

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL ONLY

June 13, 2006

To All Electricity Local Distribution Companies

**Re: Smart Meters and Low Voltage Accounting Matters arising from the Board's 2006 EDR Decision on Common or Generic Issues
Board File No. EB-2006-0136**

On March 21, 2006, the Board issued its decision on certain generic 2006 EDR issues (RP-2005-0020/EB-2005-0529). This decision referred to two areas where accounting guidance would be provided. One matter concerns smart meters and the other concerns low voltage or wheeling charges billed by a host distributor to an embedded distributor. This letter identifies the accounts, under the Uniform System of Accounts (USoA), which are approved for these two subjects. Appendices A and B contain the specific account information and related guidance.

Background concerning smart meters

In its decision on the generic 2006 EDR issues, the Board adopted the recommendation in the Board's earlier report to the government on smart meters with regard to cost recovery during the phase-in period. The Board stated its view that given the increased need for electricity and the importance of conservation, specific funding for smart meters should be included in 2006 rates by all Ontario electric LDCs.

A few LDCs applied for specific smart meter programs, and rates were approved based on the evidence and forecasts submitted. For the majority of LDCs, the Board decided that year-one expenditures equivalent to \$0.30 per residential customer per month would be appropriate to be included in rates for the rate year beginning May 1, 2006. The Board also approved that two separate variance accounts should be established (one for capital and one for operating expenses) to track differences between the amount funded in rates and actual costs.

Accounts and procedures for smart meters

The Board will implement accounting procedures for smart meters in two stages. First is the issuance of the approved variance accounts and general accounting guidance provided through this letter. The second stage will be guidance to address specific accounting issues which will be informed through a staff-led consultation.

The \$0.30 per month equivalent is considered to be seed money to help to fund the start-up phase. For the majority of LDCs, the recoveries from customers will likely exceed their investments in smart meters in the beginning. While the Board views the funding approved in rates for smart meters to be for the purposes of this specific initiative, there will be no need to segregate the funds in a separate bank account. The variance accounts will track the amounts.

For now, revenue will be reduced by the amount for smart meters funded in rates on a monthly basis, and the capital variance account 1555 will be used to record this seed funding. Investments in smart meters will be recorded in the capital variance account, and LDCs should use sub-accounts to segregate costs by type for future fixed asset accounting required under GAAP. The LDC's normal capitalization policies should be followed in identifying fixed asset expenditures. The LDC should isolate the approved rate recovery in a separate capital variance sub-account to facilitate calculation.

Incremental operating, maintenance, amortization and administrative expenses directly related to smart meters will be recorded in the operating expense variance account 1556. At present, avoid allocating general expenses that are not specifically related to smart meters. After consultation with the utilities and interested parties, the Board may establish criteria to follow for allocating indirect costs and expenses.

Please see **Appendix A** for guidance on the accounting entries for the two variance accounts. The overall effect of this accounting is to remove the monthly amounts collected from customers from revenue and the direct costs otherwise included as current period charges from the income statement of the LDC.

Accounts 1555 and 1556 will be added to the list of accounts to be reported under 2.1.1 of the Electricity Reporting and Record Keeping Requirements (RRR) effective for the quarter-ended September 30, 2006 (which will be due by October 31, 2006).

Within the next few months the Board intends to consult with LDCs about more detailed accounting matters that are necessary to clarify the contents of the variance accounts. Therefore, note that the accounts' definitions have not been fully developed at this time.

As part of stage two of this process, the Board will issue a staff paper on accounting for smart meters. It will address such matters as return on the investment in smart meters, taxes on income associated with smart meters and the process for clearing the variance accounts.

Accounts and procedures for low voltage charges

The Board's decision of March 21, 2006 on the generic 2006 EDR proceeding also determined that it was appropriate for an embedded LDC to establish and maintain a variance account for transmission system or low voltage (LV) charges from a host distributor. These charges are related to transactions which are not part of the electricity wholesale market.

For embedded LDCs, USoA account number 1550, LV Variance Account, is approved to record transmission system or LV charges effective May 1, 2006. The amounts recorded in this account are comprised of the difference between the monthly recordings in approved Account 4750, Charges – LV, and Account 4075, Billed – LV. The details of these accounts and guidance are outlined in **Appendix B**. This approach is similar to the accounting procedures for the RSVAs which are used to capture the difference between revenue (billed) and expense (charge) at month end.

Account 1550 will be added to the list of accounts to be reported under 2.1.1 of the Electricity RRR effective for quarter-ended June 30, 2006 (which will be due by July 31, 2006).

It should be noted that the Board's decision of December 9, 2004, on Regulatory Assets – Phase II, directed embedded distributors to use account 1586, RSVAcn for LV charges from Hydro One Network Inc., on an interim basis. The Regulatory Audit Office provided accounting guidance to embedded distributors in the December 2005 FAQs (see the Board's website under the Accounting Procedures Handbook) on the use of this account in relation to these LV charges which applies to all such charges incurred up to April 30, 2006.

Questions regarding the smart meter variance accounts should be directed to Duncan Skinner at 416-440-8127 and the low voltage variance account to Ben Baksh at 416-440-8128. The Board's toll free number is 1-888-632-6273.

Yours truly,

Original Signed by

Peter O'Dell
Assistant Board Secretary

APPENDIX A**Accounting Guidance for the Smart Meter Variance Accounts****Account 1555, Smart Meter Capital and Recovery Offset Variance Account**

Debit: Revenue 4080
Credit: Variance Account 1555

To record the recoveries of smart meter funding included in the fixed charge rate for each class of customer.

Debit: Variance Account 1555
Credit: Bank/Accounts Payable XXXX

To record capitalized direct costs related to the smart meter program.

Appropriate sub-accounts shall be used in account 1555 to segregate costs into various categories of cost.

Carrying charges will apply to the monthly opening principal balance in the variance account at a rate of interest prescribed by the Board. A sub-account shall be used to separately record these carrying charges.

Records shall be maintained at an appropriate level to permit Board review and verification of amounts recorded therein.

Disposition of the variance account balance will not be considered in the Board's annual reviews of electricity non-commodity accounts under Bill 23.

Account 1556, Smart Meter OM&A Variance Account

Debit: Variance Account 1556
Credit: OM&A contra account 5695

To record incremental OM&A expenses and amortization related to the smart meter program.

Separate sub-accounts within the OM&A contra account shall be created for the following categories of expenses: operating, maintenance, administration and depreciation or amortization.

Carrying charges will apply to the monthly opening principal balance in the variance account at a rate of interest prescribed by the Board. A sub-account shall be used to separately record these carrying charges.

Records shall be maintained at an appropriate level to permit Board review and verification of amounts recorded therein.

Disposition of the variance account balance will not be considered in the Board's annual reviews of electricity non-commodity accounts under Bill 23.

APPENDIX B**Accounting Guidance for Low Voltage Variance Account**

Effective May 1, 2006, the following accounts will be used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market:

Account 1550, LV Variance Account

On a monthly basis, this account shall be used to record the net of:

- i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services, Account 4750

AND

- ii) the amount billed to the embedded distributor's customers based on the embedded distributor's latest approved rate(s), Account 4075

Carrying charges will apply to the monthly opening principal balance in the variance account at a rate of interest prescribed by the Board. A sub-account shall be used to separately record these carrying charges.

Disposition of the variance account balance will be considered in the Board's annual reviews of electricity non-commodity accounts under Bill 23.

Account 4750, Charges – LV

This account shall be used by an embedded distributor to record the amount charged by a host distributor for transmission or low voltage services. Depending on an embedded distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the host distributor.

Account 4075, Billed – LV

This account shall be used by an embedded distributor to record amounts billed to its customers for transmission or low voltage charges. Depending on an embedded distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. Regardless of the method used, the embedded distributor must ensure a proper matching of the billed amounts recorded in Account 4075 to those charges recorded in Account 4750.