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February 15, 2005

To all electricity local distribution companies

**Re: Introduction of New USoA Accounts and Guidance on Accounting Issues**

The purpose of this letter is to provide Board guidance on several accounting matters. These are: the creation of two new accounts under the Accounting Procedures Handbook (APH) and the Uniform System of Accounts (USoA); and, the provision of guidance on two accounting matters as follows:

- 1) Approval of variance account for global adjustments (sub-account 1588);
- 2) Approval of deferral account for cash pension contributions (sub-account 1508);
- 3) Guidance on recording of Ontario Power Authority (OPA) fees (account 1580); and,
- 4) Guidance on recording of revenues in account 1565.

**Variance account for global adjustments**

Under Bill 100, a difference arises between the spot price charged by the Independent Electricity Systems Operator (IESO) to market participants and the blended price paid by the IESO under the various contracts with electricity generators/suppliers. The difference is referred to as the "global adjustment". Bill 100 requires that the global adjustment be collected and credited or charged back to the various consumers of electricity. The global adjustment came into effect January 1, 2005 and is expected to appear on IESO invoices to LDCs beginning on or about February 15, 2005.

The global adjustment is treated differently for customers eligible for the Board's Regulated Price Plan (RPP designated customers) and those that are not eligible (non-RPP customers). The RPP comes into effect April 1, 2005.

The global adjustment attributable to RPP designated customers will be captured in a variance account to be held by the OPA and the clearing of these amounts will be determined under the terms established by the Board for the RPP. This account is not the subject of this letter.

The global adjustment for non-RPP customers is the subject of this new variance account. Ontario Regulation 429/04 provides that at the retail level the global adjustment will be described on the non-RPP customers' bills as the "Provincial Benefit." For purposes of managing the global adjustment applicable to the non-RPP customers, the Board authorizes the use of a new sub-account of account 1588, RSVApower. This sub-account will be used to record variances between the global adjustment amounts billed or credited to LDCs by the IESO and the global adjustment amounts billed or credited to customers by LDCs. The accounting procedures are the same as required in Article 490 of the APH for account 1588. For reporting purposes under the Reporting and Record Keeping Requirements, the global adjustment sub-account should be rolled-up and reported under account 1588.

Also, in the period prior to the RPP implementation (i.e. January 1, 2005 to March 31, 2005), the global adjustment should be recorded in this new sub-account.

The account details and illustrative accounting entries are set out in **Appendix A** attached to this letter.

#### **Deferral account for cash pension contributions**

The Board is aware that the Ontario Municipal Employees Retirement System ("OMERS") pension contribution holiday ended December 31, 2002. Enersource Hydro Mississauga Inc., Hydro One Brampton Networks Inc. and Hydro One Networks Inc. (non-OMERS) applied to the Minister of Energy requesting his authority to apply to the Board for a deferral account related to the cash pension costs not currently recovered in rates. The Minister has granted this authority. To date, the Board has approved deferral accounts for Enersource Hydro Mississauga Inc. and Hydro One Networks Inc. The Hydro One Brampton Networks Inc. application is currently being considered by the Board.

The Board is aware that other distributors may be similarly affected by the cessation of the OMERS pension contribution holiday. Accordingly, the Board will allow the remaining distributors that are members of OMERS pension plan to record cash pension costs and associated carrying charges in Account 1508 – Other Regulatory Assets, Sub-account Pension Contributions for 2005 and subsequent years.

The Board will establish the applicable rate of interest to be used for the purposes of calculating carry charges in due course.

The Board cautions distributors that the establishment of this deferral account does not imply any outcome respecting disposition of the account. The ultimate disposition of these balances, and their eligibility for recovery through rates, will be the subject of a future proceeding.

The account details and illustrative accounting entries are set out in **Appendix B** attached to this letter.

**Guidance on recording of OPA fees**

The IESO will commence charging a fee on behalf of the Ontario Power Authority (OPA) to all market participants. The Board will approve the OPA's annual fee (via OPA's budget application). In the interim period prior to this approval, the OPA fee will initially be set by government regulation.

The Board has determined that the OPA fees charged to LDCs (which will be passed through to LDCs' customers) would be recorded under the variance account 1580, RSVAwms and associated revenue and expense accounts (i.e. 4062 Billed WMS and 4708, Charges - WMS respectively). The accounting procedures for account 1580 are established in Article 490 of the APH.

**Guidance on recording of revenues in account 1565**

The Board in its letter of October 29, 2004 to LDCs indicated that it has amended the APH/USoA to authorize account 1565, Conservation and Demand Management Expenditures and Recoveries, for purposes of recording transactions associated with the Conservation and Demand Management (CDM) initiative.

One of the requirements in that letter stated: "In addition, for regulatory reporting (RRR-reporting and record keeping requirements) only, the balance in the account will be reduced at the start of each month (with a credit entry) during the period between March 1, 2005 and February 28, 2006 by 1/12 of approved incremental revenue requirement for the third tranche [of market adjusted revenue requirement, or MARR]. Consequently, the MARR financial commitment will be recorded over twelve months while the program costs may be recorded until September 30, 2007."

The Board wishes to provide further accounting guidance regarding this requirement. The accounting treatment for recording of the 1/12 of approved incremental revenue requirement for the third tranche is described as consisting of a debit to revenue (account 4080) and a credit to program (account 1565). Additional guidance is provided that this entry is 1/12 of the approved third tranche amount after reduction for any amount attributable to payments in lieu of taxes.

For clarifications or questions, please contact Ben Baksh, Senior Advisor, Audit (416-440-8128).

Yours truly

*Original signed by*

John Zych  
Board Secretary

## APPENDIX A

### General Outline of Account 1588

#### Account 1588 - RSVA Power, Sub-account Global Adjustments

This sub-account shall be used to record the net difference between:

- i the global adjustment amount billed to customers,
- AND
- ii the global adjustment charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator.

The following sub-accounts related to RSVA Power expense and revenue accounts are required as follows:

- Expense account - 4705, Power Purchase, Sub-account Global Adjustments
- Revenue accounts series - 4006 to 4055 Energy Sales Sub-account Global Adjustments (by specific rate classes approved for the utility)

Accounting entries:

To record the global adjustment billed/ charged to the utility

Debit	account 4705, Power Purchase, Sub-account Global Adjustment
Credit	account series 4005-4055, Sale of Electricity, Sub-account Global Adjustment

To record the variance in account 1588, RSVA power, Sub-account Global Adjustment

Debit	1588, RSVApower, Sub-account Global Adjustment
Credit	The "higher of" expense or revenue amount as an offset to this entry

## APPENDIX B

### Account 1508 - Other Regulatory Assets - Sub-account Pension Contributions

- A. This account shall be used to record the pension costs associated with the cash contributions paid to Ontario Municipal Employees Retirement Savings ("OMERS") for 2005 and subsequent fiscal year(s).
- B. Entries to this account shall be offset with an entry to account 5645, Employee Pensions and Benefits.
- C. This account shall be further sub-divided by year.
- D. Carrying charges shall be calculated on a simple interest basis applied to the monthly opening balances in the account, recorded in a separate sub-account, at a rate of interest authorized by the Board.
- E. Eventual recoveries by the utility through rates shall be recorded as a credit to this account.
- G. The records supporting the entries to this account shall be kept so that the distributor can furnish full information to the Board as to the nature and amounts included in this account, if requested.

Accounting entries:

To record cash pension costs in deferral account.

Debit - Account 1508, Other Regulatory Assets, Sub-account Pension Contributions  
Credit - Account 5645, Employee Pensions and Benefits

To record carrying charges computed monthly on the opening balance in this account at a rate of interest to be authorized by the Board.

Debit - Account 1508, Other Regulatory Assets, Sub-account Pension Contributions, Carrying Charges  
Credit - Account 4405, Interest and Dividend Income