EDA 100th Anniversary

January 30, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON - M4P 1E4

Via web portal and by courier

Dear Ms. Walli:

Re: Board File No. EB-2011-0428; Revisions to the Accounting Procedures Handbook for Electricity Distributors

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies. The EDA represents the interests of the 77 publicly and privately owned electricity distributors in Ontario.

We appreciate the Board staff's considerable efforts, not only in the preparation of revisions to the "Accounting Procedures Handbook for Electricity Distributors", but also their endeavour to provide a detailed explanation for the proposed revisions.

The EDA welcomes the opportunity to provide comments on the Draft Accounting Procedures Handbook (APH). This submission has been prepared in consultation with EDA members. We look forward to working with Board staff as necessary in this regard.

Sincerely,

Maurice Tucci

Maurice Tucci
Director, Regulatory and Technical Policy

Attached: EDA submission

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EDA's Comments - Revisions to the
Accounting Procedures Handbook for Electricity Distributors

The EDA would like to note that it is important to have an Accounting Procedures Handbook (APH) that reflects clear requirements in order to allow distributors to record their transactions in a consistent manner. Consistency in accounting treatment is essential as distributor's performance is measured, under the current 3rd Generation IRM, and compared with their peers to determinate the individual utility's Stretch Factor. The guidance provided in APH goes a long way in ensuring that all distributors are measured on a comparable basis.

The EDA is appreciative of the structure of the revised APH which integrates the accounting standards (IFRS) and regulatory accounting (modified IFRS). This allows a distributor to reference both requirements in one document and more easily allows identification of any differences between the two.

The EDA has the following questions, comments and recommendations:

Future Additions and Revisions to the APH

The EDA requests the OEB to periodically update the APH with ongoing changes that are expected be made to IFRS over time. Where guidance for regulatory accounting issued by the Board is not updated in time in accordance with changes to IFRS, or where guidance for regulatory accounting is not adequate, utilities should be expected to exercise professional judgment in the determination of what constitutes fair presentation or good practice in implementing IFRS.

APH and related guidance material

The EDA recommends that the current APH related guidance material such as Board letters, accounting procedures instructions and APH-FAQs that were issued by the Board in the past should be updated. The FAQs may have to be organized under categories as 'Applicable' and 'Not applicable' and be made accessible through the Board's website. The 'Not applicable' category of guidance materials should be archived and made accessible so that they can be used when necessary as a reference to the regulatory accounting which was in force under previous Canadian GAAP.

Transitional Issues relating to the Adoption of IFRS - Draft Article 510 (Pages15 to 18)

The example provided to illustrate the concepts and requirements of transition from Canadian GAAP to IFRS accounting is not understood clearly. The intent and rationale of making the adjustment as shown in the example is not understood and the EDA would request further explanation and consideration of the treatment. The change in rate base should have gone to amortization or depreciation expense because most utilities will be recognizing more revenue and less expense. The way the adjustment is shown in the example is that, the account 1575 does not appear to be really a deferral account but rather a way of adjusting the balance sheet or statement of financial position. There is no adjustment to the income statement.

Transitional Issues relating to the Adoption of IFRS - Draft Article 510 (Pages 11; 17-18)

Page 11 states "For purposes of this sub-section of the Article, the offset to all adjusting entries required at the changeover date is recognized in retained earnings." The EDA notes, however, that on pages 17 to 18 the entries reflect that Account 1575 IFRS-GAAP Transitional PP&E Amounts are adjusted through accounts other than retained earnings. The EDA would recommend that page 11 provide a qualification for Account 1575.

Contributions in Aid of Construction

The utilities should be expected to maintain records for 'Contributions in Aid of Construction' so that contributions are tracked by year and by asset type only. Attempt to track the contributions to the asset component level would require enormous amount of record keeping for which a huge amount of system changes would become essential. Tracking down the contributions received to a component level would cause administrative inefficiencies and would result in inaccurate information.

Post-employment benefits

The section on Post-employment benefits should be clarified with respect to the timing of how to apply IAS 19. This is necessary as utilities are expected to recognize all actuarial gains and losses in 'Other Comprehensive Income'. The continuity of Future Employee Benefits is not clearly demonstrated in the illustrative example

Create a Separate Retained Earnings USoA Account for Regulatory Accounting Adjustments

A separate Retained Earnings USoA account should be created for making regulatory accounting adjustments. The creation of this account will provide transparency as to the regulatory impact on the transition to IFRS.

Article 490—Accounting for Specific Items Retail Services and Settlement Variances

IFRS requires that the accrual method be used for items pertaining to all of the Retail Service settlement accounts as well as miscellaneous recoveries and charges. The utilities will be required to use the accrual method for RCVAs and RSVAs so as to be consistent with this requirement.

The EDA recommends that at least 6 months time be provided to those utilities which are required to transition in to accrual method of accounting for RCVA and RSVA accounts.

Article 220, Page 16

Upon Board Approval of 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs, would these amounts be transferred to 1508 Other Regulatory Assets, Sub-account IFRS Transition Costs Variance?

Currently 1508 Other Regulatory Assets, Sub-account IFRS Transition Cost Variance states "The distributor will record the actual incurred one-time administrative incremental IFRS transition costs in this sub-account." The EDA would suggest that if the amount is to be transferred to this account it is stated as such.

Article 220, Page 19

In Account 1518_{Retail} A ii) it states "... as well as the incremental costs incurred to provide the services in (b) and (d) above ...". The EDA notes that in Section A i) that (d) is not listed.

Article 220, Page 27

In Account 1556 Smart Meter OM&A Variance Account B, the sentence commences as follows: "**o** record incremental OM&A expenses and amortization ...". The EDA believes that the first word should read "to".

Article 220, Page 36

The EDA would suggest that an additional note be placed in the 1589 $RSVA_{GA}$ section which states that the Global Adjustment on RPP Customers is settled on the distributor's monthly filings with the IESO. This would provide further clarification on this section.

Article 220, Page 68

The EDA recommends on page 68, Account 1860 Meters Note A. that the Board insert the account number that the meters for recording output of a generating station, substation meters should be recorded in. An example is identifying that the substation meters should be recorded in Account 1820 Distribution Station Equipment - Normally Primary Below 50 kV. This will provide further clarification on the classification of this cost as it has been a source of confusion in the past.

Article 220, Page 72

The EDA recommends that the Board also include Trailers in Account 1930 Transportation Equipment as this is where the costs are captured.

Article 220, Pages 5 and 95

Account 2290 Commodity Taxes on page 95 states "The purpose of this account is to monitor the Harmonized Sales Tax (HST) charged and collected, as well as the amount of HST paid which is eligible for an input tax credit." However, on page 5, Account 1110 states "3) Amounts due from sources such as taxes recoverable (e.g. HST input tax credit), insurance claims, etc.;". The EDA would like clarification as to the account that the HST input tax credit is recorded in.

Article 220, Page 118

The EDA would like to recommend that the SSS Administration Charge currently recorded as a sub-account in Account 4080 Distribution Services Revenue be recorded in a separate USoA account. A separate USoA account will allow transparency for all parties in a cost of service filing and assist the distributor when calculating the revenue offset in its revenue requirement and preparing the Cost Allocation Sheet 3 Trial Balance Data.

Article 220, New Accounts

IFRS does not allow the capitalization of indirect costs. Indirect costs previously may have been captured in a burden/overhead account and allocated to capital (as well as operating, maintenance and third party billings). The indirect costs now will reside in the Income Statement Accounts; however, there are no separate USoA accounts to capture these new costs. The EDA recommends that the APH provide direction as to where these costs should be captured.

Article 330, Page 8

Commencing on page 8 it states "For regulatory accounting and reporting purposes, the following balance sheet accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA". The EDA notes that the Group 1 USoA Accounts and Account 1582 have not been included in the listing. The EDA would suggest that these accounts be added to this listing or have an explanation provided as to why they are not included.

Article 475, Page 6

In describing the allocation between operating and maintenance accounts it states "Consequently, if a pole broke or was considered to be deficient while it was being straightened and it was replaced that activity would be recorded in accounts 5020, Overhead Distribution Lines and Feeders - Operation Labour and 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses." The EDA would like to clarify this statement as the treatment of the newly installed pole would be a capital expenditure, rather than an operating expenditure. In addition, IFRS treatment would require the derecognition of the broken pole (subject to materiality considerations).

Article 220-Many sections

One issue that has been noted in many consultations, as far back as EB-2006-0268 Comparison of Distributor Costs, is that Transformer Station (TS) Costs and Low Voltage (LV) Wheeling Charges should be segregated and removed when directly comparing distributor's costs for the purpose of benchmarking utilities and for determining individual LDC's Stretch factor in 3rd GIRM.

The TS Costs should be removed for comparison purposes as distributors that own TS have these costs included in their distribution rates [thus, capital; operating, maintenance and administration costs (OM&A), etc.] and distributors that do not own a TS are charged these costs through the Retail Transmission Service Rates Connection Charges (CN). The CN charges flow through the Other Power Supply Expense Account 4716 Charges-$_{CN}$ and Account 1586 RSVA$_{CN}$. Thus, for a distributor that owns TS, their costs are not directly comparable to a distributor that does not own TS and should have the TS Costs removed prior to any comparison. Similarly, distributors that wheel power for others record these expenditures in their distribution costs and those that pay for the wheeled power record their costs in a flow though variance account (USoA 1550). Failure to remove the TS Costs and LV Charges may impact a distributor's rates via the stretch factor or via any potential initiative in the future.

The EDA recommends that TS Costs and LV Charges are segregated for capital and OM&A as future initiatives may compare total costs, rather than the controllable costs that are compared currently in the 3rd GIRM Stretch Factor. *The EDA feels strongly that a separate USoA be set up for the TS Costs and LV Charges, a sub-account is not recommended.* A sub-account is information that is kept by the distributor, and provided to the Board upon request, and may not be transparent on a filing. This lack of transparency may result in the segregation of costs not being performed in an initiative, which as discussed above, may result in comparison of distributors on an unequal basis.

The following recommendations are made with respect to TS accounts:

Account 1808 Buildings and Fixtures

Currently this account captures "buildings and fixtures used in connection with distribution operations" which may include Transformer Stations, Municipal/Distribution Stations and Service Centres. The EDA recommends that TS Costs and LV Charges are segregated in a separate USoA account.

Account 5012 Station Buildings and Fixtures Expenses

This account currently includes the cost of labour, materials used and expenses incurred in operating distribution station building and fixtures recorded in Account 1808 Buildings and Fixtures and Account 1810 Leasehold Improvements. This may include Transformer Stations, Municipal/Distribution Stations, Service Centres and Leasehold Improvements. The EDA recommends that TS Costs and LV Charges are segregated in a separate USoA account.

Account 5110 Maintenance of Buildings and Fixtures - Distribution Stations

This account currently includes the cost of labour, materials used and expenses incurred in maintenance of structures, the book cost of which is included in Account 1808, Buildings and Fixtures, and 1810, Leasehold Improvements. This may include Transformer Stations, Municipal/Distribution Stations, Service Centres and Leasehold Improvements. The EDA recommends that TS Costs and LV Charges are segregated in a separate USoA account. In addition, the EDA recommends that 'Distribution Stations' in the title of the account be removed as this account encompasses more than distribution station costs.

6105 Taxes Other than Income Taxes

Account 6105 currently includes property taxes, including property taxes on TS properties. The EDA recommends that TS Costs and LV Charges are segregated in a separate USoA account.

New Incremental TS Operating Account

The EDA recommends a new Incremental TS Operating Account be established to capture those costs that have been incurred to operate a TS and are not captured in Accounts 5012 Station Buildings and Fixtures Expenses, 5014 Transformer Station Equipment - Operating Labour and 5015 Transformer Station Equipment - Operating Supplies and Expenses. An example is that a distributor may be required to operate its Control Room 24 hours per day, 7 days per week if it owns a TS, however, if it did not own a TS it would not be required to operate it on a continuous basis. The incremental costs of the control room would be included in this account.

New Incremental TS Maintenance Account

The EDA recommends a new Incremental TS Maintenance Account be established to capture those costs that have been incurred to maintain a TS and are not captured in Accounts 5110 Maintenance of Buildings and Fixtures - Distribution Stations and 5112 Maintenance of Transformer Station Equipment.