

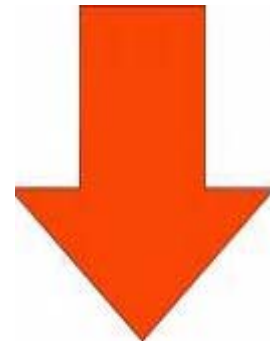
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**Ontario Energy Board**

Commission de l'énergie de l'Ontario

# **Results of Sector Smart Meter Audit Review**

Regulatory Audit & Accounting

Board Staff Webinar

March 25, 2010

# Sector Smart Meter Audit Review

- The Board's Regulatory Audit and Accounting staff ("Regulatory Audit") conducted an electricity distributor sector smart meter audit review (the "Audit Review") which started in November 2009.
- The audit review focuses on the results of a Smart Meter Questionnaire regarding distributors' smart meter regulatory accounting treatment.



## Sector Smart Meter Audit Review

- Audit Review provides a compilation of the smart meter Questionnaire data and results, which are summarized in this Webinar.
- Audit Review identifies the general observations resulting from the smart meter questionnaire.
- Most observations are related to the non-conformity with the Accounting Procedures Handbook (“APH”) or accounting guidance that was provided in relation to the accounting treatment of smart meters.

# Outline of Presentation

- Objectives of the Webinar
- **Part 1** - Background Information
- **Part 2** - Smart Meter Questionnaire Results
- **Part 3** - Accounting Treatment Requirements for Smart Meters & General Observations
- **Part 4** - Additional Guidance
- **Part 5** - Questions & Answers
- Conclusion
- Next Steps

- To assist electricity distributors and other parties with the regulatory accounting and reporting of:
  - Account 1555 Smart Meter Capital and Recovery Offset Variance Account
  - Account 1556 Smart Meter OM&A Variance Account

## Objectives of the Webinar (continued)

- Board staff is communicating several observations to:
  - Help reduce the risk of an incorrect balance of Account 1555 and Account 1556 being disposed.
  - Provide assistance to electricity distributors with respect to the regulatory accounting treatment of Account 1555 and Account 1556.
  - Help improve distributors' conformity to Accounting Procedures Handbook (APH) and other Board guidance.



- Board staff is communicating several observations to:
  - Emphasize importance of accurately reporting account balances under the Reporting and Record Keeping Requirements (RRR)
  - Share the results of the audit review arising from questionnaire

- This presentation details Board Staff's observations. The presentation does not represent the Board's view and is not binding on the Board.

# Part 1

# Background



- Ontario's Smart Metering program
  - An Ontario government initiative
  - Committed to installing electricity smart meters for all low-volume consumers in Ontario households and small businesses by the end of 2010.
- Seed money provided to assist in smart meter investment and deployment
  - As part of the 2006 electricity distributor rates process, the Board approved funding adders for most electricity distributors that were effective May 1, 2006.

- Applicable Legislation – Section 78(6.2) of the *Ontario Energy Board Act, 1998*:
  - “If a distributor has a deferral or variance account that does not relate to the commodity of electricity, the Board shall, at least once every 12 months, or such shorter period as is prescribed by the regulations, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates. 2003, c. 3, s. 52 (4).”

- Good record keeping of Account 1555 and Account 1556 is important
  - The Board is required under section 78 of the *Ontario Energy Board Act, 1998* to periodically review the electricity distributor's variance and deferral accounts.
  - Specifically, the Act requires that the Board makes an order determining whether and how amounts recorded in these accounts should be reflected in rates.
  - Account 1555 and Account 1556 are to be reviewed annually.

- Establishment of Account 1555 and Account 1556 by the Board
  - June 13, 2006 Board letter communicated establishment of new variance accounts for smart meters:
    - Account 1555, Smart Meter Capital and Recovery Offset Variance Account; and
    - Account 1556, Smart Meter OM&A Variance Account.
  - January 16, 2007 Board letter communicated establishment of a new sub-account of account 1555 for stranded meter costs:
    - Account 1555 Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs.

- Combined Proceeding
  - Early 2007: 12 of 13 distributors authorized to conduct discretionary metering activities filed applications pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for the approval of distribution rates
  - Mid-2007: the Board conducted a combined proceeding [EB-2007-0063] in relation to smart meter costs of the 13 distributors that were at that time authorized by regulation to conduct smart meter activities.



- Combined Proceeding (continued)
  - August 8, 2007: Decision with Reasons issued [EB-2007-0063] which addressed (among many other issues):
    - Accounting matters related to smart meter costs;
    - The treatment of stranded meter costs; and
    - The cost recovery methodology of smart meter costs in rates.

- Combined Proceeding (continued)
  - EB-2007–0063 Board Decision, Appendix A, provides 14 categories of capital expenditures and OM&A expenses:
    1. Smart Meter
    2. Installation Cost
    3. Workforce Automation
    4. Collectors
    5. Repeaters
    6. Installation
    7. Computer Hardware
    8. Computer Software
    9. Computer Software License & Installation
    10. Activation Fees
    11. AMI Interface to CIS
    12. Professional Fees
    13. Integration
    14. Program Management

- O. Reg. 427/06 (as amended in 2008, O. Reg 235/08)
  - Additional distributors became authorized to conduct smart meter activities, conditional on their meters being acquired pursuant to and in compliance with a Request for Proposal issued by London Hydro Inc.
- O. Reg. 426/06 (as amended in 2008, O. Reg. 234/08)
  - Confirmation that certain stranded meter costs could be recovered.

- Guideline: Smart Meter Funding and Cost Recovery (G-2008-0002) dated October 22, 2008 – page 12:
  - “The Board also expects that only two applications will need to be made for the recovery of smart meter costs. The first is when the distributor achieves at least 50% penetration of smart meters within its service area. The second is when the distributor installs 100% of the meters.”

- Electricity Distributors' Deferral and Variance Account Review (EDDVAR) Initiative Report of the Board (July 31, 2009):
  - Page 7: Account 1555 and Account 1556 were classified in the Revised Group 2

- EDDVAR (continued):
  - Page 12: “During the IRM plan term, the revised Group 2 Accounts will be reviewed using the Board’s current process as outlined in *Guidelines for Review of Electricity Deferral and Variance Accounts, September 28, 2005* will be used. Under this process, the Board will issue an order for all distributors on completion of its annual review of the Accounts. The order will reflect the Board’s determination as to whether the Account balances reviewed ought to be disposed of, and if so, the balance(s) that will be disposed of and how they will be reflected in rates.”



# Part 2

# Smart Meter Questionnaire Results



# Overview of Sector Smart Meter Audit Review

- A Smart Meter Questionnaire was issued on November 16, 2009 to all electricity distributors and focused on electricity distributors' smart meter regulatory accounting treatment.
  - Review period from January 1, 2006 to September 30, 2009
- Link :  
<http://www.oeb.gov.on.ca/OEB/Industry/Rules+and+Requirements/Regulatory+Audit+and+Accounting/Webinar+-+Smart+Meters+Audit+Review>
- By January 2010, 78 distributors responded to the questionnaire, representing a 98% response rate.
- The survey results are based on information that was provided to Regulatory Audit by distributors.
- Thank you for your participation.



- Smart Meter Questionnaire Results, as compiled from the data obtained from distributors participating in the survey.
- General Observation made by Regulatory Audit staff.

- The Smart Meter Review includes the following information on an aggregate basis:
  - Total investments in smart meters for capital expenditures (“CAPEX”) and operating, maintenance, and administrative expenses (“OM&A”)
  - Funding dollars received by the distributors
  - Board approved recoveries for CAPEX and OM&A
  - Stranded costs

# Summary of Overall Account Balances as of September 30, 2009

Total Investments in CAPEX	\$ 570,339,200
Total OM&A Expenses	\$ 62,954,940
Total Investments in CAPEX and OM&A Expenses	\$ 633,294,140

# Total Investments in CAPEX (Account 1555)

	<b>Investment Year 2006 \$</b>	<b>Investment Year 2007 \$</b>	<b>Investment Year 2008 \$</b>	<b>Investment Sept. 30, 2009 \$</b>	<b>TOTAL</b>
<b>Total Investments</b>	<b>57,226,553</b>	<b>127,176,911</b>	<b>167,208,451</b>	<b>218,727,285</b>	<b>570,339,200</b>
Carrying charges	517,173	697,719	1,090,701	624,396	2,929,989
Capital Expenditures	56,709,380	126,479,192	166,117,750	218,102,889	567,409,211

# Total OM&A Expenses (Account 1556)

	OM&A Year 2006	OM&A Year 2007	OM&A Year 2008	OM&A as of Sept. 30, 2009	TOTAL
<b>TOTAL OM&amp;A</b>	<b>8,208,649</b>	<b>15,995,969</b>	<b>17,917,771</b>	<b>20,832,551</b>	<b>62,954,940</b>
Operating Expenses	250,327	3,567,385	2,791,668	4,213,812	10,823,192
Maintenance Expenses	0	64,038	8,139	321,383	393,560
Administrative Expenses	518,610	1,073,616	2,133,430	2,849,436	6,575,092
Amortization	721,619	4,582,833	5,699,257	6,704,633	17,708,342
* Other OM&A Expenses	6,681,219	6,682,518	7,157,552	6,650,202	27,171,491
Carrying Charges	36,874	25,579	127,725	93,085	283,263

\* Note: Some distributors recorded OM&A expenses under “Other OM&A” and did not provide the breakdown for operating expenses, maintenance expenses, and administrative expenses.



# Total Advanced Funding Dollars Received by the Distributors (Sub-Account 1555)

	<b>Funding Year 2006 \$</b>	<b>Funding Year 2007 \$</b>	<b>Funding Year 2008 \$</b>	<b>Funding As of Sept. 30, 2009 \$</b>	<b>TOTAL</b>
<b>Total Funding Adders/Revenues</b>	<b>9,419,103</b>	<b>9,586,026</b>	<b>21,311,530</b>	<b>10,990,947</b>	<b>51,307,606</b>
Carrying Charges	28,659	231,789	422,230	123,576	806,254
Funding Adders/Revenues	9,390,444	9,354,237	20,889,300	10,867,371	50,501,352

# Total Board Approved for Recovery of CAPEX and OM&A as of December 31, 2008

	<b>Year 2006 \$</b>	<b>Year 2007 \$</b>	<b>Year 2008 \$</b>	<b>December 31, 2008 Total \$</b>
<b>Total Board Approved Amounts – Accounts 1555 and 1556</b>	<b>23,689,931</b>	<b>50,671,563</b>	<b>9,699,536</b>	<b>84,061,030</b>
* Board Approved Capital Expenditures	22,989,980	45,633,806	8,784,936	77,408,722
Board Approved OM&A	699,951	5,037,757	914,600	6,652,308

\*Note: Represent approved smart meter costs for inclusion in the rate base

# Stranded Costs (Sub-Account 1555)

	<b>Year 2006 \$</b>	<b>Year 2007 \$</b>	<b>Year 2008 \$</b>	<b>As of Sept. 30, 2009 \$</b>	<b>TOTAL</b>
Stranded Costs	-	17,896,418	11,065,015	2,601,330	31,532,764





# Part 3

# Accounting Treatment Requirements for Smart Meters & General Observations



- Several observations have been identified by Regulatory Audit & Accounting Board Staff based on:
  - Data available through conducting the review of electricity distributors' Account 1555 and Account 1556
  - Analysis from questionnaire

- Requirement
  - Accounting treatment to be followed
- Board Reference Guidance
  - Resources and references for further guidance
- Observation
  - What Regulatory Audit noted

# What is Included in the Smart Meter Deferral and Variance Accounts?

- Account 1555 – Smart Meter Capital and Recovery Offset Variance Account:
  - Capital expenditures
  - Accumulated Amortization
  - Funding adders/Revenues
  - Carrying charges
- Account 1556 – Smart Meter OM&A Variance Account:
  - Operating expenses
  - Maintenance expenses
  - Administrative expenses
  - Amortization
  - Carrying charges

# Requirement #1 – Recording of Smart Meter Transactions Related to Account 1555

- Requirement:
  - Smart meter transactions related to Account 1555 (e.g. smart meter capital expenditures, Board approved funding received, and related carrying charges) should be recorded in various sub-accounts of Account 1555, segregated by type of transactions.
    - Furthermore, smart meter capital expenditures should be segregated in various sub-accounts according to the type of capital expenditure.

- Capital Transactions
  - APH, Article 220, page 23 – Account 1555
    - To record capitalized costs related to the smart meter program, this account shall be debited and Account 1005, Cash or Accounts Payable credited.
    - Appropriate sub-accounts shall be used in this account to segregate costs into various categories of capital costs.

- Capital Transactions (continued)
  - June 13, 2006 Board Letter to LDCs
    - Debit: Variance Account 1555
    - Credit: Bank 1005/Accounts Payable 2205
      - To record capitalized costs related to the smart meter program.
    - Investments in smart meters will be recorded in the capital variance account, and LDCs should use sub-accounts to segregate costs.
    - The LDC's normal capitalization policies should be followed in identifying fixed asset expenditures.

## – Stranded Costs

- January 16, 2007 Board Letter to LDCs:
  - Distributors will report the stranded meter costs in a new sub-account: Smart Meter Capital and Recovery Offset Variance Account 1555, Sub-account Stranded Meter Costs.
- The January 16, 2007 Board letter has been superseded by the August 8, 2007 EB-2007-0063 Decision where it is stated on Page 16:
  - “Many of the utilities suggested that at the present time, the stranded costs associated with existing meters should stay in rate base. The Board accepts this proposition.”
- Accordingly, the stranded meters should remain in fixed assets; rather than tracked in Account 1555, Sub-account Stranded Meter Costs.



- **Funding Adders**

- Board Letter to LDCs dated June 13, 2006

- Debit: Revenue – Account 4080
- Credit: Variance account – Account 1555
  - To record the recoveries of smart meter funding.

- APH, Article 220, page 23 – Account 1555

- To record the revenues for smart meter funding recovered by the fixed and/or variable rate charge for each class of customer, Account 4080, Distribution Services Revenue shall be debited and this account credited.

- **Carrying Charges:**

- APH, Article 220, page 23:

- Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account.

- August 2008, FAQ #8, page 8, journal entry:

- Debit: Smart Meter Capital and Recovery Sub account  
Carrying Charges – 1555
- Credit: Interest and Dividend Income - 4405
  - Record carrying charges net of investments and funding amounts.

# General Observation #1a – Smart Meter Transactions Related to Account 1555 were Incorrectly Recorded

- **Observation:**
  - a) Some smart meter transactions related to Account 1555 (e.g. smart meter capital expenditures, Board approved funding received, and related carrying costs), were not recorded in various sub-accounts of Account 1555, segregated by type of cost.

# General Observation #1 – Smart Meter Transactions Related to Account 1555 were Incorrectly Recorded

- Observation (continued):
  - a) e.g., (i) Smart meter capital expenditures were incorrectly recorded in:
    - Account 1860 (Meters)\*
    - Account 1556

\* Note: Transferring smart meter capital expenditures to account 1860 requires prior Board approval of balances recorded in account 1555.

# General Observation #1 – Smart Meter Transactions Related to Account 1555 were Incorrectly Recorded

- Observation (continued):
  - a) e.g., (ii) Some smart meter transactions related to account 1555 were recorded in accounts other than Board established accounts in the general ledger. These accounts may not have been mapped and recorded to the correct USoA Account (Account 1555) in RRR filing 2.1.1 and RRR filing 2.1.7.
    - For example, account “1554” was used to record funding adders and related carrying charges in the general ledger.

# General Observation #1 – Smart Meter Transactions Related to Account 1555 were Incorrectly Recorded

- Observation (continued):
  - a) e.g., (iii) Carrying charges applicable to smart meter transactions related to Account 1555 were incorrectly recorded in:
    - Account 1556
    - Account 1590 (Recovery of Regulatory Asset Balances)

## General Observation #1b – Smart Meter Transactions Related to Account 1555 were not Recorded

- **Observation (continued):**
  - b) There were also some LDCs which did not record any smart meter transactions related to Account 1555, e.g. funding adder, in sub-accounts of Account 1555.

## Requirement #2 - Recording of OM&A Smart Meter Transactions Related to Account 1556

- Requirement:
  - Account 1556 should be used to record incremental operating, maintenance, amortization and administrative expenses related to smart meters. Carrying charges should be recorded in a separate sub-account of this account.



- APH, Article 220, pages 24 & 25 – Account 1556
  - This account shall be used by the distributor to record incremental operating, maintenance, amortization and administrative expenses related to smart meters.
  - To record incremental OM&A expenses and amortization related to the smart meter program this account shall be debited and Account 5695, OM&A Contra Account shall be credited.

- APH, Article 220, pages 24 & 25 – Account 1556
  - Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account.

- June 13, 2006 Board Letter to LDCs and August 2008, FAQ # 8, page 8
  - Debit: Variance Account – 1556
  - Credit: OM&A Contra Account – 5695
    - Record incremental OM&A expenses and amortization related to the smart meter program.

- August 2008, FAQ #8, page 8
  - Debit: Smart Meter OM&A, Sub account Carrying Charges – Account 1556
  - Credit: Interest and Dividend Income- Account 4405
    - To record carrying charges.

## Observation #2a – Incorrect Recording of Carrying Charges Related to Account 1556

- Observation:
  - a) Carrying charges related to smart meter OM&A expenses were incorrectly recorded in account 1590 (Recovery of Regulatory Asset Balances).

## Observation #2b – Smart Meter OM&A Transactions Related to Account 1556 Were Not Recorded

- Observation (continued):
  - b) There were also some LDCs which did not record any smart meter transactions related to Account 1556.



# Part 4

# Additional Guidance



- APH, Article 220, pages 24 & 25 – Account 1556
  - To record incremental OM&A expenses and amortization related to the smart meter program this account shall be debited and Account 5695, OM&A Contra Account shall be credited.
  - Separate sub-accounts within the OM&A contra account (5695) shall be created for the following categories of expenses: operating, maintenance, administration, and depreciation or amortization.



## Additional Guidance – Recording of Amortization Expense and Accumulated Amortization (August 2008 FAQ #8)

- August 2008 FAQ #8, page 8, journal entry #4
  - Account 1556
    - Amortization expense should be recorded in a sub-account of account 1556 for smart meters.
  - Account 1555
    - The related accumulated amortization should be recorded in a sub-account of account 1555.

## Additional Guidance – Recording of Amortization Expense and Accumulated Depreciation (August 2008 FAQ #8)

- August 2008, FAQ #8, page 8, journal entry #4
  - Debit: Smart Meter OM&A, Sub-account Amortization Expense – Account 1556
  - Credit: Smart Meter Capital & Recovery Acct., Sub-account Accumulated Amortization – Account 1555
    - To record smart meter amortization expense.

- The Board recognizes that there is a risk that reporting of the Q4 RRR 2.1.1 information may be superseded by information reported several months later in RRR 2.1.7 in relation to deferral and variance accounts. Ultimately, however, the two reportings should represent the same information to the Board.

# Mechanism for Recovery of Costs Related to Smart Meters from Rates

- **Guideline: Smart Meter Funding and Cost Recovery (G-2008-0002):**
  - Page 11: “Smart meter capital and operating costs are normally approved (or denied) in the process of adjusting a distributor’s rate base or revenue requirement, respectively, during a cost of service proceeding to set rates.”

# Mechanism for Recovery of Costs Related to Smart Meters from Rates

- **Guideline: Smart Meter Funding and Cost Recovery (G-2008-0002):**
  - Page 12: “The Board expects that a distributor will normally file for inclusion of smart meter costs into ongoing operations and rate base when it files for a cost of service rate adjustment. When applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account balances.”

- The issuance of the Board order approving the smart meters investment and the associated (net) revenue requirement for the smart meters in rates triggers the accounting recognition of the investment in smart meters as assets and the funding received for the smart meters as revenues.

- The Board approval of the smart meters investment and the associated (net) revenue requirement for the smart meters in rates requires the accounting reclassification of these items recorded in the variance accounts to their applicable asset and revenue USoA accounts.

- Following the reclassification and clearance of amounts from the variance accounts to their applicable accounts, the balances in the variance accounts (Account 1555 and Account 1556) should be zero (assuming no other smart meter investment or funding activities).



- No true up of the Account 1555 and Account 1556 balances are required and no recordings of the recoverable (or refundable) net revenue requirement amount in Account 1595 (Disposition and Recovery of Regulatory Balances Account) are required.

- The approved revenue requirement, net of the funding received for the period, results in a net revenue requirement. This amount should be recorded in the distribution revenue account 4080 over the recovery period and not in Account 1555, Account 1556, or Account 1595.

- August 2008, FAQ #8, page 7 provides additional information and an example to calculate the net revenue requirement.

**Please standby, as we take time to collect and review your questions.**

You can still submit questions using the “Ask A Question”, please click on link right under this slide.



# Part 5

# Questions & Answers



# Conclusion & Next Steps



- Overall objective of the review was to determine whether the recording of the balances in Account 1555 and Account 1556 followed the APH and other Board guidance.

# Overview of Sector Smart Meter Audit Review

- The audit review was conducted to determine:
  - a) the dollar amount recorded in account 1555 – total by year and sub-accounts by:
    - capital expenditures (CAPEX) and related carrying charges
    - funding adders/revenues and related carrying charges
  - b) the dollar amount recorded in account 1556 – total by year and all sub accounts (various types of OM&A) and related carrying charges
- In addition, the review assessed if and how utilities followed the APH and other Board guidance to track, record, and report expenditures in accounts 1555 and 1556.



- We hope that the presentations today will:
  - Help overall understanding of APH and other Board guidance.
  - Assist in improving record keeping and reporting, if needed.
  - Help reduce the risk of an incorrect balance of Account 1555 and Account 1556 being disposed.

- Questions resulting from Board Staff presentation may be sent:
  - Via e-mail, not later than 4:45 p.m. on April 1, 2010, to: [RegAudit.Webinar@oeb.gov.on.ca](mailto:RegAudit.Webinar@oeb.gov.on.ca).

- Answers to common questions will be posted on the Board’s website, under “Regulatory Audit & Accounting Webinars”:
  - <http://www.oeb.gov.on.ca/OEB/Industry/Rules+and+Requirements/Regulatory+Audit+and+Accounting/Webinar+-+Smart+Meters+Audit+Review>

- In the near future, Board staff will publish on the Board's website, under "Regulatory Audit & Accounting Webinars":
  - <http://www.oeb.gov.on.ca/OEB/Industry/Rules+and+Requirements/Regulatory+Audit+and+Accounting/Webinar+--+Smart+Meters+Audit+Review>
  - Presentation from today's webinar.
  - The Sector Smart Meter Audit Review Report
  - Answers to common questions arising from today's presentations.

**Thank You**

