Ontario Energy Board
Accounting Procedures Handbook
Frequently Asked Questions
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The questions and answers in this section address the Board's approval of regulatory accounting changes in relation to Canadian GAAP in 2012 (or 2013 if applicable) and Board approval of new accounts for CGAAP accounting changes, account balance dispositions in Account 1595 and LRAM:

Q.1 What is the Board's regulatory accounting policy direction to distributors deferring the adoption of IFRS in 2012 and requesting accounting changes to depreciation expense and capitalization policies while reporting under CGAAP in 2012?

A.1 The Board has addressed the issue of CGAAP accounting changes in its letter of July 17, 2012 to distributors. The letter indicates that the Board encourages and will permit distributors that have deferred the changeover to IFRS in 2012 to implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012. In addition, the Board will require that these changes be mandatory in 2013 (i.e., effective on January 1, 2013) for those distributors that do not elect to make these accounting changes in 2012 regardless of whether the Canadian Accounting Standards Board permits a further deferral beyond 2012 for the changeover to IFRS. These accounting changes should be implemented consistent with the Board's regulatory accounting policies as set out for modified IFRS as contained in the *Report of the Board*, *Transition to International Financial Reporting Standards (EB-2008-0408),* the *Depreciation Study for Use by Electricity Distributors (EB-2010-0178)* and the Revised 2012 *Accounting Procedures Handbook for Electricity Distributors*.

The Board will not require a distributor to seek Board approval in order to make these accounting changes that otherwise would have been required as specified in the "CGAAP-based" APH (dated July 2007), which is still applicable and in force for a distributor under CGAAP (see related Q and A #19 below). These accounting changes for adherence to Board requirements for modified IFRS and their associated rate impacts will be reviewed as part of the distributor's next cost of service application.

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Q.2 What account should be used to record the required accounting changes in relation to depreciation expense and capitalization policies in 2012 or 2013, and what are the accounting requirements?

A.2 The Board's letter of July 17, 2012 to distributors also indicated that the Board has approved new Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make accounting changes under Canadian GAAP in 2012 or to make these accounting changes in 2013 as mandated by the Board (see Q and A #1 above). The account description for Account 1576 is provided in Appendix A of the APH-FAQs.

The accounting treatment for Account 1576 is illustrated through an example that cites a scenario showing the accounting changes for depreciation and capitalization in 2012 (based on assumptions), the calculation of the financial differences (or variances) and the accounting journal entries to record the variances. The illustrative example is provided in Appendix B of the APH-FAQs.

The accounting requirements and treatment are as follows:

- Distributors will use Account 1576 to record the financial differences arising as a result of changes to accounting depreciation or capitalization policies permitted by the Board under Canadian GAAP in 2012 or as mandated by the Board in 2013.
- A journal entry to record the variance (i.e., the financial differences) arising from these accounting changes is required at the end of the fiscal year for each year starting with the year of the changes until the year prior to when a distributor rebases its rates through a cost of service application. A distributor may elect to use monthly journal entries.
- The offsetting entry will be recorded in Account 4305, Regulatory Debit or Account 4310, Regulatory Credit.
- No interest carrying charges or a rate of return is permitted in this account.
- The amount of the cumulative variance recorded in this account would be recovered from, or refunded to, ratepayers in the year of the distributor's cost of service application through an adjustment to depreciation expense over the approved amortization period.
- The reporting of the account balance will be annually under section 2.1.7 of the electricity reporting and record-keeping requirements.

For distributors reporting under CGAAP, since rate-regulated accounting is recognized in CGAAP, these accounting changes are expected to be reflected in their CGAAP-based financial statements.

Q.3 Will the OEB continue to annually issue new sub-accounts of Account 1595 for deferral and variance account balances that are approved for disposition?

A.3 No. Electricity distributors are required to annually open new sub-accounts of Account 1595, Disposition and Recovery/Refund of Regulatory Balances. New accounting procedures for Account 1595 are provided in the revised 2012 APH in Article 220. The account description of (control) Account 1595 specifies that for each year the deferral or variance account balances are approved for disposition by the Board, distributors are required to set-up under the control account three sub-accounts using the format of a vintage year classification of the year in which the balances are approved for disposition and recovery from or refund to customers.

The three sub-accounts are as follows:

1. Sub-account Principal Balances Approved in “20yy”
2. Sub-account Carrying Charges Approved in “20yy”
3. Sub-account Carrying Charges for Net Principal in “20yy”

For example, if the approval of the account balances resulted in disposition through a rate rider effective on May 1, 2012, the vintage year classification represents the year the balances were approved which in this case would be “…2012” added to the suffix of the three sub-accounts. Note that the nature of the amounts recorded in the three sub-accounts remains unchanged from previously issued guidance in the October 2009 APH-FAQs and as updated in the revised 2012 APH.

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Q.4 The revised *Accounting Procedures Handbook* did not include an account description for new Account 1568, LRAM Variance Account. Can you please provide the account description?

A.4 The account description of LRAM Variance Account was approved after the issuance of the revised APH. This variance account was created in relation to the CDM programs under the OPA-Contracted Province-Wide CDM Programs or Board-Approved CDM Programs in the 4-year period that started on January 1, 2011 and ends on December 31, 2014.

The *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003) (the "CDM Guidelines") issued on April 26, 2012, included the approved account description for Account 1568, LRAM Variance Account, as follows:

A. This account shall include the lost revenue adjustment mechanism (LRAM) variances in relation to the conservation and demand management (CDM) programs or activities undertaken by a distributor in accordance with Board-prescribed requirements (e.g. licence, codes and guidelines). The LRAM variance recorded in this account, at the customer rate-class level, is the difference between:

   i. The results of the actual verified impacts of authorized CDM activities undertaken by the electricity distributor for Board-Approved CDM programs and/or OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor's franchise area)

   AND

   ii. The level of CDM programs activities included in the distributor's load forecast (i.e. the level embedded into rates).

B. The variance recorded is the calculated result of the lost revenues by customer class based on the volumetric impact of the load reductions arising from the CDM measures implemented, multiplied by the distributor's Board-approved variable distribution charges applicable to the customer rate class

in which the volumetric variance occurred. The variances should be recorded in separate sub-accounts for the applicable customer rate classes.

C. Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account or sub-accounts (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

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

The offsetting entry to Account 1568 is recorded in Account 4080, Distribution Services Revenue. The calculated variance amount attributable to each customer rate class is recorded in a separate sub-account of Account 1568 and the offsetting entry to Account 4080 also is recorded in a customer rate class sub-account corresponding to Account 1568.

Note that the balance in Account 1568 will be cleared in accordance with the account disposition requirements outlined in the CDM Guidelines.

Q.5 What are the reporting requirements for Account 1568, LRAM Variance Account, and are distributors required to update their reported balances?

A.5 The *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003) (the "CDM Guidelines") issued on April 26, 2012, specifies on page 12 that electricity distributors are expected to report the balance in the LRAM Variance Account 1568 as part of the reporting and record-keeping requirements ("RRR") on an annual basis. Accordingly, this account balance should be reported in the annual trial balance under the electricity RRR 2.1.7 which is due on or before April 30 of the year following the reporting period. There will be no quarterly reporting of the account balance under RRR 2.1.1.

In addition, the Board recognizes that more accurate information will be made available when the final annual evaluation results for all CDM programs are reported later on or before September 30 of the year following the reporting period. To ensure accurate and up-to-date balances for Account 1568 are

reported to the Board, distributors are required to update their LRAM variance account balances based on results of the reported information in the annual evaluation for all CDM programs. A distributor should make this adjustment to the account balance in the e-Filing system on or before September 30 of the year following the reporting period.

For example, if the reporting period is fiscal year 2012, the Account 1568 balance would be reported on or before April 30, 2013 and then the balance would be updated, if necessary, on or before September 30, 2013 (i.e., in the same timeframe a distributor submits its annual evaluation results to the Board).

Questions and Answers in this section relate to the accounting treatment guidance on a variety of issues arising from the regulatory process, such as the issuance of Board decisions and orders and guidelines:

Q.6 Can you please provide an example for the accounting treatment on the approved disposition of Account 1562 balance for a distributor using Alternative #3 (also known as Method #3)?

A.6 The accounting treatment for the approved disposition of Account 1562 balance using Alternative #3 is illustrated below through an example that cites a scenario based on simplified assumptions. It shows the journal entries to record the clearance of the approved balance in Account 1562 and the recoveries that draw down the balance in Account 1563. The monthly journal entries continue each month until the rate rider ceases in April 2013. At the end of the recovery period, any residual balance in Account 1563 should be nullified through an adjusting entry to Account 1563 and an offsetting entry recorded in Account 1595. In effect, the residual (over/under collection) amount is recorded in Account 1595, which should be brought forward for Board review in a rate application.

The following are the assumptions used in the example and the ensuing journal entries:

1. Account 1562 has a debit balance of $120,000 (inclusive of carrying charges) as at December 31, 2006 and thus the balance is due for recovered from the distributor's customers.
2. Since the distributor used Alternative #3, all offsetting entries to Account

1562 are recorded in Account 1563.

3. The Board approved the disposition of the account balance of $120,000 in the distributor's 2012 cost of service rate application (no further carrying charges were added to simplify). The Board directed that the approved balance should be transferred to the applicable "2012" principal and interest carrying charge sub-accounts of Account 1595.
4. A rate rider in the distributor's rate order was approved for recovery over 12 months effective on May 1, 2012. The rate rider includes the disposition of other deferral and variance account (DVA) balances representing a total of $480,000. Assume further that the DVA rate rider represents 25% of the total volumetric amounts billed to customers attributable to the PILs account recovery and thus represent 25% share of the rate rider (i.e. $120,000 / $480,000).
5. In the distributor's billings to customers, the amount billed and collected for the DVA rate rider in May 2012 was $38,000 and in June 2012 was $44,000. Based on the DVA rate rider 25% share attributable to the PILs Account recovery, $9,500 and $11,000 were allocated to the recovery for May and June, respectively.

DATE	A/C No.	PARTICULARS	DEBIT	CREDIT
2012				
May 1	1595	Disposition and Recovery/Refund of Regulatory Balances, Sub-accounts 2012	120,000	
	1562	Deferred Payments In Lieu of Taxes		120,000
		To record the approved disposition of Account 1562 balance		
May 31	1100	Customer Accounts Receivable	38,000	
	4080	Distribution Services Revenue		38,000
		To record the monthly billing of rate rider which includes portion related to Account 1562		
May 31	1563	Contra Asset - Deferred Payments In Lieu of Taxes	9,500	
	1595	Disposition and Recovery/Refund of Regulatory Balances, Sub-accounts 2012		9,500
		To record the recovery of the amounts		

DATE	A/C No.	PARTICULARS	DEBIT	CREDIT
		attributable to the portion related to Account 1562		
Jun 30	1100 4080	Customer Accounts Receivable Distribution Services Revenue *To record the monthly billing of rate rider which includes portion related to Account 1562*	44,000	 44,000
Jun 30	1563 1595	Contra Asset - Deferred Payments In Lieu of Taxes Disposition and Recovery/Refund of Regulatory Balances, Sub-accounts 2012 *To record the recovery of the amounts attributable to the portion related to Account 1562*	11,000	 11,000

Q.7 Can you please provide the purpose of and what costs should be recorded in new Account 1609, Capital Contributions Paid?

A.7 A distributor may in some cases incur expenditures for amounts paid to other distributors or transmitters for capital projects (i.e. for upgrades or expansion projects) under contractual agreements (e.g., a Connection and Cost Recovery Agreement). Distributors incurring such costs that meet the IAS 38 *Intangible Assets* requirements for classification as an intangible asset should record these amounts in Account 1609, Intangible Assets – Capital Contributions Paid.

These amounts are typically included in rate base through a cost of service rate application or other approved mechanism where the evidence provided by distributor supports such accounting treatment as intangible assets and inclusion in rate base and the Board approves their inclusion.

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Q.8 Can you please provide the accounting treatment for the late payment penalty (LPP) amounts due to the court settlement that were approved for recovery by the Board?

A.8 In the court case, the Ontario Superior Court of Justice approved the settlement of the class action against the affected distributors regarding the LPP which required the distributors to pay a total of $17 million for damages, the costs of which were allowed to be claimed for recovery in rates. The Board's generic Decision and Order (EB-2010-0295) of February 22, 2011 stated that the Board "…found that it is appropriate for the Affected Electricity Distributors to be eligible to recover the costs and damages associated with the LPP class action in rates..."

Due to the nature of the LPP costs, the affected distributor should use Account 6215, Penalties, to record its allocated share of the LPP costs. The revenues derived from the associated rate rider for the recovery of the approved LPP costs should be recorded in Account 4080, Distribution Services Revenue. Note that the Board's generic Decision and Order did not approve a variance account for the affected distributors to record any differences between the LPP cost and related revenue recovered in rates through the rate rider.

Q.9 Can you please provide guidance on the accounting treatment for the recording of standby power charges?

A.9 The standby charge is generally charged by a distributor to high consumption customers or connections (e.g., GS > 50 kW or Large User) that have their own or another source of generation (i.e., load displacement generation) but need to rely on the distributor to provide a back-up supply of electricity if they have a forced or planned outage. The standby charge is designed to allow the distributor to recover the costs for being in a standby state of readiness to supply electricity instantaneously on demand. For example, the charge in a rate order may be shown as follows:

- Standby Charge – for a month where standby power is not provided. The charge is applied to the contracted amount (e.g. nameplate rating of generation facility) - General Service Large Use customer $/kW 2.6620

The standby charge is a "component" of the distribution charge applicable to a customer that is already classified to a particular customer class. Accordingly, these charges should be recorded in the specific customer class sub-account of Account 4080, Distribution Services Revenue, consistent with the customer class classification in which the customer is classified (for example, GS > 50 kW or Large User, as outlined in account description of Account 4080 in Article 220 or the distributor's rate order).

Q.10 What is the accounting treatment of stranded conventional meters approved for recovery (e.g., Rate Rider for Recovery of Stranded Meter Assets)?

A.10 Sub-account Stranded Meter Costs of Account 1555 should be used for purposes of both the disposition and the recovery of stranded meter costs (i.e., the disposition of approved costs should not be transferred to the sub-accounts of Account 1595). If the stranded meter costs on approval are recorded in Account 1860, the distributor should transfer these amounts to this sub-account. The recovery of approved stranded meter costs is authorized through a separate rate ride. The associated recoveries collected from the rate rider should be recorded in this sub-account to draw down the balance in the sub-account (i.e., the recoveries should not be recorded in Account 1595).

No interest carrying charges should apply to the balances recorded in the sub-account prior to the effective date of the rate order approving the stranded meter disposition and recoveries in rates. However, interest carrying charges should apply to this sub-account effective on the date of the rate order. The carrying charges should be calculated on the monthly opening net principal balance in the sub-account using the Board's prescribed interest rates and should be recorded in a separate sub-account of Account 1555 (i.e., "Sub-account Approved Stranded Meter Costs Carrying Charges").

The residual balance (net of total recoveries) in "Sub-account Stranded Meter Costs" and the balance in "Approved Stranded Meter Costs Carrying Charges" of Account 1555 should be submitted for review and finalization as part of the distributor's next cost of service application. The distributor should maintain records to substantiate the stranded meter costs and recoveries.

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Q.11 Please provide the accounting treatment for SMDR and SMIRR recoveries discussed in Guideline G-2011-0001 and included in Rate Orders.

A.11 Guideline G-2011-0001 entitled "Smart Meter Funding and Cost Recovery – Final Disposition" ("the Guideline") was issued on December 15, 2011. The Guideline outlines the types of rate riders that are applicable on the disposition of Account 1555 and 1556 balances.

In cost of service applications, the recovery of smart meter disposition rate rider ("SMDR") is used for the recovery of the revenue requirement impacts in rates in addition to the revenue requirement impacts being prospectively included in base rates. In stand-alone applications, since the revenue requirement impacts cannot be included in base rates, an additional smart meter incremental revenue requirement rate rider ("SMIRR") is established effective until the distributor rebases in the future. Accordingly, the SMIRR provides for the notional inclusion of the revenue requirement impacts in base rates. The recoveries arising from the SMDR and SMIRR should be recorded in Account 4080, Distribution Services Revenue. Also see the related issue in Q and A #12 below.

Q.12 The distributor has received approval for the disposition of Account 1555 and Account 1556 balances included in its 2012 cost of service application. Is the previous guidance on the disposition of these accounts in the August 2008 APH-FAQs still applicable?

A.12 Many aspects of the previous accounting guidance in the August 2008 APH-FAQs (Q and A #8) citied through an illustrative example are still relevant and applicable to distributors although some terms used have changed. In the case of the smart meter disposition rate rider ("SMDR"), for example, the same accounting treatment of using Account 4080 is required in the APH-FAQs (Q and A #8) for the recovery of the "net revenue requirement" on the disposition of Account 1555 and Account 1556 balances.

In Q and A #8, the key accounting treatment issues still applicable are as follows:

- "… [The] issuance of the Board order approving the smart meters investment and the associated (net) revenue requirement [recovered via the SMDR] for the smart meters in rates triggers the accounting

recognition of the investment in smart meters as assets [in Account 1860] and the funding received for the smart meters as revenues [in Account 4080]. Consequently, this requires the accounting reclassification of these items recorded in the variance accounts to their applicable asset and revenue USoA accounts...”

- “…no true up of the 1555 and 1556 variance account balances are required or no recordings of the recoverable (or refundable) net revenue requirement amount [via the SMDR] in account 1595 are required…”
- “[The SMDR] amount will be recorded in the distribution revenue account 4080 over the recovery period…”

In summary, the disposition of approved Account 1555 and Account 1556 balances requires the reclassifications of these amounts to income statement and balance sheet accounts and requires the disposition rate rider recoveries to be recorded in Account 4080 (not Accounts 1555 and 1556). The journal entries (Q and A #8, Section B, page 9) show the reclassification from Accounts 1555 and 1556 to various USoA accounts as of the effective date of the rate order.

Q.13 Distributors are required to carry out CDM programs to achieve load reduction targets as set out in their licences for the 2011 to 2014 period and in accordance the CDM Code. What is the accounting treatment for OPA-Contracted Province-Wide CDM Programs, and if applicable, Board-Approved CDM Programs funded through the global adjustment mechanism?

A.13 The Board does not rate-regulate CDM programs of electricity distributors funded through the global adjustment mechanism (GAM) or other initiatives outside the distribution rates framework (referred to here collectively as “non-rate regulated” activities). The non-rate regulated activities transactions arising from OPA-Contracted Province-Wide CDM Programs or Board-Approved CDM Programs should be separate from distribution activities.

A distributor should use Account 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases, to record CDM related capital assets funded through the GAM. These assets are not included in rate base and the associated depreciation expenses are not included in the revenue requirement of the distributor.

In addition, a distributor should record the revenues and expenses associated with these CDM programs in Account 4375, Revenues from Non-Utility Operations, and Account 4380, Expenses from Non-Utility Operations. The amounts recorded in these accounts are not included in the revenue requirement. The distributor should set up separate sub-accounts under Accounts 2075, 4375 and 4380 for these CDM programs in sufficient detail to satisfy Board requirements including the reporting of these programs.

Q.14 What should be the accounting treatment for the tax sharing and the LRAM rate riders that were authorized in the distributor's rate order?

A.14 The tax sharing (50/50) is in relation to an adjustment to a distributor's PILs/tax provision due to tax changes that result in a reduction (or increase) to rates going forward. The derived "shared tax saving" rate rider is applied prospectively in the distributor's new rate year. There was no Board-approved deferral or variance account or true-ups required for amounts associated with the tax sharing. As such, the normal accounting treatment should apply, that is, the use of accounts receivable (Account 1100) and distribution services revenue (Account 4080 subdivided by applicable customer classes).

With respect to the LRAM rate riders approved for the pre-2011 CDM programs (i.e., prior to 2011 OPA-Contracted Province-Wide CDM Programs or 2011 Board-Approved CDM Programs), there was no Board-approved deferral or variance account (such as, Account 1568, LRAM Variance Account) authorized in which to record the LRAM amounts. There was also no required LRAM true-up procedure for these prior years. Distributors typically filed LRAM claims to recover LRAM amounts in applications and not through the disposition of LRAM balances recorded in a Board-approved deferral or variance account. Accordingly, the normal accounting treatment, as discussed above, using Accounts 1100 and 4080 should apply for recording the LRAM rate rider recoveries associated with the pre-2011 CDM programs. See Q & A #'s 4 and 5 for details regarding Account 1568.

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Q.15 Does the one-year deferral of the mandatory changeover to International Financial Reporting Standards also delay the implementation requirements for accrual accounting for RSVAs and RCVAs in the revised APH?

A.15 No. The Board still requires all electricity distributors that previously used the "billed" method to adopt the accrual method no later than June 30 of 2012 for regulatory accounting and reporting, regardless of whether or not IFRS has been implemented or an alternative accounting standard was approved for ratemaking.

Q.16 In what account should IESO Charge Type 1412 "Feed-In Tariff Program Settlement Amount" settlements be recorded? Are there similar charge types in relation to other generation contracts and what account(s) should be used?

A.16 A distributor is responsible to pay a supplier (or embedded generator) under a FIT contract for the electricity it receives from that supplier. The payment for the electricity at the contract price is recorded in Account 4705, Power Purchased. In addition, the distributor is required to settle the difference between the amounts it pays to the supplier (or embedded generator) under a FIT contract at the contract price and the amount calculated at wholesale market prices. In the IESO settlement invoice process, this difference results in an electricity commodity adjustment that is charged or paid to the distributor via Charge Type 1412 "Feed-In Tariff Program Settlement Amount".

Electricity distributors should record amounts attributable to Charge Type 1412 in Account 4705. Ultimately, the net result should be that the distributor pays the wholesale market prices (or spot price) on settlement for the electricity it receives from an embedded generator and/or supplier under a FIT contract.

In terms of charge types in relation to other generation contracts, there are two, Charge Type 1410 "Renewable Energy Standard Offer Program Settlement Amount" and Charge Type 1414 "Hydroelectric Contract Initiative Settlement Amount". The settlement process for these charge types are similar to as described for the FIT contracts under Charge Type 1412 and the accounting treatment is the same as discussed using Account 4705.

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Q.17 What should be the accounting classification for new Charge Type 1650 "Forecasting Service Balancing Amount"?

A.17 The IESO has established forecasting services to accommodate variable generation from wind and solar resources. The forecasting services for variable generation integrate the inflow of renewable generation into the IESO-administered markets.

The IESO costs paid to the forecasting entities for these services are treated as a procured service charge and recovered through a month-end non-hourly uplift charge to consumer loads and exports. The recovery of these costs through Charge Type 1650 "Forecasting Service Balancing Amount" is included as a manual line item on the settlement statements of all load and export customers for the last trading day of the month. This charge type is effective commencing in the April 2012 IESO settlement statements.

Electricity distributors should record the costs associated with Charge Type 1650 in Account 4708, Charges-WMS.

The Question and Answers in this section address the accounting treatment guidance on issues arising from the implementation of IFRS and the revised 2012 Accounting Procedures Handbook:

Q.18 Are there any additional accounting guidance that could be provided for the accounting treatment of transitional issues related to Account 1575, IFRS-CGAAP Transitional PP&E Amounts?

A.18 Article 510 of the revised 2012 APH provides the accounting guidance for the IFRS transitional accounting issues and requirements. An illustrative example and journal entries cite some of the key changes required at the IFRS adoption date ("changeover date") for Account 1575. For distributors that did not defer IFRS adoption, the changeover date is January 1, 2012 (i.e., "the year of the changeover date"). The financial differences arising from the CGAAP and MIFRS accounting changes for PP&E are recorded as follows:

Debit / Credit Detail PP&E Accounts (1805 -1990 as applicable)
Credit / Debit Account 1575, IFRS-CGAAP Transitional PP&E Amounts

In addition, distributors are required to record the subsequent year-over-year cumulative financial differences in the account before a cost of service application under MIFRS. For the purposes of this guidance, this is referred to as “the years following the changeover date” in relation to these accounting requirements and journal entries. For the years following the changeover date, at the end of each applicable year, or month if the distributor elects, the recording of the offsetting entry to Account 1575 would be recorded in regulatory income statement Account 4305, Regulatory Debit or Account 4310, Regulatory Credit, as follows:

Debit / Credit Account 4305 Regulatory Debit/ Account 4310 Regulatory Credit
Credit / Debit Account 1575, IFRS-CGAAP Transitional PP&E Amounts

On the disposition of the Account 1575 approved balance, the offsetting entry would be recorded in depreciation expense (Account 5705) over the approved amortization period as required in the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*, as follows:

Debit / Credit Account 1575, IFRS-CGAAP Transitional PP&E Amounts
Credit / Debit Account 5705, Depreciation Expense

Q.19 Can you please clarify the status of the previous version of the APH (dated July 2007) in light of the Board’s regulatory guidance on the optional one-year deferral of IFRS adoption?

A.19 The decision of the Canadian Accounting Standards Board to defer the mandatory changeover to IFRS to January 1, 2013 continues the use of Canadian GAAP in 2012 for those distributors making the election to defer IFRS adoption. As such, CICA Handbook *Part V – Pre-changeover Accounting Standards* will continue in effect in 2012 for financial accounting and reporting. For regulatory purposes, the previous APH (or the “CGAAP-based” APH dated July 2007) will also continue in effect for the accounting standards relevant to the CICA Handbook Part V and regulatory requirements, as applicable. Back to index

The Board does not plan to update the CGAAP-based APH (July 2007 version) to reflect changes in accounting standards in the CICA Handbook Part V. Distributors should continue to refer to the CICA Handbook Part V for authoritative and up-to-date guidance on accounting standards.

With respect to the revised APH (or "MIFR-based" APH), there are several regulatory accounting requirements that these distributors would still need to comply with in this handbook even though using CGAAP and subject to the general requirements of the "CGAAP-based" APH. These requirements in the "MIFR-based" APH include but are not limited to the use of the accrual accounting specified in Article 490 and the use of several new deferral and variance accounts (e.g., Account 1589, RSVA GA, new sub-accounts of 1595, etc.).

Q.20 Can you please clarify the status and use of previously issued APH-FAQs in light of the Board's issuance of a revised APH in 2012?

Q.20 Generally, regulatory accounting requirements in the previously issued APH-FAQs will still continue to apply going forward provided that they do not conflict with subsequent accounting guidance issued on the same subject in the revised APH or other Board issued accounting policy documents (e.g., *Report of the Board, Transition to International Financial Reporting Standards*, EB-2008-0408).

The accounting requirements for deferral and variance accounts in previous APH-FAQs were not altered in the revised APH and therefore they continue to be in line with the accounting treatment as set out in the previous APH-FAQs. However, in the areas where accounting clarifications or explanations were provided in relation to accounting standards in the CICA Handbook *Part V – Pre-changeover Accounting Standards,* such guidance may no longer apply to distributors that have adopted IFRS.

Q.21 What is the Board's policy on regulatory accounting requirements in the APH if new or amended accounting standards (IFRS) are issued?

A.21 The Board has indicated in Article 100 of the revised APH that regulatory accounting and accounting standards for general purpose financial reporting are

not static. Regulatory accounting has changed in the past and will continue to adapt to meet changes in accounting standards, regulatory methodology, or economic conditions. The Board will monitor these changes and there will be a periodic review and amendment of material as circumstances warrant. However, it is not the Board's intent to update the APH to incorporate new accounting standard pronouncements in the same timeframe as issued by accounting standards-setting bodies. It is the distributor's responsibility to monitor changes to and interpretation of the accounting standards in the CICA Handbook *Part I – International Financial Reporting Standards* for financial reporting and to determine the appropriate accounting policies or seek professional advice as the circumstance warrants.

In addition, if accounting standards change and the Board has not issued related updates to the APH or provided other specific guidance, a distributor should follow the guidance contained in Article 320 *Accounting Policies, Changes in Accounting Estimates and Errors*. Generally, as the Board has decided that it will not create or define a generic account to record the impacts of changes in accounting standards, a distributor would record the transitional and subsequent impact of the change in accordance with the requirements of the accounting standards. Any individual distributor that anticipates a large impact from a change in accounting standards should consider the Board's guidance on Z-factor treatment applicable to the distributor or apply to the Board for a distributor-specific deferral account.

Q.22 There are new reporting requirements in the *Report of the Board, Transition to International Financial Reporting Standards* ("the Board Report") and the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* ("the Addendum"). Can you please summarize these reporting requirements for a distributor that has adopted IFRS in 2012?

A.22 The reporting requirements in sections 10.3, 10.4 and 10.5 of the Board Report were superseded by the new requirements in Issue #7 of the Addendum. These transitory requirements for distributors are in relation to accounting reconciliations which are either one time in nature or until the next cost of service

application under Modified IFRS. The following is a summary of the reporting requirements.

One-Time Reconciliations (due on or before April 30, 2013)

1. A one-time reconciliation between the 2011 CGAAP audited financial statement figures and the 2011 IFRS audited financial statement comparative figures that were reported as part of the 2012 IFRS audited financial statements to be performed and submitted with the RRR annual performance reporting for 2012.

2. A one-time mapping and reconciliation between the 2011 uniform system of account balances and the 2011 IFRS audited financial statement comparative figures that were reported as part of the 2012 IFRS audited financial statements to be submitted with the RRR annual performance reporting for 2012.

Reconciliations Required Until the Next Cost of Service Application is filed under Modified IFRS

3. Where an electricity distributor has not rebased under modified IFRS, a reconciliation is to be provided each year during an IRM period for Group 1 deferral and variance accounts between amounts recorded under CGAAP and modified IFRS. This reconciliation must be submitted with the RRR annual performance reporting for each year beginning with the year of adoption of IFRS. This reconciliation is due on or before April 30, 2013 for the fiscal year 2012 and every year thereafter, until the utility rebases under MIFRS.

   The Board requires audit assurance for this reconciliation (Group 1 deferral and variance accounts) be provided by an external auditor to the “review level of assurance” specified in the Canadian Institute of Chartered Accountants Handbook.

4. All utilities must provide, when reporting annually in RRR the balance in the deferral Account 1575 created to record differences in PP&E arising from the transition from CGAAP to MIFRS, a reconciliation each year between reported amounts calculated using CGAAP and amounts calculated using MIFRS. This reconciliation is required up to and including the year of the first cost of service application under MIFRS.

This reconciliation is due on April 30, 2013 for the fiscal year starting from the year of the changeover to IFRS (e.g., if a utility adopted IFRS on January 1, 2012, it would report the 2012 information on or before April 30, 2013) up to and including the year of the first cost of service application under MIFRS.

It is important to note for a utility not required to use IFRS for general purposes financial statements, the above-noted requirements should be provided in accordance with its Board-approved GAAP. Another approved basis of GAAP may include US GAAP or accounting standards for private enterprises ("ASPE").

Q.23 Please clarify the treatment of PP&E retirement gains and losses in relation to new Accounts 4357 and 4362.

A.23 The revised APH includes two new accounts to specifically address the treatment of PP&E retirement gains and losses in the income statement (or statement of comprehensive income). These are Accounts 4357, Gain from Retirement of Utility and Other Property and 4362, Loss from Retirement of Utility and Other Property. In the past, the treatment of such retirement gains or losses would have been to include them as part of accumulated amortization in Account 2105.

Effective on January 1, 2012, distributors should use these accounts which shall be credited with the gain or debited with the loss from the retirement of property, plant and equipment or intangible assets, respectively. The gain (or loss) arising from the book cost of the item of property, plant and equipment or intangible asset retired less the amount chargeable to the applicable accumulated depreciation (e.g. Account 2105) or amortization account and less the net proceeds realized from salvage at retirement (if any) shall be recorded in these accounts. Distributors are required to maintain records as to show how the gains (or losses) are determined.

Note that Accounts 4355, Gain on Disposition of Utility and Other Property, and 4360, Loss on Disposition of Utility and Other Property, should be used to record the gain or loss, respectively, for the disposition of utility and other property arising from the sale, conveyance, exchange, or transfer of utility or other property to another. These two accounts should not be used to record gains or losses for the retirements of items of PP&E.

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Q.24 Please clarify what is the level of componentization required for capital contributions in relation to the deferred revenues recorded in Account 2440 (effective on adoption of IFRS).

A.24 When contributions in aid of construction are received in the form of services or property, the value of the contributions should be recorded in the applicable asset accounts (1606 to 1990 as applicable) and deferred revenues credited to Account 2440.

Amounts recognized in Account 2440 should be amortized to income over the useful life of the related property, plant and equipment by debiting Account 2440 and crediting Account 4245, Government and Other Assistance Directly Credited to Income. The period over which any deferred revenue is amortized will depend on the level of componentization of the related items of property, plant and equipment and should be consistent with IFRS requirements and other factors. The amortization period for the deferred revenue should be appropriately adjusted on an ongoing basis to reflect any changes in the remaining useful lives of the underlying capital assets to ensure a consistent matching of the deferred revenues amortized to income and the depreciation expenses.

The account description in Article 220 for Account 2440, Deferred Revenues, among other things, provides that,

- the account shall be maintained so that the distributor can supply information as to the purpose of each contribution or grant, the conditions, if any, on which it was made, the amount of contributions or grants from governments or government agencies, corporations, individuals and others and the amount applicable to each Electric Plant in Service detail account (i.e. Accounts 1606 to 1990).
- records shall be maintained so that the contribution or grant can be directly assigned to specific type of asset for which the contribution was made to ensure the proper offset is made to the asset before inclusion in rate base as prescribed in Article 430 *Contributions in Aid of Construction*.

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Q.25 Please clarify the regulatory requirements after the first cost of service application is filed under MIFRS for changes in asset useful lives and changes to depreciation rates. What are the Board's requirements for the subsequent changes to depreciation rates (i.e., post Depreciation Study for Use by Electricity Distributors (EB-2010-0178), ("Kinectrics Report")?

A.25 The Board has communicated to distributors that in their first cost of service application to the Board under modified IFRS, distributors are expected to reflect their consideration of the information contained in the Kinectrics Report of July 8, 2010, as they develop asset service lives suitable in their particular circumstances. The Kinectrics Report is intended to assist distributors with their transition to IFRS and thus the Board does not currently plan to update this report or sponsor generic depreciation studies or reviews in the future. Consequently, distributors should review and document observed changes in the residual value and useful life of an asset at least at each financial year-end.

For the periods after this first cost of service application under modified IFRS, the Board has issued Article 410 of the APH to provide guidance on the information required in support of changes to depreciation. A distributor should refer to that article for the Board's expectations with respect to depreciation studies.

If the distributor seeks to change depreciation rates, the distributor must present in its cost of service application a comprehensive depreciation study that includes a rigorous analysis and its findings based on empirical data on actual asset retirements to support the proposed changes. The comprehensive study could be conducted in-house, by an independent consultant, or on a regional basis with other distributors with similar assets.

Q.26 What are the requirements for capitalizing interest borrowing cost in CWIP (construction work in progress) under modified IFRS?

A.26 Where the distributor has incurred debt acquired on an arm's length basis, the actual borrowing costs should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Account 6040, Allowance For Borrowing Costs Applied to CWIP–Credit, shall be used to record these amounts and the debit going to Account 2055, Construction Work in Progress - Electric.

Where incurred debt is not acquired on an arm's length basis, the actual borrowing costs may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, the distributor should use the Board's published rates. Account 6042, Allowance For Other Borrowing Costs Applied to CWIP–Credit, shall include credits for the allowable amount for capitalization of the cost of debt in the case where the actual cost of borrowing for debt acquired on a non-arm's length basis exceeds the cost using the Board's published rates as specified above. The debit shall be to Account 2055, Construction Work in Progress - Electric.

For the purposes of applying the above requirement, distributors are required to apply professional judgement in assessing whether incurred debt is acquired on an arm's length basis by comparing the interest rate charged on debt to market rates. For example, where a distributor utility is held by a non-regulated parent, and that parent issued debt acquired on an arm's length basis which is flowed through to the regulated subsidiary at the market interest rate, the utility can apply the actual debt cost. The onus will be on the utility to demonstrate that the interest is at the market rate and this will be subject to review by the Board.

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Appendix A

Re: Q and #2

Account Description of Account 1576

Account 1576, CGAAP Accounting Changes

A distributor shall use this account to record the financial differences arising as a result of accounting changes to depreciation expense and capitalization policies permitted by the Board under Canadian GAAP in 2012 or as mandated by the Board in 2013, as follows (for purposes of this account, PP&E includes rate base related intangible assets):

A. Distributors shall maintain records before any accounting changes are made to Canadian GAAP of the amounts in the PP&E accounts eligible for inclusion in rate base, commencing in 2011 under their previous accounting policies in Canadian GAAP(or 2012 if mandatory application is applicable), and continuing until their first cost of service application under modified IFRS. This will produce a figure for the PP&E accounts that is consistent with previous accounting policies and their last cost of service application.

B. Distributors shall also calculate “adjusted” values for the PP&E accounts eligible for inclusion in rate base arising from the implementation of accounting changes for depreciation expense and capitalization policies prospectively on January 1, 2012 (or January 1, 2013 if mandatory application is applicable) and as recorded in their accounting system applicable in each year between the previous Canadian GAAP in 2011 (or 2012 if mandatory application is applicable) and their first cost of service application under modified IFRS.

C. Distributors shall record in this variance account the cumulative difference between items A and B above. The offsetting entry will go to Account 4305, Regulatory Debit or Account 4310, Regulatory Credit. A journal entry to record the variance is required at the end of the fiscal year for each year until the distributor’s rates are reset under modified IFRS through a cost of service application. The distributor may elect to use monthly journal entries. No interest carrying charges or a rate of return is permitted in this account.

D. The amount of the cumulative variance recorded in this account would be recovered from, or refunded to, ratepayers in the year of the distributor's cost of service application through an adjustment to depreciation expense over the approved amortization period. On approval of the disposition of the balance in this account, the offsetting entry will go to Account 5705, Depreciation Expense.

E. Records should be kept to at a level of detail sufficient to support the analysis and justification of the entries made to the account.

Note A: The balance in this account does not result in any adjustments to the opening values of the PP&E components of rate base up or down for disposition in the first cost of service application under modified IFRS and does not result in a rate base adjustment that attracts a rate of return.

Note B: Adjustments for the IFRS transitional accounting changes remain the function of Account 1575 that may arise from the time when the distributor adopts IFRS and rebases under modified IFRS. Deferral Account 1575 and variance Account 1576 cannot be used interchangeably and the distributor must follow the required accounting treatment applicable under each account. The accounting changes applicable to Account 1576 are not applicable to Account 1575 in relation to "changeover date" accounting on the distributor's adoption of IFRS (see related discussion in Article 510 of the revised 2012 *Accounting Procedures Handbook for Electricity Distributors*).

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Appendix B

Illustrative Example - Variance Account 1576 in Relation to PP&E Changes Under CGAAP

Distributor makes Accounting Changes in 2012 and files Cost of Service ("COS") Application in 2014

	2011	2012	2013	2014
Basis of Rates	IRM	IRM	IRM	COS (MIFRS)
Forecast vs Actual Used in COS Application	Actual	Actual	Forecast	Forecast
PP&E Values Assuming "Previous" CGAAP Accounting Polices Continued				
Opening net PP&E	1000	1,056	1,152	
Additions	100	144	148	
Depreciation (25 years straight line)	(44)	(48)	(52)	
Closing net PP&E	**1,056**	**1,152**	**1,248**	
PP&E Values Assuming Accounting Changes under CGAAP in 2012				
Opening net PP&E	1000	1,056	1,156	
Additions (10% less capitalization)	100	130	133	
Depreciation (40 years straight line)	(44)	(30)	(32)	
Closing net PP&E	**1,056**	**1,156**	**1,257**	
Difference in Closing net PP&E, "Previous" CGAAP vs "Changed" CGAAP	**-**	**(4)**	**(9)**	
Variance Account 1576				
Opening balance	-	0	(4)	
Amount added annually	-	(4)	(5)	
Closing balance in deferral account	**-**	**(4)**	**(9)**	

Journal Entries Annually (per above analysis):		Debit	Credit
2012	Debit Account 4305	4	
	Credit Account 1576		4
	To record differences arising from CGAAP accounting changes		
2013	Debit Account 4305	5	
	Credit Account 1576		5
	To record differences arising from CGAAP accounting changes		

Note: The approved disposition of the account balance would be reflected as an offset to depreciation expense in the year of COS application over the approved amortization period. Thus the offsetting entry to Account 1576 is depreciation expense to drawn down the balance

Key Assumptions:

1 Beginning in 2012, less capitalization of 10 per cent is included in PP&E additions
2 Beginning in 2012, useful lives of in-service PP&E are extended (change from 25 to 40 years) thus depreciation expense is reduced
3 In the 2014 COS application, the distributor would bring forward the account balance for disposition in rates

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