Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
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ACCOUNTING PROCEDURES HANDBOOK

Frequently Asked Questions

Q.1 Is there a USoA used to accumulate current and future amortization for contributed capital in the year 2000?

A.1 Starting January 1, 2000 capital contributions will not be included in the rate base and in the revenue requirement. For this reason, the contra- asset account, Contributions and Grants - Credit, Account 1995 will be used. The accounts to be used, the journal entries to record the amortization and the effects upon the Balance Sheet and Income Statement are shown in the illustration below:

EXAMPLE

Capital contributions - $1000 (any account between 1805 to 1990)
Annual amortization - $100

ACCOUNTS USED AND JOURNAL ENTRIES

TRANSACTION	ACCOUNT #	ACCOUNT NAME	DEBIT	CREDIT
Receipt of monies, service or property	1805-1990	Capital Asset - Distribution or General Plant	1000	
	1995	Contributions & Grants - Credit		1000
		FOR CAPITAL ASSET		
Recording of Amortization	5705	Amortization - Property, Plant & Equipment	100	
	2105	Accumulated Amortization - Property, Plant & Equipment		100
		FOR CONTRIBUTED CAPITAL		
	1995	Contributions & Grants - Credit	100	
	5705	Amortization - Property, Plant & Equipment		100

IMPACT ON THE FINANCIAL STATEMENTS

Balance Sheet

Capital Asset (1805 - 1990)	$1,000	
Less: Accumulated Amortization	(100)	$ 900
Contributions and Grants - Credit	($1,000)	
Less: Accumulated Amortization	100	($ 900)
Net Asset for Rate Base Inclusion		0

Income Statement

Amortization expense - Capital Asset	$ 100
Amortization expense - Contributions & Grants - Credit	(100)
Net Impact on Income	0

Q. 2 Should the Retail Service Variance Account (RSVA) be recorded on an accrual or cash basis?

A.2 The RSVA should be recorded on an accrual basis. In addition, Article 490, page 10 states that "the utility will normally accrue for all related revenues and expenses in closing the accounts for the fiscal period and reverse these accruals in the new fiscal period. It is important to ensure that the carrying charges for the first month of the new period are calculated on what would be the RSVA opening balance prior to any year-end accrued revenues and expenses. The purpose of the carrying charge is to provide a return on the net cash flows rather than on the accrued revenues and expenses. For purposes of the carrying charge calculation, the "Billed" amounts will be considered as a cash inflow in the billing month."

Q.3 A) Is Account 1571, Pre-market Opening Energy Variance simply asking the utilities to accumulate the gross margin on Non-Time of Use (non-TOU) customers in this account?

B) If it is contemplated that unbilled revenue at the time of market opening will be taken into the account, how is the difference to be disposed at the market opening?

C) Do the accounting requirements for Account 1571, Pre-market Opening Energy Variance only apply to those utilities that have implemented unbundled rates? If a utility does not implement unbundled rates until sometime after January 1, 2001, does the utility begin to record these variances on the date that it has implemented the unbundled rates?

D) Since Account 1571 was established to keep track of the above variance at a time when it was expected that the market would open in 2001, should the account 1571 be reset to zero on January 1, 2002?

E) The utility does not have unbundled rate in effect as of January 1, 2001. How does it record the cost of power variances in 1571?

A.3 A) Yes, Account 1571 had been set up for purposes of recording the difference between the cost of power based on (TOU) and the amounts billed to non-TOU customers charged at an average rate for the same period starting January 1, 2001 and ending on the date of opening of the competitive electricity market in Ontario.

B) Yes, the unbilled revenues should be included up to the time of market opening. After market opening, the Board will provide guidance on the accounting for unbilled revenues, true-ups and disposition of Account 1571.

Generally the disposition of deferral accounts will be considered as part of the Board's annual rate adjustment process. While the Board has not established a specific disposition methodology, cost causality will be one of the Board's considerations in determining a disposition methodology.

C) Whether the Local Distribution Companies (LDCs) have unbundled or bundled rates, LDCs have to record the Pre-Market Opening Energy Variance starting January 1, 2001 until the date of market opening.

D) Given that the recording of the variance involves an annual cycle taking into consideration seasonality factors (peaks and ebbs), there is no need to reset the account to zero on January 1, 2002. The utility should continue using the account until market opening.

E) For purposes of recording cost of power variances in this account, the Board approved unbundled cost of power rates (per the utility's schedule of rates and charges) shall be deemed effective January 1, 2001.

Q.4 When grouped fixed assets are fully depreciated, should they be written off or left in the books?

A.4 Under the group method of depreciation, assets remain on the books until they are retired. When retiring group assets, the gross asset value is removed from the Accumulated Amotization (article 410, pp.11-12). It is difficult to prescribe one method of determining gross asset value as there are several factors that may impact which approach a utility uses (e.g. state of records). There are a number of implementation alternatives and use of professional judgment is also required. For example, a vintage approach may suit the purposes (e.g. costs of purchases for a year are averaged and the average cost for that year is applied when an asset of that vintage is retired).

Q.5 Do I use Account 5640, Injuries & Damages or Account 5645, Employee Pensions & Benefits for the CPR/First Aid training course that most of the utility's employees attend? As this training is for the benefit of all, what should I do with the labour/time used in taking this course?

A.5 Please refer to Account 5640 as discussed in Article 220. One of the examples given, specifically no. 8, includes cost of safety, accident prevention and similar educational activities.

Alternatively, a Clearing account may be used, e.g. Payroll Burden account in which you can include the time for employee training. As discussed in Article 340, a utility has the flexibility of choosing a basis of allocating the Clearing account that is reasonable and equitable and has a cause-effect relationship between the activity and the cost driver.

Q.6 What is the demarcation line between the underground infrastructure (distribution box or overhead system) and the services from the infrastructure to the point of connection with customer outlet?

A.6 For the demarcation line between the distribution's system and customers, please refer to the definition of account 1855 in Article 220.

Account 1855 includes the cost installed of overhead and underground conductors leading from a point where wires leave the last pole of the overhead system or the transformers or manhole, or the top of the pole of the distribution line, to the point of connection with the customer's electrical panel. Conduit used for underground service conductors will be included therein. For more details, please refer to examples given in this account.

Q.7 Are directors' fees included in rates?

A.7 Directors' fees are included in rates and are recorded in Account 5665, Miscellaneous General Expenses. Please refer to Article 220, Account 5665, example no. 9 under "Expenses".

Q.8 The LDC is charged a billing and collecting fee from the services company. The charge is not broken down by services, i.e. meter reading, customer billing, collecting, etc. In which line item would you like to see this expense? The LDC is charged for the following administrative expense: customer service, administration, accounting, computer, human resources, engineering and purchasing. Do all these become Administrative and General Expenses?

A.8 An LDC must choose a reasonable basis to allocate the service company fee to the relevant expense accounts. The utility should consider the requirements of the Affiliate Relationships Code, the costs of the services prior to entering the contract with the services provider, comparative bids for specific services or other reasonable basis for allocation.

Q.9 What is the implication of the Allowance for Funds Used During Construction (AFUDC)? How are interest rates set? Does the Board set the interest rates?

A.9 Article 410 says that financing costs incurred during construction should be capitalized under Account 2055, Construction Work in Progress-Electric. For a rate regulated capital asset, the costs includes the directly attributable AFUDC allowed by the regulator (CICA Section 3060.26).

Accounts have also been provided to record the expense associated with borrowed or other funds used during construction:

- Account 6040, Allowance for Borrowed Funds Used During Construction-Credit will be credited and Account 2055, Construction in Progress-Electric will be debited; and
- Account 6042, Allowance for Other Funds Used During Construction-Credit will be credited and Account 2055, will be debited.

Article 480 states that the appropriateness of the AFUDC rate used by the utility must be subsequently reviewed by the Board and will be approved based on the Board's assessment of the reasonableness of the allowance. The Board views the debt cost rate (DCR) established in the Rate Handbook as a reasonable rate to be set as the maximum allowable limit for the AFUDC in the first generation PBR. The Board may revisit the appropriateness of the DCR for purposes of the AFUDC rate for the period after the first generation PBR.

Q.10 With regard to enhancement cost referred to in the Distribution System Code, Section 3.4, can I use Account 2425, Other Deferred Credits for amounts collected in advance (arising from construction projects) from developers, which amounts are not to be refunded?

A.10 In Article 430, p. 4, generally, contributions in aid of construction may be received in the form of monies (i.e. collected as an average charge), services or property (i.e. capital assets constructed by the developer and transferred to the incorporated electric utility). In considering the regulatory treatment of contributions in aid of construction, the Board notes that Municipal Electric Utilities were permitted to collect contributions in aid of construction.

When contributions of aid of construction are initially received in the form of monies, the amount received should be recorded as a debit in the cash account (account 1005, Cash) and as a credit in the related customer liability account 2210, Current Portion of Customer Deposits and/or account 2335, Long Term Customer Deposits.

When these monies are spent on construction of capital assets, the cash and deposit accounts would be relieved to the extent of monies expended on the capital project and any unspent balance refunded. Entries should be made to the applicable asset accounts to record the value of the constructed capital assets. To record the value of the contributions in aid of construction, an entry should be made debiting Account 2210 and/or 2335 and crediting Account 1995.

Q.11 The LDC is providing billing services to our customers for bills for water services provided by one of our companies. Which account should be used to record the fees/revenues from this source?

A.11 Account 4375, Revenues from Non-Utility Operations is to be used. That account includes revenues applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole.

Account 4380, Expenses of Non-Utility Operations is to be used to record the related expenses.

Q.12 Concerning the materiality calculation for the transition cost eligibility referred to in the Rate Handbook, Chapter 5, Section 5.5.1.1 of .25% of net assets, what is the definition of net assets? Is the materiality check applicable to the sum or individual net assets?

A.12 The CICA Handbook in Section 1000.35 offers a definition of net assets for profit oriented companies as the "equity representing ownership interests in the assets of a profit oriented enterprise after deducting its liabilities". The Board's letter to LDCs of November 9, 2001 regarding transition costs further provided for the use of rate base as defined in the Electricity Distribution Rate Handbook as an alternative materiality measure.

Article 480 specifies that the materiality test for Qualifying Transition Costs to be recorded in Account 1570 should be applied to the year-end balances of individual sub-accounts reflecting the various activities the wires company is engaged in.

Q.13 When the LDC was acquired, the parent company used "push-down accounting" for the goodwill it acquired. Where should the goodwill on purchase be posted? Assume

that the parent paid $160 million and the net book value of the assets acquired was $100 million, resulting in a goodwill of $60 million.

A.13 Goodwill should be recorded in Account 2060. Part A of this account includes the difference between (1) the costs to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for amortization and contributions in aid of construction with respect to such property.

The offsetting amount should be credited to Account 3030, Miscellaneous Paid-in Capital, which includes the balance of all other credits for paid-in capital that are not properly included in other stockholders' equity accounts.

This reflects the CICA Handbook requirements with regards to "push-down accounting".

Q.14 In the self-certification questionnaire for the LDCs entitled, "Section 1 -IMO or Host Requirements", what accounts in the USoA will be used to capture the invoiced charges from the IMO or the host? Has the OEB established procedures for payments with respect to the IMO or the host invoices?

A.14 Article 490 provides guidance and examples of journal entries and accounts to be used in recording various types of IMO or host invoiced charges. The utility should debit Accounts 4705 (Power Purchased), 4708 (Charges WMS), 4712 (Charges One Time), 4714 (Charges NW), 4716 (Charges CN) and credit Account 2256 (IMO Fees and Penalties Payable) or 1005 (Cash) for the applicable charges from IMO or the host.

Q.15 Will a deferral account be established for the fourth quarter 2001 and whole year 2002 PILs estimates? Will an interest return be allowed on the deferral account?

A.15 Account 1562, Deferred Payments in Lieu of Taxes (PILS) should be used to record the amount resulting from the use of the Board-approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board-approved PILs methodology will be recorded equally over the applicable PILs period (e.g. the 2001 PILs Deferral Account Allowance would be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end). Any entries resulting from the PILs Deferral Account Allowance will be effective at the end of a utility's taxation year (usually December 31) and any entries resulting from the pass through of variances between the Deferral Account Allowance and the actual results reflected in a utility's tax filing (e.g. to the Ministry of Finance for payments in lieu of tax) will be effective as of the filing deadline (e.g. usually six months after year end).

Any amounts included in rates (i.e. through a Z-factor) will be credited back to this account at the time of billing.

Simple interest should be determined on the monthly opening balance. The interest rate will be based on the utility's Debt Cost Rate in accordance with Table 3-1 of the Electricity Distribution Rate Handbook.

Q.16 The utility will be collecting revenues to offset cumulative transition costs that have been authorized by the Board for disposition. How will utilities record these revenues and address any excess or deficiencies recovered through rates?

A.16 According to Article 480, utilities are required to maintain account 1570, Qualifying Transition Costs for the purpose of recording transition costs. This account is to be further sub-divided based on the appropriate general categories of activities listed on page 7 of Article 480.

In disposing of transition costs, the utility will need to calculate the rate adjustment required for each customer class as provided for in the Board's Annual Rate Adjustment Model. The cost of recovery for each customer class will be recorded in cost recovery sub-accounts established under account 1570. The cost recovery sub-accounts should match the customer classes specified in the Electricity Distribution Rate Handbook (page 4-2) or as otherwise authorized by the Board.

The Board's letter of November 9, 2001 stated that "While the Board has allowed a partial recovery of transition costs, the Board will be reviewing all transition costs against the criteria of both the Rate Handbook and the guidance provided in Article 480 of the APH at a later time. Inappropriately recorded amounts will be disallowed and amounts collected resulting from this partial recovery of transition costs will reduce the recovery of these costs in future periods." Utilities should further note that the Rate Handbook also requires utilities to "provide the basis upon which the disposition amount should be allocated to each rate class, including a discussion of the merits of alternative allocations considered."

Consequently, the utility/ Board will be able to compare the total cumulative costs ultimately authorized for disposition to the total cumulative cost recovery. In addition, using the allocation of costs to customer classes (ultimately approved by the Board) and the specific cost recovery sub-accounts, the utility/ Board will also be able to determine whether each customer class bore an appropriate share of the transition costs through the cost recovery.

Any excess collection of transition costs will be refunded to the related customer class. Any transition costs not collected will be recovered in the future.