Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
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Effective in the 2010 rate year, several of the Board's Decisions and Orders approved a new sub-account of Account 1592, PILs and Tax Variances for 2006 and Subsequent Years, "Sub-account HST / OVAT Input Tax Credits (ITCs)" to record the ITC savings arising from the elimination of the Provincial Sales Tax and the implementation of the HST on July 1, 2010. The Board directed distributors to record the incremental ITCs received on the distribution revenue requirement items that were previously subject to PST and which became subject to HST.

The Board's Decisions and Orders stated that the Board may issue more detailed accounting guidance in the future. The questions and answers in this section are in relation to "Sub-account HST / OVAT Input Tax Credits (ITCs)" of Account 1592:

Q.1 What is the offsetting entry to amounts recorded in the sub-account of Account 1592?

A.1 The offsetting entry will go to a new sub-account, which will be a contra account within Account 1592, PILs and Tax Variances for 2006 and Subsequent Years. For this purpose, the distributor would use "HST/OVAT Contra Account" of Account 1592 to record the offsetting entry to "Sub-account HST / OVAT Input Tax Credits (ITCs)".

For regulatory reporting purposes, this will have a zero net effect on reporting (i.e., the sub-account balance net of the balance in the contra account will result in a zero balance). Only the balance in "Sub-account HST / OVAT Input Tax Credits (ITCs)" should be reported for disposition of the account balance, except for purposes of reporting under the Electricity Reporting & Record Keeping Requirements, which should include both sub-accounts netting to zero.

Q.2 Should a distributor record in the sub-account ITCs received on items such as legal and audit fees, which were not previously subject to PST but now are subject to HST and eligible to receive ITCs?

A.2 No. These ITCs relate to expense items that were not previously subject to PST and they are therefore not incremental ITCs to be recorded in the sub-account.

Q.3 Should a distributor record in the sub-account the incremental HST on items not previously subject to PST, such as natural gas and electricity utility costs that became subject to the HST at 13% but are subject to recaptured ITC requirements, thus nullifying the ITCs?

A.3 No, for the same reason as noted in A.2 above.

Q.4 Although the HST return includes the total ITCs for a period, it does not provide the specific breakdown of the information to derive the incremental ITCs to be recorded in the sub-account. For greatest accuracy, a distributor would have to use a transactional basis to identify, track and record incremental ITCs in the sub-account. Can any guidance be provided to simplify the process to calculate the HST savings for recording incremental ITCs in the sub-account?

A.4 Any alternative method to determine and record incremental ITCs must yield similar results so that there is no material difference between results from the alternative method and the amounts that would be derived from a transactional analysis. The Board established the deferral account to facilitate capturing the savings derived from the implementation of the HST so they can be passed to the distributor's customers in due course.

An alternative method suggested below provides a simplified approach that should also provide administrative cost saving opportunities. This alternative method requires a distributor to complete a detailed one-time analysis of its most recent historic year (prior to implementation of HST). This analysis of the 2009 historic year (i.e., first complete year prior to implementation of the HST) would identify the PST included in OM&A costs and capital spending that would be removed by the elimination of the PST and would be eligible to receive incremental ITCs effective July 1, 2010 under the *Excise Tax Act*.

The analysis is necessary as the PST was embedded in the costs of purchases of OM&A and capital items, and was not separately identified in the distributor's accounting records or annual operating budget. Consequently, this analysis serves to identify the purchases in the historic year and determine whether PST savings would apply. This will then serve as a proxy had the purchases occurred effective on or after July 1, 2010 through the receipt of incremental ITCs. This

analysis of the PST annual savings amount can be used as a basis to calculate and record entries in the sub-account provided that the derived saving amounts are supported by a detailed analysis, calculations and records that would need to be made available upon request in a proceeding relating to the disposition of the sub-account balance.

The following are the general steps in this alternative method to derive the PST savings on OM&A and capital items for the 2009 historic year:

- Review and analyze actual 2009 OM&A costs and identify the costs that were subject to PST (8%) and that would be eligible to receive savings through ITCs. Accordingly, this analysis serves to identify the PST savings that would apply as a proxy had the purchases occurred effective on or after July 1, 2010 through the receipt of incremental ITCs. The total of these costs represents the PST savings on OM&A expenses (or incremental ITCs on OM&A expenses) for the year.
- For capital expenditures, follow the step above except for the manner in which the identified saving amounts are calculated.
- In the normal course when a distributor’s rates are rebased, the unamortized capital assets (or net book values) subject to regulatory review would be eligible for inclusion in rate base. If rebasing occurs on or after July 1, 2010, the capital assets balance will reflect the lower net expenditure if the assets are eligible to receive ITCs (and not subject to recaptured ITCs). Consequently, PST savings relative to the amounts used in setting rates are realized for these assets on or after July 1, 2010.
- For any period before the rebasing that occurs after July 1, 2010 these PST savings would be included in the annual depreciation of the capital items. These depreciation saving amounts would need to be identified, calculated and summarized. However, the simplified approach suggested is to review 2009 capital items, purchased or internally generated self-constructed assets, to calculate the PST savings included in the depreciation expenses. This analysis would provide the 2009 amounts that would contribute to PST savings, which are applied as if the capital items were purchased or self-constructed on or after 2010 July 1, 2010. Self-constructed assets via construction work in progress (CWIP) may need to be separately identified and analyzed to determine if the asset components would be subject to the HST. For example, labour and overheads do not attract PST or HST.

- The following example provides an illustration of the guidance regarding capital items:
  - The analysis of the 2009 capital items purchased or self-constructed is conducted to identify, calculate and summarize the PST saving amounts included in 2009 depreciation expenses associated with the capital items.
  - A capital asset subject to GST and PST was purchased at the start of 2009 for $100,000 (plus $8,000 for PST and $5,000 for GST) and depreciated over 10 years on a straight-line basis. A capital asset of $108,000 (inclusive of PST) is recorded and an annual depreciation expense of $10,800 is recorded.
  - To illustrate the overall PST savings, if this asset instead was purchased on or after July 1, 2010, a capital asset of $100,000 (i.e., the PST portion of $8,000 is offset by the incremental ITC of $8,000) would be recorded and annual depreciation of $10,000 would be recorded.
  - In comparing the 2009 and 2010 information discussed above, the total PST savings is $8,000 ($108,000 - $100,000) and on an annual basis, the PST savings is $800 reflected as part of the depreciation expense ($10,800 - $10,000).
  - The manner in which the $8,000 PST savings are recognized in rates in the regulatory process is a function of timing. If the distributor's rates are rebased in 2011, the 2011 rate base would reflect an asset of $90,000 ($100,000 less accumulated depreciation of $10,000 – note that no half-year rule should be applied for purposes of this calculation). In this scenario, ratepayers would derive the PST savings reflected in the capital asset of $90,000, which was reduced by PST savings of $7,200 ($8,000 - $800 PST savings included in the depreciation expense). However, the ratepayer would not receive the $800 PST savings included in the 2010 depreciation unless it is captured in the sub-account.
  - For the purposes of the capital items analysis, the $800 portion of the PST included in the depreciation expense represents the PST savings had the asset purchase occurred on or after July 1, 2010. Accordingly, the $800 portion of the depreciation expense would serve as a proxy for the 2010 PST savings on capital items. If a constant level of capital acquisitions (purchases and self-constructed) is assumed to occur in each of the years preceding the distributor's rebasing, the associated PST savings on capital items would have a year-over-year cumulative effect.
  - For example in 2011, the PST savings related to depreciation expenses on capital items would double to $1,600 (i.e., $800 PST savings included

in the depreciation of $10,000 for capital items of $100,000 in 2010 plus $800 PST savings included in the incremental depreciation expense of $10,000 for capital items of $100,000 added in 2011). For 2012, the PST savings related to the depreciation expenses on capital items would triple to $24,000 (i.e., $1,600 for 2011 PST savings as above plus $800 PST savings included in the incremental depreciation expense of $10,000 for capital items of $100,000 added in 2012).

  - **Table 1** below shows the calculation of the PST savings included in the depreciation expenses of the capital items discussed in the above sub bullet.
  - In summary, the year-over-year cumulative PST savings for capital items would need to be incorporated in each year's PST saving calculation until the distributor rebasing occurs.

- To calculate the amount for recording in the sub-account for the period starting July 1, 2010, sum the PST savings on OM&A expenses and the 2010 PST savings on capital items derived from the above steps. Make a monthly entry for 1/12th of these 2010 PST savings for the period starting July 1, 2010 and ending December 31, 2010.
- To calculate the amount for recording in the sub-account for the period starting January 1, 2011, sum the PST savings on OM&A expenses and the 2011 PST savings on capital items derived in the above steps. Make a monthly entry for 1/12th of these 2011 PST savings for the period starting January 1, 2011 and monthly thereafter until new cost of service rates are implemented for the distributor. If the distributor is not rebasing until 2013, for 2012 the same procedures would apply except that the 2012 PST savings on capital items are included in the calculation as outlined above.
- Note that the monthly entries to the sub-account should continue until the last month before the distributor's new cost of service rates take effect. For example, if the rebasing rates take effect on May 1 of a particular year, the monthly entries would continue in the sub-account until April of the particular year.
- Lastly, for illustrative purposes to summarize the above steps, assume the analysis of 2009 OM&A expenses from the first step above identified a PST saving of $400, which would apply as a proxy for 2010 and beyond. Further, assume that the PST savings related to depreciation expenses regarding the year-over-year cumulative effect on capital items as discussed in the sub-bullet above and shown in Table were $800 for 2010, $1,600 for 2011 and

$2,400 for 2012. **Table 2** below shows a summary of the PST savings that would be recorded in the sub-account for the years prior to 2013 which is the year the distributor is assumed to rebase.

Table 1- PST Savings on Capital Purchases

Impact from Annual Purchases
Purchases made annually until rebasing in 2013 have a total PST savings impact as follows:

Scenario:
Capital assets of $100,000 are purchased in each year (2010 - 2012) before rebasing for 2013
Depreciation is straight line over 10 years (as shown for 2010, 2011 and 2012 below)

Pre-HST Purchases with PST included in Assets

	Asset	Depreciation			
		2010	**2011**	**2012**	**Total**
2010 Purchase $100,000	$ 108,000	$ 10,800	$ 10,800	$ 10,800	$ 32,400
2011 Purchase $100,000	$ 108,000		$ 10,800	$ 10,800	$ 21,600
2012 Purchase $100,000	$ 108,000			$ 10,800	$ 10,800
Total Depreciation Expense (A)		$ 10,800	$ 21,600	$ 32,400	$ 64,800

Post HST Purchase with Input Tax Credit included in Assets

	Asset	2010	2011	2012	Total
2010 Purchase $100,000	$ 100,000	$ 10,000	$ 10,000	$ 10,000	$ 30,000
2011 Purchase $100,000	$ 100,000		$ 10,000	$ 10,000	$ 20,000
2012 Purchase $100,000	$ 100,000			$ 10,000	$ 10,000
Total Depreciation Expense (B)		$ 10,000	$ 20,000	$ 30,000	$ 60,000
Total Capital Items PST Savings (A - B)		**$ 800**	**$ 1,600**	**$ 2,400**	**$ 4,800**

Table 2 - Summary of PST Savings from 2009 Historic Year Analysis

	2010	2011	2012
2009 Historic Year PST Analysis:			
OM&A Expenses PST Savings	$ 400	$ 400	$ 400
Capital Items PST Savings (Table 1)	800	1,600	2,400
Total Annual PST Savings (1)	$ 1,200	$ 2,000	$ 2,800
Monthly PST Savings (2)	$ 100	$ 167	$ 233

(1) Derived PST savings proxy for each year per 2009 historic year analysis
(2) Represents the PST savings for the monthly entry in the sub-account

Note: Assumes level OM&A and Capital Spending year over year

Q.5 The 2010 Decisions and Orders provided the reasons the Board concluded that fifty percent (50%) of the confirmed balances recorded in "Sub-account HST / OVAT Input Tax Credits (ITCs)" shall be returnable to the ratepayers. The reasons include the following: "The Board's view is whether a distributor's cost reductions arising from the implementation of the HST should be returned to the ratepayers. In that regard, the Board notes that to do so would be consistent with what the Board has done with tax changes in second and third generation IRMs. In second generation IRM, the Board treated 100 % of the tax changes as a Z factor. In the third generation IRM, the Board determined that tax changes would be shared equally between ratepayers and the shareholder. The 50% was considered appropriate as the changes in input prices will flow through the GDP-IPI over time to some degree. The same rationale applies in the case of the HST."

Can a distributor record only the 50 percent portion of the HST savings attributable to ratepayers in the sub-account?

A.5 No. The Board would first want to review the quantum of savings associated with the ITCs recorded in the sub-account to confirm, among other things, the reasonableness of the amount and consider any adjustments, as appropriate.

The questions and answers in this section are in relation to new sub-accounts of Account 1595 for the approved disposition of deferral and variance account balances from the 2010 rate setting process:

Q.6 In continuing the series of sub-accounts established under Account 1595 for deferral and variance account balances approved for recovery or refund in a particular year's regulatory process (i.e., as part of a cost of service proceeding, an IRM proceeding or other Board review), please provide the 2010 sub-accounts arising from approvals in 2010.

A.6 Consistent with the approach used in prior years under Account 1595, Disposition and Recovery of Regulatory Balances Control Account, three "2010" sub-accounts of Account 1595 (outlined below) should be used to record the deferral and variance account balances approved for disposition in 2010. These sub-accounts come into effect at the effective date of the rate rider associated with the recovery/refund in relation to the approved disposition of deferral and variance account balances.

"Sub-account Principal Balances Approved for Disposition in 2010" should be used to record the principal balances of approved accounts and the amounts recovered or refunded in rates through regulatory asset or deferral and variance account rate rider(s).

"Sub-account Carrying Charges Approved for Disposition in 2010" should be used to record the carrying charge of approved accounts. No additional carrying charges will be applied or added to these carrying charge balances (i.e., no interest on interest is applicable).

"Sub-account Carrying Charges on 2010 Net Principal Account Balances" should be used to record the carrying charges calculated on the opening monthly net principal balance (i.e., transferred account principal balances net of

recoveries / refunds) recorded in "Sub-account Principal Balances Approved for Disposition in 2010." The offsetting credit interest amount is recorded in Account 4405, Interest and Dividend Income, and debit interest amount is recorded in Account 6035, Other Interest Expense.

Q.7 Are the accounting procedures the same as in previous years for the "2010" sub-accounts of Account 1595?

A.7 Yes. The accounting procedures for the deferral and variance account balances approved for disposition in 2010 are the same as provided in the October 2009 "Frequently Asked Questions" posted on the Board's website (see Q & A #5 and Q & A #6 for details).

The questions and answers in this section are in relation to the accounting treatment for Smart Meter Capital and/or Smart Meter OM&A variance Accounts 1555 and 1556:

Q.8 What cost items are specifically included in the Smart Meter Capital and/or Smart Meter OM&A variance accounts?

A.8 The Board's August 7, 2007 Decision in the combined proceeding regarding smart meters (EB-2007-0063) (the "Combined Smart Meter Proceeding") included, at Appendix A, 14 categories of capital costs as well as a list of certain OM&A expenses identified by the Board as eligible costs ("Recovery of Costs Incurred for Installed Units (Minimum Functionality): Cost Breakdown of Functional Specification for an Advanced Metering Infrastructure"). These costs are listed below.

A distributor may record these capital costs in Account 1555 and these OM&A expenses in Account 1556. All amounts recorded are subject to Board review and approval. These recorded costs should be directly related to the smart meter program. Costs incurred in conjunction with non-smart meter programs should not be allocated to or recorded in these accounts.

The costs identified in Appendix A to the Board's August 7, 2007 Decision are as follows:

Capital Costs:

Advance Metering Communication Device (AMCD)
1. Smart Meter
2. Installation Cost
3. Workforce Automation
Advanced Metering Regional Collector (AMRC) (includes LAN)
4. Collectors
5. Repeaters
6. Installation
Advanced Metering Control Computer (AMCC)
7. Computer Hardware
8. Computer Software
9. Computer Software Licence & Installation
Wide Area Network (WAN)
10. Activation Fees
Other AMI Capital Costs related to Minimum Functionality
11. AMI Interface to CIS
12. Professional Fees
13. Integration
14. Program Management

OM&A Costs (include the following):

AMCD Maintenance
AMRC/LAN Maintenance
AMCC Hardware and Software Maintenance
WAN
Other (Business Process Redesign/Customer Communication/Program Management/Change Management)

Q.9 What costs, if any, that impact or are related to Meter Data Management/Meter Data Repository ("MDM/R") integration would qualify as smart meter expenditure? If these costs do not qualify under smart meter parameters, where should these costs be recorded?

A.9 The Board indicated in its Decision in the Combined Smart Meter Proceeding that certain costs that were considered "beyond" minimum functionality in relation to smart metering system costs can be recovered as part of future distribution rates. These costs may include web presentment, Customer Information System integration with the Meter Data Management/Meter Data Repository (MDM/R), consumer education, reengineering business practice and integration with retailers.

A distributor should track and record costs associated with connection to the MDM/R in a separate sub-account of Account 1555 and a separate sub-account of Account 1556 for capital expenditures and OM&A expenses, respectively. In addition, separate sub-accounts of Accounts 1555 and 1556 should be used to record the other "beyond" minimum functionality costs indicated above. All amounts recorded in these sub-accounts of Accounts 1555 and 1556 are subject to Board review and approval.

Q.10 The Board's "Guideline: Smart Meter Funding and Cost Recovery" (G-2008-0002) (the "Guideline") issued on October 22, 2008, indicated among other things, that distributors should use their normal capitalization policy (which would include burden) for smart meters. How is this procedure applied given the requirement to only allocate incremental costs to smart metering accounts?

A.10 Distributors may use internal or external resources or a combination for the installation of smart meters. A related issue is the burdens that distributors may apply to the procurement of goods and services from third parties, including management overheads and inventory costs in relation to smart meters. In these circumstances, the distributor's standard capitalization policy should apply. In the case where the installations are carried out with internal labour that is non-incremental (i.e., the costs which are included in the distributor's revenue requirement), these costs should not be recorded in either Account 1555 or Account 1556.

Q.11 Can a distributor include borrowing costs relating to money borrowed to finance smart meter installations as part of the Smart Meter Capital Account 1555?

A.11 Borrowing costs related to the financing of smart meter installations should not be recorded in the smart meter Accounts 1555 or 1556. At the time the account balances are reviewed for disposition in a rate proceeding, the approved capital assets including smart meters recorded in Account 1555 are eligible to receive a return (cost of capital), which is calculated to establish a revenue requirement amount for recovery.

The August 2008 “Frequently Asked Questions” posted on the Board’s website (Q & A #8) provided a detailed illustrative example of the revenue requirement calculation methodology applied to the installed in-service smart meters recorded in Account 1555.

Q.12 Are all costs for meter-based repairs eligible for recovery, or is only the labour portion of the repair cost eligible for recovery?

A.12 In accordance with the Board’s Decision in the Combined Smart Meter Proceeding, all incremental labour and associated costs incurred for meter-based repairs, with the exception of material and parts costs for customer owned equipment, should be tracked in a sub-account of Account 1555, Smart Meter Capital and Recovery Offset Variance. The actual material costs to repair or replace any customer owned equipment shall be expensed and tracked separately in a different sub-account of Account 1556, Smart Meter OM&A Variance Account. As the meter base will remain the property of the customer, it would not be appropriate to have it form part of the distributor’s rate base.

The Decision also indicated that the disposition of the account balances would be accompanied by a prudence review of the nature of the expenses as well as the manner in which the costs were incurred. Consequently, a distributor must be able to explain the incurrence of these additional costs (e.g., supported by details in work orders) and the prudence of the incurred costs.

Q.13 What is the estimated useful life of smart meters that distributors should use to calculate depreciation expense?

A.13 The useful life of smart meters used for regulatory purposes in the rate setting process is 15 years. For regulatory accounting purposes, 15 years useful life on a straight-line basis is used to calculate and record depreciation of in-service smart meters recorded in Account 1555, and for the smart meters recorded in Account 1860, Meters, which were transferred from Account 1555 on disposition of the account balance. This applies until such time as the distributor presents an independent depreciation study and the Board accepts a different useful life as more appropriate.

Q.14 When should a distributor start depreciating the smart meters, that is, what percent of installations completed, or other triggers?

A.14 Depreciation expense starts when the smart meters are installed and in service (i.e., when they are in the condition and location of intended use and are providing service). The depreciation expense is recorded in the sub-account of Account 1556 and accumulated amortization is recorded in the sub-account of Account 1555. Depreciation is recorded regardless of whether the installed smart meters are being used to bill the consumer on a time-of-use pricing basis.

Q.15 Regarding the treatment of stranded meter costs, should these costs be recorded in the "Sub-account Stranded Meter Costs" of Account 1555 or be kept as part of rate base in fixed assets (i.e., Account 1860, Meters).

A.15 The Board's "Guideline"(G2008-0002) sets out, among other things, information on the accounting treatment for stranded meter costs. Appendix B to the Guideline is a copy of the Board's letter of January 16, 2007, in which distributors authorized to conduct smart metering activities were directed to record stranded meter costs in "Sub-account Stranded Meter Costs" of Account 1555. The Guideline also refers to the Board's Decision in the Combined Smart Meter Proceeding regarding 13 distributors that were authorized at the time to conduct smart metering activities where the Board agreed that the stranded meter costs for these distributors should remain in rate base.

With respect to the use of either "Sub-account Stranded Meter Costs" or Account 1860, Meters, no further Board guidance on stranded meter costs has been issued since the Guideline. However, the 2011 cost of service rate-setting process may address the manner in which distributors plan to recover costs associated with stranded meters. The costs to be considered for recovery are reviewed in the context of stranded meter costs that are recorded in either "Sub-account Stranded Meter Costs" of Account 1555 or in rate base under fixed assets (i.e., Account 1860, Meters). Regardless of the Account under which these stranded meter costs are recorded, only the net book value of the stranded meters will be allowed for recovery. Accordingly, the stranded meter costs for recovery purposes will comprise the gross costs of the stranded meters, less any capital contributions, less the accumulated depreciation and less any proceeds from the disposition of the meters. The distributor's accounting treatment would need to reflect these in the account it has used (sub-account of Account 1555 or Account 1860).

The January 16, 2007 letter indicated that the distributor must have owned stranded meters prior to January 1, 2006 in order to record stranded meter costs in Sub-account Stranded Meter Costs of Account 1555. On July 26, 2007, the government made a regulation (Ontario Regulation 441/07) that amended Ontario Regulation 426/06 (Smart Meters: Cost Recovery) by adding a new section that addresses the recovery of stranded costs associated with the smart metering initiative. Specifically, the section states as follows: "Subject to Board order, …distributors may recover the costs associated with <u>meters owned before, on or after January 1, 2006</u> being replaced because of the smart metering initiative if, (a) the meter being replaced was not acquired in contravention of section 53.18 of the *Electricity Act, 1998*; and (b) the meter is replaced with a smart meter authorized for installation under the *Electricity Act, 1998*." Accordingly, provided that the foregoing conditions are met, stranded costs associated with meters being replaced because of the smart metering initiative should be recorded in Sub-account Stranded Meter Costs of Account 1555 regardless of when the meter was owned by the distributor.

The questions and answers in this section are in relation to matters that, for convenience, are classed as relating generally to the implementation of the *Green Energy and Green Economy Act, 2009* ("GEA"):

Q.16 Can you please provide the Capital, OM&A and Rate Adder Deferral Accounts and their account descriptions in relation to Renewable Generation Connection and Smart Grid Development?

A.16 In its June 16, 2009 "Guidelines: Deemed Conditions of Licence: Distribution System Planning" (G-2009-0087), the Board created four new deferral accounts in the Uniform System of Accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation or the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or OM&A expenses. In this context, incremental means that an investment was not included in previous capital plans approved by the Board or is not funded through current rates.

In its March 25, 2010 "Filing Requirements: Distribution System Plans - Filing under Deemed Conditions of Licence" (EB-2009-0397), the Board created two additional deferral accounts for the recording of amounts collected from ratepayers through any funding adder the Board may approve relating to the connection of renewable generation or the development of a smart grid.

With respect to the smart grid accounts, the Board indicated in both the June, 2009 Guidelines and the March, 2010 Filing Requirements that the legislative and regulatory framework regarding the development and establishment of the smart grid was still under development. Most importantly, the objectives, interoperability requirements and technology standards for the smart grid were being developed. For that reason, the Board limited amounts that can be recorded in the "Smart Grid Capital Deferral Account" and the "Smart Grid OM&A Deferral Account" to expenditures associated with the following activities:

- smart grid demonstration projects;
- smart grid studies and planning exercises; and
- smart grid education and training.

The Board also indicated that expenditures for smart meter-related investments

and activities, including advanced metering infrastructure, are adequately addressed through other mechanisms and may not be recorded in these GEA deferral accounts.

The six accounts and their descriptions are provided below.

Account 1531: Renewable Generation Connection Capital Deferral Account
Investments associated with expansions to connect renewable generation facilities and renewable enabling improvements, both as defined in the Distribution System Code ("DSC"), should be recorded in this capital deferral Account. In addition, the capital cost of changes to a distributor's Customer Information System to enable the automated settlement of FIT or microFIT contracts may be included in this Account.

The distributor's normal capitalization policies from its last cost of service proceeding should be followed in identifying fixed asset expenditures.

Account 1532: Renewable Generation Connection OM&A Deferral Account
Incremental operating, maintenance, amortization and administrative expenses directly related to expansions to connect renewable generation facilities, and renewable enabling improvements, both as defined in the DSC, should be recorded in this operating deferral Account. In addition, costs that can be recorded in this Account include expenses associated with preparing a "GEA Plan" and expenses associated with changes to a distributor's Customer Information System to enable the automated settlement of FIT or microFIT contracts.

Distributors should not record in this Account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1531.

Account 1533: Renewable Generation Connection Funding Adder Deferral Account
This Account will record the revenues collected through a funding adder approved by the Board related to renewable generation connection projects. Separate sub-accounts should be used to record any amounts collected from a distributor's ratepayers and any amounts received from the IESO (pursuant to the provincial pooling mechanism set out in section 79.1 of the *Ontario Energy*

Board Act, 1998) in respect of the projects.

Account 1534: Smart Grid Capital Deferral Account
Investments related to smart grid demonstration projects should be recorded in this capital deferral Account. This Account should also be used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation.

The distributor's normal capitalization policies from its last cost of service proceeding should be followed in identifying fixed asset expenditures.

Account 1535: Smart Grid OM&A Deferral Account
Operating, maintenance, amortization and administrative expenses directly related to the following smart grid development activities should be recorded in this operating deferral Account:

- smart grid demonstration projects;
- smart grid studies and planning exercises; and
- smart grid education and training.

This includes expenses associated with preparing the smart grid portion of a "GEA Plan". Distributors should not record in this Account any allocation of general expenses that are not specifically related to the investments that can be recorded in Account 1534. An investment in a renewable enabling improvement, as defined in the DSC, may incorporate what the distributor believes to be smart grid technologies. In such cases, distributors should allocate any costs associated with the incorporation of smart grid technologies to the smart grid deferral Accounts, with the balance of the costs going to the renewable generation connection deferral Accounts.

Account 1536: Smart Grid Funding Adder Deferral Account
This Account will record the revenue collected through a funding adder approved by the Board related to smart grid development.

Q.17 With respect to the account descriptions of Accounts 1531 and 1532, they state that costs to be recorded in the Accounts must be related to "expansions to connect renewable generation facilities and renewable enabling improvements, both as defined in the DSC." In the case of Account 1535, it also refers to "renewable enabling improvements, as defined under the DSC". Can you please provide the references in the DSC?

A.17 The account descriptions of Accounts 1531, 1532 and 1535 should be read in conjunction with the relevant sections of the DSC to ascertain the nature of the costs that can be recorded in these Accounts. Section 1.2 of the DSC defines the term "expansion", which must be read together with section 3.2.30, and also defines the term "renewable enabling improvement", which must be read together with section 3.3.2:

"expansion" means a modification or addition to the main distribution system in response to one or more requests for one or more additional customer connections that otherwise could not be made, for example, by increasing the length of the main distribution system, and includes the modifications or additions to the main distribution system identified in section 3.2.30 but in respect of a renewable energy generation facility excludes a renewable enabling improvement;

"renewable enabling improvement" means a modification or addition to the main distribution system identified in section 3.3.2 that is made to enable the main distribution system to accommodate generation from renewable energy generation facilities;

3.2.30 An expansion of the main distribution system includes:

(a) building a new line to serve the connecting customer;
(b) rebuilding a single-phase line to three-phase to serve the connecting customer;
(c) rebuilding an existing line with a larger size conductor to serve the connecting customer;
(d) rebuilding or overbuilding an existing line to provide an additional circuit to serve the connecting customer;
(e) converting a lower voltage line to operate at higher voltage;

(f) replacing a transformer to a larger MVA size;
(g) upgrading a voltage regulating transformer or station to a larger MVA size; and
(h) adding or upgrading capacitor banks to accommodate the connection of the connecting customer.

3.3.2 Renewable enabling improvements to the main distribution system to accommodate the connection of renewable energy generation facilities are limited to the following:

(a) modifications to, or the addition of, electrical protection equipment;
(b) modifications to, or the addition of, voltage regulating transformer controls or station controls;
(c) the provision of protection against islanding (transfer trip or equivalent);
(d) bidirectional reclosers;
(e) tap-changer controls or relays;
(f) replacing breaker protection relays;
(g) Supervisory Control and Data Acquisition system design, construction and connection;
(h) any other modifications or additions to allow for and accommodate 2-way electrical flows or reverse flows; and
(i) communication systems to facilitate the connection of renewable energy generation facilities.

Q.18 In order to properly account for the microFIT program, which specific accounts in the Uniform System of Accounts are to be used? That is, which revenue account should be used to record the revenue and which expense account(s) should be used to record expenses?

A.18 On February 23, 2010, the Board issued a Decision and Order establishing a service classification for microFIT Generation accounts (generation projects contracted under the microFIT program, being those of 10 kilowatts (kW) or less) (EB-2009-0326). On March 17, 2010, the Board issued a Rate Order establishing a province-wide fixed monthly charge of $5.25 for the microFIT generator rate class. The Board considered the following cost elements in deriving this charge, including specific accounts in some cases, in deriving this charge:

1. Customer Premises - Operation Labour (Account 5070);
2. Customer Premises - Materials and Expenses (Account 5075);
3. Meter Expenses (Account 5065);
4. Maintenance of Meters (Account 5175);
5. Meter Reading Expense (Account 5310);
6. Customer Billing (Account 5315);
7. Amortization Expense – General Plant assigned to Meters;
8. Administration and General expenses allocated to Operating and Maintenance expenses for meters; and
9. Allocated PILS (only general plant assigned to meters).

The Board's Decision and Order stated that a single, province-wide rate for all distributors should be established at this time. However, the Board noted that it sees merit in establishing a foundation on which actual costs can be determined. Furthermore, the Board noted if it is determined that the actual costs for these customers are significantly disparate across distributors then the Board may consider moving to utility specific rates at some point in the future.

To assist the Board's consideration of moving to utility specific rates in the future, the distributor should be in a position to provide the cost elements for this service classification at a more granular level. Since the cost elements, including specific accounts in some cases, formed the basis upon which the new charge was determined, a distributor should establish separate sub-accounts of the Accounts to record the expenses listed in items 1 to 6 in relation to the activities and costs associated with the provision of this service. In addition, the distributor should track the appropriate expenses related to items 7, 8 and 9. To the extent that the distributor incurs costs outside of these nine cost elements, additional sub-accounts should be established as appropriate in the circumstances.

On the revenue side, a separate sub-account of Account 4235, Miscellaneous Service Revenues, should be used to record the revenues associated with the fixed monthly charge of $5.25 for the microFIT generator rate class.

The questions and answers in this section are in relation to various other items and accounts:

Q.19 The Board issued a letter dated April 23, 2010 regarding a variance account for the "Special Purpose Charge" ("SPC") Assessment under section 26.1 of the *Ontario Energy Board Act, 1998* for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs.

Please provide an example of a journal entry to record the difference between the amount remitted to the Minister of Finance for the SPC assessment and the amount that is recovered from customers. The difference should be recorded in the sub-account 1521 "2010 SPC Assessment Variance", but what is the offsetting entry?

A.19 As indicated in the Board's letter of April 23, 2010, the Board has authorized Account 1521, Special Purpose Charge Assessment Variance Account. Any difference between the amount remitted to the Minister of Finance for a distributor's SPC assessment and the amount that the distributor recovers from customers must be recorded in "Sub-account 2010 SPC Assessment Variance" of Account 1521.

For the SPC, the accounting treatment requires that the net difference between the assessment expense recorded in Account 5681 and the recovered assessment amounts recorded in Account 4324 be recorded in Account 1521 under the sub-account indicated above.

For example, if the charge/expense and the recovery/income were $9,000 and $6,000, respectively, as of December 31, 2010, the journal entry would be a debit of $3,000 to variance Account 1521 (sub-account) and a credit of $3,000 goes to the expense Account 5681 (the offsetting entry). The accounting effects of this treatment in the income statement would result in net income of zero ($6,000 - $6,000). Account 1521 would reflect the variance of $3,000 (debit) in the balance sheet.

These accounting mechanics mirror the accounting for the RSVAs, in that the variances recorded in the RSVAs are based on net of the expense and income account balances. Specifically, the monthly journal entries to the RSVAs are

offset by reductions to "the higher of the revenue or expense account" to which the RSVAs are related. Reversal entries occur before the end of the next month to which the monthly entries relate.

Q.20 The IESO invoice shows a new charge type 1463, Renewable Generation Connection charged to a distributor. Can you please indicate to which account this charge is posted and the purpose of the charge?

A.20 A distributor should record the IESO invoice amounts for new charge type 1463 "Renewable Generation Connection – Monthly Compensation Settlement Debit" in Account 4708, Charges-WMS.

On July 22, 2010, in relation to this charge type, the Board issued a letter to all electricity distributors regarding the Renewable Generation Connection Rate Protection ("RGCRP"). The purpose of the IESO charge is to allow distributors to recover from consumers throughout the Province the costs associated with "eligible investments" made for the purpose of connecting or enabling the connection of a qualifying generation facility to a distribution system. The IESO charge relates to the provincial pooling mechanism set out in section 79.1 of the *Ontario Energy Board Act, 1998* and to Ontario Regulation 330/09 made for the purposes of that section.

The Board's letter acknowledged that distributors will be passing on the charge to their electricity distribution customers through the Wholesale Market Service Charge ("WMSC"), currently approved by the Board at $0.0052 per kWh. The letter also stated the Board's view that, at its current level, the RGCRP will have a minimal impact on balances in the WMSC variance Account 1580 and that the Board was therefore not adjusting the WMSC.

Q.21 When a distributor makes payments to a social agency for Low-Income Energy Assistance Program (LEAP) emergency financial assistance funding, what account should be used to record the expense?

A.21 For accounting purposes, a distributor's payments made for LEAP emergency financial assistance funding to social agencies are not supported through the normal receipt of invoices for goods or services. The Board's Filing

Requirements for Electricity Transmission and Distribution Applications (Chapter 2, Page 18) indicate that the recovery of charitable donations will not be allowed for the purposes of setting rates "except for contributions to programs that provide assistance to the distributor's customers in paying their electricity bills and assistance to low income consumers". In this context, the classification of the LEAP payments as charitable donations is consistent with Board policy.

Consequently, for regulatory purposes these payments for LEAP funding should be treated as "donations" and recorded in Account 6205, Donations, "Sub-account LEAP Funding".

The Board has indicated, in its March 2009 Report of the Board: Low-Income Energy Assistance Program, that all utility ratepayers would fund LEAP emergency financial assistance through the distribution rates of each utility. In addition, the Board letter of October 20, 2010 (on page 3) regarding LEAP Emergency Financial Assistance, specified the rate recovery process for Emergency Financial Assistance. Accordingly, the LEAP payments recorded in the "Sub-account LEAP Funding", could be included for recovery in the distributor's revenue requirement depending on the Board's established rate-setting requirements as outlined the Board's letter of October 20,2010.

Q.22 Please provide the account for the Board-Approved CDM variance account established in the CDM Code.

A.22 The account is Account 1567, Board-Approved CDM Variance Account. A distributor should track its spending for its Board-Approved CDM Programs in this variance account, which should be used to record the difference between the funding awarded for Board-Approved CDM Programs and the actual spending incurred for these Programs.

Carrying changes calculated using the prescribed accounting interest rates shall apply to the opening monthly balances in the Account and be recorded in a separate sub-account of Account 1567.

The disposition of the balance in this Account shall be made at the time specified by the Board and in the manner specified by the Board.