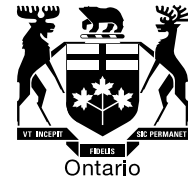


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December 20, 2004

To all electricity local distribution companies

Re: Deferral Account to record OEB Cost Assessments under the Accounting Procedures Handbook

The Board has amended the Accounting Procedures Handbook (APH) and the Uniform System of Accounts (USoA) to establish a deferral account that takes effect immediately.

The intent of this account is to allow electricity LDCs to record their OEB costs assessments for the Board's fiscal year 2004 and subsequent fiscal year(s) in order that these costs may be given consideration for rate recovery in the future (i.e. May 1, 2006).

A Board letter of November 1, 2004 to natural gas and electricity market participants advised that the Board is developing a new cost assessment model. Specific to electricity LDCs, this letter stated that: "The OEB will be establishing a deferral account to allow electric distribution companies to record the costs assessed by the OEB for 2004 and subsequent years. Distributors will be able recover the amounts booked in this account beginning in 2006..."

Accordingly, for this purpose, the Board has approved account 1508, Other Regulatory Assets - sub-account "OEB Cost Assessments".

The Board expects the disposition of these deferral account balances will be reviewed as part of the 2006 electricity distribution rates (EDR) process to determine their inclusion (eligibility, basis of calculation and amounts) in revenue requirements.

Further information about this account is provided in Appendix A.

For clarifications or questions, please contact Bill Cowan (416-440-7648) or Ben Baksh (416-440-8128).

Yours truly

Original signed by

John Zych
Board Secretary

APPENDIX A

Account 1508 - Other Regulatory Assets - sub-account OEB Cost Assessments

- A. This account shall include costs of OEB costs assessments invoiced to the utility for the Board's fiscal year 2004 and subsequent fiscal year(s) determined in accordance with Board requirements set out below.
- B. Entries to this account shall be offset with an entry to account 5655, Regulatory Costs.
- 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. The rate of interest prescribed by the Board is 5.75 percent per annum.
- 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.

Requirements

The Board authorizes entries for the deferral account 1508, Other Regulatory Asset - sub-account OEB Cost Assessments, on the following basis:

- The amounts to be recorded in the deferral account will be incremental to amounts already included in LDCs rates (where applicable).
- As a result of the unbundling of LDCs rates in 2001, most electricity LDCs rates include the OEB's April 1, 1999 to March 31, 2000 cost assessment which was invoiced to distributors on December 15, 1999. This cost assessment amount was reflected in LDCs 1999 financial statements which were used to determine the revenue requirements for unbundled rates.
- Accordingly, to determine the (incremental) amounts to be recorded, a distributor must compare its 2004 and 2005 cost assessments to its 1999/2000 cost assessment. The timing of recording should occur at the end of the month the LDC is invoiced. See the example below for the calculations and accounting entries.
- This method also applies to the 2005 cost assessment except that the number of invoices is subject to change (e.g. may need to change the denominator from 3 to 4 if invoiced on a quarterly basis).

Example:

Assumptions

On December 15, 1999 a LDC distributor received an invoice for OEB 1999 cost assessment of \$9,000, which was also reflected as an expense in its 1999 financial statements. For the 2004 OEB cost assessment, the distributor received three invoices totaling \$12,000 (invoice #1 for \$4,000 in July; invoice #2 for \$4,000 in September; and invoice #3 for \$4,000 in November).

Calculations

The total incremental costs to be recorded in the deferral account for 2004 is the difference between the 2004 and 1999 cost assessments, which is \$3,000, or \$12,000 - \$9,000. To determine the incremental amount for each 2004 invoice, the invoice amount should be subtracted from the 1999 cost assessment divided by the number of 2004 invoices. For this example in July 2004, this amount is \$1,000 i.e., \$4,000 - (\$9,000/3).

Accounting Entries

To record the July 2004 cost assessment in the deferral account on July 31, 2004. Note that carry charges at 5.75 percent (per annum) maybe applied on a simple interest basis to the opening monthly balance in the account (i.e. starting August 1, 2004).

Debit	1508, sub-account OEB Cost Assessment	\$1,000	
Credit	account 5655, Regulatory Costs		\$1,000
Debit	1508, sub-account OEB Cost Assessment		
	Carrying Charges	\$4.79	
Credit	account 4405, Interest and Dividend Income		\$4.79