Ontario Energy Board
Accounting Procedures Handbook
Guidance
March 2015

INDEX

Accounting guidance for new generic accounts and sub-accounts established since the issuance of the Accounting Procedures Handbook in December 2011:

Further accounting treatment guidance on Accounts 1575 and 1576:

Additional accounting guidance for deferral accounts related to Renewable Generation Connection and Smart Grid Development:

Additional accounting guidance on the Lost Revenue Adjustment Mechanism (LRAM) Variance Account:

The issues addressed in this section are in relation to new generic accounts and sub-accounts established since the issuance of the Accounting Procedures Handbook in December 2011:

1. A list of all new accounts that have been established since the issuance of the Accounting Procedures Handbook in December 2011 has been developed.

A.1 Since the release of the December 2011 update to the Accounting Procedures Handbook, new main accounts and sub-accounts have been approved by the Board for use by the industry. A summary of the new accounts and sub-accounts has been established and provides references to the appropriate Board documents to assist distributors to understand the purpose of the accounts. The summary can be found in the following hyperlink:

http://www.ontarioenergyboard.ca/oeb/_Documents/Regulatory/APH_Accounts_Opened_since_Dec2011.pdf

2. The March 28, 2013 Smart Metering Entity Decision and Order approving the smart meter entity charge (EB-2012-0100 / EB-2012-0211) requires distributors to segregate and maintain variances in Account 1551 Smart Metering Entity Charge Variance Account at a class level by using sub-accounts for each of the Residential Service and General Service <50 kW customer classifications.

a. Are the variances recorded in the sub-accounts to be reported in aggregate or at sub-account level?
b. How are the balances to be allocated to customer classes when the distributor proposes disposition of the variances?

A.2

a. The requirement to segregate and maintain variances at a sub-account level is an internal record-keeping requirement. There is currently no requirement to report these balances at a sub-account level in the *Reporting and Record-Keeping Requirement* (RRR) filings.
b. The variances accumulated in Account 1551 are to be allocated to Residential and GS <50 kW classes only, based on the number of

forecasted customers for a cost of service rate application and the number of customers in the most recent Board approved cost of service rate application for price cap IR and annual IR applications,.

3. The Board amended the Distribution System Code (DSC) on May 21, 2014 to establish a requirement for the installation of Metering Inside the Settlement Timeframe (MIST) meters. The changes came into force on August 21, 2014. Distributors have until August 21, 2020 to install the required meters. The Board established a deferral account to allow distributors to capture prudently incurred incremental costs that are material and are associated with the subject amendment. The information below discusses the identity of the account and how will it operate.

A.3 With this March 2015 guidance, Account 1557 Meter Cost Deferral Account has been established for the tracking of incremental capital and OM&A costs. Distributors should open sub-accounts to segregate capital from OM&A and carrying charges to facilitate applications for disposition of the amounts. Distributors should be guided by the various Board documents related to record-keeping and disposition of smart meter costs. Chapter 2 of the *Filing Requirements for Electricity Distribution Rate Applications* dated July 18, 2014 contains the materiality thresholds in section 2.4.5.

4. On June 13, 2014, the Board established the following deferral account to record the Energy East Pipeline Project consultation costs: Account 1508 Other Regulatory Costs, Sub-account Energy East Consultation Costs. Disposition will be handled by the Board as outlined below.

A.4 This is a Group 2 account and disposition will normally occur when the utility files a cost of service or custom IR application. Materiality thresholds apply to the amounts recorded. Carrying charges will apply and these should be recorded in a separate sub-account.

5. With this March 2015 Guidance, the OEB is establishing a sub-account under Account 2105 Accumulated Depreciation of Electric Utility Plant – Property, Plant and Equipment, Sub-account Accumulated Depreciation for

Specifically Identified Asset Accounts, to record the total amount of accumulated depreciation or accumulated amortization related to certain asset accounts. This sub-account will be reported in RRR beginning in April 2015 for balances as at December 31, 2014. Grouping accumulated depreciation in this sub-account will allow simpler analysis of net assets and returns than is currently provided by data contained in RRR and financial statements. The accounts below must be combined to determine the amounts to be posted to the new sub-account.

A.5 This sub-account will record the total amount of accumulated depreciation or accumulated amortization related to the following detailed asset accounts:

Electric Plant in Service – Detailed Accounts

- B. Generation Plant
    - 1615 Land
    - 1616 Land Rights
    - 1620 Buildings and Fixtures
    - 1630 Leasehold Improvements
- C. Transmission Plant
    - 1705 Land
    - 1706 Land Rights
    - 1708 Buildings and Fixtures
    - 1710 Leasehold Improvements
- D. Distribution Plant
    - 1805 Land
    - 1806 Land Rights (if applicable)*
    - 1808 Buildings and Fixtures
    - 1810 Leasehold Improvements
- E. General Plant
    - 1905 Land
    - 1906 Land Rights (if applicable)*
    - 1908 Buildings and Fixtures
    - 1910 Leasehold Improvements
    - 1915 Office Furniture and Equipment
    - 1920 Computer Equipment – Hardware
    - 1925 Computer Software
    - 1930 Transportation Equipment

*Accounts 1806 and 1906 are no longer in use under MIFRS, amounts previously recorded in these accounts are to be recorded in Account 1612 under MIFRS.

Other Capital Assets

- 2005 Property Under Finance Leases

The issues addressed in this section provide further accounting treatment guidance for Accounts 1575 and 1576.

6. Please identify the journal entries that should be used to implement the disposition of Account 1575 IFRS-CGAAP Transitional PP&E Amounts and Account 1576 CGAAP Accounting Changes.

A.6 Account 1575 and Account 1576 are similar in nature and the journal entries used to record amounts in the accounts are relatively consistent. Please refer to Article 510 of the Accounting Procedures Handbook and the July 2012 FAQs for details on recording the account balances.

A rate of return is applied to the balance in Account 1575 and Account 1576. The return component is not recorded in Account 1575 or Account 1576. It is calculated and shown in the applicable Appendix of Chapter 2 of the *Filing Requirements for Electricity Distribution Applications, (*currently Appendix 2-EA to EC dated July 18, 2014), and is recorded in distribution revenues upon the collection or refund of rate rider billings associated with the approved balance.

The account balance plus the rate of return is disposed through a separate rate rider, distinct from any other rate rider that may be approved to implement the combined disposition of the remaining Group 1 and Group 2 accounts. As indicated in the July 2012 FAQs, the approved disposition of the account balance for both Account 1575 and Account 1576 would be reflected as an offset to depreciation expense over the approved amortization period. As such, the following example journal entries to record the disposition of the account balance and the rate of return are applicable to both Account 1575 and Account 1576.

<u>Assumptions:</u>

Account 1575/1576 balance	($500,000)
Rate of return	($175,000)
Total amount disposed	($675,000)
Disposition period	5 years
Rate rider refunded annually *	$135,000
*Assume rate rider refunded will equal to total disposed amount.	($100,000 relates to account balance, $35,000 relates to return component)

<u>Annual cumulative journal entries:</u>

	Debit	**Credit**
Dr. Account 4080 Distribution Services Revenue	135,000	
Cr. Account 1100 Customer Accounts Receivable		135,000
To record rate riders refunded		
Dr. Account 1575/1576	100,000	
Cr. Account 5705 Depreciation Expense		100,000
To record the amortization of the refund of Account 1575/1576		
Dr. Account 4305 Regulatory Debits**	100,000	
Cr. Account 4080 Distribution Services Revenue		100,000
To record only the return component in distribution revenues		
**Account 4310 Regulatory Credits should be used if the entry is a credit entry		

7. Please explain whether derecognition gains and losses would be included in Account 1575.

A.7 Account 1575 is used to record PP&E differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified IFRS. IFRS requires that parts or components of an asset that are significant in relation to the total cost of an asset be depreciated separately. This may result in derecognition gains or losses to be recognized under IFRS that may not have been recognized under Canadian GAAP. These derecognition gains and losses will be eligible to be included in Account 1575, in accordance with the guidance provided for Account 1575. Further guidance is available in Accounting Procedures Handbook Article 410 regarding how to record gains and losses on derecognition.

The issues addressed in this section provide additional accounting guidance on deferral accounts related to Renewable Generation Connection and Smart Grid Development:

8. Please provide the expectations for existing balances in the deferral Accounts 1531, 1532, 1534 and 1535 following the approval of a rate order that is underpinned by a distributor's first consolidated distribution system (DS) plan, normally as part of a cost of service application.

A.8 On March 28, 2013, the OEB issued Chapter 5 of the *Filing Requirements for Electricity Distribution Applications*, *Consolidated Distribution System Filing Requirements*. This filing requirement supersedes the OEB's revised *Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence* issued on May 17, 2012.

Under the most recent policy direction of the OEB, the existing deferral accounts for renewable generation connection and smart grid development are to be discontinued following the approval of a rate order that is underpinned by a distributor's first consolidated DS plan. Additionally, the distributors filing cost of service applications in 2014 and subsequent years must include proposals for disposition of any existing balances relating to in-service assets recorded in deferral Account 1531 Renewable Generation Connection Capital Deferral Account, Account 1532 Renewable Generation Connection OM&A Deferral Account, Account 1534 Smart Grid Capital Deferral Account and Account 1535 Smart Grid OM&A Deferral Account.

Distributors should include the in-service assets and related costs in the applicable Appendices of Chapter 2 of the *Filing Requirements for Electricity Distribution Applications, (*currently 2-FA to 2-FC dated July 18, 2014) to calculate the Provincial Rate Protection Payments on a prospective basis. In addition, the Direct Benefits portion of the balance in Account 1531 should be transferred to rate base. The Direct Benefits portion of Account 1532 should be included in the EDDVAR schedule as part of the Group 2 accounts to be requested for disposition. The socialized portion of Account 1531 should be transferred to Account 2075 Non Rate-Regulated Utility Property Owned or Under Finance Lease. The socialized portion of Account 1532 should be transferred to Account 4380 Expense of Non-Rate Regulated Utility Operations.

An example of suggested accounting entries for disposition of Accounts 1531 and 1532 is as shown below. Please note that the specific accounting treatment that may apply to a distributor may vary depending on the specific circumstances of the distributor.

Assumptions:
The balance in Account 1531 is $100,000 and is comprised of a connection project for $75,000 and an expansion project for $25,000. The balance in Account 1532 is $10,000 and is comprised of $7,000 for the connection project and $3,000 for the expansion project.

Calculation of the Socialized costs:
Account 1531 Renewable Generation Connection Capital Deferral Account = (75,000*94%) + (25,000*87%) = $92,250
Account 1532 Renewable Generation Connection OM&A Deferral Account = (7,000*94%) + (3,000*87%) = $9,190

Journal Entries:

	Debit	Credit
Dr. Account 1606-1990 PP&E accounts	7,750	
Dr. Account 2075 Non Rate-Regulated Utility Property Owned or Under Finance Lease	92,250	
Cr. Account 1531 Renewable Connection Capital Deferral Account		100,000
To remove the balance from Account 1531		
Dr. Account 4380 Expenses of Non-Rate Regulated Utility Operations	9,190	
Cr. Account 1532 Renewable Connection OM&A Deferral Account		9,190
To remove the socialized portion of the balance from Account 1532		
Dr. Account 1595 Disposition and Recovery/Refund of Regulatory Balances	810*	
Cr. Account 1532 Renewable Connection OM&A Deferral Account		810
To record the disposition of Account 1532 when approved by the Board		

*Calculated as $10,000-direct benefits portion $9,190

Distributors who have not yet filed a cost of service application containing a consolidated DS plan are able to continue to record renewable energy generation costs, smart grid demonstration costs and funding adder revenues for existing funding adders in deferral accounts already established for this purpose. Please refer to the Accounting Procedures Handbook December 2010 FAQ # 16 & 17 for details regarding these accounts.

9. At the time of OEB approval for a rate order underpinned by a consolidated DS plan, Accounts 1531 and 1532 must be discontinued. What is the treatment of any costs booked in these accounts that are related to assets not yet in service or not forecast to be in service in the test year?

A.9 The balance in Account 1531 relating to projects that are not yet in-service are to be moved to Account 1533 Renewable Generation Connection Funding Adder Deferral Account, Sub-account Capital; and balances in Account 1532 relating to projects that are not yet in-service are to be moved to Account 1533 Renewable Generation Connection Funding Adder Deferral Account, Sub-account OM&A. At the time of a distributor's request for disposition of these balances in this account in its next rebasing application, the Board will conduct a prudence review of the actual incurred spending for the in-service capital assets and expenses. Moving the amounts into the sub-accounts of Account 1533 will facilitate the proper prudence review of the actual incurred spending given the OEB's direction in Chapter 2 of the *Filing Requirements for Electricity Distribution Rate Applications,* dated July 18, 2014 that all current deferral accounts were to be discontinued upon the filing of a distributor's first DS plan.

10. For approved eligible investments as defined under O.Reg. 330/09 under the OEB Act, a variance account will continue to be used for the purpose of recording variances between the revenue requirement based on actual costs of approved eligible investments and the revenue received from the IESO. The accounting guidance for this variance account is provided below.

A.10 Distributors that have included eligible investments to connect qualifying facilities in their DS plans are to establish the variance Account 1533 Renewable Generation Connection Funding Adder Deferral Account, Sub-account Provincial Rate Protection Payment Variances following OEB approval for investments forecast to enter service beyond the test year for purposes of implementing rate protection pursuant to O.Reg. 330/09. The purpose of this variance account is to track the variance between the distributor's revenue requirement associated with the portion of the actual capital and/or operating costs that are eligible for rate protection, as incurred by the distributor for eligible renewable enabling and expansion investments, and the rate protection payments collected from the IESO.

The following is the account description for Account 1533 Renewable Generation Connection Funding Adder Deferral Account, Sub-account Provincial Rate Protection Payment Variances:

A) This account is used to record the Provincial Rate Protection payments under O. Reg. 330/09 at the end of the each fiscal year. The account will include the net of

I. The annual revenue requirement impact on an actual basis applicable to in-service capital assets, depreciation, and incurred OM&A expenses, eligible for Provincial Rate Protection,

AND

II. Provincial Rate Protection payments, as approved by the Board, and received from the IESO in that year.

B) For the purposes of calculating the revenue requirement impacts eligible for the Provincial Rate Protection on an actual basis, distributors must ensure the correct allocations and percentages are used to determine the eligible portions of the in-service capital assets, depreciation, and incurred OM&A expenses. No direct benefits as defined in O. Reg. 330/09 associated with the aforementioned capital assets and expenses should be included in the revenue requirement impact.

C) At the time of the distributor's request for disposition of the balance in this account in its next rebasing application, the Board will conduct a prudence review of the actual incurred spending for the in-service capital assets and expenses. The Board may also determine whether changes to revenue requirement impact amounts require changes to the Provincial Rate Protection payment amounts to be received by the distributor from the IESO on a prospective basis. The changes would reflect changes in the gross PP&E for qualifying investments, changes to OM&A expenses, depreciation rates, cost of capital and tax rates. Upon completion of this review, distributors are to continue on an ongoing basis to track and to record amounts in the Account 1533, Sub-account Provincial Rate Protection Variances as outlined above in paragraph A.

D) No carrying charges are to be recorded on the balance in Account 1533, Sub-account Provincial Rate Protection Payment Variances.

E) The Provincial Rate Protection payments, as approved by the OEB, and received from the IESO are to be recorded on a monthly basis in Account 4080 Distribution Services Revenue, Sub-account Provincial Rate Protection Payments.

F) Detailed records are to be maintained showing the derivation of the amounts recorded in Account 1533, Sub-account Provincial Rate Protection Payment Variances including supporting documentation for the calculation of revenue requirement impacts for the Provincial Rate Protection eligible amounts.

<u>Journal Entries</u>
On an annual basis, revenue requirement is calculated based on actual spending. A year-end annual entry is required to be recorded for the net difference between the calculated revenue requirement and the payment amounts collected by the distributor from the IESO. The amount posted to Account 1533, Sub-account Provincial Rate Protection Payment Variances would be a debit if the calculated revenue requirement exceeds the payment amounts collected by the distributor, and a credit if the calculated revenue requirement is less than the payment amounts collected by the distributor. The offsetting entry to Account 1533, Sub-account Provincial Rate Protection Payment Variances should be to the sub-account of Account 4080, referenced in paragraph E.

An example of the journal entries to record Provincial Rate Protection variances is shown below.

<u>Assumptions</u>:
A distributor received $4,000 per month from the IESO with respect to the Provincial Rate Protection. Revenue requirement based on actual spending for the year is calculated to be $50,000. For the year, the distributor has under-collected $2,000 in this example.

Amount to be recorded in Account 1533, Sub-account Provincial Rate Protection Payment Variances = $50,000 – (12*$4,000) = $2,000

	Debit	Credit
Dr. Account 1005 Cash or Account 1100 Customer Accounts Receivable	4,000	
Cr. Account 4080, Sub-account Provincial Rate Protection Payments		4,000
To record the monthly Provincial Rate Protection payments received from the IESO		
Dr. Account 1533, Sub-account Provincial Rate Protection Variance	2,000	
Cr. Account 4080, Sub-account Provincial Rate Protection Payments		2,000
To record the annual year-end variance in Account 1533, Sub-account Provincial Rate Protection Payment Variances		

The issues addressed in this section relate to additional accounting guidance on the Lost Revenue Adjustment Mechanism (LRAM) Variance Account:

11. What are the journal entries that should be used once the OEB approves recovery of the balance in Account 1568 LRAM Variance Account (LRAMVA)?

A.11 The accounting entry for the approved recoveries for the LRAMVA is the same as for other deferral and variance accounts. When an LRAMVA amount is approved for recovery, the amount is transferred from Account 1568 to Account 1595 Disposition and Recovery / Refund of Regulatory Balances, Sub-account Approved in 20yy. The disposition entry will be recorded as follows:

Dr./Cr. Account 1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Approved in 20yy
Cr./ Dr. Account 1568 - LRAMVA

Please note that the revenues related to the LRAMVA are recognized in the year that LRAM variances arise. Therefore, revenue is not recorded in the year of recovery through rate riders. Please refer to the *Guidelines for Electricity Distributor Conservation and Demand Management,* Appendix B[1] , dated April 26, 2012 for the account description of the LRAMVA. The Guidelines apply to years 2011-2014. The hyperlink to these Guidelines is provided below:

CDM Guidelines - April 26, 2012

1 EB-2012-0003

12. Please provide guidance on the mechanism for recording LRAM variances after December 31, 2014 since the *Guidelines for Electricity Distributor Conservation and Demand Management*[2] issued April 26, 2012 do not apply beyond 2014.

A.12 The Board issued an updated *Conservation and Demand Management Requirement Guidelines for Electricity Distributors*[3] on December 19, 2014. These are guidelines with respect to CDM and related initiatives beginning in 2015. In addition, the Board is undertaking a policy consultation with respect to a new rate design structure for electricity distributors. The Board has not yet issued its final report on this matter.

To ensure that lost revenues from CDM programs do not act as a disincentive, the Board will continue the current LRAM at this time. The mechanism consists of the mandatory use of Account 1568 LRAMVA to track both the amounts included in a distributor's load forecast for CDM and the final verified savings of the distributor's programs. Distributors are to continue to use the LRAMVA as outlined in the existing 2012 CDM Guidelines and the guidance in Chapter 2 and Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications*. Distributors should continue to rely on the LRAMVA to track and dispose of lost revenues that result from approved CDM programs between 2015 and 2020.

The issues addressed in this section relate to accounting guidance for the Advanced Capital Module and Incremental Capital Module:

13. The OEB issued the *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (ACM Report) dated September 18, 2014. The Report indicates that ACM or Incremental Capital Module (ICM) amounts should be recorded in Account 1508 Other Regulatory Assets. Descriptions of the accounts are provided below.

2 EB-2012-0003
3 EB- 2014-0278

A.13 The ACM Report noted that distributors shall record actual amounts in the following sub-accounts of Account 1508 Other Regulatory Assets:

Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures
This account shall be used to record actual eligible ACM or ICM capital amounts, subject to the assets being used or useful (i.e. in-service). Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded. For incremental capital assets under construction, the normal accounting treatment will continue as construction work in progress prior to these assets going into service and hence, being eligible for recording in this sub-account.

Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures, Carrying Charges
Carrying charges calculated based on the actual revenue requirement associated with the approved ACM shall be recorded in this sub-account. Distributors are to track actual revenue requirements for record keeping purposes. Carrying charges shall be calculated using simple interest applied to the actual revenue requirement (exclusive of accumulated interest). The interest rate shall be the rate prescribed by the Board.

Account 1508 Other Regulatory Assets, Sub-account Depreciation Expense
This account shall be used by the distributor to record the depreciation expense associated with the eligible capital amounts recorded in Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures.

Account 1508 Other Regulatory Assets, Sub-account Accumulated Depreciation
This account shall be credited with the amounts charged to Account 1508 Other Regulatory Assets, Sub-account Depreciation Expense.

Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures Rate Rider Revenues
Amounts recorded in this account shall include the actual rate rider revenues collected in relation to the Board-approved rate riders determined for the ACM/ICM projects.

Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures Rate Rider Revenues, Carrying Charges
This account shall be used to record carrying charges that apply to Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures Rate Rider Revenues. Carrying charges shall be calculated using simple interest applied to the opening balances in the account (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.

14. The following is an example of the journal entries to record revenues and expenditures related to an Advanced Capital Module (ACM) accounting upon Board approval of the ACM project.

A.14 The example below illustrates the accounting treatment for an approved ACM. The specific accounting treatment that may apply to a distributor may vary depending on the specific circumstances of the distributor and its application for the ACM. Please note that the example journal entries below will also generally apply to an ICM as well, though the timing of the recording of the journal entries may differ.

Assumptions**:**
Assume that a distributor filed its business case for an ACM as a part of the five year DS plan in its cost of service rate application. The distributor forecasts capital costs incurred to be $1,000,000, with construction to commence in year 4 and an in-service date in year 5. The business case is approved in the cost of service rate application. For simplicity of the example, assume that the actual in-service date and costs are in line with those forecasted in the cost of service application. In year 5, the Board approves the revenue requirement and associated rate riders intended to implement cost recovery of the approved ACM project in its Price Cap IR application. Assume that the revenue requirement is $120,000 and the associated rate riders collected are $120,000. Useful life of the asset is 25 years. In year 6, in the distributor's next cost of service rate application, the Board's approval of the disposition of ACM deferral accounts triggers the accounting recognition of the net book value of eligible ACM expenditures as assets in rate base and the funding previously collected as revenues.

		Debit	Credit
Year 4	**ACM Construction Work in Progress**		
Price Cap IR	Dr. Account 2055 Construction Work in Progress - Electric	1,000,000	
	Cr. Account 2205 Accounts Payable		1,000,000
	To record construction work in progress relating to the ACM		
Year 5	**ACM Assets In Service**		
Price Cap IR	Dr. Account 1508, Sub-account Incremental Capital Expenditures	1,000,000	
	Cr. Account 2055 Construction Work in Progress - Electric		1,000,000
	To record the transfer of construction work in progress to in-service assets		
	Dr. Account 1508, Sub-account Incremental Capital Expenditures, Carrying Charges	2,500	
	Cr. Account 1525 Miscellaneous Deferred Debits		2,500
	To record carrying charges on the ACM in-service assets		
	Dr. Account 1508, Sub-account Depreciation Expense	40,000	
	Cr. Account 1508, Sub-account Accumulated Depreciation		40,000
	To record ACM depreciation expense		
	Rate Rider Recovery		
	Dr. Account 1100 Customer Accounts Receivable	120,000	
	Cr. Account 1508, Sub-account Incremental Capital Expenditures Rate Rider Revenues		120,000
	To record the collection of rate rider billings		
	Dr. 1525 Miscellaneous Deferred Debits	1,764	
	Cr. Account 1508, Sub-account Incremental Capital Expenditures Rate Rider Revenues, Carrying Charges		1,764
	To record carrying charges on the ACM rate riders collected		
Year 6	**Reclassification of Accounts**		
Cost of Service	Dr. Accounts 1606-1990 PP&E accounts	1,000,000	
	Cr. Account 1508, Sub-account Incremental Capital Expenditures		1,000,000
	To transfer the ACM assets into appropriate asset accounts		

Dr. Account 5705 Depreciation Expense	40,000	
Cr. Account 1508, Sub-account Depreciation Expense		40,000
To record ACM depreciation expense to depreciation expense account		
Dr. Account 1508, Sub-account Accumulated Depreciation	40,000	
Cr. Account 2105 Accumulated Depreciation of Electric Utility Plant*		40,000
To transfer accumulated depreciation to accumulated depreciation account *This may also be recorded in the sub-account of Account 2105 established in this March 2015 guidance if the accumulated depreciation pertains to the applicable asset accounts		
Dr. Account 1508, Sub-account Incremental Capital Expenditures Rate Rider Revenues	120,000	
Cr. Account 4080 Distribution Services Revenue		120,000
To transfer previously collected funds to a revenue account		
Dr. Account 1508, Sub-account Incremental Capital Expenditures Rate Rider Revenues, Carrying Charges	1,764	
Dr. Account 1525 Miscellaneous Deferred Debits	736	
Cr. Account 1508, Sub-account Incremental Capital Expenditures, Carrying Charges		2,500
To reverse carrying charges, which would be included in a revenue requirement true-up, if approved		

Following the approved disposition of the ACM accounts, the balances in the ACM accounts should be zero. Please note that distributors are to provide the calculation of actual revenue requirement in its cost of service application when requesting the disposition of ACM accounts. Should the Board approve a true-up of significant variances between the revenue requirement based on actuals and the revenues collected through the ACM rate riders, any rate riders collected or refunded from the true-up should be recorded in Account 4080 Distribution Service Revenue and not the ACM sub-accounts. Hence, the ACM accounts should still be zero upon approved disposition.

The issues addressed in this section relate to accounting guidance for various other items and accounts:

15. What is the treatment for the disposition of the balance in Account 1592 PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax Credits (ITCs) for the elimination of Ontario PST and the introduction of HST in 2010?

A.15 Most income and capital tax issues have been handled through the tax-sharing mechanism established by the Board. The incentive rate-setting filing model has contained a module over the years that calculates the tax sharing and generates the appropriate rate riders. Generally, disposition of the tax sharing amounts have been cleared over one rate year.

Any impacts arising from differences in income or capital tax rates would be recorded in Account 1592 if timing did not allow for them to be captured through the annual rate filings. As a result, the balances in this account relating to the above impacts have been minimal. However, in 2010, the Board established a sub-account to capture a discreet tax item relating to the transition from PST to HST in 2010.

The full amount of the PST impact should have been recorded in the account and carrying charges applied. When the Board approves the refund to customers, generally 50% of the total amounts recorded, the utility will transfer 50% of the balance to Account 1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Approved in 20yy. Guidance related to the operation of Account 1595 and the creation of annual sub-accounts has been provided in Accounting Procedures Handbook, October 2009 FAQs and in December 2010 FAQs.

The 50% of the principal balance that will be retained by the utility should be reversed in the same manner that the utility recorded the original entry. Interest may be recorded as a reduction to interest expense in the year. Depending on materiality, the utility may choose to recognize the reversal of its 50% share of the principal and interest balances in its financial year if its rate year does not end on December 31st.

16. A distributor is embedded within Hydro One. Hydro One's rates approved by the Board include several rate riders which appear on the distributor's invoice from Hydro One. The rate riders are:

- **Rate Rider for Disposition of Deferral/Variance Accounts**
- **Rate Rider for Wholesale Market Service Rate**
- **Rate Rider for Incremental Capital Costs**
- **Rate Rider for Smart Grid Costs**
- **Rate Rider for Shared Tax Savings**
- **Rate Rider for Application of Tax Change**
- **Rate Rider for Disposition of Global Adjustment**

What is the recommended accounting treatment of the rate riders?

A.16 All of the rate rider charges (except Global Adjustment) are related to the provision of sub-transmission services by Hydro One. These charges are to be recorded in Account 4750 LV Charges. The sub-transmission charges related to the transformation of electricity to less than 50kV are considered to be low voltage services. Therefore, an embedded distributor recovers these charges recorded in Account 4750 through the true-up of variances it records in Account 1550 LV Variance Account.

Variances arising from the Global Adjustment rate rider should be recorded in a separate sub-account of Account 1550 LV Variance Account, Sub-account Global Adjustment. When proposing disposition of the account balances in a Board proceeding, this sub-account balance should be disposed to only the non-RPP customers.

17. When a distributor has a Class A consumer who pays Global Adjustment (GA) based on the percentage that their peak demand contributes to the top five system coincident peaks during a pre-determined base period, should the distributor exclude this Class A consumer from disposition of Account 1589 RSVA$_{GA}$ in its disposition proposal?

A.17 Yes, Class A consumers should not be allocated or charged any GA if the customer was a Class A consumer throughout the entire period over which the balances proposed for disposition accumulated in the variance account. Class A consumers typically settle the GA in a particular manner with their distributor. Class A market participants settle the GA with the IESO directly. As long as these two settlements do not result in a variance, the customer should not be included in any calculation of the riders or the disposition of Account 1589 for the duration that the customer was a Class A customer.

The government of Ontario introduced the Industrial Conservation Initiative (ICI) in 2010 to apply to customers with a peak demand of greater than 5 MW over a year-long base period. These Class A customers are charged GA based on their Peak Demand Factor unless they opt out. The government of Ontario recently expanded the initiative to include customers with peak demand greater than 3 MW but less than or equal to 5 MW, effective July 1, 2015.

For the year(s) when a customer has opted out of ICI, the customer should be charged Global Adjustment as per the EDDVAR allocation methodology.

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