It is possible that the unbundled assets associated with generation stations will have different useful lives when assessed on their own merits. 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.

Furthermore, it should be noted that, in accordance with the "Draft Guidelines for the Interpretation of Section 71 of the OEB Act, 1998", electricity generation will not be considered to be a distribution activity and this activity will need to be provided through an Affiliate or by another party. Consequently, the Board will not be involved in the authorization of amortization rates related to such assets.

Q.19 How should interest on funds used for construction costs be treated?

A.19 The cost of a capital asset includes the directly attributable allowance for funds used during construction ("AFUDC") allowed by the regulator. 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. Note that the appropriateness of the AFUDC rate used by the electric utility may be reviewed by the Board and would be approved based on the Board's assessment of the reasonableness of the allowance.

Q.20 With respect to Account 1806, Land Rights it appears that this account includes the costs for easements. Our utility currently does not capitalize easements, should we now do so under the USoA? If required to do so, the debit would go to account 1806 for the fair market value of the easement but what account do we credit?

A.20 The land rights account in the USoA (account 1806) is very similar to the land rights account under the former Black Book (account 15). The description of land rights in Article 230 item No. 22, includes the "cost" associated with acquiring easements.

Effective January 1, 2000 the utility should begin to record these amounts in the USoA accounts provided. If the utility pays for easements, the purchase price would constitute the cost of the easements and the other side of the entry would be to cash or payables.

Where it receives these through contributions of capital, the treatment would be as stated in Article 430 (i.e.- debit account 1806 and credit contra account 1995). The value of the easement if not identifiable in the transaction/exchange should be estimated.

With respect to past transactions, the journal entries will depend on which accounts contain the land rights resulting from past transactions.

Q.21 Several utilities will amalgamate due to regional amalgamation. As a result, our utility will incur amalgamation related legal and consulting costs. Where in the USoA would these expenditures be recorded?

A.21 Fees and expenditures incident to organizing the utility and reading it to do business would be recorded in account 1606, Organization. This account would include legal, consulting and other fees directly related to the amalgamation.

Attention should be drawn to Note B of account 1606, which states that when charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included here or in similar accounts in the books of the companies concerned shall be excluded from this account.

Q.22 Where are legal costs associated with the release of subdivisions to be recorded?

A.22 Pages 6 and 7 of Article 410 contain a discussion on the definition of an asset and the treatment of related expenditures under “Asset Classification” and “Asset Recognition-Capitalization Versus Expensing” respectively.

Asset costs as mentioned on page 7 of Article 410 are defined to include legal fees.

If the legal costs relate to an asset that has been or will be acquired by the utility such as assets that the developer has passed on or will be passing on to the utility, they should be capitalized in the Electric Plant in Service - Detailed Accounts to which they relate.

Q.23 Where do we code costs associated with collecting information regarding load profiles if this information is not directly associated with billing the customer?

A.23 Pages 6 and 7 of Article 410 contain a discussion on the definition of an asset and the treatment of related expenditures under “Asset Classification” and “Asset Recognition-Capitalization Versus Expensing” respectively.

Generally, based on the discussion in Article 410, if the cost will result in a future benefit to the distribution utility there may be justification for capitalizing such an expenditure. In such a case, the utility could use account 1610, Miscellaneous Intangible Plant to record such costs.

On the other hand, if the criteria for capitalization of costs cannot be met, the amounts can be expensed using account 5340, Miscellaneous Customer Accounts Expenses.

Q.24 Currently our utility is using the Ontario Hydro Manual Electric Billing Journal and Disbursement Journals for our accounting system. Due to the new USoA, the above journals will no longer be of use. Will the OEB make available any such journals relating to the new USoA that will be of use for a manual accounting system?

A.24 The OEB will not be issuing any manual journals with respect to billing or disbursements. Utility management has the responsibility to comply with the APH and the flexibility to choose how best to do so.

Q.25 Is there a materiality level, for example, relating to the expensing of minor items such as small tools, etc.?

A.25 The Board has not established a dollar limit with respect to the charging of costs of minor items to asset or to expense accounts. Many utility-specific circumstances impact the determination of a reasonable level for such items. As further experience is gained regarding the specific circumstances of regulated electric distribution utilities, the Board may revisit this decision. In the interim, utilities may wish to develop their own guidelines subject to the following considerations.

As stated on page 9 of Article 100, the Accounting Procedures or Requirements in the APH 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.

Q.26 Some Operations activities appear too close to Maintenance activities to differentiate and field staff could have difficulties distinguishing between them. Can you provide any suggestions?

A.26 It is essential that information collected and recorded for O&M activities be meaningful. Utility management is ultimately responsible for ensuring that appropriate procedures are in place to comply with the requirements of the APH and for preparing information that is accurate and complete.

The main principle underlying the use of the USoA "Operation" accounts is that an operation activity encompasses actions of a detective, preventative, or monitoring nature. Some utilities have suggested that operations activities are normally activities that are planned or scheduled. This suggestion is reasonable and acceptable for purposes of the USoA.

The principle underlying the use of the " Maintenance" accounts is that a Maintenance activity encompasses actions performed in a reactionary manner based on the results of an Operation activity. Some utilities have suggested that maintenance activities are normally activities that are performed in response to an unplanned or unscheduled activity, or due to a breakdown. This suggestion too is reasonable and acceptable for purposes of the USoA.

It is recognized that in performing an unplanned maintenance activity (i.e. responding to a power outage) some "Operations" type activities may need to be performed (i.e. inspecting or testing a transformer). It is **not** expected that such operations activities incidental to the maintenance work be separated out using the "Operations" accounts. The opposite is also true (i.e. in performing a **planned** operations activity any maintenance activity incidental to the operations work does not require separate recording using the " Maintenance" accounts).

To facilitate information gathering and recording one possible approach is for utilities to make use of standardized work order forms to the extent possible to help categorize O&M activities. Consequently and as an **example,** a blue work order form can be specifically entitled, "Scheduled" or "Preventative" or "Planned" and be used to capture "Operation" activities. On this form, the only accounts that the user would use to record the activities performed would be the Operation accounts (i.e. accounts 5005 to 5096). On the other hand, a green work order can be entitled "Unscheduled", "Unplanned", or "Breakdown" and be used to capture Maintenance activities. This green form would only contain the Maintenance accounts (i.e. accounts 5105 to 5195).

Given the above distinction, should a work crew be assigned (as part of a **plan** to ensure the integrity of the distribution system) to seek and straighten wood poles in a subdivision, this task would be considered an operation activity and all costs related to that exercise would be recorded to the Operations accounts (i.e. accounts 5005 to 5096). Consequently, if a pole broke or was considered to be deficient while it was being straightened and it was replaced that activity would be recorded in accounts 5020, Overhead Distribution Lines and Feeders - Operation Labour and 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses.

On the other hand, if the work crew responded to a power outage due lightening, all activities performed to restore such power would be recorded in Maintenance accounts (i.e. accounts 5105 to 5195). Consequently, in restoring power if a transformer had to be tested, inspected, and replaced along with the pole on which it was located, this activity would also be in " Maintenance" accounts (using account 5160, Maintenance of Line Transformers and account 5120, Maintenance of Poles, Towers and Fixtures) since the testing and inspection is incidental to the unplanned activity.

To ensure staff are properly and accurately recording their work activity, proper training should be provided to staff. It is also suggested that the accounting department periodically test the accuracy of the completed O&M forms particularly during the initial implementation phase.

Q.27 Is "Testing" an operation activity or a maintenance activity? (On page 5 of Article 530, the chart shows testing under Operation in item c)).

A.27 It should be noted that the key words listed under each category of the chart referred to above represent activities found, in most cases, in USoA accounts related to the O&M categories. Those key words are generally applicable but should be used with caution since the actual account description may provide a more specific application of the key word.

Categorizing the activity of "testing" is not as clear cut as some others since a utility may perform testing as part of a scheduled program to ensure system reliability or during the course of a breakdown to determine what is causing an outage, etc. As mentioned above in A.26, the main principles underlying the use of the USoA accounts are that an operation activity encompasses actions of a detective, preventative, or monitoring nature or an activity that is planned or scheduled. On the other hand, a maintenance activity encompasses actions performed in a reactionary manner either based on the results of an operation activity, in response to an unplanned or unscheduled activity, or due to a breakdown.

Consequently, testing conducted as part of a planned or scheduled activity should be classified as an operation activity. However, where testing is performed as a result of an unplanned or unscheduled activity or due to a breakdown, it should be classified as a maintenance activity.

Q.28 Some utilities have provided examples of activities which they have in the past treated as operation whereas the USoA now requires treatment as maintenance or vice versa. This includes "Moving line" (now maintenance, was operation activity), calibrating station equipment (was maintenance activity, now operation) and transferring loads (now maintenance, was operation activity).

A.28 As the name implies, the Uniform System of Accounts provides a framework where information can be collected in a manner that is uniform across the range of utilities. It is recognized that there will be some differences between the requirements of the USoA and the old chart of accounts or other systems in use at the utilities. The use of operations and maintenance accounts is an area in which participants noted in the APH development process that the recording practices among utilities was not consistent. The purpose of the USoA in this instance is to provide a basis for recording future expenses so that future comparisons among utilities will be meaningful.

For further guidance, utilities should refer to the guidance provided in **A.26** and **A.27.**

Q.29 Although they were shown as separate items in the Black Book, Operations and Maintenance expenses were not separated by all electric utilities. What is the benefit of having specific distinctions between Operations and Maintenance (O&M)?

A.29 The level of detail in the USoA was the result of several factors.

First, there was initial consideration for the development of a Performance Based Regulation (PBR) plan that included a benchmarking component. That plan was not pursued since it was felt that sufficient data was not available to permit such an analysis.

The USoA was designed to capture information that could be used to facilitate comparability for future PBR plans. Utilities will be required to file information that includes O&M expenses that will be used for PBR purposes. This information may be used for such purposes as setting the price index, monitoring activities of utilities such as quality and reliability of service, comparing utilities based on O&M expenditures, etc. Operations and Maintenance activities captured in the USoA will provide some of the information necessary for these purposes.

Second, 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.

Third, where a method of recording information was already prescribed for utilities in Ontario, or in use in Ontario, that method was preserved to the extent possible and where considered useful.

During the APH consultation process, participants generally acknowledged the rationale for providing such detail subject to additional guidance. Article 530, Clarification of Operation and Maintenance Activities was provided to provide such guidance although the activities mentioned were simply illustrative and not exhaustive. For additional guidance reference should be made to **FAQs 26, 27** and **28**.

Q.30 Where there is a transfer of assets due to the sale of one utility to another, would any related premium paid for and recorded by the purchaser utility in account 2060, Electric Plant Acquisition Adjustments be eligible for amortization?

Is an amalgamation considered a substantive change in ownership and therefore impact the manner in which assets are recorded in the new entity?

Should there be a distinction for items such as goodwill and contributed capital in the amounts included in account 2060?

A.30 This question involves consideration as to whether or not there will be a purchase premium in the first place, whether it will be included as a component of the utility rate base and finally how it will be documented.

Note that generally accepted accounting principles applicable with respect to accounting for changes in ownership are summarized on page 4 of Article 510. For regulatory purposes, it will in most cases be difficult to justify a change in asset values due simply to a change in ownership especially where the benefits to the ratepayer are non-existent or not in congruent 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."

The Board reserves the right to review the accounting treatment applied to a purchase and recommend a different accounting treatment if deemed appropriate for regulatory purposes. Consequently, amounts included in account 2060 will be subject to Board review and disposed of as the Board may approve or direct (i.e. allocation to non-utility, amortization, expensing, etc.).

With respect to maintaining records relating to the purchase, note that item B in account 2060 specifies that the account shall be subdivided to show the amounts included therein for each acquisition. As a result, records should be maintained on premiums paid for each component of the purchase (i.e. detailed assets, contributed capital, goodwill, etc.).

Q.31 Page 7 of Article 100, item (c) states that no utility shall destroy any books and records unless the destruction thereof is permitted by the rules and regulations of the Board. Has the Board established a retention policy?

A.31 The Board has not yet established a records retention policy. It is expected that in the interim utilities will continue to use their existing records retention policies.

Q.32 Regarding reporting requirements to the OEB for financial statements, when will this requirement be finalized and when will examples be available? What statements will be required as part of the reporting package?

A.32 The present requirement according to the Draft Distribution Rate Handbook is for electric utilities to file audited financial statements by June 1 in the years 2001 and 2002.

The APH is designed to structure the recording of financial information. The Board will establish separate monitoring and reporting requirements for both financial and operational information. Details as to how the USoA accounts are to roll up to financial statements, what sort of Annual Report and cash flow type information should be provided, and whether Key Indicator type information will be required will be considered as part of these monitoring and reporting requirements.

Q.33 What is meant by separation of financial records?

A.33 Separation of financial records is mentioned in section 72 and 70(2)(f) of the OEB Act, section 2.1.1 of the Affiliate Relationship Code and the Distribution Licence. This is required both in order to comply with section 71 of the Act (limiting a distributor from carrying on activities other than those essential for electricity distribution) and to prevent cross-subsidization between regulated and competitive or potentially competitive lines of business. Note that section 71 has not yet been proclaimed.

In addition, the Board staff has prepared "Draft Guidelines for the Interpretation of Electricity Distribution Activities under Section 71 of the Ontario Energy Board Act, 1998" that provide some guidance with respect to the definition of "distribution activity" and the consequent degree of separation of financial records.

The USoA provides a significant degree of detail to accommodate the requirements of the Draft Guidelines mentioned above. Where a non-utility activity is permitted to remain within the utility and USoA accounts are not provided, subaccounts may be used to distinguish utility and non-utility activities. Note that the utility is responsible for performing proper cost allocation when an expenditure benefits both utility and non-utility activities. Guidance related to allocation of costs is provided in Article 340.

For activities carried out by affiliates, physically separate records should be maintained.

Q.34 Currently most of our inventory is for spares. Does this mean that we should allocate this all to capital assets for OEB reporting purposes? Why the change to having spare transformers and meters treated as capital assets instead of inventory?

A.34 The APH includes a discussion on inventory and spares. Spares should be accounted for as capital assets if all the conditions on pages 7 and 8 of Article 510 are met.

The intent of the discussion in Article 510 is for all meters and transformers that are held "in reserve" (or as "spares") to receive the same treatment as the related assets "in service". This removes the requirement for year end valuation of "inventory" that had been placed in and out of service during the course of the year. It also removes the bookkeeping requirement to have movement of these assets between capital assets and inventory booked as prescribed in the former black book. Note that the discussion in Article 510 focuses on spare meters and transformers. However, it is conceivable that other types of assets may be considered "reserve" or "spare".

It is expected that where "spare" assets are held, the decision to hold spares along with the decision on the quantities to be held will be the result of a conscientious management decision. Consequently, spares are held and dedicated for the specific purpose of backing up plant in service as opposed to assets that are available for other uses at the discretion of the user.

As a result, it is envisioned that utilities may hold a certain reasonable quantity of items that will meet the definition of "spares" and be treated as capital assets as well as other components that are held as inventory to be used i.e.-in the construction of a new line, etc.

Q.35 When does Account 1574, Deferred Rate Impact Amounts come into effect or when would utilities be allowed to use it?

A.35 In order to mitigate rate impacts in the implementation of the initial rates, the Draft Rate Handbook proposes that a deferral account be used. Account 1574 will serve that purpose. It will be used to record any difference between the rate of return reflected in rates and the market based rate of return. The account will be used beginning with the filing of information in year 2000.

Q.36 We are currently in the process of constructing a transformer station (TS) with primary voltage above 50 kV. These costs will likely be allocated to account 1815. Can you please explain the difference between the Transmission Plant account 1715 and the Distribution Plant account 1815?

A.36 The legislation distinguishes between transmission and distribution using the 50 kV criteria. However, given that some utilities possessed the type of assets found in account 1815 (Transformer Station Equipment - Normally Primary Above 50 kV) and account 1820 (Distribution Station Equipment - Normally Primary Below 50 kV) at the time of development of the USoA, accounts for both these types of assets were included under "Distribution Plant"as well as "Transmission Plant". Account 1715 (Station Equipment) recognizes that for some utilities there may be a current or future need to have some account 1815 type assets as part of the "Transmission Plant" assets.

Q.37 Due to geography and rugged terrain many of our sections of subtransmission feeders (44 kV) are built using transmission type assets i.e. 90 foot poles instead of 45 foot structures. These assets are contained in former Black Book account 60, Subtransmission Feeders- Overhead. The suggested mapping in Article 240 is to account 1720, Towers and Fixtures. Account 1725, Poles and Fixtures would appear more appropriate. Would this classification be correct?

A.37 The mapping in Article 240 mentioned above refers only to subtransmission feeders greater than 50kV.

In accordance with *The Energy Board Act* requirements that distinguish transmission and distribution using the 50kV criteria, assets relating to conveying electricity at 50kV or less such as those mentioned above would not be recorded in the 1700 (i.e. Transmission) series USoA accounts but rather in 1830, Poles, Towers, and Fixtures and 1835, Overhead Conductors and Devices.

The complete and updated mapping for distribution assets is provided in A.38 showing that part of former account 60 now goes to the Transmission series accounts (i.e. lines over 50 kV) and part to the Distribution series accounts (i.e. lines less than 50 kV).

Q.38 In which account in the USoA would subtransmission assets 50kV or lower be recorded?

A.38 The USOA accounts noted below are to be used where the utility owns subtransmission assets 50kV or lower. For ease of reference, the mapping to the former Black Book accounts has been included. These accounts will be subdivided and entries made in such a manner that the detailed costs related to the assets of each feeder section will be evident. Specific guidance and the transitional requirements with respect to poles, conductors and conduits are provided in Article 510, pages 9 to 11.

USoA Account	Former Black Book Account
1830 Poles, Towers, and Fixtures	Part of 60. Subtransmission Feeders - Overhead (i.e. over 50kV) Part of 70. Distribution Lines and Feeders - Overhead

1835 Overhead Conductors and Devices	Part of 60. Subtransmission Feeders - Overhead (i.e. over 50kV) Part of 70. Distribution Lines and Feeders - Overhead
1840 Underground Conduit	Part of 65. Subtransmission Feeders - Underground Part of 75. Distribution Lines and Feeders-Underground
1845 Underground Conductors and Devices	Part of 65. Subtransmission Feeders - Underground Part of 75. Distribution Lines and Feeders-Underground

Q.39 What account covers the costs of replacing broken meters?

A.39 The capital cost of meters including the labour cost for the first setting is recorded in account 1860, Meters. Note that this account (as provided in the description on page 28 of Article 220) will include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve.

On the other hand, the cost of labour and supplies incurred for removing broken meters and replacing them with new meters are charged to account 5065, Meter Expenses.

Q.40 Some guidance is required on where to book the following items in the new chart of accounts. The old Black Book account 140 maps to 1940, Tools, Shop and Garage Equipment. If there are major tools used for line maintenance, would the asset be recorded in 1940? For example, where would you include a line belt and harness for the line crew? Chain saws? Telescopic guns? Tools to check load on feeders?

A.40 In Article 240, part of "old" account 140 maps to USoA account 1940, Tools, Shop and Garage Equipment and part maps to account 1945, Measurement and Testing Equipment. It should be noted the examples provided in the accounts descriptions are not intended to be exhaustive but rather intended to assist in the determination of the type of assets to be recorded therein. Assets used for repair work such as line belt, harness for the line crew and chain saws would be recorded in account 1940, while assets related to measuring and testing such as telescopic guns and tools to check load would be recorded in account 1945.

See also **Q. 25**.

Q.41 Shouldn't the GST input tax credit as required for the GST return be in a separate current asset account instead of combined in account 2290,Commodity Taxes?

A.41 Any tax recoverable, such as the GST input tax credit, should be recorded in account 1110, Other Accounts Receivable.

Account 2290 can be used to capture the activity relating to the Goods and Services Tax, the amounts of which will be used in the input tax credit calculation.

Q.42 Currently our Commercial and Industrial revenue classes are part of the General Service class and have the same rate. In the USoA do these have to be disclosed separately or can they be included together in account 4035, General Energy Sales? If they are to be disclosed separately can more information be provided to differentiate these three classes. I intend to setup my receivable classes based upon the revenue recording requirements.

A.42 The USoA was designed to be as flexible as possible with respect to data recording. Ultimately the revenue accounts provided may need to be reviewed to ensure consistency with other Board requirements and pronouncements (i.e. the Rate Handbook, etc.) and to permit a direct correlation between the accounts provided and the revenue classes permitted.

In the interim, the Draft Electric Distribution Rate Handbook defines general service as all services supplied to premises other than those classified as residential, sentinel lighting, street lighting, large use or intermediate use.

The USoA should be used in the following manner to capture the various classes:

USoA Account	Class
4006, Residential Energy Sales	Residential
4020, Energy Sales to Large Users	Large Use
4025, Street Lighting Energy Sales	Street Lighting
4030, Sentinel Lighting Energy Sales	Sentinel Lighting
4035, General Energy Sales	With subaccounts used for: 1) General Service Customers without Demand Meters 2) General Service Customers with Demand Meters 3) Intermediate Use Customers (average monthly demand > 3000 kV)

Due to the revenue classes specified in the Draft Rate Handbook, utilities using accounts other than those shown above should consolidate their accounts into the above accounts. Separate accounting of revenues as provided above will provide meaningful information related to utility revenues and also facilitate compliance with section 6.3.2 of the Draft Rate Handbook related to the filing of "Energy Delivery Information" according to customer class.

Q.43 Where do we record property taxes? Is it in account 5012, Station Building and Fixtures Expenses or 6105, Taxes Other Than Income Taxes?

A.43 Property taxes specifically related to station buildings would be charged to account 5012, Station Building and Fixtures Expenses. Where the property taxes for station buildings are not identifiable, a reasonable and supportable basis should be used to approximate the amount.

All property taxes of the utility that cannot be allocated to other accounts would be charged to 6105, Taxes Other Than Income Taxes.

Q.44 For account 5020, Overhead Distribution Lines and Feeders - Operation Labour, the USoA appears to have no corresponding account for Maintenance Labour. What account should be used for maintenance labour?

A.44 The USoA contains two accounts related to overhead distribution lines that include maintenance labour: 5120, Maintenance of Poles, Towers and Fixtures; and 5125, Maintenance of Overhead Conductors and Devices.

Account 5120 includes the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in account 1830-Poles, Towers and Fixtures.

Account 5125 includes the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in account 1835-Overhead Conductors and Devices.

Q.45 Regarding costs mentioned in account 5105, Maintenance Supervision & Engineering, these costs were previously accumulated in a burden/overhead account and charged out to all jobs. It appears that under the APH these costs should be expensed directly. Any suggestions on how to determine the allocation of engineering maintenance salaries?

A.45 The description for account 5105 states that this account includes the cost of labour and expenses incurred in the **general supervision and direction** of maintenance of the distribution system. The description also states that direct field supervision of specific jobs should be charged to the appropriate maintenance account.

Account 5105 accumulates supervision and engineering **maintenance** related costs that cannot be "directly" allocated to any particular job. The use of this account may be more applicable to larger utilities that, due to size, have a more complex organizational structure. In those cases, the use of account 5105 should facilitate the accounting requirements by not requiring an otherwise arbitrary allocation of these types of expenses.

It should be noted that this account does not replace the need for a clearing account that could be used for purposes of allocating supervision and engineering costs to activities such as construction in progress, etc.. See **A.14** above.

Q.46 Where would customer service staff time to be recorded? Would it be account 5315, Billing and Collecting or account 5410, Community Relations?

A.46 The actual job functions performed by the 'customer service' staff would determine the account(s) where their salaries would be recorded. Where staff is involved in multiple functions of the utility, cost of salaries and wages with payroll burden should be prorated and charged to the applicable accounts. For example, customer service staff activities related to billing would be recorded in account 5315, Customer Billing whereas staff services associated with community relations may be charged to accounts 5405 to 5425.

Q.47 Regarding account 5630, Outside Services Employed, is it correct to assume that this account should only contain general administration related professional charges and not engineering services specific to an operating function or activity?

A.47 This account includes the fees and expenses of professional consultants and others for **general** services that are not applicable to a particular operating function, activity or account, (i.e. Billing and Collecting, construction in progress, Operations and Maintenance). The fees and expenses relate to the pay and expenses for the services of persons not considered an employee of the utility.

Note that to the extent that the cost of engineering consulting services can be assigned to a particular function, activity or account, the Board expects such costs to be directly assigned to the relevant accounts.

Q.48 Regarding account 5640, Injuries and Damages, would this account include MEARIE (Municipal Electric Association Reciprocal Insurance Exchange) insurance premiums and Workplace Safety and Insurance Board payments?

A.48 It would be used to record both these type of expenditures.

This account includes the cost of insurance to protect the utility against injury and damage claims of employees or others. Debits to this account include premiums paid to insurance companies for protection against claims for injuries and damages by employees or others, and include claims for public liability, property damages, casualty, employee liability, etc.. Insurance premiums are paid with the intention that the cost of the coverage is lower then the potential cost of the claims.

This account also includes the expenses associated with corporate obligations stemming from the settlement of injury and damage claims not covered by insurance. As indicated in the account description on page 135 of Article 220, these costs would include medical and hospital service and expenses for employees as the result of occupational injuries, or resulting from claims of others; compensation payments under worker's compensation laws; and compensation paid to employees while incapacitated as the result of occupational injuries.

It should be noted that payments for employee accident or death benefits, hospital expenses, medical supplies or for salaries while incapacitated for service or on leave of absence beyond periods normally allowed that are **not** the result of occupational injuries, are charged to account 5645-Employee Pensions and Benefits.

Q.49 There is no separate account for capital taxes, where should it be recorded?

A.49 Taxes, other than those allocated to related accounts as mentioned in **A.43** above and except for income taxes, are recorded in account 6105, Taxes Other than Income Taxes. This includes 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.

The charges to this account will be supported so as to show the amount of each tax and the basis upon which each charge is made.

Q.50 We are currently discussing the use of standard costs for some of the allocations of capital to the various accounts such that all costs of a new overhead line would be allocated to account 1835 and then based on the number of poles installed, a standard cost per pole (based on an internal study) would be removed from account 1835 and debited to account 1830. Would this cause the OEB any great concern? There may be other applications for standard costs as well.

A.50 If "actual cost" is not used as the basis of allocation, the utility should ensure that the "standard cost" or any other basis used to allocate the cost is reasonable, supportable and does not cause significant variance from actual costs.

Q.51 This question pertains to accounting for street lighting revenue and expenses. Currently, some utilities are simply running any expenditures through a receivable account and billing out the actual expenditures plus a burdened amount for employee benefits and truck expenses. The time spent on street lighting is specifically identified on the time sheets of the employees and burdens are allocated based on the amount of time spent on the various activities. All of these utilities are very small and the portion of time spent on street lighting is minimal compared to the other functions of the utility. Is it sufficient to continue record keeping in this manner? Would this fulfill the requirement to keep separate accounting records? (Note that by running everything through the receivable account, none of the expenses are reflected in the expenses of the LDC and therefore would not be reflected in their revenue requirement for their rate application.)

A.51 According to section 5.3.1 of the "Draft Guidelines for the Interpretation of Electricity Distribution Activities under Section 71 of the *Ontario Energy Act, 1998"* ("Draft Guidelines"), street lighting services may not be considered as essential to the conveyance of electricity and therefore should not be regarded as a distribution activity. It should be noted that the Draft Guidelines are not yet in force.

In the interim, in charging clients for street lighting it is important to ensure that this activity is not being cross subsidized by the regulated activities of the utility. As a result, costs should be billed at fair market value (FMV) or where FMV is not determinable, at a cost base price that includes the cost of providing the service as well as a return on invested capital.
Until the Draft Guidelines are in force, the Uniform System of Accounts includes accounts to be used for street lighting purposes and these accounts should be used in order to ensure there is no cross-subsidization of such activity and to facilitate compliance with the Draft Guidelines once they are in force. More specifically, in cases where the utility does not own the street lighting assets, the revenues and expenses arising from the provision of street lighting services would be recorded in account 4375 , Revenues from Non-Utility Operations and 4380, Expenses from Non-Utility Operations respectively. All revenues relating to street lighting including revenues from services and any administrative fee revenue that the Local Distribution Company (LDC) earns for administering the streetlight program on behalf of a municipality, etc. would be reflected in account 4375.

Q.52 Account 5165, Maintenance of Street Light and Signal Systems includes all costs associated with maintenance of streetlights. Can it be assumed that this account would only be used if the LDC owned the streetlights (since the definition makes reference to account 1875 as the asset related account)?

A.52 Yes, until the Draft Guidelines referred to in **A.51** above are in force, accounts 5165, Maintenance of Street Light and Signal Systems and 5060, Street Lighting and Signal System Expenses would only be used when the street lighting fixtures are owned by the LDC. Refer to **A.51** above for a detailed discussion regarding accounting for street lighting services provided in the interim by an LDC on assets not owned by the utility.

Q.53 How do we account for transitional costs incurred in 1999 in the USoA?

Where electric utilities incur transition costs that are significant in amounts, would these costs qualify as Extraordinary Event Loss related to account 1572?

A.53 Transitional costs incurred in 1999 are to be recorded in Black Book account 285, Deferred Charges. These costs may then to be transferred to USoA account 1570, Qualifying Transition Costs as at January 1, 2000.

It should be noted that the initial rates will not incorporate any transition costs. As a result, account 1570 will be used to defer transition costs to subsequent years.

Note that for transition costs to be qualifying expenses they must meet the four criteria test specified in the Draft Rate Handbook (i.e. causality, materiality, inability of management to control and prudence). All such costs must be specifically identified and justified. The utility must submit evidence supporting the eligibility of their claim in their filing.

The use of account 1572, Extraordinary Event Loss, is not dependent on the “significance” of the amount of the transition cost. Transition costs are defined as significant, recurring, one-time costs associated with the transition to the new market. Transition costs should be directly related to operational requirements created by the development of a competitive market. To qualify as a transition cost, 75% of the costs should be directly and demonstrably linked to restructuring requirements.

Extraordinary event related costs are those that are clearly outside of the base upon which rates were derived (i.e. a computer systems upgrade that improves the billing system while addressing Y2K problems is partially a contingency and partially an operational expense and only the Y2K related portion of the costs is eligible for contingency treatment).

Q.54 Would the cost of attending various seminars etc. related to the opening of the electric marketplace considered to be transition costs?

A.54 In order to qualify as transition costs, all such costs must meet the eligibility criteria in section 4.4 of the draft Distribution Rate Handbook. Utilities must submit evidence that the costs/revenues that were incurred/received meet the four criteria in its annual application for rate changes.

Q.55 Can the OEB provide a chart of accounts with the minimum number of general ledger Accounts required for a small utility? We are certain that we do not require all 400 accounts and would like a listing of the minimum mandatory accounts?

A.55 As mentioned in response to question 16 d) in Article 540 (page 17), there was a proposal 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.

Smaller utilities, by virtue of their size or limited scope of activities, may not be using all of the accounts contained in the USoA. For example, asset, liability, revenue and expense accounts related to generation, transmission and certain O&M items may not be applicable. Accordingly, utilities should only use accounts dictated by their specific circumstances.

Q.56 When do we have to implement the new USoA? Should utilities wait until they incorporate?

A.56 All electric utilities are required to implement the APH and USoA effective January 1, 2000. The timing of incorporation will not impact the APH implementation date.

For OEB regulatory purposes, financial information that permits benchmarking or comparison to past performance (or to that of other utilities) based on comparable reporting periods will be required. The OEB will provide more details on reporting requirements as they become available.

Q.57 Will there be a verification process conducted by the OEB?

A.57 The OEB is in the process of developing the strategic focus of its audit and compliance function. The audit, review, and investigation capability is expected to be operational in the year 2000. The Board expects that utilities, if requested, will be prepared to supply financial information in compliance with the APH after January 1, 2000.

The Board is aware of the demands on utilities in preparation for the opening of the competitive market. Consequently, verification activities may initially be performed on an exception basis only, pending market opening.

Q.58 The "Draft Guidelines for the Interpretation of Electricity Distribution Activities under Section 71 of the Ontario Energy Board Act, 1998" ("Draft Guidelines") state that the rental or selling of hot water heaters should be provided through an affiliate or by another party. In the APH, Article 540 (page 14) it states that water heater rental income will be recorded in account 4385, Non Utility Rental Income.

Does the APH apply to the LDC only or also the affiliate? If an LDC presently has 5000 water heater rental units, is it required to transfer these units to an affiliate?

A.58 The APH applies to the LDC and has implications for LDC's that exchange goods or services with affiliates. The APH, however, does not apply directly to the affiliate.

According the Draft Guidelines, the rental or selling of hot water heaters would be provided through an affiliate or by another party. Note that Article 540 (page 14) relates to situations before the Draft Guidelines are in force.

In the interim, the USoA contains accounts that can be used for water heater rentals and the associated expenses. These accounts would be used to record such activity until the Draft Guidelines come into force. The accounts provided are account 4385, Non Utility Rental Income (to record water heater rental revenues) and accounts 5185, Water Heater Rentals - Labour, 5186, Water Heater Rentals - Materials and Expenses, 5190, Water Heater Controls - Labour, and 5192, Water Heater Controls - Materials and Expenses, as applicable (to record the related expenses).