

**Ontario
Energy
Board**

**Commission
de l'Énergie
de l'Ontario**



Accounting Procedures Handbook

For

Electric Distribution Utilities

**Effective: January 01, 2000
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Background

The *Energy Competition Act, 1998* received Royal Assent on October 30, 1998. This legislation set the stage for a competitive electricity market, and the regulation of the monopoly delivery system of the electric industry by the Ontario Energy Board (the "Board").

As of April 1, 1999, Ontario Hydro, a provincial Crown corporation, ceased to conduct business as a self-regulating entity with regulatory control over the electricity distribution sector through its authority under the *Power Corporation Act*. Certain sections of the *Power Corporation Act* were repealed, and Ontario Hydro was restructured into successor companies. Consequently, regulatory authority over the electricity distribution sector passed to the Board.

The *Energy Competition Act, 1998* sets out the Board's powers to issue a distribution licence that must be obtained by any person owning or operating a distribution system pursuant to section 57 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B*. (the "*OEB Act, 1998*" – a component of the *Energy Competition Act, 1998*). The *OEB Act, 1998* allows the Board to prescribe licence requirements and conditions to electricity distributors that may include, among other considerations, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate setting purposes.

The Board undertook an assessment of the adequacy, for regulatory purposes, of the information formerly reported by electric distribution utilities as prescribed by Ontario Hydro. The Board consequently developed this Accounting Procedures Handbook ("APHandbook"), which includes guidance on accounting procedures and requirements and the Uniform System of Accounts ("USoA") in order to: (1) accommodate financial segregation of the regulated monopoly business from potentially competitive activities; (2) incorporate new legislative requirements; (3) support a Performance Based Regulation ("PBR") or Incentive Rate Mechanism ("IRM") methodology; and, (4) provide the detail necessary to accommodate unbundled cost allocation and rate design.

Implementation of this APHandbook assists in providing an adequate information base for establishing rates, monitoring utility performance, and developing PBR or IRM. The APHandbook was developed and made available as early as possible in 1999 to minimize complications associated with any potential retroactive restatement of financial information. Electricity distribution utilities and other stakeholders were given the opportunity to comment upon the draft version of this APHandbook before it was received and approved by the Board in November 1999. The implementation date was January 1, 2000. After this date, the Board expects that utilities will be prepared to

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supply financial information in compliance with the APHandbook. The Board will conduct selected audits/ inspections and reviews to assess utility compliance with the APHandbook.

The resulting financial accounting and reporting system provides the structure to be used for financial forecasting, revenue requirement, financial performance benchmarking, cost allocation and rate design model(s).

It is to be noted that the APHandbook applies to the electric distributor and has implications for an electric distributor that exchanges goods or services with affiliates. The APHandbook, however, does not apply directly to the affiliate.

The Board's development of a financial accounting and reporting system in 1999 included:

- A comparison of the chart of accounts used by Municipal Electrical Utilities ("MEU"), as prescribed by Ontario Hydro (Hydro) pursuant to section 115 of the *Power Corporation Act* and defined in the "Accounting for Municipal Electric Utilities in Ontario" manual, to the system of accounts prescribed by the Federal Energy Regulatory Commission ("FERC") in the United States. The FERC system of accounts is widely used while the Hydro chart of accounts was a unique system applied only in Ontario. This review was undertaken to evaluate the usefulness of the additional details captured in the FERC system of accounts. As the FERC system of accounts is widely used, it provides a sufficient source of comparative information to support the benchmarking activities conducted in support of Performance Based Regulation (which at the time of writing was under consideration by the Board). The USoA contained herein was structured with FERC comparability in mind to facilitate benchmarking (e.g., consolidating FERC account details in order to map to the USoA or vice-versa).
- A review of the specific details of each account currently approved by the Board for use by the larger (Class "A") natural gas utilities in Ontario, and comparison of these details to the Ontario Hydro and FERC system of accounts. This review was performed to highlight any actual or potential variances in account usage and to identify areas where reporting and recording details could be enhanced within the context of encouraging symmetry between the regulation of natural gas and electricity to the extent possible.
- A survey of individual electric distribution utilities to gather particulars regarding any differences between the financial reporting used by the electric

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utility for internal purposes and that required by Ontario Hydro. This review was performed in an attempt to minimize translation requirements of individual electric distribution utilities and identify useful recording and reporting details.

- The selection of a sample of MEUs to provide comments on the content of the proposed account details, account structure and related issues based on their particular circumstances and experiences.
- A review of the new legislation to assess potential new account requirements and accounting issues.
- A review of electric distribution utility USoAs required by other jurisdictions and comparison to the Hydro and FERC USoAs to highlight potentially useful recording differences.
- A review of the adequacy and completeness of accounting policies used in conjunction with the Ontario Hydro chart of accounts to evaluate the impact on the proposed account structure. In this regard, the Board obtained external technical resources to assist Board staff in reviewing the “Accounting for Municipal Electric Utilities in Ontario” manual to appraise its substance (adequacy, usefulness, completeness, user friendliness), critique its flexibility (necessity and relevance of available accounting procedure options), and identify deviations from U.S. practices (identify differences and potential reconciliation alternatives to enable financial comparison which may be required under Performance Based Regulation) as listed in the FERC USoA.

In the development of the APHandbook, Board staff worked closely with the former Municipal Electric Association (“MEA”), now the Electricity Distributors Association (“EDA”), and a sample of former MEUs drawn from the MEA’s Utility Accounting and Finance Committee (which included representatives from the former Ontario Hydro) in order to identify relevant recording and reporting requirements and to develop this APHandbook and related USoA.

The activities that are underway at the time of this revision on Board projects and proposed changes to the accounting standards from accounting standard setting bodies may impact the APHandbook in the future. The implications of these emerging matters on the APHandbook will be assessed to determine whether there is a need for further accounting guidance or requirements. These issues include the following items:

- The Board’s comparative utility costs analysis project (also known as comparators and cohorts)

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- Impacts arising from implementation of IRM
- The cost allocation informational filings (Cost Allocation Model)
- The Accounting Standard Board (“AcSB”) issuance of new accounting standards and convergence of Canadian Generally Accepted Accounting Principles with International Financial Reporting System (IFRS)
- The AcSB proposed changes to the accounting standards for rate-regulated entities, including electricity and gas companies

Purpose of the Accounting Procedures Handbook

The APHandbook has been prepared in order to:

- summarize Accounting Procedures and Requirements and provide a USoA for the use of all electric distribution utilities as well as those electric utilities concurrently possessing generation and/or transmission capabilities. The APHandbook is designed for the use of:
 - each electric utility’s accounting, financial, and regulatory personnel,
 - the electric utility’s external auditors, and
 - the Board’s regulatory staff;
- reflect the Board’s interpretation, for regulatory purposes, of Generally Accepted Accounting Principles (“GAAP”) based on the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”);
- address accounting issues where further guidance specific to Ontario electric utilities is required;
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises;
- recognize that the regulatory process introduces certain specific cause-and-effect relationships in the matching of a utility’s revenues and expenses, which may require special applications of GAAP; and

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- encourage consistency in the application of GAAP where choices in its application exist.

The APHandbook reflects current accounting and regulatory practices and terminology. The Accounting Procedures and Requirements and USoA have been refined in certain areas to accommodate the deregulated electricity environment, as well as regulated and non-regulated activities of electric utilities. Specific accounts have also been included in the USoA to meet future expected IRM requirements.

Inclusion of any item or account in the prescribed USoA does not necessarily imply the Board's acceptance for rate-making purposes of any expenditure, revenue or procedure suggested by the use of such an account.

Electric utilities are advised to use the APHandbook in conjunction with the CICA Handbook to determine appropriate accounting policies and practices, giving due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of GAAP.

Legislative Authority to Prescribe Accounting Procedures and Requirements

The legislative framework of the Board's authority to prescribe Accounting Procedures and Requirements is provided pursuant to sections 57, 70 (2) and 78 of the *Ontario Energy Board Act, 1998*.

Pursuant to section 57 of the *OEB Act, 1998*, a licence is required to conduct certain activities. For example a licence is required to:

- own or operate a distribution system;
- own or operate a transmission system;
- generate electricity or provide ancillary services for sale through the IESO-administered markets or directly to another person;
- retail electricity;
- purchase electricity or ancillary services in the IESO-administered markets or directly from a generator;
- sell electricity or ancillary services through the IESO-administered markets or directly to another person, other than a consumer.

Section 70 (2) of the *OEB Act, 1998* lists examples of licence conditions, including the following specific requirements:

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- provide, in the manner and form determined by the Board, such information as the Board may require;
- maintain specified accounting records, prepare accounts according to specified principles and maintain organizational units or separate accounts for separate businesses in order to prohibit subsidies between separate businesses;
- adhere to specified performance standards, targets and criteria; and,
- meet specified information reporting requirements relating to the source of electricity and emissions caused by the generation of electricity.

Accordingly, sections 57 and 70 (2) of the *OEB Act, 1998* provide the Board with the legislative authority to prescribe the Accounting Procedures and Requirements contained in this APHandbook.

In regards to the Board's rate regulation powers, pursuant to section 70 (2) (e) of the *OEB Act, 1998*, the conditions of a licence may include provisions specifying methods or techniques to be applied in determining the licensee's rates. In addition, section 78 provides that an order under this section may include conditions, classifications or practices applicable to the Smart Metering Entity in respect of meeting its obligations and to the transmission, distribution or retailing of electricity, including rules respecting the calculation of rates. Consequently, the ratemaking methodology can also create implications for account structure and accounting policy.

In October 2002, the Board amended the distribution licence of distributors to include a condition of licence (subsection 14.1) to implement the requirements of the electricity Reporting and Record-keeping Requirement (RRR). As part of the RRR, the reporting requirements for a distributor includes the filing of the annual Uniform System of Accounts (USoA) trail balance under the Accounting Procedures Handbook and annual audited financial statements.

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Generally Accepted Accounting Principles

As a result of incorporating under the *Ontario Business Corporations Act*, electric utilities will be subject to financial reporting requirements as contained in Part XII—Auditors and Financial Statements of this Act. Specifically, section 155 of the *Ontario Business Corporations Act* requires that financial statements be prepared as prescribed by regulation and in accordance with Generally Accepted Accounting Principles (“GAAP”).

The basis for GAAP is provided in *Regulation 62, R.R.O. 1990*, made under the *Ontario Business Corporations*

Act. Section 40 requires that the financial statements referred to in section 155 of the *Ontario Business Corporations Act* be prepared in accordance with the standards set forth in the CICA Handbook.

Consequently, pursuant to the *Ontario Business Corporations Act*, GAAP is the prescribed medium for communication of financial information to the public, and Ontario electric corporations will be required to prepare financial statements based on GAAP as presented in the CICA Handbook.

The term GAAP is further defined in paragraphs 1100.12 of the CICA Handbook, which notes that there are special circumstances where a different basis of accounting may be appropriate, for example, in financial statements prepared in accordance with regulatory legislation or contractual requirements. Essentially, the CICA Handbook recognizes that alternative accounting treatment may be warranted due to special circumstances faced by rate-regulated enterprises (CICA s.1100.35).

Note that the term “rate-regulated” as used in this APHandbook does not imply a specific methodology for approval or fixing of rates. (Such methodologies are normally referred to as rate based, price cap, social contract, or incentive based regulation, etc.). Instead, the term refers to the fact that rates, however determined, are subject to approval by a legislated body.

The APHandbook provides guidance in those specific areas where electric utilities are allowed to use alternative accounting treatments due to special circumstances resulting from the regulatory process. A full discussion of GAAP for regulated electric utilities is provided in Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment.

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Records

- a) Each utility shall keep its books of account, and all other books, records, and memoranda that support the entries in such books of account so as to be able to readily furnish full information about any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, examination, analysis, and verification of all facts relevant thereto. The records shall be filed in such a manner as to be readily accessible for examination by authorized representatives of the Board.
- b) The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., that may be useful in developing the history of or facts regarding any transaction.
- c) No utility shall destroy any such books or records unless the destruction thereof is permitted by rules and regulations of the Board.
- d) Pursuant to section 72 of the *OEB Act, 1998*, each distributor shall keep its financial records associated with distributing electricity separate from its financial records associated with other activities.
- e) Unless otherwise provided for in the accounts prescribed in the USoA, electric utilities shall subdivide any and all applicable accounts to record non-electric utility transactions or items that are not normally includible in Ontario electric utility assets, liabilities, revenues or expenses for the purposes of the Board approving or fixing just and reasonable rates for the transmission or distribution of electricity and for the retailing of electricity pursuant to section 78 of the *OEB Act, 1998*.
- f) Electric utilities may further subdivide any and all accounts prescribed in the USoA. Clearing accounts, temporary or experimental accounts, and subdivisions of any accounts, may be kept, provided the integrity of the prescribed accounts is not impaired.
- g) For new electric-related lines of business and for non-utility activities, electric utilities shall record all transactions in sufficient detail to segregate such activities.
- h) Electric utilities may use a different system of account numbers for its own purposes provided that there shall be kept a readily available list of such account numbers and a reconciliation of such account numbers with the

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account numbers provided in the USoA. It is intended that the utility's records shall be so kept as to permit ready analysis by prescribed accounts (by direct reference to sources of original entry to the extent practicable) and to permit preparation of financial and operating statements directly from such records at the end of each accounting period according to the prescribed accounts.

- i) Each utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. The statements may be required to show the general nature of the transactions, the amounts involved and the amounts included in each account prescribed in the USoA with respect to such transactions. Unless otherwise provided, transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature. The utility is permitted to subdivide accounts for the purpose of separately recording transactions with associated companies. See also Article 340 – Allocation of Costs and Transfer Pricing.

Financial Statement Presentation for External Reporting Purposes

Section 42 (1) of *Regulation 62, R.R.O. 1990*, made under the *Ontario Business Corporations Act* requires that the financial statements include at least:

- a) a balance sheet;
- b) a statement of retained earnings;
- c) an income statement; and
- d) a statement of changes in financial position.

Section 42 (2) states that financial statements need not be designated by the names set out in Section 42 (1). Further guidance on financial statement concepts is provided in Section 1000 of the CICA Handbook. General standards of financial statement presentation are provided in CICA Handbook Section 1400.

Note that the APHandbook does not prescribe how the accounts contained in the USoA are to be rolled up for financial statement reporting purposes. Accordingly, electric utilities should follow the general standards of financial statement presentation contained in the CICA Handbook.

Note however, that the Board may specify reporting standards for purposes of preparing Board approved monitoring reports or as part of the regulatory filing requirements.

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Application of the Accounting Procedures Handbook

The APHandbook supersedes the “Accounting for Municipal Electric Utilities in Ontario” manual previously issued by Ontario Hydro. For the initial application of the APHandbook procedures and requirements, refer to Article 510—Interpretation Bulletin—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

It should be recognized that in issuing this APHandbook, no rule of general application can be phrased to suit all circumstances or combination of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case. (See “Inquiries” below).

No Accounting Procedure or Requirement is intended to override the requirements of a governing statute.

The Accounting Procedures or Requirements in this APH need not be applied to immaterial items. While materiality is a matter of professional judgment in the particular circumstances, as a general rule, materiality should be judged in relation to the significance of financial information to decision makers. An item of information, or an aggregate of items, should be deemed to be material if it is probable that its omission or misstatement would influence or change a decision. In determining materiality in a regulated environment, both quantitative as well as qualitative factors need to be considered, particularly those qualitative items that would be of a social or otherwise sensitive nature and therefore of particular interest to the users of the financial information. As a result, the materiality level for regulatory reporting purposes may be different than that for financial reporting purposes. The Board may review information and determine for regulatory policy or other purposes that the accounting treatment should be different than that accorded to the item by the utility, irrespective of the size or nature of the item.

Note that it is the responsibility of management to keep records in accordance with proper accounting methods for the purpose of accurate, complete, timely and proper recording of the electric utility’s transactions.

Policy Introduction

(i) Effective Date

Unless otherwise indicated, the Accounting Procedures or Requirements contained in this APHandbook are effective with respect to financial information relating to

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fiscal periods commencing on or after the first of the month noted at the bottom right corner of the page unless otherwise noted.

An existing Accounting Procedure or Requirement remains in force until the effective date noted at the bottom right corner of the page of the new Accounting Procedure or Requirement. However, electric utilities may adopt the new Accounting Procedure or Requirement before the effective date when this practice is authorized by the Board in the release notice.

Guidance on the accounting treatment for a change in accounting policy is contained in Article 320—Accounting Changes.

(ii) Additions and Revisions

Accounting is not static. It has changed in the past and will continue to adapt to meet changes in regulatory methodology, economic, or social conditions. Thus, there will be a periodic review and amendment of material contained herein as circumstances warrant.

In order to establish and improve standards for regulatory accounting and reporting the Board will periodically issue new Accounting Procedures or Requirements. The proposed process for introducing a new Accounting Procedure or Requirement is:

1. The preliminary research and drafting will be conducted by the Board.
2. The draft Accounting Procedure or Requirement will be distributed for comment to a sample of some or all electric utilities, external consultants, and stakeholders or any combination of these.
3. After comments are received and reviewed, the Accounting Procedure or Requirement will be revised if necessary. Significant revisions may lead to redistribution of the Accounting Procedure or Requirement for comment as indicated in 2 above.
4. The revised Accounting Procedure or Requirement will be presented to the Board for approval.
5. The approved Accounting Procedure or Requirement will then be distributed to holders of the APHandbook.

Interpretation Bulletins will be issued as required providing guidance on transitional issues, interpreting Accounting Procedures or Requirements or addressing new or contentious issues. Research studies may be commissioned when issues are

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expected to have a long-term impact and in anticipation of a need for future accounting standards.

Revised and new Accounting Procedures or Requirements and Interpretation Bulletins will be issued periodically by the Board for insertion in the APHandbook. Changes in existing Accounting Procedures or Requirements will be reflected by the replacement of the relevant page(s). Previously issued Interpretation Bulletins are generally not revised as they may have addressed a specific issue or circumstance at a particular time. An example of this is Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*.

All changes in existing Accounting Procedures or Requirements or new pronouncements will be identified in the APHandbook Revisions Release. More recently Board-approved new accounts in the USoA (Articles 210 and 220) are shown in grey shade for ease of reference.

Summary of Financial Reporting Requirements

In summary, the electric distributor is required to file with the Board (among other filing requirements) an annual USoA trail balance established under the APHandbook and annual audited financial statements. These are required to be filed annually with the Board by April 30 for the preceding fiscal year end.

The Board does not prescribe how the regulatory accounts contained in the USoA are to be rolled up for financial statement reporting purposes or prescribe that the special provisions permitted in the CICA Handbook for rate-regulated enterprises (including electric distributors) be adopted in the financial statements of the electric distributor. These matters of financial statement reporting are left to the discretion of the electric distributor to determine in order to meet the needs of its financial statement users. Further guidance on financial statement concepts is provided in Section 1000 of the CICA Handbook and the general standards of financial statement presentation are provided in CICA Handbook Section 1400.

However, the distributor shall maintain on record a detailed mapping and reconciliation of the annual USoA trial balance accounts to the annual audited financial statements (i.e., line items and respective amounts). This is a record-keeping requirement under section 2.3.2 of the RRR, and such information shall be made available on request of the Board.

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Publication of APHandbook Material

This APHandbook and related guidance material (e.g., Board letters, accounting procedures instructions and APH-FAQs) issued by the Board can be accessed on the Board's website. The Board does not publish paper copy versions of these materials. The APHandbook and related handbook material are available on the "Rules, Codes, Guidelines & Forms" page of the "Industry Relations" section of the Board's website at www.oeb.gov.on.ca or directly through the Board's webpage link under Regulatory Instruments for Reporting and Record-keeping Requirements http://www.oeb.gov.on.ca/html/en/industryrelations/rulesguidesandforms_regulatory.htm#reporting

Inquiries

Inquiries in respect to interpretation and clarification of accounting issues relating to specific situations in utilities should be directed to the Board's Market Operations Hotline email: market.operations@oeb.gov.on.ca or the appropriate designated individual at the Ontario Energy Board.

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1010	Cash Advances and Working Funds
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1555	Smart Meter Capital and Recovery Offset Variance Account, Sub-accounts Stranded Meter Costs
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1563	Contra Asset - Deferred Payments In Lieu of Taxes
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1570	Qualifying Transition Costs
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1740	Underground Conductors and Devices
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4520	Steam from Other Sources
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4940	Maintenance of Overhead Lines - Right of Way
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5015	Transformer Station Equipment - Operation Supplies and Expenses
5016	Distribution Station Equipment - Operation Labour
5017	Distribution Station Equipment - Operation Supplies and Expenses
5020	Overhead Distribution Lines and Feeders - Operation Labour
5025	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses
5030	Overhead Subtransmission Feeders - Operation
5035	Overhead Distribution Transformers- Operation
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5050	Underground Subtransmission Feeders - Operation
5055	Underground Distribution Transformers - Operation
5060	Street Lighting and Signal System Expense
5065	Meter Expense
5070	Customer Premises - Operation Labour
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5150	Maintenance of Underground Conductors and Devices
5155	Maintenance of Underground Services
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5165	Maintenance of Street Lighting and Signal Systems
5170	Sentinel Lights - Labour
5172	Sentinel Lights - Materials and Expenses
5175	Maintenance of Meters
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5310	Meter Reading Expense
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5320	Collecting
5325	Collecting- Cash Over and Short
5330	Collection Charges
5335	Bad Debt Expense
5340	Miscellaneous Customer Accounts Expenses

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5640	Injuries and Damages
5645	Employee Pensions and Benefits
5650	Franchise Requirements
5655	Regulatory Expenses
5660	General Advertising Expenses
5665	Miscellaneous General Expenses
5670	Rent
5675	Maintenance of General Plant
5680	Electrical Safety Authority Fees
5685	Independent Electricity System Operator Fees and Penalties
5695	OM&A Contra Account

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5705	Amortization Expense – Property, Plant, and Equipment
5710	Amortization of Limited Term Electric Plant
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5720	Amortization of Electric Plant Acquisition Adjustments
5725	Miscellaneous Amortization
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6005	Interest on Long Term Debt
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6020	Amortization of Loss on Reacquired Debt
6025	Amortization of Gain on Reacquired Debt--Credit
6030	Interest on Debt to Associated Companies
6035	Other Interest Expense
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6110	Income Taxes
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Current Assets**1005 Cash**

This account shall include the cash funds which are held in banks or on hand for deposit in banks. There shall be separate ledger accounts for each bank account, whether current, savings, payroll or trust funds.

1010 Cash Advances and Working Funds

These accounts shall include cash advanced to officers, agents, employees, and others as petty cash or working funds. Cash deposits with boards and commissions shall also be included. These accounts shall be maintained in such a manner that an adequate record of advances will be evident.

1020 Interest Special Deposits

This account shall include special deposits with fiscal agents or others for the payment of interest.

1030 Dividend Special Deposits

This account shall include special deposits with fiscal agents or others for the payment of dividends.

1040 Other Special Deposits

This account shall include deposits with fiscal agents or others for special purposes other than the payment of interest and dividends. Such special deposits may include cash deposited with federal, provincial, or municipal authorities as a guaranty for the fulfillment of obligations; cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced; cash realized from the sale of the accounting utility's securities and deposited with trustees to be held until invested in property of the utility, prudential deposits from electricity retailers, etc.

This account shall also include the current asset portion of customer deposits related to amounts in accounts 2335 and 2340.

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Current Assets

Entries to this account shall specify the purpose for which the deposit is made.

Note: Deposits for more than one year, which are not offset by current liabilities, shall not be charged to this account but to account 1410, Other Special or Collateral Funds.

1060 Term Deposits

This account shall include those term deposits which are cashable at any time.

1070 Current Investments

Current investments shall be considered as those which are capable of reasonably prompt liquidation. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are current in nature. (Those non-current in nature are to be recorded in account 1405, Long term Investments in Non-associated Companies).

Entries shall be made to this account in such a manner that a complete record of each investment is maintained. Records shall also be so maintained as to show separately the temporary cash investments in securities of associated companies.

1100 Customer Accounts Receivable

This account shall include amounts due from customers for such items as:

- 1) electrical energy sales,
- 2) distribution tariff.

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable. This account shall not include amounts due from associated companies. (See account 1200, Accounts Receivable from Associated Companies).

Uniform System of Accounts**Balance Sheet Accounts**

Current Assets**1102 Accounts Receivable - Services**

This account shall include amounts receivable for distributions services provided on behalf of others (i.e. retailers). Where applicable, this account shall also include amounts receivable for transmission services provided.

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1104 Accounts Receivable - Recoverable Work

This account shall include amounts receivable for:

- 1) recoverable work performed;
- 2) contract work;
- 3) temporary facilities (periods of less than one year).

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1105 Accounts Receivable - Merchandising, Jobbing, Etc.

This account shall include amounts due in relation to revenues derived from the sale of merchandise and jobbing work. See related account 4325, Revenues from Merchandising, Jobbing, Etc.

1110 Other Accounts Receivable

This account shall include amounts due to the utility upon open accounts, other than amounts due from associated companies (account 1200) and amounts included in accounts 1100 to 1105. Examples of items to be included are:

- 1) Amounts due from Municipal Corporations with regard to municipal owned street lighting;
- 2) Amounts due from other municipal departments and other departments in the case of a Public Utility Commission;
- 3) Amounts due from sources such as taxes recoverable (e.g. GST input tax credit), insurance claims, etc.;
- 4) Other.

Uniform System of Accounts**Balance Sheet Accounts**

Current Assets

This account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

1120 Accrued Utility Revenues

This account shall include the amount of revenue for power/ services consumed prior to the utility's year end but not billed until the following year.

1130 Accumulated Provision for Uncollectible Accounts–Credit

- A. This account shall be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. Concurrent charges shall be made to account 5335, Bad Debt Expense, for amounts applicable to utility operations, and to corresponding accounts for other operations.
- B. This account shall be subdivided to show the provision applicable to each class of receivable.

Note: Provisions for uncollectible notes receivable, or for uncollectible receivables from associated companies, if necessary, shall be established under the account in which the receivable is carried. (i.e. - accounts 1170, 1200, or 1210, respectively).

1140 Interest and Dividends Receivable

This account shall include the amount of interest on bonds, mortgages, notes, commercial paper, loans, open accounts, deposits, etc., the payment of which is reasonably assured, and the amount of dividends declared or guaranteed on stocks owned.

Note A: Interest which is not subject to current settlement shall not be included herein but in the account in which is carried the principal on which the interest is accrued.

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Current Assets

Note B: Interest and dividends receivable from associated companies shall be included in account 1200, Accounts Receivable from Associated Companies.

1150 Rents Receivable

This account shall include rents receivable or accrued on property rented or leased by the utility to others.

Note: Rents receivable from associated companies shall be included in account 1200, Accounts Receivable from Associated Companies.

1170 Notes Receivable

This account shall include the book cost of all collectible obligations in the form of notes receivable and similar items of funds due on demand or within one year from the date of issue, except notes receivable from associated companies. (See account 1210, Notes Receivable from Associated Companies.)

Entries shall be made to the accounts in such a manner that a complete record of each investment is maintained.

1180 Prepayments

This account shall include amounts representing prepayments of all types including transmission charges, insurance, rents, taxes, interest and miscellaneous items, and shall be kept or supported in such manner as to disclose the amount of each class of prepayments.

1190 Miscellaneous Current and Accrued Assets

This account shall include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein.

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Current Assets

1200 Accounts Receivable from Associated Companies

This account shall include debit balances subject to current settlement in open accounts with associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 1485, Investment in Associated Companies - Significant Influence.

Note: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

1210 Notes Receivable from Associated Companies

This account shall include notes and drafts upon which associated companies are liable, and which mature and are expected to be paid in full not later than one year from the date of issue, together with any interest thereon. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 1485, Investment in Associated Companies - Significant Influence.

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Balance Sheet Accounts

Inventory**1305 Fuel Stock**

This account shall include the cost of fuel on hand.

Example of costs to be included:

1. Invoice price of fuel less any cash or other discounts.
2. Freight and other transportation charges.
3. Customs and Excise taxes.
4. Cost of direct labour to handle stock.
5. A reasonable share of the overhead expense for warehousing.
6. Any significant carrying charges.

1330 Plant Materials and Operating Supplies

- A. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. It shall include also the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated amortization provision, respectively, and included herein as follows:
- 1) Recovered high value identifiable materials should be carried at net book value unless it is obvious that the asset's value is less due to damage or obsolescence.
 - 2) Scrap and non usable materials included in this account shall be carried at the estimated net amount realizable therefrom.
- B. This account shall include the net realizable value of goods taken out of service and marked for disposal.
- C. This account shall also include the cost of bulk purchases made of items to be incorporated in future plant but not items on hand for spare or reserve purposes that are expected to substitute original plant items while the original items are being repaired.

Refer to Article 420, Inventory, Article 410, Capital Assets and Article 510, Interpretation Bulletin --Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* for further guidance as to the

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Balance Sheet Accounts

Inventory

accounting treatment of spare transformers and meters as capital assets and the accounting treatment of poles, conductors and conduit as inventory.

1340 Merchandise

This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising, jobbing, etc. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

1350 Other Materials and Supplies

This account shall include the book cost of other materials and supplies held primarily for non-regulated activities performed within the regulated entity. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account

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Non-Current Assets**1405 Long Term Investments in Non-Associated Companies**

- A. This account shall include the book cost of investments in securities issued by non-associated companies, investment advances to such companies, and any investments not accounted for elsewhere. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 4405, Interest and Dividend Income.)
- B. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) which are classified as financial assets or equity instruments and are non-current in nature. (Those of a current nature are to be recorded in account 1070, Current Investments).
- C. The records shall be maintained in such manner as to show the amount of each investment and the investment advances to each entity.

1408 Long Term Receivable - Street Lighting Transfer

This account shall include the non current portion of the amount due from Municipal Corporations with regard to the transfer of the ownership of the street lighting equipment to the Municipal Corporations. It will also include the net balance transferred where an adjustment to the accounts has been made.

1410 Other Special or Collateral Funds

- A. This account shall include the amount of cash and book cost of investments which have been segregated in special funds for insurance, employee pensions, savings, relief, hospital, and other purposes not provided for elsewhere.
- B. This account shall also include the non-current portion of customer deposits recorded in account 2335, as well as non-current deposits or securities held as collateral relating to account 2340, Collateral Funds Liability.
- C. A separate account with appropriate title, shall be kept for each fund.

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Non-Current Assets

Note: Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employee benefits shall not be included in this account. Investments and securities shall be recorded at face value.

1415 Sinking Funds

This account shall include the amount of cash and book cost of investments held in sinking funds. A separate account, with appropriate title, shall be kept for each sinking fund.

1425 Unamortized Debt Expense

- A. This account shall include expenses related to the issuance or assumption of debt securities. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security.
- B. The amortization shall be charged to account 6010, Amortization of Debt Discount and Expense.

Entries shall be made in this account in a manner that the items involved with each issue will be evident.

1445 Unamortized Discount on Long Term Debt–Debit

This account shall include the excess of the face value of long-term debt securities over the cash value of consideration received there for, related to the issue or assumption of all types and classes of debt. Amounts recorded in this account shall be amortized over the life of the respective issues under a plan which will distribute the amount equitably over the life of the securities. The amortization shall be charged to account 6010, Amortization of Debt Discount and Expense.

Entries shall be made in this account in a manner that the items involved with each debt issue will be evident.

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Non-Current Assets**1455 Unamortized Deferred Foreign Currency Translation Gains and Losses**

This account shall include the unamortized balance of exchange gains and losses relating to the translation of long term foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the following fiscal year. These gains and losses should be deferred and amortized on a systematic and rational basis over the remaining life of the monetary item.

The amount of exchange gains and losses to be included in the determination of net income for the current period should be recorded in account 4398, Foreign Exchange Gains or Losses, Including Amortization.

1460 Other Non-Current Assets

This account shall include all other non-current assets which do not properly belong in any other account. Details of these assets shall be kept in such a manner that their nature and purpose is evident.

1465 OMERS Past Service Costs

This account shall include the unamortized portion of OMERS past service costs, which will be expensed in future periods.

1470 Past Service Costs - Employee Future Benefits

This account shall include the unamortized portion of past service costs related to employee future benefits which will be expensed in future periods.

1475 Past Service Costs - Other Pension Plans

This account shall include the unamortized portion of past service costs related to pension plans other than OMERS which will be expensed in future periods.

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Non-Current Assets**1480 Portfolio Investments - Associated Companies**

- A. This account shall include the book cost of investments in securities issued by associated companies, and investment advances to such companies. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 4405, Interest and Dividend Income.)
- B. The records shall be maintained in such manner as to show the amount of each investment and the investment advances to each associated entity.

1485 Investment in Associated Companies - Significant Influence

- A. This account shall include the cost of investments in securities issued or assumed by associated companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement, provided that the investment does not relate to a subsidiary company. (If the investment relates to a subsidiary company it shall be included in account 1490, Investment in Subsidiary Companies.) Include herein the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 4405, Interest and Dividend Income.)
- B. This account shall be maintained in such manner as to show the investment in securities of, and advances to, each associated company together with full particulars regarding such investments.

Note A: Securities of associated companies held as temporary cash investments are included in account 1070, Current Investments.

Note B: Balances in open accounts with associated companies, which are subject to current settlement, are included in account 1200, Accounts Receivable from Associated Companies.

1490 Investment in Subsidiary Companies

- A. This account shall include the cost of investments in securities issued or assumed by subsidiary companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current

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Non-Current Assets

settlement plus the equity in undistributed earnings or losses of such subsidiary companies since acquisition. This account shall be credited with any dividends declared by such subsidiaries.

- B. This account shall be maintained in such a manner as to show separately for each subsidiary: the cost of such investments in the securities of the subsidiary at the time of acquisition; the amount of equity in the subsidiary's undistributed net earnings or net losses since acquisition; advances or loans to such subsidiary; and full particulars regarding any such investments that are pledged.

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Other Assets And Deferred Charges**1505 Unrecovered Plant And Regulatory Study Costs**

- A. This account shall include: (1) Nonrecurring costs of studies and analyses mandated by the Board related to plants in service, transferred from account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been canceled or that have been prematurely retired.
- B. This account shall be credited and account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs, shall be debited over the period specified by the Board.
- C. Any additional costs incurred, relative to the cancellation or premature retirement, may be included in this account and amortized over the remaining period of the original amortization period. Should any gains or recoveries be realized relative to the canceled or prematurely retired plant, such amounts shall be used to reduce the unamortized amount of the costs recorded herein.
- D. In the event that the recovery of costs included herein is disallowed in the rate proceedings, the disallowed costs shall be charged to account 6225, Other Deductions, or account 6310, Extraordinary Deductions, in the year of such disallowance.

1508 Other Regulatory Assets

- A. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of the Board.
- B. The amounts included in this account are to be established by those charges which would have been included in net income determinations in the current period under the general requirements of this Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and

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recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

- D. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred. However, when specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, account 4310, Regulatory Credits shall receive the corresponding credit. Account 4305, Regulatory Debits, shall receive the periodic amounts drawing down the balance in this account concurrent with the recovery of the amounts in rates.
- E. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to account 6225, Other Deductions, or account 6310, Extraordinary Deductions, in the year of the disallowance.
- F. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account.

1508 Other Regulatory Assets, Sub-account OEB Cost Assessment

- A. This account shall be used to record the difference between OEB costs assessments invoiced to the distributor for the Board's 2004/05 and 2005/06 (up to April 30, 2006) fiscal years and OEB costs assessments previously included the distributor's rates.
- B. The offsetting entry to this account shall be to account 5655, Regulatory Costs.
- C. This account shall be further sub-divided by year.
- D. Carrying charge amounts shall be calculated using simple interest applied to the

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monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

- E. When amounts in this account are approved for recovery the offsetting entry shall be recorded in the account directed by the Board.
- F. The records supporting the entries to this account shall be kept so that the distributor can furnish full information to the Board as to the nature and amounts included in this account, if requested.

Note A: Effective May 1, 2006, OEB cost assessments were incorporated in the distribution rates of distributors that filed rate applications for the 2006-07 rate year.

Note B: Where OEB cost assessments were incorporated in the distribution rates, the distributor shall cease recordings in this account after April 30, 2006, or the day prior to the date when new rates were otherwise implemented, except for carrying charges. The Board will determine the timing and manner of disposition of the balance in this account.

1508 Other Regulatory Assets, Sub-account Pension Contributions

- A. A distributor shall use this account to record the pension costs associated with the cash contributions paid to Ontario Municipal Employees Retirement Savings ("OMERS") for the period from January 1, 2005 to April 30, 2006, or where a distributor receives approval through an order of the Board to record pension costs in a deferral account for a specified period.
- B. The offsetting entry to this account shall be to account 5645, Employee Pensions and Benefits.
- C. This account shall be further sub-divided by year.
- D. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and

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recorded in a separate sub-account of this account. The approved rate of interest is 3.88 percent per annum up to April 30, 2006. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

- E. When amounts in this account are approved for recovery the offsetting entry shall be recorded in the account directed by the Board.
- F. The records supporting the entries to this account shall be kept so that the distributor can furnish full information to the Board as to the nature and amounts included in this account, if requested.

Note A: Effective May 1, 2006, pension cost contributions to OMERS were incorporated in the distribution rates of distributors that filed rate applications for the 2006-07 rate year.

Note B: Where pension cost contributions for OMERS were incorporated in distribution rates, the distributor shall cease recordings in this account after April 30, 2006, or the day prior to the date when new rates were otherwise implemented, except for carrying charges. The Board will determine the timing and manner of disposition of the balance in this account.

1510 Preliminary Survey and Investigation Charges

- A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation.

If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to account 6225, Other Deductions, or to the appropriate operating expense account.

- B. This account shall also include costs of studies and analyses mandated by the Board related to plant in service. If construction results from such studies, this account shall be credited and the appropriate utility plant account charged with an equitable portion of such study costs directly attributable to new construction.

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The portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to account 1505, Unrecovered Plant and Regulatory Study Costs, or the appropriate operating expense account. The costs of such studies relative to plant under construction shall be included directly in account 2055, Construction Work in Progress-Electric.

- C. The records supporting the entries to this account shall be so kept that the utility can furnish complete information as to the nature and the purpose of the survey, plans, or investigations and the nature and amounts of the charges.

Note: The amount of preliminary survey and investigation charges transferred to utility plant shall not exceed the expenditures which may reasonably be determined to contribute directly and immediately and without duplication to utility plant.

1515 Emission Allowance Inventory

- A. This account shall include the cost of allowances owned by the utility and established under the Environmental Protection Act. See Article 230, Definitions and Instructions, No. 15, and account 1516, Allowances Withheld.
- B. This account shall be credited and account 4565, Allowances for Emission, shall be debited concurrent with the monthly emission of sulfur dioxide.
- C. Separate subdivisions of this account shall be maintained so as to separately account for those allowances usable in the current year and in each subsequent year. The underlying records of these subdivisions shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowance.

1516 Emission Allowances Withheld

- A. This account shall include the cost of allowances owned by the utility but withheld by the appropriate authority under the Environmental Protection Act. (See Article 230, Definitions and Instructions, No. 15.)

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- B. The inventory cost of the allowances released by the appropriate authority for use by the utility shall be transferred to account 1515, Emission Allowance Inventory.
- C. The underlying records of this account shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowances.

1518 RCVA_{Retail}

- A. This account shall be used to record the net of:
 - i) revenues derived from the following services described in the 2000 Electricity Distribution Rate Handbook:
 - a) Establishing Service Agreements;
 - b) Distributor-Consolidated Billing
 - c) Retailer-Consolidated Billing; and
 - d) Split Billing

AND

- ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (d) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- C. Sub-accounts may be used to separately record variances related to items a) to d) above.

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1525 Miscellaneous Deferred Debits

- A. This account shall include all debits not elsewhere provided for which will benefit future periods and shall be carried forward and charged to expense over the term of the benefit.
- B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

1525 Miscellaneous Deferred Debits, Sub-account Payment to Customers

- A. This account shall include the cost of issuing refund cheques/credits to electricity consumers in accordance with government legislation, regulations or Board requirements.
- B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1.

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This account shall include losses from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to account 4350, Losses from Disposition of Future Use Utility Plant. (See account 2040, Electric Plant Held for Future Use.)

1540 Unamortized Loss on Reacquired Debt

This account shall include material losses on long-term debt reacquired or redeemed. See related account 6020, Amortization of Loss on Reacquired Debt.

1545 Development Charge Deposits/Receivables

The purpose of this account is to record funds received or receivable in respect of future capital expenditures. It recognizes that these funds should be accounted for separately. Interest earned on the funds must revert back to the fund and are not available for normal operating purposes. See related account 2330, Development Charge Fund.

1548 RCVA_{STR}

- A. This account shall be used to record the net of:
- i) revenues derived from the Service Transaction Request services described in the 2000 Electricity Distribution Rate Handbook and charged by the distributor, as prescribed, in the form of a:
 - a) Request fee;
 - b) Processing fee;
 - c) Information Request fee;
 - d) Default fee; and
 - e) Other Associated Costs fee;

AND

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- ii) the incremental cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- C. Sub-accounts may be used to separately record variances related to items listed above.

1550 LV Variance Account

- A. Effective May 1, 2006, this account will be used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market.
- B. On a monthly basis, this account shall be used to record the net of:
- i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services, Account 4750
- AND
- ii) the amount billed to the embedded distributor's customers based on the embedded distributor's approved LV rate(s) in, Account 4075
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

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- D. Sub-accounts may be used to separately record variances related to items a) to d) above.

Note: Embedded distributors shall use account 1550 to record LV charges for which an LV amount was included in distribution rates effective May 1, 2006. This account was approved in the Board's decision for the 2006 EDR generic issues proceeding (RP-2005-0020/EB-2005-0529). Account 1586, RSVA_{CN} shall be used to record LV charges approved for historic amounts included in the regulatory assets rate riders (i.e., regulatory assets phase I and II proceedings).

1555 Smart Meter Capital and Recovery Offset Variance Account

- A. Amounts recorded in this account shall include the revenues approved by the Board for smart meters and related capital costs incurred by the distributor.
- B. To record the revenues for smart meter funding recovered by the fixed and/or variable rate charge for each class of customer, Account 4080, Distribution Services Revenue shall be debited and this account credited.
- C. To record capitalized direct costs related to the smart meter program, this account shall be debited and Account 1005, Cash or Accounts Payable credited.
- D. Appropriate sub-accounts shall be used in this account to segregate costs into various categories of capital costs.
- E. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- F. Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded therein.

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1555 Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs

- A. This sub-account shall be used to record the stranded costs associated with conventional or accumulation meters removed at the time of installation of smart meters. The distributor must have owned these stranded meters prior to January 1, 2006 in accordance with s.28.4 of the *Ontario Energy Board Act, 1998*. Distributors that are part of the government's smart metering initiative as referenced in Ontario Regulation 427/06 and Ontario Regulation 428/06 under the *Electricity Act, 1998*, are allowed to record stranded meter costs in this account.
- B. Stranded meter costs are defined as the pooled residual net book value cost of removed meters or meters held in reserve for replacement of in-service meters, less any net sale proceeds when received. Disposition of these costs will be determined in a future proceeding of the Board.
- C. Carrying charges are not authorized for this sub-account (as a return on these assets recorded herein is recovered in rates pending the future disposition of these amounts in this sub-account).
- D. This account shall be further sub-divided to be consistent with rate classes to which the stranded meter costs relate.
- E. Records must also be kept by the types of meters and number of meters to verify the stranded meter costs recorded in this account.

1556 Smart Meter OM&A Variance Account

- A. This account shall be used by the distributor to record **incremental** operating, maintenance, amortization and administrative expenses directly related to smart meters.
- B. To record incremental OM&A expenses and amortization related to the smart meter program this account shall be debited and Account 5695, OM&A Contra Account shall be credited.
- C. Separate sub-accounts within the OM&A contra account (5695) shall be created for the following categories of expenses: operating, maintenance, administration

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and depreciation or amortization.

- D. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- E. Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded therein.

1560 Deferred Development Expenditures

- A. This account shall be charged with the cost of all material expenditures meeting the criteria for deferral to future periods to the extent that their recovery can reasonably be regarded as assured.
- B. Amortization of amounts in this account shall be recorded in account 5735, Amortization of Deferred Development Costs.
- C. The entries in this account must be so maintained as to show separately each project along with complete detail of the nature and purpose of the development project together with the related costs.

1562 Deferred Payments In Lieu of Taxes

- A. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end. For a full year each applicable proxy will be divided by 12, and a monthly amount should be posted for each applicable period.
- B. Any entries resulting from the PILS Deferral Account Allowance will be effective at the end of a utility's taxation year (December 31) and any entries resulting

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from the pass-through of variances between the Deferral Account Allowance and the actual results reflected in a utility's tax filing (e.g. to the Ministry of Finance for payments in lieu of tax) will be effective as of the filing deadline (i.e. tax returns are due six months after year end).

- C. The distributor shall use, on a consistent basis, one of the three accounting methods approved for recording entries in this account in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued Frequently Asked Questions on the APHandbook.
- D. Adjustments shall be made to this account as directed by the Board.
- E. Any amounts included rates shall be debited/credited back to this account at the time of billing or other account specified by the Board.
- F. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

Note: Account 1562 relates to the rate periods that ended on or before April 30, 2006. For rate periods starting on or after May 1, 2006, the distributor must apply the requirements of Chapter 7 of the Board's 2006 Electricity Distribution Rate Handbook, Report of the Board, applicable accounting guidance (e.g. Frequently Asked Questions) and other requirements the Board may specify. Account 1592 shall be used for these purposes.

1563 Contra Account Deferred Payments In Lieu of Taxes

- A. Amounts recorded in this account are applicable to a distributor using the third accounting method approved for recording entries in account 1562 in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued Frequently Asked Questions on the APHandbook. The offsetting entry of each entry in account 1562 shall be made to this contra account.

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- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

1565 Conservation and Demand Management Expenditures and Recoveries

- A. Amounts recorded in this account shall track the costs incurred for conservation and demand management activities and expenditures, and the revenue proxy amount equivalent to the distributor's (first generation) third tranche of MARR (market adjusted revenue requirement) or an amount otherwise approved by the Board.
- B. The revenue proxy amount recorded in this account is equal to 1/12th of approved third instalment of MARR before payment in lieu of taxes. The 1/12th amount shall be recorded each month in the period between March 1, 2005 and February 28, 2006.
- C. The amounts tracked in this account originating from activities, expenditures and revenue accounts shall be reversed to these accounts of original entry. The offsetting entry shall be recorded in account 1566, CDM Contra Account.
- D. Carrying charges shall be calculated on a simple interest basis applied to the monthly opening balances in the account, recorded in a separate sub-account. The rate of interest prescribed by the Board is 5.75 percent per annum. Carrying charges are not permitted in this account after February 28, 2005.
- E. This account shall be further sub-divided to be consistent with the Board-approved CDM program initiatives for the distributor.
- F. Records shall be maintained at an appropriate level of detail to permit Board review and verification of amounts recorded therein.

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1566 CDM Contra Account

- A. This account shall be used to record the offsetting entry for amounts recorded in account 1565, Conservation and Demand Management (CDM) Expenditures and Recoveries, for the reversal of entries to the accounts of original entries.
- B. Carrying charges are not permitted for this account after February 28, 2005.

1570 Qualifying Transition Costs

- A. When authorized or directed by the Board, this account shall be used to record transition costs that meet the four qualifying criteria established in the 2000 Electricity Distribution Rate Handbook.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1.
- C. This account shall be further sub-divided by the appropriate general categories of activities as prescribed by the Board. Consequently, qualifying transition costs transactions shall be recorded in the appropriate cost and recovery sub-accounts as provided in Article 480.
- D. Records shall be maintained to permit the separate identification of any capital and non-capital cost components of this account. The capital sub-account will include capital assets that generally are included in the utility's rate base for rate-making purposes while the non-capital sub-account records the related annual amortization expense and operating and maintenance costs.
- E. Entries to this account, other than carrying charges, shall cease on the electricity market opening (i.e., May 1, 2002), unless otherwise authorized by the Board. Amounts approved on a final basis for recovery in rates shall be credited to this account. The offsetting entry shall be to account 1590, Recovery of Regulatory Asset Balances.

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1571 Pre-Market Opening Energy Variance

- A. As authorized by the Board, this account shall be used for the sole purpose of recording the difference between the utility's purchased cost of power based on time-of-use (TOU) and the amounts billed to non-TOU customers (charged at an average rate) for the same period.
- B. Amounts recorded in this account shall be restricted to the period starting January 1, 2001 and ending on the date prior to the opening of the electricity market in Ontario. (Upon market opening, the LDC shall use Account 1588, RSVA_{Power} to record the difference between the amounts charged by the IESO, host distributor or embedded generator based on the settlement invoice for the energy cost and the amounts billed to customers for the energy costs).
- C. This account shall be further sub-divided by customer classes if the average rate billed by classes are different. Where applicable, sub-accounts shall be maintained by class as follows:
- Residential Non - TOU
 - General Service < 50 KW Non - TOU
 - General Service > 50 KW Non - TOU
 - Sentinel Lighting Non - TOU
 - Street Lighting Non - TOU
- D. The difference between the utility's purchased cost of power based on time-of-use(TOU) and the amounts billed to non-TOU customers charged at an average rate for the same period is debited or credited to this account and the offsetting debit/credit is recorded in account 4705, Power Purchased. (Note the expense recorded in account 4705 will therefore equal the revenues as billed to the non-TOU customers, resulting in a "flowthrough" of energy costs. Energy sales recorded in accounts 4006 to 4035 are not affected by the above treatment).
- E. For purposes of recording costs of power variances in this account, Board-approved unbundled cost of power rates (per the utility's Schedule of Rates and Charges) shall be deemed effective January 1, 2001.
- F. Carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case, for the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt

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rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account.

- G. Amounts recorded in this account do not imply Board acceptance. The disposition of amounts recorded herein shall be made in accordance with Board established policies and procedures. Generally the disposition of deferral accounts will be considered as part of the Board's annual rate adjustment process. While the Board has not established a specific disposition methodology, cost causality will be one of the Board's considerations in determining disposition methodology.
- H. Amounts included in this account shall be classified in such a manner as to show the origin of each amount.
- I. Records relating to this account shall be maintained in sufficient detail as to permit review by the Board.
- J. Entries to this account, other than carrying charges, shall cease on the electricity market opening (i.e., May 1, 2002), unless otherwise authorized by the Board. Amounts approved on a final basis for recovery in rates shall be credited to this account. The offsetting entry shall be to account 1590, Recovery of Regulatory Asset Balances.

1572 Extraordinary Event Costs

- A. This account shall be used to record extraordinary event costs that meet the qualifying criteria established in the 2000 Electricity Distribution Rate Handbook. Amounts recorded in this account does not imply Board acceptance of these amounts. Consequently, amounts are subject to regulatory review and approval prior to disposition of amounts in rates.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity

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Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

- C. Extraordinary events by their nature are unique; therefore, this account shall be further sub-divided to reflect the nature of the activity resulting in the extraordinary expense entry. Consequently, extraordinary event costs transactions shall be recorded in appropriate sub-accounts for transactions of the same nature.
- D. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. Records shall be maintained as to permit the separate identification of any capital and non-capital cost components of this account. The capital sub-account will include capital assets that generally are included in the utility's rate base for rate-making purposes while the non-capital sub-account records the related annual amortization expense and operating and maintenance costs.

Entry at time of deferral

This account shall be debited with the amount deferred to a future period. The offsetting credit shall be recorded in the appropriate cash and/ or asset account as applicable.

Entry to record return on deferred amounts

This account shall be debited with an amount equal to the allowed or prescribed carrying charges on extraordinary event costs. The offsetting credit shall be to account 4405, Interest and Dividend Income.

1574 Deferred Rate Impact Amounts

- A. This account shall be used to record amounts equal to rate impacts associated with market-based rate of return, transition costs, and extraordinary costs that the utility has determined to be excessive and has decided to defer to future periods.
- B. When authorized or directed by the Board, this account shall be used to record the difference between the rate of return reflected in the rates and the market based rate of return.

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- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- D. A separate sub-account shall be maintained for each type of deferred rate amount included therein.

1580 RSVA_{WMS}

- A. This account shall be used to record the net of:
- i) the amount charged by the Independent Electricity System Operator (“IESO”), based on the settlement invoice, for the operation of the IESO administered markets and the operation of the IESO- controlled grid (as defined in the Electricity Act, 1998), specified by the Board

AND

- ii) the amount billed to customers using the Board -approved Wholesale Market Service Rate.
- B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for wholesale market services and the amount billed to customers using the Board-approved Wholesale Market Service Rate.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of

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interest shall be the rate prescribed by the Board for the respective quarterly period.

- D. Sub-accounts shall be used to separately record any related carrying charges.

1582 **RSVA**_{one-time}

- A. This account shall be used to record the net of:
- i) the amount charged by the Independent Electricity System Operator (“IESO”), based on the settlement invoice, for Wholesale Market Service, specified by the Board (these charges are not normally already incorporated in Wholesale Market Service Rate),

AND

- ii) the amount billed to customers for the same services using the Board-approved Rate.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- C. Sub-accounts shall be used to separately record any related carrying charges.

1584 **RSVA**_{NW}

- A. This account shall be used by distributors deemed to be transmission customers to record the net of:
- i) the amount charged by the Independent Electricity System Operator (“IESO”), based on the settlement invoice, for transmission network services.

AND

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- ii) the amount billed to customers for the same services using the Board-approved Transmission Network Charge Rate.
- B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network services and the amount billed to customers using the Board-approved Transmission Network Charge Rate.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- D. Sub-accounts shall be used to separately record any related carrying charges.

1586 RSVA_{CN}

- A. This account shall be used by distributors deemed to be transmission customers to record the net of:
- i) the amount charged by the Independent Electricity System Operator (“IESO”), based on the settlement invoice, for transmission network services.
- AND
- ii) the amount billed to customers for the same services using the Board-approved Transmission Connection Charge Rate.
- B. If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission connection services and the amount billed to customers using the Board-approved Transmission Connection Charge Rate.
- C. Carrying charge amounts shall be calculated using simple interest applied to the

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monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

- D. Sub-accounts shall be used to separately record any related carrying charges.

1588 RSVA_{Power}

- A. This account shall be used to record the net difference between:
- i) the energy amount billed to customers,
- AND
- ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator.
- B. The related accounts used to record the electricity billed to customers (e.g., accounts 4006 to 4055) and to record the electricity charges to the distributor (e.g. 4705 and 4710) shall be sub-divided to show the electricity amounts including adjustments recorded in each of these accounts.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

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1588 RSVA_{Power}, Sub-account Global Adjustment

- A. This account shall be used to record the net difference between:
- i) the global adjustment amount billed to non-Regulated Price Plan consumers,
- AND
- ii) the global adjustment charge (i.e., charge types 146, 142 and others as applicable) to a distributor for non-Regulated Price Plan consumers using the settlement invoice received from the Independent Electricity System Operator (“IESO”), host distributor or embedded generator.
- B. The related accounts used to record the global adjustment billed to customers (e.g., accounts 4006 to 4055) and to record the global adjustment charges/credits to the distributor (e.g. 4705 and 4710) shall be sub-divided to show the global adjustment amounts including adjustments recorded in each of these accounts.
- C. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

1590 Recovery of Regulatory Asset Balances

- A. This account shall include the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers.
- B. Payments received arising from disposition of account balances recovered in rates or paid to customers per a Board order shall be recorded in this account when directed by the Board.
- C. Account balances (debit or credit) approved on a final basis for recovery in rates

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shall be recorded in this account when directed by the Board.

- D. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- E. Records supporting the entries in this account shall be maintained in sufficient detail as to permit review by the Board.

1592 PILs and Tax Variances for 2006 and Subsequent Years

- A. For the period starting May 1, 2006, the distributor shall use this account to record the tax impact of any of the following differences:
1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.
 2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.
 3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
 - a) received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or
 - b) relating to any tax year ending prior to May 1, 2006.
- B. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.
- C. Records shall be maintained at a detail level to support entries in this account. Disposition of the account balance will be subject to Board review.

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Note: For the purposes of Account 1592, additional Board instructions include the PILs requirements of Chapter 7 of the Board's 2006 Electricity Distribution Rate Handbook, Report of the Board (on the handbook), applicable accounting guidance (i.e. Frequently Asked Questions) and other requirements the Board may specify. Account 1562 relates to the rate periods that ended on or before April 30, 2006.

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Electric Plant in Service - Detailed Accounts**A. Intangible Plant****1605 Electric Plant in Service - Control Account**

This account shall include the original cost of electric plant, included in accounts 1606 to 1995, prescribed herein, owned and used by the utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. (See also account 2050, Completed Construction Not Classified - Electric.)

1606 Organization

This account shall include all fees paid to federal or provincial governments for the privilege of incorporation and expenditures incident to organizing the corporation, and putting it into readiness to do business.

Example items

1. Cost of obtaining certificates authorizing an enterprise to engage in the public-utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Stock and minute books and corporate seal.

Note A: This account shall not include any discounts upon securities issued or assumed; nor shall it include any costs incident to negotiating loans, selling bonds or other evidences of debt or expenses in connection with the authorization, issuance or sale of capital stock.

Note B: When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, etc. amounts previously included herein or in similar accounts in the books of the entities concerned shall be excluded from this account.

Note C: This account shall include amounts related to transfer by-laws.

Uniform System of Accounts**Balance Sheet Accounts**

Electric Plant in Service - Detailed Accounts**A. Intangible Plant****1608 Franchises and Consents**

- A. This account shall include amounts paid to the federal, provincial, or other government in consideration for franchises, consents, water power licenses, or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents, water power licenses, or certificates of permission and approval.
- B. If a franchise, consent, water power license or certificate is acquired by assignment, the charge to this account shall not exceed the amount paid by the utility.
- C. The amortization related to any item in this account shall be recorded in account 2120, Accumulated Provision for Amortization of Electric Utility Plant - Intangibles.
- D. Records supporting this account shall be kept so as to show separately the book cost of each franchise or consent.

Note: Annual or other periodic payments under franchises shall not be included herein but in the appropriate operating expense account.

1610 Miscellaneous Intangible Plant

- A. This account shall include the cost of patent rights, licenses, privileges, capitalizable load profile development costs and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account.
- B. The amortization related to any item in this account shall be recorded in account 2120, Accumulated Provision for Amortization of Electric Utility Plant - Intangibles.
- C. This account shall be maintained in such a manner that the utility can furnish full information with respect to the amounts included herein.

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Electric Plant in Service - Detailed Accounts

B. Generation Plant

1615 Land

This account shall include the cost of land used in connection with power generation. (See Article 230, Definitions and Instructions, No. 22.)

1616 Land Rights

This account shall include the cost land rights used in connection with power generation. (See Article 230, Definitions and Instructions, No. 22.)

1620 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with generation. (See Article 230, Definitions and Instructions, No. 23.)

1630 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

1635 Boiler Plant Equipment

This account shall include the cost installed of furnaces, boilers, coal and ash handling and coal preparing equipment, steam and feed water piping, boiler apparatus and accessories used in the production of steam, mercury, or other vapor, to be used primarily for generating electricity.

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Electric Plant in Service - Detailed Accounts**B. Generation Plant**

Example items

1. Ash handling equipment, including sluicing trenches and accessories, etc., except sluices which are a part of a building.
2. Boiler feed system.
3. Boiler plant cranes and hoists and associated drives.
4. Boilers and equipment.
5. Breeching and accessories.
6. Coal handling and storage equipment.
7. Draft equipment and associated motors or other power equipment.
8. Gas-burning equipment.
9. Instruments and devices, including all measuring, indicating, and recording equipment.
10. Lighting systems.
11. Oil-burning equipment.
12. Pulverized fuel equipment.
13. Stacks, when set on separate foundations, independent of substructure or superstructure of building.
14. Station piping but not condensing water, plumbing, building heating, oil, gas, air piping or piping specifically provided for in account 1620, Buildings and Fixtures.
15. Stoker or equivalent feeding equipment.
16. Ventilating equipment.
17. Water purification equipment.
18. Water-supply systems, including intake and discharge pipes and tunnels not a part of a building.
19. Wood fuel equipment.

Note: When the system for supplying boiler or condenser water is elaborate, as when it includes a dam, reservoir, canal, pipe line, cooling ponds, or where gas or oil is used as a fuel for producing steam and is supplied through a pipe line system owned by the utility, the cost of such special facilities shall be charged to a subdivision of account 1620, Buildings and Fixtures.

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Electric Plant in Service - Detailed Accounts

B. Generation Plant

1640 Engines and Engine-Driven Generators

This account shall include the cost installed of steam engines, reciprocating or rotary, and their associated auxiliaries; and engine-driven main generators, except turbogenerator units.

Example items

1. Air cleaning and cooling apparatus, including air ducts not a part of building.
2. Belting, shafting, pulleys, reduction gearing, etc.
3. Circulating pumps, including connections between condensers and intake and discharge tunnels.
4. Cooling system, including towers, pumps, tank, and piping.
5. Condensers.
6. Cranes, hoists, etc., including items wholly identified with items listed herein.
7. Engines, reciprocating or rotary.
8. Fire-extinguishing systems.
9. Foundations and settings.
10. Generators--Main, a.c. or d.c.
11. Governors.
12. Lighting systems.
13. Lubricating systems including gauges, filters, tanks, pumps, piping, motors, etc.
14. Mechanical meters, including gauges, recording instruments, sampling and testing equipment.
15. Piping--main exhaust.
16. Piping--main steam, including connections from main throttle valve to turbine inlet.
17. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
18. Pressure oil system, including accumulators, pumps, piping, motors, etc.
19. Throttle and inlet valve.
20. Tunnels, intake and discharge, for condenser system, when not a part of a structure.
21. Water screens, motors, etc.

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Electric Plant in Service - Detailed Accounts**B. Generation Plant****1645 Turbogenerator Units**

This account shall include the cost installed of main turbine-driven units and accessory equipment used in generating electricity by steam.

Example items

1. Air cleaning and cooling apparatus.
2. Circulating pumps.
3. Condensers.
4. Generator hydrogen, gas piping and detrainment equipment.
5. Cooling system, including towers, pumps, tanks, and piping.
6. Cranes, hoists, etc., including items wholly identified with items listed herein.
7. Excitation system, when identified with main generating units.
8. Fire-extinguishing systems.
9. Foundations and settings.
10. Governors.
11. Lighting systems.
12. Lubricating systems.
13. Mechanical meters, including gauges, recording instruments, sampling and testing equipment.
14. Piping--main exhaust.
15. Piping--main steam, including connections from main throttle valve to turbine inlet.
16. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
17. Pressure oil systems, including accumulators, pumps, piping, motors, etc.
18. Steelwork, specially constructed for apparatus listed herein.
19. Throttle and inlet valve.
20. Tunnels, intake and discharge, for condenser system, when not a part of structure.
21. Turbogenerators--main.
22. Water screens, motors, etc.
23. Moisture separator for turbine steam.
24. Turbine lubricating oil (initial charge).

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Electric Plant in Service - Detailed Accounts**B. Generation Plant****1650 Reservoirs, Dams, and Waterways**

This account shall include the cost in place of facilities used for impounding, collecting, storage, diversion, regulation, and delivery of water used primarily for generating electricity. It shall also include the cost in place of facilities used in connection with (a) the conservation of fish and wildlife, and (b) recreation. Separate sub-accounts shall be maintained for each of the above.

Example items

1. Bridges and culverts (when not a part of roads or railroads).
2. Clearing and preparing land.
3. Dams.
4. Dikes and embankments.
5. Electric system, including conductors control system, transformers, lighting fixtures, etc.
6. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
7. Excavation, shoring, bracing, bridging, refill, and disposal of excess excavated material.
8. Foundations and settings.
9. Intakes and intake house when not a part of station structure.
10. Platforms, railings, steps, gratings, etc., appurtenant to structures listed herein.
11. Power line wholly identified with items included herein.
12. Retaining walls.
13. Water conductors and accessories.
14. Water storage reservoirs, including dams, flashboards, spillway gates and operating mechanisms, inlet and outlet tunnels, regulating valves and valve towers, silt and mud sluicing tunnels with valve or gate towers, and all other structures wholly identified with any of the foregoing items.

1655 Water Wheels, Turbines and Generators

This account shall include the cost installed of water wheels and hydraulic turbines (from connection with penstock or flume to tailrace) and generators driven thereby devoted to the production of electricity by water power or for the production of power for

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B. Generation Plant

industrial or other purposes, if the equipment used for such purposes is a part of the hydraulic power plant works.

Example items

1. Exciter water wheels and turbines.
2. Fire-extinguishing equipment.
3. Foundations and settings.
4. Generator cooling system.
5. Generators--main, a. c. or d.c.
6. Lighting systems.
7. Lubricating systems, including gauges, filters, tanks, pumps, piping, etc.
8. Main penstock valves and appurtenances.
9. Main turbines and water wheels.
10. Mechanical meters and recording instruments.
11. Miscellaneous water-wheel equipment, including gauges, thermometers, meters, and other instruments.
12. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.
13. Scroll case filling and drain system, including gates, pipe, valves, fittings, etc.
14. Water-actuated pressure-regulator system.

1660 Roads, Railroads, and Bridges

This account shall include the cost of roads, railroads, trails, bridges, and trestles used primarily as production facilities. It includes also those roads, etc., necessary to connect the plant with highway transportation systems, except when such roads are dedicated to public use and maintained by public authorities.

Example items

1. Bridges, including foundations, piers, girders, trusses, flooring, etc.
2. Clearing land.
3. Railroads, including grading, ballast, ties, rails, culverts, hoists, etc.
4. Roads, including grading, surfacing, culverts, etc.
5. Structures, constructed and maintained in connection with items listed herein.
6. Trails, including grading, surfacing, culverts, etc.

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7. Trestles, including foundations, piers, girders, trusses, flooring, etc.

Note A: Roads intended primarily for connecting employees' houses with the power plants, and roads used primarily in connection with fish and wildlife, and recreation activities, shall not be included herein but in account 1620, Buildings and Fixtures.

Note B: The cost of temporary roads, bridges, etc. necessary during the period of construction but abandoned or dedicated to public use upon completion of the plant, shall not be included herein but shall be charged to the accounts appropriate for the construction.

1665 Fuel Holders, Producers, and Accessories

This account shall include the cost installed of fuel handling and storage equipment used between the point of fuel delivery to the station and the intake pipe through which fuel is directly drawn to the engine, also the cost of gas producers and accessories devoted to the production of gas for use in prime movers driving main electric generators.

Example items

1. Blower and fans.
2. Boilers and pumps.
3. Economizers.
4. Exhauster outfits.
5. Flues and piping.
6. Pipe system.
7. Producers.
8. Regenerators.
9. Scrubbers.
10. Steam injectors.
11. Tanks for storage of oil, gasoline, etc.
12. Vaporizers.

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Electric Plant in Service - Detailed Accounts

B. Generation Plant

1670 Prime Movers

This account shall include the cost installed of diesel or other prime movers devoted to the generation of electric energy, together with their auxiliaries.

Example items

1. Air-filtering system.
2. Belting, shafting, pulleys, reduction gearing, etc.
3. Cooling system, including towers, pumps, tanks, and piping.
4. Cranes, hoists, etc., including items wholly identified with apparatus listed herein.
5. Engines that are Diesel, gasoline, gas, or other internal combustion.
6. Foundations and settings.
7. Governors.
8. Ignition system.
9. Inlet valve.
10. Lighting systems.
11. Lubricating systems, including filters, tanks, pumps, and piping.
12. Mechanical meters.
13. Mufflers.
14. Piping.
15. Starting systems, compressed air, or other, including compressors and drives, tanks, piping, motors, boards and connections, storage tanks, etc.
16. Steelwork, specially constructed for apparatus listed herein.
17. Waste heat boilers, antifluctuators, etc.

1675 Generators

This account shall include the cost installed of diesel or other power driven main generators.

Example items

1. Cranes, hoists, etc., including items wholly identified with such apparatus.
2. Fire-extinguishing equipment.
3. Foundations and settings.

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Electric Plant in Service - Detailed Accounts**B. Generation Plant**

4. Generator cooling system.
5. Generators--main, a.c. or d.c.
6. Lighting systems.
7. Lubricating system, including tanks, filters, strainers, pumps, piping, coolers, etc.
8. Mechanical meters, and recording instruments.
9. Platforms, railings, steps, gratings, etc., appurtenant to apparatus listed herein.

Note: If prime movers and generators are so integrated that it is not practical to classify them separately, the entire unit may be included in this account.

1680 Accessory Electric Equipment

This account shall include the cost installed of auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric energy produced in other power generating stations, and the protection of electric circuits and equipment, except electric motors used to drive equipment included in other accounts. Such motors shall be included in the account in which the equipment with which it is associated is included.

Example items

1. Auxiliary generators.
2. Excitation system.
3. Generator main connections.
4. Station control system.
5. Station buses, including main, auxiliary transfer, synchronizing and fault ground buses.

Note: Do not include in this account transformers and other equipment used for changing the voltage or frequency of electricity for the purposes of transmission or distribution.

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Electric Plant in Service - Detailed Accounts**B. Generation Plant****1685 Miscellaneous Power Plant Equipment**

This account shall include the cost installed of miscellaneous equipment in and about the power generating plant, devoted to general station use, and not properly included in any of the foregoing other power production accounts.

Example items

1. Compressed air and vacuum cleaning systems.
2. Cranes and hoisting equipment.
3. Fire-extinguishing equipment for general station use.
4. Foundations and settings.
5. Miscellaneous equipment, including atmospheric and weather indicating devices, intrasite communication equipment, laboratory equipment, signal systems, callophones, emergency whistles and sirens, fire alarms, and other similar equipment.
6. Miscellaneous belts, pulleys, countershafts, etc.
7. Refrigerating system including compressors, pumps, cooling coils, etc.
8. Station maintenance equipment.
9. Ventilating equipment, including items wholly identified with apparatus listed herein.

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C. Transmission Plant

1705 Land

This account shall include the cost of land used in connection with transmission operations. (See Article 230, Definitions and Instructions, No. 22.)

1706 Land Rights

This account shall include the cost of land rights used in connection with transmission operations. (See Article 230, Definitions and Instructions, No. 22.)

1708 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with transmission operations. (See Article 230, Definitions and Instructions, No. 23.)

1710 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

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Electric Plant in Service - Detailed Accounts**C. Transmission Plant****1715 Station Equipment**

This account shall include the cost installed of transforming, conversion, and switching equipment used for the purpose of changing the characteristics of electricity in connection with its transmission or for controlling transmission circuits.

Example items

1. Bus compartments.
2. Conduit, including concrete and iron duct runs not a part of a building.
3. Control equipment, including batteries battery charging equipment, transformers, remote relay boards, and connections.
4. Conversion equipment.
5. Fences.
6. Fixed and synchronous condensers, including transformers, switching equipment blowers, motors and connections.
7. Foundations and settings.
8. General station equipment.
9. Platforms, railings, steps, gratings, etc. appurtenant to apparatus listed herein.
10. Primary and secondary voltage connections.
11. Switchboards, including meters, relays, control wiring, etc.
12. Switching equipment (indoor and outdoor).
13. Tools and appliances.

1720 Towers and Fixtures

This account shall include the cost installed of towers and appurtenant fixtures used for supporting overhead transmission conductors.

Example items

1. Anchors, guys, and braces.
2. Brackets.
3. Crossarms, including braces.
4. Excavation, backfill, and disposal of excess excavated material.

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Electric Plant in Service - Detailed Accounts**C. Transmission Plant**

5. Foundations.
6. Guards.
7. Insulator pins and suspension bolts.
8. Ladders and steps.
9. Railings, etc.
10. Towers.

1725 Poles and Fixtures

This account shall include the cost installed of transmission line poles, wood, steel, concrete, or other material, together with appurtenant fixtures used for supporting overhead transmission conductors.

Example items

1. Anchors, head arm and other guys, including guy guards, guy clamps, strain insulators, pole plates, etc.
2. Brackets.
3. Crossarms and braces.
4. Excavation and backfill, including disposal of excess excavated material.
5. Extension arms.
6. Gaining, roofing stenciling, and tagging.
7. Insulator pins and suspension bolts.
8. Paving.
9. Pole steps.
10. Poles, wood, steel, concrete, or other material.
11. Racks complete with insulators.
12. Reinforcing and stubbing.
13. Settings.
14. Shaving and painting.

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Electric Plant in Service - Detailed Accounts**C. Transmission Plant****1730 Overhead Conductors and Devices**

This account shall include the cost installed of overhead conductors and devices used for transmission purposes.

Example items

1. Circuit breakers.
2. Conductors, including insulated and bare wires and cables.
3. Ground wires and ground clamps.
4. Insulators, including pin, suspension, and other types.
5. Lightning arresters.
6. Switches.
7. Other line devices.

1735 Underground Conduit

This account shall include the cost installed of underground conduit and tunnels used for housing transmission cables or wires. (See Article 230, Definitions and Instructions, No. 25.)

Example items

1. Conduit, concrete, brick or tile, including iron pipe, fiber pipe, Murray duct, and standpipe on pole or tower.
2. Excavation, including shoring, bracing, bridging, backfill, and disposal of excess excavated material.
3. Foundations and settings specially constructed for and not expected to outlast the apparatus for which provided.
4. Lighting systems.
5. Manholes, concrete or brick, including iron or steel, frames and covers, hatchways, gratings, ladders, cable racks and hangers, etc., permanently attached to manholes.
6. Municipal inspection.

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C. Transmission Plant

7. Pavement disturbed, including cutting and replacing pavement, pavement base and sidewalks.
8. Permits.
9. Protection of street openings.
10. Removal and relocation of subsurface obstructions.
11. Sewer connections, including drains, traps, tide valves, check valves, etc.
12. Sumps, including pumps.
13. Ventilating equipment.

1740 Underground Conductors and Devices

This account shall include the cost installed of underground conductors and devices used for transmission purposes.

Example items

1. Armored conductors, buried, including insulators, insulating materials, splices, potheads, trenching, etc.
2. Armored conductors, submarine, including insulators, insulating materials, splices in terminal chambers, potheads, etc.
3. Cables in standpipe, including pothead and connection from terminal chamber of manhole to insulators on pole.
4. Circuit breakers.
5. Fireproofing, in connection with any items listed herein.
6. Hollow-core oil-filled cable, including straight or stop joints pressure tanks, auxiliary air tanks, feeding tanks, terminals, potheads and connections, ventilating equipment, etc.
7. Lead and fabric covered conductors, including insulators, compound filled, oil filled, or vacuum splices, potheads, etc.
8. Lightning arresters.
9. Municipal inspection.
10. Permits.
11. Protection of street openings.
12. Racking of cables.
13. Switches.
14. Other line devices.

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C. Transmission Plant

1745 Roads and Trails

This account shall include the cost of roads, trails, and bridges used primarily as transmission facilities.

Example items

1. Bridges, including foundation piers, girders, trusses, flooring, etc.
2. Clearing land.
3. Roads, including grading, surfacing, culverts, etc.
4. Structures, constructed and maintained in connection with items included herein.
5. Trails, including grading, surfacing, culverts, etc.

Note: The cost of temporary roads, bridges, etc., necessary during the period of construction but abandoned or dedicated to public use upon completion of the plant, shall be charged to the accounts appropriate for the construction.

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Electric Plant in Service - Detailed Accounts

D. Distribution Plant

1805 Land

This account shall include the cost of land used in connection with power distribution. (See Article 230, Definitions and Instructions, No. 22).

Note: Do not include in this account the cost of permits to erect poles, towers, etc., or to trim trees. (See account 1830, Poles, Towers and Fixtures, and account 1835, Overhead Conductors and Devices.)

1806 Land Rights

This account(s) shall include the cost of rights, interests and privileges held by the utility in land owned by others. (See Article 230, Definitions and Instructions, No. 22).

Note: Do not include in this account the cost of permits to erect poles, towers, etc., or to trim trees. (See account 1830, Poles, Towers and Fixtures, and account 5135, Overhead Distribution Lines and Feeders - Tree Trimming.)

1808 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used in connection with distribution operations. (See Article 230, Definitions and Instructions, No. 23.)

1810 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant****1815 Transformer Station Equipment - Normally Primary Above 50 kV**

This account shall include the installed cost of transforming and switching equipment used for the purpose of stepping down from transmission voltages to subtransmission voltages and/or distribution voltages.

The account shall include all equipment used in the above operation from the high voltage feeder through to the delivery point outside the station or the connections within the confines of the station area. Included in the cost shall be all transformer equipment, control equipment, switching equipment, station metering equipment and the compartments or cubicles used to house such equipment, as well as general equipment such as cranes, hoists, test equipment, motors and the like. Moveable mountings or settings specially constructed for the particular equipment mounted therein shall also be included.

The detail of separate stations shall be entered in such a manner that an accurate record of their age, cost, location, and voltage characteristics will be evident.

1820 Distribution Station Equipment - Normally Primary Below 50 kV

This account shall include the installed cost of transforming and switching equipment used for the purpose of stepping down to distribution voltages.

The account shall include all equipment used in the above operation from the high voltage feeder through to the low voltage connection outside the station within the confines of the station area. Included in the cost shall be all transformer equipment, control equipment, switching equipment, station metering equipment and the compartments or cubicles used to house such equipment, as well as general equipment such as cranes, hoists, test equipment, motors and the like. Moveable mountings or settings specially constructed for the particular equipment mounted therein shall also be included.

The detail of separate stations shall be entered in such a manner that an accurate record of their age, cost, location, and voltage characteristics will be evident.

Uniform System of Accounts**Balance Sheet Accounts**

Electric Plant in Service - Detailed Accounts**D. Distribution Plant****1825 Storage Battery Equipment**

This account shall include the cost installed of storage battery equipment used for the purpose of supplying electricity to meet emergency or peak demands.

Example items

1. Batteries, including elements, tanks, tank insulators, etc.
2. Battery room connections, including cable or bus runs and connections.
3. Battery room flooring, when specially laid for supporting batteries.
4. Charging equipment, including motor generator sets and other charging equipment and connections, and cable runs from generator or station bus to battery room connections.
5. Miscellaneous equipment, including instruments, water stills, etc.
6. Switching equipment, including endcell switches and connections, boards and panels, used exclusively for battery control, not part of general station switchboard.
7. Ventilating equipment, including fans and motors, louvers, and ducts not part of building.

Note: Storage batteries used for control and general station purposes shall not be included in this account but in the account appropriate for their use.

1830 Poles, Towers, and Fixtures

This account shall include the cost installed of poles, towers, and appurtenant fixtures used for supporting overhead distribution conductors and service wires.

Example items

1. Anchors, head arm, and other guys, including guy guards, guy clamps, strain insulators, pole plates, etc.
2. Brackets.
3. Crossarms and braces.
4. Excavation and backfill, including disposal of excess excavated material.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant**

5. Extension arms.
6. Foundations.
7. Guards.
8. Insulator pins and suspension bolts.
9. Paving.
10. Permits for construction.
11. Pole steps and ladders.
12. Poles, wood, steel, concrete, or other material.
13. Racks complete with insulators.
14. Railings.
15. Reinforcing and stubbing.
16. Settings.
17. Shaving, painting, gaining, roofing, stenciling, and tagging.
18. Towers.
19. Transformer racks and platforms.

Note A: Sub-accounts should be used for sub-transmission Poles, Towers and Fixtures.

1835 Overhead Conductors and Devices

This account shall include the cost installed of overhead conductors and devices used for distribution purposes.

Example items

1. Circuit breakers.
2. Conductors, including insulated and bare wires and cables.
3. Ground wires, clamps, etc.
4. Insulators, including pin, suspension, and other types, and tie wire or clamps.
5. Lightning arresters.
6. Railroad and highway crossing guards.
7. Splices.
8. Switches.
9. Initial cost of tree trimming, including the cost of permits.
10. Other line devices.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant**

Note: The cost of conductors used solely for street lighting or signal systems shall not be included in this account but in account 1875, Street Lighting and Signal Systems.

1840 Underground Conduit

This account shall include the cost installed of underground conduit and tunnels used for housing distribution cables or wires.

Example items

1. Conduit, concrete, brick and tile, including iron pipe, fiber pipe, Murray duct, and standpipe on pole or tower.
2. Excavation, including shoring, bracing, bridging, backfill, and disposal of excess excavated material.
3. Foundations and settings specially constructed for and not expected to outlast the apparatus for which constructed.
4. Lighting systems.
5. Manholes, concrete or brick, including iron or steel frames and covers, hatchways, gratings, ladders, cable racks and hangers, etc., permanently attached to manholes.
6. Municipal inspection.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Protection of street openings.
10. Removal and relocation of subsurface obstructions.
11. Sewer connections, including drains, traps, tide valves, check valves, etc.
12. Sumps, including pumps.
13. Ventilating equipment.

Note: The cost of underground conduit used solely for street lighting or signal systems shall be included in account 1875, Street Lighting and Signal Systems.

Uniform System of Accounts**Balance Sheet Accounts**

Electric Plant in Service - Detailed Accounts**D. Distribution Plant****1845 Underground Conductors and Devices**

This account shall include the cost installed of underground conductors and devices used for distribution purposes.

Example items

1. Armored conductors, buried, including insulators, insulating materials, splices, potheads, trenching, etc.
2. Armored conductors, submarine, including insulators, insulating materials, splices in terminal chamber, potheads, etc.
3. Cables in standpipe, including pothead and connection from terminal chamber or manhole to insulators on pole.
4. Circuit breakers.
5. Fireproofing, in connection with any items listed herein.
6. Hollow-core oil-filled cable, including straight or stop joints, pressure tanks, auxiliary air tanks, feeding tanks, terminals, potheads and connections, etc.
7. Lead and fabric covered conductors, including insulators, compound-filled, oil-filled or vacuum splices, potheads, etc.
8. Lightning arresters.
9. Municipal inspection and Permits.
10. Protection of street openings.
11. Racking of cables.
12. Switches.
13. Other line devices.

Note: The cost of underground conductors and devices used solely for street lighting or signal systems shall be included in account 1875, Street Lighting and Signal Systems.

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Electric Plant in Service - Detailed Accounts

D. Distribution Plant

1850 Line Transformers

- A. This account shall include the cost installed of overhead and underground distribution line transformers and pole-type and underground voltage regulators owned by the utility, for use in transforming electricity to the voltage at which it is to be used by the customer, whether actually in service or held in reserve.
- B. The records covering line transformers shall be so kept that the utility can furnish the number of transformers of various capacities in service and those in reserve by:
- a) type (underground or overhead);
 - b) capacity;
 - c) function.

Example items

1. Transformers.
2. Transformer cutouts.
3. Grounding equipment.
4. Other material and labour necessary for installation (first installation only).
5. Transformer lightning arresters.
6. Transformers, line and network.
7. Capacitors.
8. Network protectors.

Note: The cost of removing and resetting line transformers shall not be charged to this account but to account 5035, Overhead Distribution Transformers - Operations or accounts 5055, Underground Distribution Transformers - Operations. The cost of line transformers used solely for street lighting or signal systems shall be included in account 1875, Street Lighting and Signal Systems.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant****1855 Services**

This account shall include the cost installed of overhead and underground conductors leading from a point where wires leave the last pole of the overhead system or the transformers or manhole, or the top of the pole of the distribution line, to the point of connection with the customer's electrical panel. Conduit used for underground service conductors shall be included herein.

Example items

1. Brackets.
2. Cables and wires.
3. Conduit.
4. Insulators.
5. Municipal inspection.
6. Overhead to underground, including conduit or standpipe and conductor from last splice on pole to connection with customer's wiring.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Protection of street openings.
10. Service switch.
11. Suspension wire.

Records shall be maintained providing information on underground and overhead services separately and by capacity and function.

1860 Meters

- A. This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve.

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Electric Plant in Service - Detailed Accounts

D. Distribution Plant

- B. The records covering meters shall be so kept that the utility can furnish information as to the number of meters of various capacities in service and in reserve by:
- a) type (underground or overhead);
 - b) capacity;
 - c) function.

Example items

1. Labour and expense of first installation.
2. Inspection fees.
3. Alternating current, watt-hour meters.
4. Current limiting devices.
5. Demand indicators.
6. Demand meters.
7. Direct current watt-hour meters.
1. Graphic demand meters.
9. Instrument transformers.
10. Maximum demand meters.
11. Meter badges and their attachments.
12. Meter boards and boxes.
13. Meter fittings, connections, and shelves (first set).
14. Meter switches and cut-outs.
15. Prepayment meters.
16. Protective devices.
17. Testing new meters.
18. Interval Meters

Note A: This account shall not include meters for recording output of a generating station, substation meters, etc. It includes only those meters used to record energy delivered to customers.

Note B: The cost of removing and resetting meters shall be charged to account 5065, Meter Expenses.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant****1865 Other Installations on Customer Premises**

This account shall include the cost installed of equipment on the customer's side of a meter when the utility incurs such cost and when the utility retains title to and assumes full responsibility for maintenance and replacement of such property. This account shall not include expenses related to leased equipment (see account 1870, Leased Property on Customer Premises).

Example items

1. Cable vaults.
2. Commercial lamp equipment.
3. Foundations and settings specially provided for equipment included herein.
4. Frequency changer sets.
5. Motor generator sets.
6. Motors.
7. Switchboard panels, high or low tension.
8. Wire and cable connections to incoming cables.

Note A: Do not include in this account any costs incurred in connection with merchandising, jobbing, or contract work activities. (See account 4330).

Note B: It is intended that only equipment used in furnishing special service or service of a character different from that normally supplied shall be included in this account.

Note C: Maintenance costs relating the items in this account are to be charged to account 5195, Maintenance of Other Installations on Customer Premises.

1870 Leased Property on Customer Premises

This account shall include the cost of electric motors, transformers, and other equipment on customers' premises (including municipal corporations), leased or loaned to customers, but not including property held for sale.

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Electric Plant in Service - Detailed Accounts**D. Distribution Plant**

Note A: The cost of setting and connecting such appliances or equipment on the premises of customers and the cost of resetting or removal shall not be charged to this account but to operating expenses, account 5178, Customer Installations Expenses - Leased Property.

Note B: Do not include in this account any costs incurred in connection with merchandising, jobbing, etc. (See account 4330).`

1875 Street Lighting and Signal Systems

This account shall include the cost installed of equipment used wholly for public street and highway lighting or traffic, fire alarm, police, and other signal systems.

Example items

1. Armored conductors, buried or submarine, including insulators, insulating materials, splices, trenching, etc.
2. Automatic control equipment.
3. Conductors, overhead or underground.
4. Lamps, incandescent, or other types, including glassware, suspension fixtures, brackets, etc.
5. Municipal inspection.
6. Ornamental lamp posts.
7. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
8. Permits.
9. Posts and standards.
10. Protection of street openings.
11. Relays or time clocks.
12. Series contactors.
13. Switches.
14. Transformers, pole or underground.

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Electric Plant in Service - Detailed Accounts

E. General Plant

1905 Land

This account shall include the cost of land used for utility purposes, the cost of which is not properly included in other land account. (See Article 230, Definitions and Instructions, No. 22.)

1906 Land Rights

This account shall include the cost of land rights used for utility purposes, the cost of which is not properly included in other land rights accounts. (See Article 230, Definitions and Instructions, No. 22.)

1908 Buildings and Fixtures

This account shall include the cost in place of buildings and fixtures used for utility purposes, the cost of which is not properly included in other Buildings and Fixtures accounts. (See Article 230, Definitions and Instructions, No. 23.)

1910 Leasehold Improvements

This account shall include the cost of additions, improvements or alterations made to premises the utility leases from others. The cost of the leasehold improvements shall be amortized over the term of the lease or the service life of the improvement, whichever is shorter. Renewal provisions in the lease agreement shall be disregarded in amortizing leasehold improvements.

This account shall be subdivided into as many classifications as are required.

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Electric Plant in Service - Detailed Accounts**E. General Plant****1915 Office Furniture and Equipment**

This account shall include the cost of the general office furniture and equipment.

Articles of low value and/or relatively short life should be charged to the appropriate operating account when purchased.

The account shall be maintained in such a manner as to provide the cost of each piece of equipment, and be subdivided into as many classifications as are required.

1920 Computer Equipment - Hardware

This account shall include the costs of acquiring computer hardware. Hardware includes all physical equipment associated with input, processing, storage and output functions, also word processing equipment.

This account shall be subdivided as considered necessary.

1925 Computer Software

This account shall include the cost of developed or purchased computer operating and application software that is material in amount.

Example items

1. Accounting packages.
2. Customer Information System (CIS).
3. Groupware packages (e.g. e-mail, scheduling & conferencing programs, etc., including related gateways).
4. Database management system packages.
5. Software development tools.
6. Primary development tools (e.g. PowerBuilder).

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Electric Plant in Service - Detailed Accounts**E. General Plant****1930 Transportation Equipment**

These accounts shall include the cost of automobiles, small trucks, truck chassis, special truck bodies, aerial ladders, trailers and other mobile equipment.

These accounts shall be subdivided into the following:

1. Automobiles;
2. Trucks - Under 3 tons;
3. Trucks - 3 tons and over.

The accounts shall be maintained in such a manner as to provide the cost of each piece of equipment.

Note: Work and service equipment is to be included in account 1950, Power Operated Equipment.

1935 Stores Equipment

This account shall include the cost of equipment used for the receiving, shipping, handling, and storage of materials and supplies.

Example items

1. Chain falls.
2. Counters.
3. Cranes (portable).
4. Elevating and stacking equipment (portable).
5. Hoists.
6. Lockers.
7. Scales.
8. Shelving.
9. Storage bins.
10. Trucks, hand and power driven.
11. Wheelbarrows.

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Electric Plant in Service - Detailed Accounts**E. General Plant****1940 Tools, Shop and Garage Equipment**

This account shall include the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for or included in other accounts.

Example items

1. Air compressors.
2. Anvils.
3. Automobile repair shop equipment.
4. Battery charging equipment.
5. Belts, shafts and countershafts.
6. Boilers.
7. Cable pulling equipment.
8. Concrete mixers.
9. Drill presses.
10. Derricks.
11. Electric equipment.
12. Engines.
13. Forges.
14. Furnaces.
15. Foundations and settings specially constructed.
16. Gas producers.
17. Greasing tools and equipment.
18. Hoists.
19. Ladders.
20. Lathes.
21. Machine tools.
22. Motor-driven tools.
23. Motors.
24. Pipe threading and cutting tools.
25. Pneumatic tools.
26. Pumps.
27. Riveters.
28. Smithing equipment.
29. Tool racks.

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Electric Plant in Service - Detailed Accounts**E. General Plant**

30. Vises.
31. Welding apparatus.
32. Work benches.
33. Line belt and harness for line crews
34. Chain saws

1945 Measurement and Testing Equipment

This account shall include the cost installed of laboratory equipment used for general laboratory purposes and not specifically provided for or included in other departmental or functional plant accounts.

Example items

1. Ammeters.
2. Current batteries.
3. Frequency changers.
4. Galvanometers.
5. Inductometers.
6. Laboratory standard millivolt meters and volt meters.
7. Meter-testing equipment.
8. Millivolt meters.
9. Motor generator sets.
10. Panels.
11. Phantom loads.
12. Portable graphic ammeters, voltmeters, and wattmeters.
13. Portable loading devices.
14. Potential batteries.
15. Potentiometers.
16. Rotating standards.
17. Standard cell, reactance, resistor, and shunt.
18. Switchboards.
19. Synchronous timers
20. Testing panels
21. Testing resistors.
22. Transformers.

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Electric Plant in Service - Detailed Accounts**E. General Plant**

23. Voltmeters.
24. Other testing, laboratory, or research equipment not provided for elsewhere.
25. Telescopic guns

1950 Power Operated Equipment

This account shall include the cost of power operated equipment used in construction, repair and service work exclusive of equipment included in other accounts. Include, also, the tools and accessories acquired for use with such equipment and the vehicle on which such equipment is mounted.

Example items

1. Air compressors, including driving unit and vehicle.
2. Backhoe machines.
3. Boring machines.
4. Bulldozers.
5. Cranes and hoists.
6. Pipe cleaning machines.
7. Pipe coating or wrapping machines.
8. Tractors--Crawler type.
9. Trenchers.
10. Other power operated equipment.

Note: It is intended that this account include only such large units as are generally self-propelled or mounted on movable equipment.

1955 Communication Equipment

This account shall include the cost installed of telephone and wireless equipment for general use in connection with utility operations.

Uniform System of Accounts**Balance Sheet Accounts**

Electric Plant in Service - Detailed Accounts**E. General Plant****1960 Miscellaneous Equipment**

This account shall include the cost of equipment, apparatus, etc., used in the utility operations, which is not included in any other account of this Uniform System of Accounts.

Example items

1. Kitchen equipment.
2. Employees' recreation equipment.
3. Operators' cottage furnishings.
4. Other miscellaneous equipment.

Note: Miscellaneous equipment of the nature indicated above wherever practicable shall be included in the utility plant accounts on a functional basis.

1970 Load Management Controls - Customer Premises

This account shall include the cost of control equipment on customer premises in connection with the remote control of water heaters, and other customer equipment.

1975 Load-Management Controls - Utility Premises

This account shall include the cost of all control devices situated on utility premises, used for the purpose of controlling equipment in account 1970 above.

1980 System Supervisory Equipment

This account shall include the costs of all control equipment used for the purposes of remote operation and control of utility transformer stations and distribution equipment.

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Electric Plant in Service - Detailed Accounts

E. General Plant

1985 Sentinel Lighting Rental Units

These accounts shall include the installed cost of all Sentinel Lighting Rental Units. The accounts shall be subdivided into as many classifications as are required.

1990 Other Tangible Property

This account shall include the cost of tangible utility plant not provided for elsewhere.

1995 Contributions and Grants --Credit

This account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

This account shall be maintained so that the company 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).

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Other Capital Assets**2005 Property Under Capital Leases**

- A. This account shall include the amount recorded under capital leases for plant leased from others and used by the utility in its utility operations.
- B. The electric property included in this account shall be classified separately according to the detailed accounts (1606 to 1995) prescribed for Electric Plant in Service.
- C. Records shall be maintained with respect to each capital lease reflecting: (1) name of lessor, (2) basic details of lease, (3) termination date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lease payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

Note: The related obligations shall be recorded in account 2285, Obligations Under Capital Leases - Current and account 2325, Obligations Under Capital Leases - Non-current.

2010 Electric Plant Purchased or Sold

- A. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Article 230, Definitions and Instructions, No. 21.
- B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Board the proposed journal entries to clear from this account the amounts recorded herein.

2020 Experimental Electric Plant Unclassified

- A. This account shall include the cost of electric plant which was constructed as a development plant under the provisions of paragraph C, account 2055, Construction Work in Progress--Electric, and due to the nature of the plant it is desirable to operate it for a period of time in an experimental status.

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Other Capital Assets

- B. Amounts in this account shall be transferred to Electric Plant in Service accounts 1606 to 1995, or account 2075, Non-Utility Property Owned or Under Capital Leases as appropriate when the project is no longer considered as experimental.
- C. The amortization of property in this account shall be charged to account 5705, Amortization Expense, and credited to account 2105, Accumulated Amortization of Electric Utility Plant. The amounts herein shall be amortized over a period which would correspond to the estimated useful life of the relevant project considering the characteristics involved. However, when projects are transferred to relevant Electric Plant in Service accounts, the projects shall be reviewed and a new amortization rate based on the revised service life and unamortized amounts will be established as required.
- D. Records shall be maintained with respect to each unit of experiment so that full details may be obtained as to the cost, amortization and the experimental status.
- E. Should it be determined that experimental plant recorded in this account will fail to satisfactorily perform its function, the costs thereof shall be accounted for as directed or authorized by the Board.

2030 Electric Plant and Equipment Leased to Others

- A. This account shall include the original cost of electric plant and equipment owned by the utility, but leased to others as operating units or systems, where the lessee has exclusive possession.
- B. The property included in this account shall be classified according to the detailed accounts (1606 to 1995) prescribed for Electric Plant in Service and this account shall be maintained in such detail as though the property were used by the owner in its utility operations.

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Other Capital Assets**2040 Electric Plant Held For Future Use**

- A. This account shall include the original cost of electric plant (for land and land rights see B below) owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired (for land and land rights see B below) but never used by the utility in electric service, but held for such service in the future under a definite plan, and (2) property (for land and land rights see B below) previously used by the utility in service, but retired from such service and held pending its reuse in the future, under a definite plan, in electric service.
- B. This account shall also include the original cost of land and land rights owned and held for future use in electric service under a plan for such use, to include land and land rights: (1) Acquired but never used by the utility in electric service, but held for such service in the future under a plan, and (2) previously held by the utility in service, but retired from such service and held pending its reuse in the future under a plan, in electric service. (See Article 230, Definitions and Instructions, No. 22.)
- C. In the event that property recorded in this account shall no longer be needed or appropriate for future utility operations, the company shall request Board approval of journal entries to remove such property from this account when the gain realized from the sale or other disposition of the property is material, prior to their being recorded. Such filings shall include the description and original cost of individual properties removed from this account, the accounts charged upon removal, and any associated gains realized upon disposition of such property.
- D. Gains or losses from the sale of land and land rights or other disposition of such property previously recorded in this account and not placed in utility service shall be recorded directly in accounts 4345 or 4350, as appropriate, except when determined to be significant by the Board. Upon such a determination, the amounts shall be transferred to account 2410, Deferred Gains from Disposition of Utility Plant, or account 1530, Deferred Losses from Disposition of Utility Plant, and amortized to accounts 4345, Gains from Disposition of Utility Plant, or 4350, Losses from Disposition of Utility Plant, as appropriate.
- E. The property included in this account shall be classified according to the detail accounts (1606 to 1995) prescribed for Electric Plant in Service and the account shall be maintained in such detail as though the property were in service.

Uniform System of Accounts**Balance Sheet Accounts**

Other Capital Assets

Note: Materials and supplies, meters and transformers held in reserve, and normal spare capacity of plant in service shall not be included in this account.

2050 Completed Construction Not Classified–Electric

At the end of the year or such other date as a balance sheet may be required by the Board, this account shall include the total of the balances of work orders for electric plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed electric plant accounts.

Note: For the purpose of reporting to the Board the classification of Electric Plant in Service by accounts (1606 to 1995), the utility shall also report the balance in this account tentatively classified as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omissions in reported amounts of Electric Plant in Service.

2055 Construction Work in Progress–Electric

- A. This account shall include the total of the balances of work orders for electric plant in process of construction.
- B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in Electric Plant in Service upon the completion and the readiness for service of the first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account.
- C. Expenditures on development projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the development project together with the related costs.

Uniform System of Accounts

Balance Sheet Accounts

Other Capital Assets**2060 Electric Plant Acquisition Adjustments**

- A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for amortization and contributions in aid of construction with respect to such property. The goodwill shall be recorded as a debit in this account and the credit is to account 3030, Miscellaneous Paid-in Capital in the case of goodwill resulting from pushdown accounting by the parent to its subsidiary.
- B. This account shall be subdivided so as to show the amounts included herein for each property acquisition and to Electric Plant in Service, Electric Plant Held for Future Use, and Electric Plant Leased to Others. (See Article 230, Definitions and Instructions, No. 21.)
- C. Amounts recorded in this account related to an operating unit or system acquisition may be amortized to account 5720, Amortization of Electric Plant Acquisition Adjustments, pursuant to an approval or order of the Board, over a period not longer than the estimated remaining life of the properties to which such amounts relate.
- D. Amounts included in this account shall be disposed subject to Board approval.

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of electric plant.

2065 Other Electric Plant Adjustments

- A. This account shall include the difference between the original cost, estimated if not known, and the book cost of electric plant to the extent that such difference is not included in account 2060, Electric Plant Acquisition Adjustments (see Article 230, Definitions and Instructions, No. 21 under "General classification of electric plant").

Uniform System of Accounts**Balance Sheet Accounts**

Other Capital Assets

- B. Amounts included in this account shall be classified in such manner as to show the origin of each amount and shall be disposed of as the Board may approve or direct.

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of electric plant.

2070 Other Utility Plant

This account shall include the cost of land, structures, equipment and other tangible and intangible plant assets owned by the utility, but not used in its utility operations and not included in accounts 2030, Electric Plant and Equipment Leased to Others, 2040, Electric Plant Held for Future Use, and 2055, Construction Work in Progress - Electric.

Non-utility assets shall not be included in this account but in account 2075.

2075 Non-Utility Property Owned or Under Capital Leases

- A. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not included in account 2040, Electric Plant Held for Future Use.
- B. This account shall also include the amount recorded under capital leases for property leased from others and used by the utility in its non-utility operations. Records shall be maintained with respect to each lease reflecting: (1) name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lessee payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.
- C. This account shall be subdivided so as to show the amount of property used in operations which are non-utility in character but nevertheless constitute a distinct operating activity of the company (such as operation of an ice department where such activity is not classed as a utility) and the amount of miscellaneous property not used in operations. The records in support of each sub-account shall be maintained so as to show an appropriate classification of the property.

Uniform System of Accounts

Balance Sheet Accounts

Other Capital Assets

Note A: The gain from the sale or other disposition of property included in this account which had been previously recorded in account 2040, Electric Plant Held for Future Use, shall be accounted for in accordance with paragraph C of account 2040.

Note B: The related obligations shall be recorded in account 2285, Obligations Under Capital Leases - Current and account 2325, Obligations Under Capital Leases - Non-current.

Uniform System of Accounts**Balance Sheet Accounts**

Accumulated Amortization**2105 Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment**

- A. This account shall be credited with the following:
- 1) Amounts charged to account 5705, Amortization Expense, or to clearing accounts for current amortization expense for Electric Plant in Service.
 - 2) Amounts charged to account 4390, Miscellaneous Nonoperating Income, for amortization expense on property included in account 2040, Electric Plant Held for Future Use. Include, also, the balance of accumulated amortization on property when transferred to account 2040, Electric Plant Held for Future Use, from other property accounts. Normally this account will not be used for current amortization provisions because, as provided herein, the service life during which amortization is computed commences with the date the property can be included in Electric Plant in Service; however, if special circumstances indicate the propriety of current provisions for amortization, such charges shall be made to account 4390, Miscellaneous Nonoperating Income.
 - 3) Amounts charged to account 4320, Expenses of Electric Plant Leased to Others, for electric plant included in account 2030, Electric Plant and Equipment Leased to Others.
 - 4) Amounts charged to account 4330, Costs and Expenses of Merchandising, Jobbing, Etc. or to clearing accounts for current amortization expense.
 - 5) Amounts of amortization applicable to electric properties acquired as operating units or systems. (See Article 230, Definitions and Instructions, No. 21.)
 - 6) Amounts charged to account 1572, Extraordinary Event Losses, when authorized by the Board.
 - 7) Amounts of amortization applicable to electric plant donated to the utility.
- Note: The utility shall maintain separate sub-accounts for amortization applicable to Electric Plant in Service, Electric Plant Leased to others and Electric Plant Held for Future Use.
- B. At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. On retirement, if costs of removal and salvage are entered

Uniform System of Accounts**Balance Sheet Accounts**

Accumulated Amortization

originally in retirement work orders, the net total of such work orders may be included in a separate sub-account. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph.

- C. Although this account is treated as a single composite provision for amortization, for purposes of analysis, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant, as applicable:
- (1) Generation, (2) Transmission, (3) Distribution, (4) General and (5) Other. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification (a) the amount of accrual for amortization, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.
- D. When transfers of plant are made from one electric plant account to another, or from or to another utility department, or from or to non-utility property accounts, any related amounts carried in the accounts for accumulated provision for amortization shall be transferred but segregation of such amounts shall be maintained.
- E. The utility is restricted in its use of the accumulated amortization to the purposes set forth above. It shall not transfer any portion of this account or make any other use of this account without authorization by the Board.

2120 Accumulated Amortization of Electric Utility Plant - Intangibles

- A. This account shall be credited with the following:
1. Amounts charged to account 5710, Amortization of Limited-Term Electric Plant, for the current amortization of limited-term electric plant investments.
 2. Amounts charged to account 4390, Miscellaneous Nonoperating Income, for amortization expense on property included in account 2040, Electric Plant Held for Future Use. Include also the balance of accumulated amortization on property when transferred to account 2040, Electric Plant

Uniform System of Accounts**Balance Sheet Accounts****Accumulated Amortization**

Held for Future Use, from other property accounts. See also paragraph A(2), account 2105, Accumulated Amortization of Electric Utility Plant.

3. Amounts charged to account 5715, Amortization of Intangibles and Other Electric Plant.
4. Amounts charged to account 4320, Expenses of Electric Plant Leased to Others, for the current amortization of limited-term or other investments subject to amortization included in account 2030, Electric Plant and Equipment Leased to Others.
5. Amounts charged to account 5725, Miscellaneous Amortization, for the amortization of intangible or other electric plant which does not have a definite or terminable life and is not subject to charges for amortization expense, with Board approval.

Note: The utility shall maintain sub-accounts of this account for the amortization applicable to Electric Plant in Service, Electric Plant Leased to Others and Electric Plant Held for Future Use.

- B. When any property to which this account applies is sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such property. The book cost of the property so retired less the amount chargeable to this account and less the net proceeds realized at retirement shall be included in account 4355, Gain on Disposition of Property, or account 4360, Loss on Disposition of Property, as appropriate.
- C. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for amortization. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant: (1) Generation, (2) transmission, (3) distribution, (4) general, and (5) Other. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification (a) the amount of accrual for amortization, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.
- D. The utility is restricted in its use of the accumulated amortization to the purposes set forth above. It shall not transfer any portion of this account to or make any other use of this account without authorization by the Board.

Uniform System of Accounts**Balance Sheet Accounts**

Accumulated Amortization**2140 Accumulated Amortization of Electric Plant Acquisition Adjustments**

This account shall be credited or debited with amounts which are included in account 5720, Amortization of Electric Plant Acquisition Adjustments or account 5725, Miscellaneous Amortization, for the purpose of providing for the extinguishment of amounts in account 2060, Electric Plant Acquisition Adjustments, in instances where the amortization of account 2060 is not being made by direct write-off of the account.

2160 Accumulated Amortization of Other Utility Plant

This account shall include the accumulated amortization applicable to utility property other than electric plant. (These items would have been included in account 2070, Other Utility Plant).

2180 Accumulated Amortization of Non-Utility Property

This account shall include the accumulated amortization applicable to non-utility property. (These items would have been included in account 2075, Non-Utility Property Owned or Under Capital Leases).

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities**2205 Accounts Payable**

This account shall include all amounts payable by the utility within one year, which are not provided for in other accounts.

2208 Customer Credit Balances

This account shall include all customer credit balances arising from an “equalized billing plan” with corresponding adjustment to account 1100, Customer Accounts Receivable. Any material prepayment of customer accounts receivable should be transferred to this account.

2210 Current Portion of Customer Deposits

This account shall include the deposits expected to be refunded in the next year.

Note: Long term portions to be included in account 2335, Long Term Customer Deposits.

2215 Dividends Declared

This account shall include the amount of dividends which have been declared by the utility but not paid. Dividends shall be credited to this account when they become a liability.

2220 Miscellaneous Current and Accrued Liabilities

This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability. Example items: Tender Deposits refundable within one year.

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities**2225 Notes and Loans Payable**

This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable on demand or within a time not exceeding one year from date of issue, to other than associated companies.

This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) which are classified as financial liabilities and are current in nature.

This account shall be kept in such detail that the identity and amount of each note, loan, etc. is evident.

2240 Accounts Payable to Associated Companies

These accounts shall include amounts owing to associated companies on notes, drafts, acceptances, or other similar evidences of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: Exclude from these accounts notes and amounts which are included in account 2550, Advances from Associated Companies.

2242 Notes Payable to Associated Companies

This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable to associated companies on demand or within a time not exceeding one year from date of issue.

This account shall be kept in such detail that the identity and amount of each note, loan, etc. is evident.

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities**2250 Debt Retirement Charges**

This account will be used to monitor Debt Retirement Charges charged and collected and to be remitted to the Financial Corporation in respect of electricity used by the consumer (in the case of distributors) or electricity generated in Ontario (in the case of generators).

2252 Transmission Charges Payable

This account will be used to record transmission charges payable. Sub-accounts shall be used to record other payables related to transmission.

2254 Electrical Safety Authority Fees Payable

This account will be used to record fees imposed by the Electrical Safety Authority.

2256 Independent Electricity System Operator Fees and Penalties Payable

This account will be used to record fees and penalties imposed by the Independent Electricity System Operator.

2260 Current Portion of Long Term Debt

This account shall include the amount of the corresponding long term debt which is payable in the next twelve months.

The account shall be sub-divided in the following manner, as required:

1. Debentures Outstanding - Current Portion.
2. Term Bank Loans - Current Portion.
3. Other Long Term Debt - Current Portion.

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities**2262 Ontario Hydro Debt - Current Portion**

This account shall include the current portion of amounts payable to Ontario Hydro in relation to obligations recorded in account 2530, Ontario Hydro Debt Outstanding - Long Term Portion.

2264 Pensions and Employee Benefits - Current Portion

This account shall include the current portion of amounts payable to O.M.E.R.S. in regard to past service pension costs recorded in account 2348 O.M.E.R.S. - Past Service Liability - Long Term Portion.

Sub-accounts should be used to record the current portion of non-O.M.E.R.S past service pension costs, and Employee Future Benefits.

2268 Accrued Interest on Long Term Debt

This account shall include accrued interest on long term debt for the current year's operations. Supporting records shall be maintained so as to show the amount of interest accrued on each obligation.

2270 Matured Long Term Debt

This account shall include the amount of long-term debt (including any obligation for premiums) matured and unpaid, without specific agreement for extension of the time of payment and bonds called for redemption but not presented.

2272 Matured Interest on Long Term Debt

This account shall include the amount of matured interest on long-term debt or other obligations of the utility at the date of the balance sheet unless such interest is added to the principal of the debt on which incurred.

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities**2285 Obligations Under Capital Leases–Current**

This account shall include the portion, due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in account 2005, Property Under Capital Leases, or account 2075, Non-utility Property Owned or Under Capital Leases.

2290 Commodity Taxes

The purpose of this account is to monitor the Goods and Services Tax and Provincial Sales Tax charged and collected, as well as the amount of GST paid which is eligible for an input tax credit.

The account shall be subdivided in such a manner that the details for each type of commodity tax will be evident.

2292 Payroll Deductions/ Expenses Payable

This account shall include the amounts collected by the utility through payroll deductions or related amounts otherwise payable and pending transmittal to the proper authority.

Sub-accounts shall be maintained providing details for the following payroll deductions/ expenses:

1. Income tax.
2. Canada Pension Plan.
3. Employment Insurance.
4. Employer Health Tax.
5. Other.

2294 Accrual for Taxes, “Payments in Lieu of Taxes”, Etc.

- A. This account shall be credited with the amount of taxes, “payments in lieu of taxes”, etc. accrued during the accounting period, corresponding debits being made to the appropriate accounts for such charges. Such credits may be based upon estimates, but from time to time during the year as the facts become

Uniform System of Accounts**Balance Sheet Accounts**

Current Liabilities

known, the amount of the periodic credits shall be adjusted so as to include as nearly as can be determined in each year the taxes, "payments in lieu of taxes", etc., applicable thereto. Any amount representing a prepayment of amounts applicable to the period subsequent to the date of the balance sheet, shall be shown under account 1180, Prepayments.

- B. If accruals for taxes are found to be insufficient or excessive, correction therefor shall be made through current tax accruals.
- C. Accruals for taxes shall be based upon the net amounts payable after credit for any discounts, and shall not include any amounts for interest on tax deficiencies or refunds. Interest received on refunds shall be credited to account 4405, Interest and Dividend Income, and interest paid on deficiencies shall be charged to account 6035, Other Interest Expense.
- D. The records supporting the entries to this account shall be kept so as to show for each class of accrual, the amount accrued, the basis for the accrual, the accounts to which charged, and the amount paid.

2296 Future Income Taxes - Current

This current liability account is provided for those electric utilities that choose to record future income taxes in accordance with CICA Handbook section 3465-- Income Taxes. The current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.

Uniform System of Accounts**Balance Sheet Accounts**

Non-Current Liabilities**2305 Accumulated Provision for Injuries and Damages**

- A. This account shall be credited with amounts charged to account 5640, Injuries and Damages, or other appropriate accounts, to meet the probable liability, not covered by insurance, for deaths or injuries to employees and others and for damages to property neither owned nor held under lease by the utility.
- B. When liability for any injury or damage is admitted by the utility either voluntarily or because of the decision of a court or other lawful authority, the admitted liability shall be transferred to the appropriate current liability account. Details of these charges shall be maintained according to the year the injury or damage giving rise to the loss occurred.

Note: Recoveries or reimbursements for losses charged to this account shall be credited to this account; the cost of repairs to property of others if provided for here shall be charged to this account.

2306 Employee Future Benefits

- A. This account shall include provision for other retirement benefits, such as health care benefits, life insurance and other miscellaneous benefits provided to employees after retirement. The account should also provide for termination benefits.
- B. Entitlements earned by employees for the purposes for which this liability is established shall be charged to this account.
- C. If the utility maintains its own defined Future Benefits plan, an actuarially determined Future Benefits obligation or asset should be calculated and accounted for in accordance with the Accounting Recommendations of the Canadian Institute of Chartered Accountants.
- D. A separate account shall be kept for each kind of provision included herein.

Note: See related expense account 5645, Employee Pensions and Benefits.

Uniform System of Accounts**Balance Sheet Accounts**

Non-Current Liabilities**2308 Other Pensions - Past Service Liability**

This account will be used for non-OMERS pension assets/liabilities as required by Section 3461 of the CICA Handbook. See also related account 1475, Past Service Costs -Other Pension Plans.

2310 Vested Sick Leave Liability

This account shall include the vested sick leave entitlement as at year end. Annual credits to this account shall be made in accordance with management or statutory requirements. The current portion of this liability shall be included in account 2220, Miscellaneous Current and Accrued Liabilities.

2315 Accumulated Provision for Rate Refunds

- A. This account shall be credited with amounts charged to account 4240, Provisions for Rate Refunds, to provide for estimated refunds where the utility is collecting amounts in rates subject to refund.
- B. This account also shall be credited with rebates amounts received for customers from others (e.g., Ontario Power Generation Inc. Market Power Mitigation Agreement Rebates).
- C. When refund of any amount recorded in this account is ordered by the Board within the next year, such amount shall be charged to this account and credited to account 2220, Miscellaneous Current and Accrued Liabilities.
- D. Records supporting the entries to this account shall be kept so as to identify each amount recorded by the respective rate filing docket number.

2320 Other Miscellaneous Non-Current Liabilities

This account shall include all non-current liabilities which do not properly belong in any other account. The account shall be kept in such a manner that the nature of each liability is evident.

Uniform System of Accounts**Balance Sheet Accounts**

Non-Current Liabilities**2325 Obligations Under Capital Lease–Non-Current**

This account shall include the portion not due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in account 2005, Property under Capital Leases, or account 2075, Non-Utility Property Owned or Under Capital Leases.

2330 Development Charge Fund

- A. The purpose of this account is to record the liability associated with funds collected for specific, future capital works. This account recognizes that there is an obligation to complete the specific capital work for which the funds were collected. The liability will increase each year by the amount of interest income earned on the fund.
- B. If the obligation to complete the capital work has been fulfilled prior to the date designated by the Board, the related amount shall be transferred to account 3022, Development Charges Transferred to Equity.
- C. If the obligation to complete the capital work has been fulfilled after the date designated by the Board, the related amount shall be transferred to asset contra account 1995, Contributions and Grants - Credit.
- D. Sub-accounts should be maintained to segregate amounts relating to liabilities arising before January 1, 2000 from those arising after December 31, 1999.

2335 Long Term Customer Deposits

This account shall include all deposits except those included in account 2340 Collateral Funds Liability. The amounts expected to be refunded in the next year shall be included in account 2210, Current Portion of Customer Deposits. Detailed records shall be kept of individual deposits.

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Non-Current Liabilities**2340 Collateral Funds Liability**

This account shall include all deposits or securities received from customers or contractors and maintained in a separate bank account or safety deposit box.

This account shall only be used in situations where it is necessary to fund customer or other deposits, such as deposits guaranteeing construction costs or contract performance.

The accounts shall be maintained in such a manner that the deposit of each customer is evident.

Note: The bank and securities account(s) related to these deposits are recorded in account 1410, Other Special or Collateral Funds.

2345 Unamortized Premium on Long Term Debt

- A. This account shall include the excess of the cash value of consideration received over the face value upon the issuance or assumption of long-term debt securities.
- B. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization shall be credited to account 6015, Amortization of Premium on Debt--Credit.

Entries shall be made in this account in a manner that the items involved with each debt issue will be evident.

2348 OMERS - Past Service Liability - Long Term Portion

This account shall include the long term portion of any known future principal amounts payable to OMERS in regard to past service pension costs. The current portion shall be kept in account 2264, Pensions and Employee Benefits - Current Portion. If any non-OMERS multi-employer pension plans are created, the long-term portion of past service pension costs should be recorded in account 2308, Other Pensions - Past Service Liability.

Uniform System of Accounts**Balance Sheet Accounts**

Non-Current Liabilities**2350 Future Income Tax - Non-Current**

This account is provided for those entities that choose to record future income taxes in accordance with the recommendations of CICA Handbook section 3465-- Income Taxes as applicable. The non-current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.

Uniform System of Accounts**Balance Sheet Accounts**

Other Liabilities and Deferred Credits**2405 Other Regulatory Liabilities/Credits**

- A. This account shall include the amounts of regulatory liabilities, not included in other accounts, imposed on the utility by the ratemaking actions of the Board. (See Article 230, Definitions and Instructions, No. 2, Item G).
- B. The amounts included in this account are to be established by those credits which would have been included in net income determinations in the current period under the general requirements of this Uniform System of Accounts but for it being probable that: 1) such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or 2) refunds to customers, not provided for in other accounts, will be required.
- C. If it is later determined that the amounts recorded in this account will not be returned to customers through rates or refunds, such amounts shall be credited to account 4390, Miscellaneous Non-Operating Income, or account 6305, Extraordinary Income, as appropriate, in the year such determination is made.
- D. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to the nature and amount of each regulatory liability included in this account, including justification for inclusion of such amounts in this account.

2410 Deferred Gains from Disposition of Utility Plant

This account shall include gains from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to account 4345, Gains from Disposition of Future Use Utility Plant. (See account 2040, Electric Plant Held for Future Use.)

2415 Unamortized Gain on Reacquired Debt

This account shall include the amounts of discount realized upon reacquisition or redemption of long-term debt. See related account 6025, Amortization of Gain on Reacquired Debt–Credit.

Uniform System of Accounts**Balance Sheet Accounts**

Other Liabilities and Deferred Credits**2425 Other Deferred Credits**

This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

Carrying charge amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, carrying charges are not permitted in this account unless Board approved through a rate application submitted by the distributor (e.g., as part of the 2006 regulatory assets phase II final approval). In such a case the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, carry charges are authorized in this account. The rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

2435 Accrued Rate-Payer Benefit

This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the incentive regulation plan. This account will include related accrued interest.

Uniform System of Accounts**Balance Sheet Accounts**

Long Term Debt**2505 Debentures Outstanding - Long Term Portion**

These accounts shall include the long term portion of the face value in Canadian funds at the time of issue of all unmatured debentures. The accounts shall be kept in such a manner that the details and status of any individual issue shall be evident. The current portion shall be kept in account 2260, Current Portion of Long Term Debt.

2510 Debenture Advances

This account shall contain any advances received against appropriately approved debentures. The account shall be kept in such a manner that the details of each advance are evident.

2515 Reacquired Bonds

- A. This account shall include the face value of bonds actually issued or assumed by the utility and reacquired by it and not retired or canceled. The account for reacquired debt shall not include securities which are held by trustees in sinking or other funds.
- B. When bonds are reacquired, the difference between face value, adjusted for unamortized discount, expenses or premium, and the amount paid upon reacquisition, shall be included in account 1540, Unamortized Loss on Reacquired Debt, or account 2415, Unamortized Gain on Reacquired Debt, as appropriate.

2520 Other Long Term Debt

- A. This account shall include, until maturity all long-term debt not provided for in any other account. This covers such items as receivers' certificates, real estate mortgages executed or assumed, assessments for public improvements, notes and unsecured certificates of indebtedness not owned by associated companies, receipts outstanding for long-term debt, and other obligations maturing more than one year from date of issue or assumption.

This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are non-current in nature.

Uniform System of Accounts**Balance Sheet Accounts**

Long Term Debt

- B. Separate accounts shall be maintained for each class of obligation, and records shall be maintained to show for each class all details as to date of obligation, date of maturity, interest dates and rates, security for the obligation, etc.

Note: Miscellaneous long-term debt reacquired shall be accounted for in accordance with the procedure set forth in account 2515, Reacquired Bonds.

2525 Term Bank Loan - Long Term Portion

This account shall include the long term portion of all bank loans which are repayable over a term of longer than one year. The account shall be kept in such a manner that the details and status of any individual loan shall be evident. The current portion shall be kept in account 2260.

2530 Ontario Hydro Debt Outstanding - Long Term Portion

This account shall include the long term amounts payable to Ontario Hydro over an extended period. This would generally be for purchases of assets on annexation or restructuring. The current portion shall be kept in account 2262, Ontario Hydro Debt - Current Portion.

2550 Advances from Associated Companies

- A. This account shall include the face value of notes payable to associated companies and the amount of open book accounts representing advances from associated companies. It does not include notes and open accounts representing indebtedness subject to current settlement which shall be included in account 2240, Accounts Payable to Associated Companies, or account 2242, Notes Payable to Associated Companies, as applicable.
- B. The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note and open account.

Uniform System of Accounts**Balance Sheet Accounts**

Shareholders' Equity**3005 Common Shares Issued**

- A. This account shall include the stated or assigned value of common shares of each class issued.
- B. When capital stock is retired, this account shall be charged with the amount at which such stock is carried herein.
- C. A separate ledger account, with a descriptive title, shall be maintained for each class and series of common shares. The supporting records shall show the shares nominally issued, actually issued, and nominally outstanding.

3008 Preference Shares Issued

- A. This account shall include the stated or assigned value of preference shares of each class issued.
- B. When capital stock is retired, these accounts shall be charged with the amount at which such stock is carried herein.
- C. A separate ledger account, with a descriptive title, shall be maintained for each class and series of preference shares. The supporting records shall show the shares nominally issued, actually issued, and nominally outstanding.

3010 Contributed Surplus

- A. This account shall include, in a separate subdivision for each class and series of stock, the excess of the actual cash value of the consideration received on original issues of capital stock over the stated or assigned value and accrued dividends of such stock.
- B. Premium on capital stock shall not be set off against expenses. Further, a premium received on an issue of a certain class or series of stock shall not be set off against expenses of another issue of the same class or series.

Uniform System of Accounts**Balance Sheet Accounts**

Shareholders' Equity**3020 Donations Received**

This account shall include the balance of credits for donations received consisting of capital stock of the utility, cancellation or reduction of debt of the utility, and the cash value of other assets received.

3022 Development Charges Transferred to Equity

This account shall include the amounts related to Development Charges Funds recorded as liabilities in accordance with the Electricity Act, 1998, section 148. Any amounts that were subsequently expended on capital works in accordance with the obligations associated with those Funds shall be included in this equity account.

Supporting records shall be maintained of each transfer to this account.

3026 Capital Stock Held in Treasury

This account shall include in a separate subdivision for each class and series of capital stock, the cost of capital stock actually issued by the utility and reacquired by it and not retired or canceled, except, however, stock which is held by trustees in sinking or other funds.

3030 Miscellaneous Paid-in Capital

This account shall include the balance of all other credits for paid-in capital which are not properly included in the foregoing accounts.

3035 Installments Received on Capital Stock

- A. This account shall include in a separate subdivision for each class and series of capital stock the amount of installments received on capital stock on a partial or installment payment plan from subscribers who are not bound by legally enforceable subscription contracts.
- B. As subscriptions are paid in full and certificates issued, this account shall be charged and the appropriate capital stock account credited with the par or stated value of such stock. Any discount or premium on an original issue shall be included in account 3010, Contributed Surplus.

Uniform System of Accounts**Balance Sheet Accounts**

Shareholders' Equity**3040 Appropriated Retained Earnings**

This account shall include retained earnings set aside or reserves maintained by the utility which are not provided for elsewhere. The account shall be maintained and subdivided in such a manner as to show the nature and purpose of each separate appropriation or reserve.

3045 Unappropriated Retained Earnings

This account shall include the balances, either debit or credit, of unappropriated retained earnings arising from earnings of the utility. This account shall not include any amounts representing the undistributed earnings of subsidiary companies. (See account 3065, Unappropriated Undistributed Subsidiary Earnings).

Net changes to this account for the current period are shown by the sum of the activities in accounts 3046 to 3055.

3046 Balance Transferred from Income

This account shall include the net credit or debit transferred from income for the year.

3047 Appropriations of Retained Earnings - Current Period

This account shall include appropriations of retained earnings.

Example items

1. Appropriations required under terms of mortgages, orders of courts, contracts, or other agreements.
2. Appropriations required by action of regulatory authorities.
3. Other appropriations made at option of utility for specific purposes.

Uniform System of Accounts**Balance Sheet Accounts**

Shareholders' Equity**3048 Dividends Payable—Preference Shares**

- A. This account shall include amounts declared payable out of retained earnings as dividends on outstanding preferred capital stock of the utility.
- B. Dividends shall be segregated for each class and series of preference shares as to those payable in cash. If not payable in cash, the medium of payment shall be described with sufficient detail to identify it.

3049 Dividends Payable—Common Shares

- A. This account shall include amounts declared payable out of retained earnings as dividends on outstanding common capital stock of the utility.
- B. Dividends shall be segregated for each class of common shares as to those payable in cash, shares and other forms. If not payable in cash, the medium of payment shall be described with sufficient detail to identify it.

3055 Adjustments to Retained Earnings

This account shall, with prior Board approval, include significant non-recurring transactions accounted for as prior period adjustments, as follows:

1. Correction of a material error in the financial statements of a prior year.
2. Other adjustments that may be required by the Board.

All other items of profit and loss recognized during a year shall be included in the determination of net income for that year.

3065 Unappropriated Undistributed Subsidiary Earnings

This account shall include the balances, either debit or credit, of undistributed retained earnings of subsidiary companies since their acquisition. When dividends are received from subsidiary companies relating to amounts included in this account, this account shall be debited and account 3045, Unappropriated Retained Earnings, credited.

Uniform System of Accounts**Income Statement**

Sales of Electricity**4006 Residential Energy Sales**

- A. This account shall include the net billing for electricity supplied for residential or domestic purposes.
- B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Note: When electricity supplied through a single meter is used for both residential and commercial purposes, the total revenue shall be included in this account, or account 4010, Commercial Energy Sales, according to the rate schedule which is applied. If the same rate schedules apply to residential as to commercial service, classification shall be made according to principal use.

4010 Commercial Energy Sales

- A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as commercial.
- B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Note: When electricity supplied through a single meter is used for both commercial and residential purposes, the total revenue shall be included in this account, or in account 4006, Residential Energy Sales, according to the rate schedule which is applied. If the same rate schedules apply to residential as to commercial and industrial service, classification shall be made according to the principal use.

4015 Industrial Energy Sales

- A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as industrial.
- B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

Uniform System of Accounts**Income Statement**

Sales of Electricity**4020 Energy Sales to Large Users**

- A. These accounts shall include all revenue resulting from the sale of electrical energy used by customers classified as large users.
- B. Records shall be maintained so that the quantity of electricity sold and the revenue received under each rate schedule shall be readily available.

4025 Street Lighting Energy Sales

These accounts shall include all revenue resulting from the sale of electrical energy used for the lighting of municipal streets and parks.

4030 Sentinel Lighting Energy Sales

These accounts shall include all revenue resulting from the sale of electrical energy used for sentinel lighting.

4035 General Energy Sales

- A. This account shall include all revenue resulting from the sale of electrical energy used by customers classified as General Service. Records shall be maintained so that the quantity of electricity sold and the revenue received from each customer shall be readily available. (See Article 230, Definitions and Instructions, No. 26)
- B. Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the Board's Electricity Distribution Rate Handbook(s) or as otherwise approved by the Board for a specific utility.

Uniform System of Accounts**Income Statement**

Sales of Electricity**4040 Other Energy Sales to Public Authorities**

- A. This account shall include the net billing for electricity supplied to municipalities or divisions or agencies of federal or provincial governments, under special contracts or agreements or service classifications applicable only to public authorities, except such revenues as shall be included in accounts 4025 and 4055.
- B. Records shall be maintained so as to show the quantity of electricity sold and the revenues received from each customer.

4045 Energy Sales to Railroads and Railways

- A. This account shall include the net billing for electricity supplied to railroads and interurban and street railways, for general railroad use, including the propulsion of cars or locomotives, where such electricity is supplied under separate and distinct rate schedules.
- B. Records shall be maintained so that the quantity of electricity sold and the revenue received from each customer shall be readily available.

Note: Revenues from incidental use of electricity furnished under a contract for propulsion of cars or locomotives shall be included herein.

4050 Revenue Adjustment

This account will include both unbilled revenue adjustments and prior year billing adjustments. Each adjustment shall be completely described.

4055 Energy Sales For Retailers/Others

- A. This account shall include the revenues derived from the sale of electricity through retailers or others. Records shall be maintained to be able to identify electricity sales by retailer.

Sub-accounts shall be used to separately record each of the following classes of electricity sales:

Uniform System of Accounts**Income Statement**

Sales of Electricity

Residential
Large Use
Street Lighting
General Service*

*Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the Board's Electricity Distribution Rate Handbooks or as otherwise approved by the Board for a specific utility.

- B. This account is effective on market opening (i.e. May 1, 2002).

4060 Interdepartmental Energy Sales

- A. This account shall include amounts charged by the electric department at tariff or other specified rates for electricity supplied by it to other utility departments.
- B. Records shall be maintained so that the quantity of electricity supplied to each other department and the charges there for shall be readily available.

4062 Billed - WMS

- A. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers using the Board-approved Wholesale Market Service Rate for specified charge types.
- B. Depending on the distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4708.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Wholesale Market Service Rate.

Uniform System of Accounts**Income Statement**

Sales of Electricity**4064 Billed - ONE-TIME**

- A. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers relating to specified charge types for this account which are not normally already incorporated in the Board-approved Wholesale Market Service Rate.
- B. Depending on the distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4712.

4066 Billed - NW

- A. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Network Service Rate approved by the Board.
- B. Depending on the distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4714.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Service Rate.

4068 Billed - CN

- A. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Connection Service Rate approved by the Board.
- B. Depending on the distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4716.

Uniform System of Accounts**Income Statement**

Sales of Electricity

- C. If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Connection Service Rate.

4075 Billed – LV

This account shall be used by an embedded distributor to record amounts billed to its customers for transmission or low voltage charges. Depending on an embedded distributor's normal monthly accounting practices this account may include accruals for monthly unbilled estimates. The embedded distributor must ensure a proper matching of the billed amounts recorded in Account 4075 to those charges recorded in Account 4750.

Uniform System of Accounts**Income Statement**

Revenues from Services - Distribution**4080 Distribution Services Revenue**

- A. This account shall include revenues from the distribution of electricity charge for standard supply service, retailer and other customers.

Sub-accounts shall be used to separately record the distribution service revenues that relate to each of the following classes of electricity sales:

Residential
Large Use
Street Lighting
General Service*

*Sub-accounts shall be used to record revenues for classifications of general service customers (e.g. TOU, < > 50 kW, etc.) consistent with the classifications provided for in the Board's Electricity Distribution Rate Handbooks or as otherwise approved by the Board for a specific utility.

- B. Distributors shall use this account to record revenues generated from the SSS Administration Charge. Distributors shall use a sub-account to separately track such revenues in light of Board expectations that each distributor will establish a specific utility charge for recovery of SSS administrations costs.
- C. Distributors will use this account to record revenues generated from the Distribution Wheeling Service where the service is unrelated to revenues recorded in account 4075, Billed – LV. Distributors shall use a separate sub-account to track such revenues.

4082 Retail Services Revenues

- A. This account shall be used to record revenues derived from the following services described in the 2000 Electricity Distribution Rate Handbook:
- a) Establishing Service Agreements;
 - b) Distributor-Consolidated Billing;
 - c) Retailer-Consolidated Billing; and
 - d) Split Billing
- B. Sub-accounts may be used to separately record amounts related to each of the above services.

Uniform System of Accounts**Income Statement**

Revenues from Services - Distribution**4084 STR Revenues**

- A. This account shall be used to record revenues derived from the Service Transaction Request services described in the 2000 Electricity Distribution Rate Handbook and charged by the distributor, as prescribed, in the form of a:
- a) Request fee;
 - b) Processing fee;
 - c) Information Request fee;
 - d) Default fee; and
 - e) Other Associated Costs fee:
- B. Sub-accounts may be used to separately record amounts related to the items listed above.

4090 Electric Services Incidental to Energy Sales

Note: services not incidental to electricity sales to be included in account 4235, Miscellaneous Service Revenues.

Uniform System of Accounts

Income Statement

Revenues from Services - Transmission

4105 Transmission Charges Revenue

Account description to be developed at a later date, if applicable.

4110 Transmission Services Revenue

This account shall include revenues from the transmission of electricity on behalf of others (i.e. Distributors, etc.).

Records shall be maintained so that the quantity of electricity supplied to each party and the related revenues shall be readily available.

Uniform System of Accounts**Income Statement**

Other Operating Revenues**4205 Interdepartmental Rents**

This account shall include rents credited to the electric department on account of rental charges made against other departments (gas, water, etc.) of the utility. In the case of property operated under a definite arrangement to allocate the costs among the departments using the property, any reimbursement to the electric department for interest or return and amortization and taxes shall be credited to this account.

4210 Rent from Electric Property

- A. This account shall include rents received for the use by others of land, buildings, and other property devoted to electric operations by the utility.
- B. When property owned by the utility is operated jointly with others under a definite arrangement for apportioning the actual expenses among the parties to the arrangement, any amount received by the utility for interest or return or in reimbursement of taxes or amortization on the property shall be credited to this account.
- C. Records shall be maintained to show each source of rental income by category.

Example items

- 1. Pole rentals.
- 2. Real property rentals, including meeting rooms, etc.
- 3. Duct rentals.
- 4. Use of easements by others.

Note: Do not include in this account rents from property constituting an operating unit or system. (See account 4315, Revenues from Electric Plant Leased to Others.)

4215 Other Utility Operating Income

- A. This account shall include the revenues received and expenses incurred in connection with the operations of utility plant, the book cost of which is included in account 2070, Other Utility Plant.

Uniform System of Accounts**Income Statement**

Other Operating Revenues

- B. The expenses shall include every element of cost incurred in such operations, including amortization, rents, and insurance. (To the extent reasonably practical to do so.)

4220 Other Electric Revenues

This account shall include revenues derived from electric operations not included in any of the foregoing accounts. It shall also include in a separate sub-account revenues received from operation of fish and wildlife, and recreation facilities whether operated by the company or by contract concessionaires, such as revenues from leases, or rentals of land for cottage, homes, or campsites.

Example items

1. Compensation for minor or incidental services provided for others such as customer billing, engineering, etc.
2. Profit or loss on sale of material and supplies not ordinarily purchased for resale and not handled through merchandising and jobbing accounts.
3. Sale of steam, but not including sales made by a steam heating department or transfers of steam under joint facility operations.
4. Revenues from transmission of electricity of others over transmission facilities of the utility.
5. Include in a separate sub-account revenues in payment for rights and/or benefits received from others which are realized through research and development ventures.

4225 Late Payment Charges

This account shall include the amount of discounts forfeited or additional charges imposed because of the failure of customers to pay their electric bills on or before a specified date.

Account shall be sub-divided to separately show penalties and interest charges.

Uniform System of Accounts**Income Statement**

Other Operating Revenues**4230 Sales of Water and Water Power**

- A. This account shall include revenues derived from the sale of water for irrigation, domestic, industrial or other uses, or for the development by others of water power, or for headwater benefits; also, revenues derived from furnishing water power for mechanical purposes when the investment in the property used in supplying such water or water power is carried as Electric Plant in Service.
- B. The records for this account shall be kept in such manner as to permit an analysis of the rates charged and the purposes for which the water was used.

4235 Miscellaneous Service Revenues

This account shall include revenues for all miscellaneous services and charges billed to customers which are not specifically provided for in other accounts.

Separate records shall be maintained for each class of service and related charges.

Example items

1. Fees for changing, connecting or disconnecting service including reconnection charges and change of occupancy fees.
2. Profit on maintenance of appliances, wiring, piping or other distribution related installations on customers' premises.
3. Net credit or debit (cost less net salvage and less payment from customers) on closing of work orders for plant installed for temporary service of less than one year. (See Account 1104, Accounts Receivable-Recoverable Work.)
4. Recovery of expenses in connection with current diversion cases (billing for the electricity consumed shall be included in the appropriate electric revenue account).
5. Dispute meter test charges.
6. Account history research charges.
7. Disconnect of electricity service
8. Reconnection of electricity
9. Dispute involvement charge
10. Temporary electricity service
11. Account setup charge
12. Return cheque charge
13. Other specific service charges as approved by the Board

Uniform System of Accounts**Income Statement**

Other Operating Revenues**4240 Provision for Rate Refunds**

- A. This account shall be charged with provisions for the estimated pretax effects on net income of the portions of amounts being collected subject to refund which are estimated to be required to be refunded. Such provisions shall be credited to account 2315, Accumulated Provision for Rate Refunds.
- B. This account shall also be charged with amounts refunded when such amounts had not been previously accrued.
- C. Records shall be maintained to show separately refunds by customer class.

4245 Government Assistance Directly Credited to Income

This account shall include government assistance towards current expenses or revenues. It shall also include government assistance that has been deferred, and is subsequently amortized to income as related expenses are incurred.

Uniform System of Accounts**Income Statement**

Other Income/Deductions**4305 Regulatory Debits**

This account shall be debited, when appropriate, with the amounts transferred to account 2405, Other Regulatory Liabilities, to record regulatory liabilities imposed on the utility by the ratemaking actions of the Board. This account shall also be debited, when appropriate, with the amounts drawing down the balance in asset account 1508, Other Regulatory Assets (concurrent with the recovery of such amounts in rates).

4310 Regulatory Credits

This account shall be credited, when appropriate, with the amounts transferred to account 1508, Other Regulatory Assets, to establish regulatory assets. This account shall also be credited, when appropriate, with the amounts drawing down the balance in liability account 2405, Other Regulatory Liabilities.

4315 Revenues from Electric Plant Leased to Others

This account shall record revenues from electric property constituting a distinct operating unit or system leased by the utility to others, and which property is properly included in account 2030, Electric Plant and Equipment Leased to Others.

4320 Expenses of Electric Plant Leased to Others

- A. These accounts shall include the expenses attributable to electric property constituting a distinct operating unit or system leased by the utility to others, and which property is properly included in account 2030, Electric Plant and Equipment Leased to Others.
- B. The detail of expenses shall be kept or supported so as to show separately the following: Operation, Maintenance, and Amortization expense.

Uniform System of Accounts**Income Statement**

Other Income/Deductions**4325 Revenues from Merchandising, Jobbing, Etc.**

- A. This account shall include all revenues derived from the sale of merchandise and jobbing, including any profit or commission accruing to the utility on jobbing work performed by it as agent under contracts whereby it does jobbing work for another for a stipulated profit or commission. Interest related income from installment sales shall be recorded in account 4405, Interest and Dividend income.
- B. Records in support of this account shall be so kept as to permit ready summarization of revenues by such major items as are feasible.

Example items

1. Revenues from sale of merchandise and from jobbing.
2. Discounts and allowances made in settlement of bills for merchandise and jobbing work.

4330 Costs and Expenses of Merchandising, Jobbing, Etc.

- A. This account shall include all expenses incurred in relation to the sale of merchandise and jobbing work.
- B. Records in support of this account shall be so kept as to permit ready summarization of costs and expenses by such major items as are feasible.

Example items

Labour:

1. Canvassing and demonstrating appliances in homes and other places for the purpose of selling appliances.
2. Demonstrating and selling activities in sales rooms.
3. Installing appliances on customer premises where such work is done only for purchasers of appliances from the utility.
4. Installing related wiring, piping, or other property work, on a jobbing basis.
5. Preparing advertising materials for appliance sales purposes.
6. Receiving and handling customer orders for merchandise or for jobbing services.
7. Cleaning and tidying sales rooms.

Uniform System of Accounts**Income Statement**

Other Income/Deductions

8. Maintaining display counters and other equipment used in merchandising.
9. Arranging merchandise in sales rooms and decorating display windows.
10. Reconditioning repossessed appliances.
11. Bookkeeping and other clerical work in connection with merchandise and jobbing activities.
12. Supervision specific to merchandise and jobbing operations.

Materials and expenses:

1. Advertising in newspapers, periodicals, radio, television, etc.
2. Cost of merchandise sold and of materials used in jobbing work.
3. Stores expenses on merchandise and jobbing stocks.
4. Fees and expenses of advertising and commercial artists' agencies.
5. Printing booklets, dodgers, and other advertising data.
6. Premiums given as inducement to buy appliances.
7. Light, heat and power.
8. Amortization on equipment used primarily for merchandise and jobbing operations.
9. Rent of sales rooms or of equipment.
10. Transportation expense in delivery and pick-up of appliances by utility's facilities or by others.
11. Stationery and office supplies and expenses.
12. Losses from uncollectible merchandise and jobbing accounts.

4335 Profits and Losses from Financial Instrument Hedges

This account shall be used to record profits and losses from financial instruments used as hedges against financial risks such as price risk (i.e., currency risk, interest rate risk and market risk), credit risk, liquidity risk and cash flow risk. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Note that financial instruments entered into for speculative investment purposes should be recorded in account 4340, Profits and Losses from Financial Instrument Investments.

See related asset and liability accounts:

- 1070, Current Investments.
- 1405, Long Term Investments in Non-associated Companies.
- 2225, Notes and Loans Payable.
- 2520, Other Long Term Debt.

Uniform System of Accounts**Income Statement**

Other Income/Deductions**4340 Profits and Losses from Financial Instrument Investments**

This account shall be used to record profits and losses from financial instruments entered into for speculative investment purposes. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Note that financial instruments used as hedges against financial risks should be recorded in account 4335, Profits and Losses from Financial Instrument Hedges.

See related asset and liability accounts:

1070, Current Investments.

1405, Long Term Investments in Non-associated Companies.

2225, Notes and Loans Payable.

2520, Other Long Term Debt.

4345 Gains from Disposition of Future Use Utility Plant

This account shall include, as approved by the Board, amounts relating to gains from the disposition of future use utility plant including amounts which were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

This account shall not include gains on retirements of property described above. (Retirement gains shall be included in account 2105, pursuant to item (b) of that account).

4350 Losses from Disposition of Future Use Utility Plant

This account shall include, as approved by the Board, amounts relating to losses from the disposition of future use utility plant including amounts which were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.

This account shall not include losses on retirements of property described above. (Retirement losses shall be included in account 2105, pursuant to item (b) of that account).

Uniform System of Accounts**Income Statement**

Other Income/Deductions**4355 Gain on Disposition of Utility and Other Property**

This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. Gains on land and land rights recorded in account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D of account 2040. (See Article 230, Definitions and Instructions, No. 21(F)).

This account shall not include gains on retirements of property described above. (Retirement gains shall be included in account 2105, pursuant to item (b) of that account).

4360 Loss on Disposition of Utility and Other Property

This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. Losses on land and land rights recorded in account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D of account 2040. (See Article 230, Definitions and Instructions, No. 21 (F)).

This account shall not include losses on retirements of property described above. (Retirement gains shall be included in account 2105, pursuant to item (b) of that account).

4365 Gains from Disposition of Allowances for Emission

This account shall be credited with the gain on the sale, exchange, or other disposition of allowances in accordance with Article 230, Definitions and Instructions, No. 16.

4370 Losses from Disposition of Allowances For Emission

This account shall be debited with the loss on the sale, exchange, or other disposition of allowances in accordance with Article 230, Definitions and Instructions, No. 15.

Uniform System of Accounts

Income Statement

Other Income/Deductions

4375 Revenues from Non-Utility Operations

- A. This account shall include revenues applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation is not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.
- B. This account shall also be used to record the revenues arising from the provision of streetlighting services and any administrative fee revenue that the utility earns for administering the streetlighting program on behalf of a municipality, etc. while the related expenses are reflected in account 4380, Expenses from Non-Utility Operations.
- C. Revenues arising from operation or management of water or sewage services on behalf of a municipal corporation that owns directly or indirectly the utility, may be recorded in this account until December 31, 2004.
- D. The accounts shall be maintained so as to permit ready summarization of revenues by activity.

Example Items

- 1 Street Lighting services
- 2 Managing or operating of water or sewage services (effective to December 31, 2004)
- 3 Erecting and removing temporary electricity service (non-utility related) such as community decorative Lighting
- 4 Electricity generation
- 5 Electricity transmission
- 6 Revenues or funding associated with non-distribution conservation and demand management (CDM) activities (e.g., Ontario Power Authority funded CDM programs)
- 7 Other services not defined as distribution related and not provided for elsewhere in the Usa

4380 Expenses of Non-Utility Operations

- A. This account shall include expenses applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the

Uniform System of Accounts

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enterprise as a whole, such as the operation of a department where such operation not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.

- B. The expenses shall include all elements of costs incurred in such operations, and the accounts shall be subdivided so as to permit ready summarization of expenses by activity as follows: Operation, Maintenance, Rents, and Amortization.

Example Items

- 1 Street Lighting services
- 2 Managing or operating of water or sewage services (effective to December 31, 2004)
- 3 Erecting and removing temporary electricity service (non-utility related) such as community decorative lighting
- 4 Electricity generation
- 5 Electricity transmission
- 6 Expenses associated with non-distribution conservation and demand management (CDM) activities (e.g., Ontario Power Authority funded CDM programs)
- 7 Other services not defined as distribution related and not provided for elsewhere in the USoA

4385 Non-Utility Rental Income

- A. This account shall include all rent revenues and related expenses of land, buildings, or other property included in account 2075, Non-Utility Property Owned or Under Capital Leases or elsewhere, and used for non-utility purposes.
- B. This account shall include all rent revenues related to items included in account 1985, Sentinel Lighting Rental Units. (The corresponding expenses will be included in accounts 5170 and 5172 as applicable).
- C. The expenses shall include all elements of costs incurred in the ownership and rental of property, and the accounts shall be maintained so as to permit ready summarization as follows:

Operations, Maintenance, Rents and Amortization

Uniform System of Accounts**Income Statement**

Other Income/Deductions

- D. The accounts shall be subdivided so as to permit ready summarization of rent revenues by activity.

Example Items

- 1 Street Lighting rental
- 2 Rent related to temporary electricity service (non-utility) such as community decorative lighting
- 3 Renting of sentinel light
- 4 Rent derived from water and sewer assets
- 5 Rent derived from electricity generation assets
- 6 Rent derived from electricity transmission assets

4390 Miscellaneous Non-Operating Income

This account shall include all revenue and expense items not provided for elsewhere.

Example items

1. Profit on sale of timber. (See Article 230, Definitions and Instructions, No. 22(B)).
2. Profits from operations of others realized by the utility under contracts.
3. Gains on disposition of investments. Also, gains on reacquisition and resale or retirement of utilities debt securities when the gain is not material.
4. Sales of scrap material, miscellaneous items.

4395 Rate-Payer Benefit Including Interest

This account shall be used to record the amounts over the ROE Ceiling or in the earnings sharing mechanism that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the Performance Based Regulation or Incentive Regulation plan. This account will also include the related accrued interest, as applicable. The corresponding Deferred Credit account is 2435, Accrued Rate-Payer Benefit.

Uniform System of Accounts**Income Statement**

Other Income/Deductions**4398 Foreign Exchange Gains and Losses, Including Amortization**

This account shall include any exchange gains or losses that arise on translation or settlement of a foreign currency denominated monetary item or a non-monetary item carried at market value that should be included in the determination of net income for the current period, except for:

1. any portion that has been included in income of previous accounting periods; and
2. any exchange gain or loss related to a foreign currency denominated monetary item with a fixed or ascertainable life extending beyond the end of the following fiscal year (see account 1455, Unamortized Deferred Foreign Currency Translation Gains and Losses).

Uniform System of Accounts**Income Statement**

Investment Income**4405 Interest and Dividend Income**

- A. This account shall include interest revenues on securities, loans, notes, advances, special deposits, tax refunds and all other interest-bearing assets, and dividends on stocks of other companies, whether the securities on which the interest and dividends are received are carried as investments or included in sinking or other special fund accounts.
- B. This account may include the pro rata amount necessary to extinguish (during the interval between the date of acquisition and the date of maturity) the difference between the cost to the utility and the face value of interest-bearing securities. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried.
- C. Where significant in amount, expenses, excluding operating taxes and income taxes, applicable to security investments and to interest and dividend revenues thereon shall be charged hereto.
- D. Records shall be kept in a manner that each source of investment income is shown separately.
- E. This account shall also include gains and losses on the sale of investments, or amounts required to provide allowances for the decrease in market value of investments in non-associated entities.

Note: Interest accrued, the payment of which is not reasonably assured, dividends receivable which have not been declared or guaranteed, and interest or dividends upon reacquired securities issued or assumed by the utility shall not be credited to this account.

4415 Equity in Earnings of Subsidiary Companies

This account shall include the utility's equity in the earnings or losses of subsidiary companies for the year.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation****4505 Operation Supervision and Engineering**

- A. This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of power generating stations.
- B. Direct supervision of specific activities, such as fuel handling, engine and generator operation, etc., shall be charged to the appropriate account. (See Article 230, Definitions and Instructions, No. 16.)

4510 Fuel

This account shall include the cost delivered at the station (see account 1305, Fuel Stock) of all fuel, such as gas, oil, kerosene, and gasoline used in power generation.

4515 Steam Expenses

This account shall include the cost of labour, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

Example items**Labour:**

1. Supervision specific to steam production.
2. Operating fuel conveying, storage weighing and processing equipment within boiler plant.
3. Operating boiler and boiler auxiliary equipment.
4. Operating boiler feed water purification and treatment equipment.
5. Operating ash-collecting and disposal equipment located inside the plant.
6. Operating boiler plant electrical equipment.
7. Keeping boiler plant log and records and preparing reports on boiler plant operation.
8. Testing boiler water.
9. Testing, checking, and adjusting meters, gauges, and other instruments and equipment in boiler plant.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation****Materials and Expenses:**

1. Cleaning boiler plant equipment when not incidental to maintenance work.
2. Repacking glands and replacing gauge glasses where the work involved is of a minor nature and is performed by regular operating crews. Where the work is of a major character, such as that performed on high-pressure boilers, the item should be considered as maintenance.
3. Chemicals and boiler inspection fees.
4. Lubricants.
5. Boiler feed water purchased and pumping supplies.

4520 Steam from Other Sources

This account shall include the cost of steam purchased, or transferred from another department of the utility or from others under a joint facility operating arrangement, for use in prime movers devoted to the production of electricity.

Note: The records shall be so kept as to show separately for each company from which steam is purchased, the point of delivery, the quantity, the price, and the total charge. When steam is transferred from another department or from others under a joint operating arrangement, the utility shall be prepared to show full details of the cost of producing such steam, the basis of the charge to electric generation and the extent and manner of use by each department or party involved.

4525 Steam Transferred—Credit

- A. This account shall include credits for expenses of producing steam which are charged to others or to other utility departments under a joint operating arrangement. Include also credits for steam expenses chargeable to other electric accounts outside of the steam generation group. Full details of the basis of determination of the cost of steam transferred shall be maintained.
- B. If the charges to external parties or to other departments of the utility include an amount for amortization, taxes and return on the joint steam facilities, such portion of the charge shall be credited, in the case of external parties, to account 4210, Rent from Electric Property, and in the case of other departments of the utility, to account 4205, Interdepartmental Rents.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation****4530 Electric Expenses**

This account shall include the cost of labour, materials used and expenses incurred in operating prime movers, generators, and their auxiliary apparatus, switch gear and other electric equipment used in steam, nuclear, or hydraulic operations to the points where electricity leaves for conversion for transmission or distribution.

Example items**Labour:**

1. Supervision specific to electric production.
2. Operating turbines, engines, generators and exciters.
3. Operating condensers, circulating water systems and other auxiliary apparatus.
4. Operating generator cooling system.
5. Operating lubrication and oil control system, including oil purification.
6. Operating switchboards, switch gear and electric control and protective equipment.
7. Keeping electric plant log and records and preparing reports on electric plant operations.
8. Testing, checking and adjusting meters, gauges, and other instruments, relays, controls and other equipment in the electric plant.
9. Cleaning electric plant equipment when not incidental to maintenance work.
10. Repacking glands and replacing gauge glasses.

Materials and Expenses:

1. Lubricants and control system oils.
2. Generator cooling gases.
3. Circulating water purification supplies.
4. Cooling water purchased.
5. Motor and generator brushes.
6. Log sheets and charts.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation****4535 Water for Power**

This account shall include the cost of water used for hydraulic power generation.

Example items

1. Cost of water purchased from others, including water tolls paid to reservoir companies.
2. Periodic payments for licenses or permits from any governmental agency for water rights, or payments based on the use of the water.
3. Periodic payments for riparian rights.
4. Periodic payments for headwater benefits or for detriments to others.
5. Cloud seeding.

4540 Water Power Taxes

This account shall include taxes paid or payable in relation to water used in hydraulic power generation.

4545 Hydraulic Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating hydraulic works including reservoirs, dams, and waterways, and in activities directly relating to the hydroelectric development outside the generating station. It shall also include the cost of labour, materials used and other expenses incurred in connection with the operation of (a) fish and wildlife, and (b) recreation facilities. Separate sub-accounts shall be maintained for each of the above.

Example items

Labour:

1. Supervision specific to hydraulic operation.
2. Removing debris and ice from trash racks, reservoirs and waterways.
3. Patrolling reservoirs and waterways.
4. Operating intakes, spillways, sluiceways, and outlet works.
5. Operating bubbler, heater or other de-icing systems.
6. Ice and log jam work.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation**

7. Operating navigation facilities.
8. Operations relating to conservation of game, fish, forests, etc.
9. Insect control activities.

Materials and Expenses:

1. Insect control materials.
2. Lubricants, packing, and other supplies used in operation of hydraulic equipment.
3. Transportation expense.

4550 Generation Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating prime movers, generators and electric equipment in other power generating stations, to the point where electricity leaves for conversion for transmission or distribution.

Example items**Labour:**

1. Supervision specific to power generation operation.
2. Operating prime movers, generators and auxiliary apparatus and switching and other electric equipment.
3. Keeping plant log and records and preparing reports on plant operations.
4. Testing, checking, cleaning, oiling and adjusting equipment.

Materials and Expenses:

1. Dynamo, motor, and generator brushes.
2. Lubricants and control system oils.
3. Water for cooling engines and generators.

4555 Miscellaneous Power Generation Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of power generating stations which are not specifically provided for or are not readily assignable to generation expense accounts.

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Operation**

Example items

Labour:

1. General clerical and stenographic work.
2. Guarding and patrolling plant and yard.
3. Building service.
4. Care of grounds, including snow removal, cutting grass, etc.
5. Miscellaneous labour.

Materials and Expenses:

1. Building service supplies.
2. First-aid supplies and safety equipment.
3. Communication service.
4. Employees' service facilities expenses.
5. Office supplies, printing and stationary.
6. Transportation expense.
7. Meals, traveling and incidental expenses.
8. Fuel for heating.
9. Water for fire protection or general use.
10. Miscellaneous supplies, such as hand tools, drills, saw blades, files, etc.
11. Research and development expenses.

4560 Rents

This account shall include all rents of property of others used, occupied, or operated in connection with power generation. (See Article 230, Definitions and Instructions, No. 18).

4565 Allowances for Emissions

This account shall include the cost of allowances expensed concurrent with the monthly emission of sulfur dioxide. (See Article 230, Definitions and Instructions, No. 15.)

Uniform System of Accounts**Income Statement**

Power Production Expenses**Generation Expenses - Maintenance****4605 Maintenance Supervision and Engineering**

This account shall include the cost of labour and expenses incurred expenses incurred in the general supervision and direction of the maintenance of power generating stations. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See Article 230, Definitions and Instructions, No. 16.)

4610 Maintenance of Structures

This account shall include the cost of labour, materials used and expenses incurred in maintenance of facilities used in power generation, the book cost of which is included in account 1620 Buildings and Fixtures, account 1630 Leasehold improvements, and account 1665, Fuel Holders, Producers and Accessories.

4615 Maintenance of Boiler Plant

- A. This account shall include the cost of labour, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is included in account 1635, Boiler Plant Equipment.
- B. For the purpose of making charges hereto and to account 4620, Maintenance of Electric Plant, the point at which steam plant is distinguished from electric plant is defined as follows:
1. Inlet flange of throttle valve on prime mover.
 2. Flange of all steam extraction lines on prime mover.
 3. Hotwell pump outlet on condensate lines.
 4. Inlet flange of all turbine-room auxiliaries.
 5. Connection to line side of motor starter for all boiler-plant equipment.

4620 Maintenance of Electric Plant

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is included in account 1640, Engines and Engine-Driven Generators, account 1645, Turbogenerator Units, and account 1680, Accessory Electric Equipment. (See paragraph B of account 4615.)

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Power Production Expenses**Generation Expenses - Maintenance****4625 Maintenance of Reservoirs, Dams and Waterways**

This account shall include the cost of labour, materials used, and expenses incurred in maintenance of plant included in account 1650, Reservoirs, Dams, and Waterways. However, the cost of labour materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is included in account 1650, Reservoirs, Dams and Waterways, shall be charged to account 4640, Maintenance of Miscellaneous power generation plant.

4630 Maintenance of Water Wheels, Turbines and Generators

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant included in account 1655, Water Wheels, Turbines and Generators.

4635 Maintenance of Generating and Electric Plant

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in account 1670, Prime Movers, and account 1675, Generators.

4640 Maintenance of Miscellaneous Power Generation Plant

This account shall include the cost of labour, materials used and expenses incurred in maintenance of power generation plant, the book cost of which is included in account 1685, Miscellaneous Power Plant Equipment, and account 1660, Roads, Railroads and Bridges.

This account shall also include the cost of labour materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is included in account 1650, Reservoirs, Dams and Waterways.

Uniform System of Accounts**Income Statement**

Other Power Supply Expenses**4705 Power Purchased**

This account shall include the cost of all electrical energy purchased for resale.

The records supporting this account shall show, by months, the demands and demand charges, kilowatt-hours and prices thereof under each purchase contract and the charges and credits under each exchange or power pooling contract.

4708 Charges - WMS

- A. A distributor that is a wholesale Market Participant shall use this account to record the amounts charged by the Independent Electricity System Operator (based on the settlement invoice) for wholesale market services charge types specified by the Board.
- B. Depending on the distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4062 to those charges recorded in this account.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

4710 Cost of Power Adjustments

This account shall include any adjustments to the cost of power. Each adjustment shall be completely described.

4712 Charges - ONE-TIME

- A. A distributor that is a wholesale Market Participant shall use this account to record the amounts charges from the Independent Electricity System Operator ("IESO") (based on the settlement invoice) specified by the Board (these changes are not normally already incorporated in the Wholesale Market Service Rate).

Uniform System of Accounts**Income Statement**

Other Power Supply Expenses

- B. Depending on the distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4064 to those charges recorded in this account.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

4714 Charges - NW

- A. This account is to be used by distributors deemed by the Board to be transmission customers to record the amounts charged by the Independent Electricity System Operator ("IESO") (based on the settlement invoice) for retail transmission network services.
- B. Depending on the distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4066 to those charges recorded in this account.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission network services.

4715 System Control and Load Dispatching

This account shall include the cost of labour and expenses incurred in load dispatching activities for system control. Utilities having an interconnected electric system or operating under a central authority which controls the production and dispatching of electricity may apportion these costs to this account and accounts 4810, Load Dispatching--Transmission, and 5010, Load Dispatching--Distribution.

Example items**Labour:**

1. Allocating loads to plants and interconnections with others.

Uniform System of Accounts**Income Statement**

Other Power Supply Expenses

2. Directing switching.
3. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
4. Controlling system voltages.
5. Recording loadings, water conditions, etc.
6. Preparing operating reports and data for billing and budget purposes.
7. Obtaining reports on the weather and special events.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. Obtaining weather and special events reports.

4716 Charges - CN

- A. This account is to be used by distributors deemed by the Board to be transmission customers to record the amount charged by the Independent Electricity System Operator ("IESO") (based on the settlement invoice) for retail transmission connection services.
- B. Depending on the distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4068 to those charges recorded in this account.
- C. If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission connection services.

4720 Other Expenses

- A. This account shall be charged with any production expenses including expenses incurred directly in connection with the purchase of electricity, which are not specifically provided for in other production expense accounts. Charges to this account shall be supported so that a description of each type of charge will be readily available.

Uniform System of Accounts**Income Statement**

Other Power Supply Expenses

- B. Recoveries from insurance companies, under use and occupancy provisions of policies, of amounts in reimbursement of excessive or added production costs for which the insurance company is liable under the terms of the policy shall be credited to this account.

4725 Competition Transition Expense

Description to be developed at a future date, if applicable.

4730 Rural Rate Assistance Expense

Description to be developed at a future date, if applicable.

4750 Charges – LV

This account shall be used by an embedded distributor to record the amount charged by a host distributor for transmission or low voltage services. Depending on an embedded distributor's normal monthly accounting practices, this account may include accruals for amounts not yet invoiced by the host distributor. Regardless of the method used, the embedded distributor must ensure a proper matching of the billed amounts recorded in Account 4075 to those charges recorded in Account 4750.

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Transmission Expenses - Operation**4805 Operation Supervision and Engineering**

This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of the transmission system as a whole. Direct supervision of specific activities, such as station equipment operation, line operation, etc., shall be charged to the appropriate account. (See Article 230, Definitions and Instructions, No.16.)

4810 Load Dispatching

This account shall include the cost of labour, materials used and expenses incurred in load dispatching operations pertaining to the transmission of electricity.

Example items

Labour:

1. Directing switching.
2. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
3. Controlling system voltages.
4. Obtaining reports on the weather and special events.
5. Preparing operating reports and data for billing and budget purposes.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. Obtaining weather and special events reports.

4815 Station Buildings and Fixtures Expenses

This account shall includes the cost of labour, materials used and expenses incurred in operating transmission station buildings and fixtures recorded in account 1708 Buildings and Fixtures and account 1710 Leasehold Improvements. If transmission station buildings and fixtures are located in or adjacent to a generating station, the expenses applicable to transmission station buildings and fixtures shall nevertheless be charged to this account.

Uniform System of Accounts**Income Statement**

Transmission Expenses - Operation

Labour:

1. Standing watch, guarding and patrolling station and station yard.
1. Sweeping, mopping and tidying station.
3. Care of grounds, including snow removal, cutting grass, etc.

Station Supplies and Expenses:

1. Taxes, light, heat, telephone
2. Building service expenses.
3. Tool expenses.
4. Transportation expenses.
5. Meals, traveling and incidental expenses.

4820 Transformer Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in account 1715. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in account 4805.

If transmission station equipment is located in or adjacent to a generating station the expenses applicable to transmission station operations shall nevertheless be charged to this account.

Example items

1. Supervision specific to station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

Uniform System of Accounts**Income Statement**

Transmission Expenses - Operation**4825 Transformer Station Equipment - Operating Supplies and Expenses**

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in account 1715.

Example items

1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.
2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses.
6. Meals, traveling, and incidental expenses.

4830 Overhead Line Expenses

See description at account 4835, Underground Line Expenses.

4835 Underground Line Expenses

- A. These accounts shall include the cost of labour, materials used and expenses incurred in the operation of transmission lines.
- B. If the expenses are not material for both overhead and underground lines, these accounts may be combined.

Example items

Labour:

1. Supervision specific to line operation.
2. Inspecting and testing lightning arresters, circuit breakers, switches, and grounds
3. Load tests of circuits.
4. Routine line patrolling.
5. Routine voltage surveys made to determine the condition or efficiency of transmission system.
6. Transferring loads, switching and reconnecting circuits and equipment for operating purposes. (Switching for construction or maintenance purposes is shall not be included in this account.)

Uniform System of Accounts**Income Statement**

Transmission Expenses - Operation

7. Routine inspection and cleaning of manholes, conduit, network and transformer vaults.
8. Electrolysis surveys.
9. Inspecting and adjusting line-testing equipment, such as voltmeters, ammeters, wattmeters, etc.
10. Regulation and addition of oil or gas in high-voltage cable systems.

Materials and Expenses:

1. Transportation expenses.
2. Meals, traveling and incidental expenses.
3. Tool expenses.
4. Operating supplies, such as instrument charts, rubber goods, etc.

4840 Transmission of Electricity by Others

This account shall include amounts payable to others for the transmission of the utility's electricity over transmission facilities owned by others.

4845 Miscellaneous Transmission Expenses

This account shall include the cost of labour, materials used and expenses incurred in transmission map and record work, transmission office expenses, and other transmission expenses not provided for elsewhere.

Example items**Labour:**

1. General records of physical characteristics of lines and stations, such as capacities, etc.
2. Ground resistance records.
3. Janitor work at transmission office buildings, including care of grounds, snow removal, cutting grass, etc.
4. Joint pole maps and records.
5. Line load and voltage records.
6. Preparing maps and prints.
7. General clerical and stenographic work.
8. Miscellaneous labour.

Uniform System of Accounts**Income Statement**

Transmission Expenses - Operation

Materials and Expenses:

1. Communication service.
2. Building service supplies.
3. Map and record supplies.
4. Transmission office supplies and expenses, printing and stationery.
5. First-aid supplies.
6. Research and development expenses.

4850 Rents

This account shall include rents of property of others used, occupied, or operated in connection with the transmission system, including payments to federal, provincial or municipal governments or others for use of public or private lands and reservations for transmission line rights of way. (See Article 230, Definitions and Instructions, No. 18.)

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Transmission Expenses - Maintenance**4905 Maintenance Supervision and Engineering**

This account shall include the cost of labour and expenses incurred in the general supervision and direction of maintenance of the transmission system. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See Article 230, Definitions and Instructions, No. 16.)

4910 Maintenance of Transformer Station Buildings and Fixtures

This account shall include the cost of labour with payroll burden, material, trucking and other expenses, incurred in the maintenance of Transformer station structures, the book cost of which is included in account 1708, Buildings and Fixtures, and 1710, Leasehold Improvements.

4916 Maintenance of Transformer Station Equipment

This account shall include the cost of labour with payroll burden, material, trucking and other expenses, incurred in maintenance of station equipment the book cost of which is included in account 1715, Station Equipment.

4930 Maintenance of Towers, Poles and Fixtures

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in accounts 1720, Towers and Fixtures, 1725, Poles and Fixtures.

Example items

Work of the following character on poles, towers and fixtures:

1. Installing or removing additional clamps or strain insulators on guys in place.
2. Moving line or guy pole in relocation of the same pole or section of line.
3. Painting poles, towers, crossarms or pole extensions.
4. Readjusting and changing position of guys or braces.
5. Realigning and straightening poles, cross arms braces, and other pole fixtures.
6. Reconditioning reclaimed pole fixtures.
7. Relocating crossarms, racks, brackets, and other fixtures on poles.

Uniform System of Accounts**Income Statement**

Transmission Expenses - Maintenance

8. Repairing or realigning pins, racks, or brackets.
9. Repairing pole supported platform.
10. Repairs by others to jointly owned poles.
11. Shaving, cutting rot, or treating poles or crossarms in use or salvaged for reuse.
12. Stubbing poles already in service.
13. Supporting fixtures and conductors and transferring them to new pole during poles replacements.
14. Maintenance of pole signs, stencils, tags, etc.

4935 Maintenance of Overhead Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in account 1730, Overhead Conductors and Devices.

Work of the following character on overhead conductors and devices:

1. Overhauling and repairing line cutouts, line switches, line breakers, etc.
2. Cleaning insulators and bushings.
3. Refusing cutouts.
4. Repairing line oil circuit breakers and associated relays and control wiring.
5. Repairing grounds.
6. Resagging, retying, or rearranging position or spacing of conductors.
7. Standing by phones, going to calls, cutting faulty lines clear, or similar activities at times of emergencies.
8. Sampling, testing, changing, purifying, and replenishing insulating oil.
9. Repairing line testing equipment.
10. Transferring loads, switching and reconnecting circuits and equipment for maintenance purposes.

4940 Maintenance of Overhead Lines - Right of Way

This account shall include the maintenance expenses relating to trimming of trees, clearing of brush and maintaining right of way subsequent to construction of a line related to assets included in accounts 1720, Towers and Fixtures, 1725, Poles and Fixtures, and 1730, Overhead Conductors and Devices.

Uniform System of Accounts**Income Statement**

Transmission Expenses - Maintenance**4945 Maintenance of Overhead Lines - Roads and Trails Repairs**

This account shall include the maintenance expenses relating to roadways, trails, bridges, etc. included in account 1745, Roads and Trails as well as maintenance work on publicly owned roads and trails when done by the utility at its own expense.

4950 Maintenance of Overhead Lines - Snow Removal from Roads and Trails

This account shall include the snow removal expenses relating to repairs of roadways, trails, bridges, etc. included in account 1745, Roads and Trails.

4960 Maintenance of Underground Lines

This account shall include the cost of labour, materials used and expenses incurred in maintenance of transmission plant, the book cost of which is included in accounts 1735, Underground Conduit, and 1740, Underground Conductors and Devices.

Example items

Work of the following character on underground conduit:

1. Cleaning ducts, manholes, and sewer connections.
2. Minor alterations of handholes, manholes, or vaults.
3. Refastening, repairing, or moving racks, ladders, or hangers in manholes or vaults.
4. Plugging and shelving or replugging ducts.
5. Repairs to sewers and drains, walls and floors, rings and covers.

Work of the following character on underground conductors and devices:

1. Repairing oil circuit breakers, switches, cutouts, and control wiring.
2. Repairing grounds.
3. Retraining and reconnecting cables in manhole, including transfer of cables from one duct to another.
4. Repairing conductors and splices.
5. Repairing or moving junction boxes and potheads.
6. Refireproofing of cables and repairing supports.
7. Repairing electrolysis preventive devices for cables.
8. Repairing cable bonding systems.
9. Sampling, testing, changing, purifying and replenishing insulating oil.
10. Transferring loads, switching and reconnecting circuits and equipment for

Uniform System of Accounts

Income Statement

Transmission Expenses - Maintenance

maintenance purposes.

11. Repairing line testing equipment.
12. Repairs to oil or gas equipment in high-voltage cable system and replacement of oil or gas.

4965 Maintenance of Miscellaneous Transmission Plant

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of owned or leased plant which is assignable to transmission operations and is not provided for elsewhere.

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Distribution Expenses - Operation**5005 Operation Supervision and Engineering**

This account shall include the cost of labour and expenses incurred in the general supervision and direction of the operation of the distribution system. Direct supervision of specific activities, such as station operation, line operation, meter department operation, etc., shall be charged to the appropriate account. (See Article 230, Definitions and Instructions, No. 16.)

5010 Load Dispatching

This account shall include the cost of labour, materials used and expenses incurred in load dispatching operations pertaining to the distribution of electricity.

Example items

Labour:

1. Directing switching.
2. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.
3. Controlling system voltages.
4. Preparing operating reports.
5. Obtaining reports on the weather and special events.

Expenses:

1. Communication service provided for system control purposes.
2. System record and report forms.
3. Meals, traveling and incidental expenses.
4. SCADA equipment related expenses

5012 Station Buildings and Fixtures Expenses

This account shall include the cost of labour, materials used and expenses incurred in operating distribution station building and fixtures recorded in account 1808 Buildings and Fixtures and account 1810 Leasehold Improvements.

Example items

Labour:

1. Standing watch, guarding and patrolling station and station yard.

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2. Sweeping, mopping and tidying station.
3. Care of grounds, including snow removal, cutting grass, etc.

Station Supplies and Expenses:

1. Taxes (e.g. property taxes), light, heat, telephone
2. Building service expenses.
3. Tool expenses.
4. Transportation expenses.
5. Meals, traveling and incidental expenses.

The accounts shall be sub-divided to show the cost of operating individual stations.

5014 Transformer Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in account 1815. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in account 5005.

Example items

1. Supervision specific to transformer station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

5015 Transformer Station Equipment - Operating Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in account 1815.

Example items

1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.

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2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses.
6. Meals, traveling, and incidental expenses.

5016 Distribution Station Equipment - Operating Labour

These accounts shall include labour with payroll burden incurred in operating the transformer station equipment recorded in account 1820. The accounts shall be subdivided to obtain the cost of operating individual stations. General supervision shall be recorded in account 5005.

Example items

1. Supervision specific to transformer station equipment operation.
2. Adjusting station equipment where such adjustment primarily affects performance, such as regulating the flow of cooling water, adjusting current in fields of a machine or changing voltage of regulators, changing station transformer taps.
3. Inspecting, testing and calibrating station equipment for the purpose of checking its performance.
4. Keeping station log and records and preparing reports on station equipment operation.
5. Operating switching and other station equipment.

Note: If the utility owns storage battery equipment used for supplying electricity to customers in periods of emergency, the cost of operating labour should be recorded in this account and the cost of supplies, such as acid, gloves, hydrometers, thermometers, soda, automatic cell fillers, acid proof shoes, etc., shall be included in account 5017. If significant in amount, a separate subdivision in each account shall be maintained for such expenses.

5017 Distribution Station Equipment - Operating Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating the transformer station equipment recorded in account 1820.

Example items

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1. Operating supplies, such as lubricants, commutator brushes, water, and rubber goods.
2. Station meter and instrument supplies, such as ink and charts.
3. Station record and report forms.
4. Small hand tools
5. Transportation expenses.
6. Meals, traveling, and incidental expenses.

5020 Overhead Distribution Lines and Feeders - Operation Labour

This account shall include labour with payroll burden incurred in operating overhead lines from the low voltage connection in the distribution station to the customers' premises but not operating labour incurred in relation to customer premises (account 5070).

Example items

1. Supervision specific to line operation.
2. Changing line transformer taps.
3. Inspecting and testing lightning arresters, line circuit breakers, switches and grounds.
4. Inspecting and testing line transformers for the purpose of determining load, temperature or operating performance.
5. Patrolling lines.
6. Load tests and voltages surveys of feeders and circuits.

5025 Overhead Distribution Lines and Feeders - Operation Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating overhead lines from the low voltage connection in the distribution station to the customer's premises but not operating supplies and expenses incurred in relation to customer premises (account 5075).

Line Supplies and Expenses examples

1. Voltage surveys, either routine or upon request of customers, including voltage tests at customers' main switch.
2. Transferring loads, switching and reconnecting circuits and equipment for operation purposes.

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Distribution Expenses - Operation

3. Electrolysis surveys.
4. Inspecting and adjusting line testing equipment.
5. Tool expenses.
6. Transportation expenses.
7. Meals, traveling and incidental expense.
8. Operating supplies, such as instrument charts, rubber goods, etc.

5030 Overhead Subtransmission Feeders - Operation

These accounts shall include labour with payroll burden, material, trucking and other expenses incurred in inspecting, patrolling and testing the overhead sub transmission feeder system.

5035 Overhead Distribution Transformers - Operation

This account shall include labour with payroll burden, material, trucking and other expenses incurred in removing and resetting overhead transformers and devices and also the inspection and testing while in service.

The account shall be subdivided as necessary.

Note: The cost of the original setting shall be charged to account 1850, Line Transformers.

5040 Underground Distribution Lines and Feeders - Operation Labour

These accounts shall include labour with payroll burden incurred in operating underground distribution lines from the low voltage connection in the municipal distribution station to the customers' premises but not operating labour incurred in relation to customer premises (account 5070).

Line Labour examples

1. Supervision specific to line operation.
2. Changing line transformer taps.
3. Inspecting and testing lightning arresters, line circuit breakers, switches and grounds.
4. Inspecting and testing line transformers for the purpose of determining

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Distribution Expenses - Operation

- load, temperature or operating performance.
- 5. Patrolling lines.
- 6. Load tests and voltages surveys of feeders and circuits.

5045 Underground Distribution Lines and Feeders - Operation Supplies and Expenses

These accounts shall include the cost of material, trucking and other expenses incurred in operating underground distribution lines from the low voltage connection in the municipal distribution station to the customers' premises but not operating supplies and expenses incurred in relation to customer premises (account 5070).

Example items

- 1. Voltage surveys, either routine or upon request of customers, including voltage tests at customers' main switch.
- 2. Transferring loads, switching and reconnecting circuits and equipment for operation purposes.
- 3. Electrolysis surveys.
- 4. Inspecting and adjusting line testing equipment.
- 5. Tool expenses.
- 6. Transportation expenses.
- 7. Meals, traveling and incidental expense.
- 8. Operating supplies, such as instrument charts, rubber goods, etc.

5050 Underground Subtransmission Feeders - Operation

These accounts shall include labour with payroll burden, material, trucking and other expenses incurred in inspecting, patrolling and testing the underground subtransmission feeder system.

5055 Underground Distribution Transformers - Operation

This account shall include labour with payroll burden, material, trucking and other expenses incurred in removing and resetting underground transformers and devices and also the inspection and testing while in service.

The account shall be subdivided as necessary.

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Distribution Expenses - Operation

Note: The cost of the original setting shall be charged to account 1850, Line Transformers.

5060 Street Lighting and Signal System Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of such plant owned by the utility where such work is done regularly as a part of the street lighting and signal system service.

Example items

Labour:

1. Supervision specific to street lighting and signal systems operation.
2. Replacing lamps and consequential cleaning of glassware and fixtures.
3. Routine patrolling for lamp outages, extraneous nuisances or encroachments, etc.
4. Testing lines and equipment including voltage and current measurement.
5. Winding and inspection of time switch and other controls.

Materials and Expenses:

1. Street lamp renewals.
2. Transportation and tool expense.
3. Meals, traveling, and incidental expenses.

Note: Where the utility does not own the street lighting assets, the revenues and expenses from the provision or maintenance of street lighting services should be recorded in account 4375, Revenues from Non-Utility Operations and 4380, Expenses from Non-Utility Operations, respectively.

5065 Meter Expenses

This account shall include the cost of labour, materials used and expenses incurred in the operation of customer meters and associated equipment.

Example items

Labour:

1. Supervision specific to meter operation.
2. Clerical work on meter history and associated equipment record cards,

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Distribution Expenses - Operation

- test cards, and reports.
3. Disconnecting and reconnecting, removing and reinstalling, sealing and unsealing meters and other metering equipment in connection with initiating or terminating services including the cost of obtaining meter readings, if incidental to such operation.
 4. Consolidating meter installations due to elimination of separate meters for different rates of service.
 5. Changing or relocating meters, instrument transformers, time switches, and other metering equipment.
 6. Resetting time controls, checking operation of demand meters and other metering equipment, when done as an independent operation.
 7. Inspecting and adjusting meter testing equipment.
 8. Inspecting and testing meters, instrument transformers, time switches, and other metering equipment on premises or in shops excluding inspecting and testing incidental to maintenance
 - 9 Replacing or removing broken meters.

Materials and Expenses:

1. Meter seals and miscellaneous meter supplies.
2. Transportation expenses.
3. Meals, traveling, and incidental expenses.
4. Tool expenses.
5. Replacing or removing broken meters

Note: The cost of the first setting, including the government inspection fee, and testing of a meter is chargeable to utility plant account 1860, Meters. The cost of removing and resetting for government inspection, including the fees, shall be a charge to this account.

5070 Customer Premises - Operating Labour

This account shall include labour with payroll burden related to providing service on assets on customers' premises which are included in account 1855, Services.

Example items

1. Inspecting premises, including check of wiring for code compliance.
2. Investigating, locating, and clearing grounds on customers' wiring.
3. Investigating service complaints, including load tests of motors and lighting and power circuits on customers' premises; field investigations of

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- complaints on bills or of voltage.
4. Radio, television and similar interference work including erection of new aerials on customers' premises and patrolling of lines, testing of lightning arresters, inspection of pole hardware, etc., and examination of customers' wiring to locate cause of interference.
 5. Investigation of current diversion including setting and removal of check meters and securing special readings thereon; special calls by employees in connection with discovery and settlement of current diversion;
 6. Changes in customer wiring and any other labour cost identifiable as caused by current diversion

Note A: Amounts billed customers for any work, the cost of which is charged to this account, shall be transferred to account 4235, Miscellaneous Service Revenues.

Note B: Do not include in this account expenses incurred in connection with merchandising, jobbing, etc.

5075 Customer Premises - Materials and Expenses

This account shall include trucking, materials and other expenses related to providing services to assets on customers' premises which are included in account 1855, Services.

Examples of services include inspection, voltages tests and the like related to labour examples listed in 5070, Customer Premises - Operating Labour.

Example items**Materials and Expenses:**

1. Lamp and fuse renewals.
2. Materials used in the course of performing inspection, voltage tests, etc.
3. Tool expense.
4. Transportation expense, including pickup and delivery charges.
5. Meals, traveling and incidental expenses.
6. Rewards paid for discovery of current diversion.

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Note A: Amounts billed customers for any work, the cost of which is charged to this account, shall be transferred to account 4235, Miscellaneous Service Revenues.

Note B: Do not include in this account expenses incurred in connection with merchandising, jobbing and contract work.

5085 Miscellaneous Distribution Expenses

This account shall include the cost of labour, materials used and expenses incurred in distribution system operation not provided for elsewhere.

Example items

Labour:

1. General records of physical characteristics of lines and substations, such as capacities, etc.
2. Ground resistance records.
3. Joint pole maps and records.
4. Distribution system voltage and load records.
5. Preparing maps and prints.
6. Service interruption and trouble records.
7. General clerical and stenographic work except that chargeable to account 5065, Meter expenses.

Material and Expenses:

1. Operating records covering poles, transformers, manholes, cables, and other distribution facilities. Exclude meter records chargeable to account 5065, Meter Expenses and station records chargeable to account 5012, Station Building and Fixtures Expenses.
2. Janitorial work at distribution office buildings including snow removal, cutting grass, etc.
3. Communication service.
4. Building service expenses.
5. Miscellaneous office supplies and expenses, printing, and stationery, maps and records and first-aid supplies.
6. Research, development, and demonstration expenses.

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Distribution Expenses - Operation**5090 Underground Distribution Lines and Feeders - Rental Paid**

This account shall include rents of property of others used, occupied, or operated in connection with the distribution system, including payments to the government authorities and others for the use and occupancy of public lands and reservations for underground distribution line rights of way. (See Article 230, Definitions and Instructions, No. 18.)

Records should permit identification of payments and parties to whom they were made.

5095 Overhead Distribution Lines and Feeders - Rental Paid

This account shall include rents of property of others used, occupied, or operated in connection with the distribution system, including payments to the government authorities and others for the use and occupancy of public lands and reservations for overhead distribution line rights of way. (See Article 230, Definitions and Instructions, No. 18.)

Records should permit identification of payments and parties to whom they were made.

5096 Other Rent

This account shall include rents for property of others used, occupied or operated in connection with the operation of the distribution system. Include rentals paid for railroad crossings, rights of ways, payments to government bodies and others for use of public or private land, etc., not otherwise included in accounts 5090, Underground Distribution Lines and Feeders Rental Paid or 5095, Overhead Distribution Lines and Feeders - Rental Paid.

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Distribution Expenses - Maintenance**5105 Maintenance Supervision and Engineering**

This account shall include the cost of labour and expenses incurred in the general supervision and direction of maintenance of the distribution system that cannot be directly allocated to any particular job/project. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See Article 230, Definitions and Instructions, No. 16.)

5110 Maintenance of Buildings and Fixtures - Distribution Stations

This account shall include the cost of labour, materials used and expenses incurred in maintenance of structures, the book cost of which is included in account 1808, Buildings and Fixtures, and 1810, Leasehold Improvements.

5112 Maintenance of Transformer Station Equipment

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in account 1815, Transformer Station Equipment - Normally Primary above 50kV.

5114 Maintenance of Distribution Station Equipment

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in account 1820, Distribution Station Equipment - Normally Primary below 50kV, and account 1825, Storage Battery Equipment.

Records should permit the identification of expenses relating to each type of equipment listed above.

5120 Maintenance of Poles, Towers and Fixtures

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in account 1830, Poles, Towers and Fixtures.

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Distribution Expenses - Maintenance

Example items

1. Work of the following character on poles, towers, and fixtures:
2. Installing additional clamps or removing clamps or strain insulators on guys in place.
3. Moving line or guy pole in relocation of pole or section of line.
4. Painting poles, towers, crossarms, or pole extensions.
5. Readjusting and changing position of guys or braces.
6. Realigning and straightening poles, crossarms, braces, pins, racks, brackets, and other pole fixtures.
7. Reconditioning reclaimed pole fixtures.
8. Relocating crossarms, racks, brackets, and other fixtures on poles.
9. Repairing pole supported platform.
10. Repairs by others to jointly owned poles.
11. Shaving, cutting rot, or treating poles or crossarms in use or salvaged for reuse.
12. Stubbing poles already in service.
13. Supporting conductors, transformers, and other fixtures and transferring them to new poles during pole replacements.
14. Maintaining pole signs, stencils, tags, etc.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5125 Maintenance of Overhead Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in account 1835, Overhead Conductors and Devices.

Example items

Work of the following character on overhead conductors and devices:

- 1 Overhauling and repairing line cutouts, line switches, line breakers, and capacitor installations.
- 2 Cleaning insulators and bushings.
- 3 Refusing line cutouts.
- 4 Repairing line oil circuit breakers and associated relays and control wiring.
Repairing grounds.
- 5 Resagging, retying, or rearranging position or spacing of conductors.

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Distribution Expenses - Maintenance

- 6 Standing by phones, going to calls, cutting faulty lines clear or similar activities at times of emergency.
- 7 Sampling, testing, changing, purifying, and replenishing insulating oil.
- 8 Transferring loads, switching, and reconnecting circuits and equipment for maintenance purposes.
- 9 Repairing line testing equipment.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5130 Maintenance of Overhead Services

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of overhead distribution line facilities, the book cost of which is included in account 1855, Services.

Example items

Work of the following character on overhead services:

- 1. Moving position of service either on pole or on customers' premises.
- 2. Pulling slack in service wire.
- 3. Retying service wire.
- 4. Refastening or tightening service bracket.

5135 Overhead Distribution Lines and Feeders - Right of Way

These accounts shall include labour with payroll burden, material, trucking, and other expenses incurred in connection with tree trimming, etc. and other costs incurred in maintaining right of way subsequent to construction of a line.

These accounts may be further subdivided as follows:

- 1. Labour and Payroll Burden
- 2. Material
- 3. Truck Expense
- 4. Other Expense

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Distribution Expenses - Maintenance**5145 Maintenance of Underground Conduit**

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in account 1840, Underground Conduit.

Example items

Work of the following character on underground conduit:

1. Cleaning ducts, manholes, and sewer connections.
2. Moving or changing position of conduit or pipe.
3. Minor alterations of handholes, manholes, or vaults.
4. Refastening, repairing, or moving racks, ladders, or hangers in manholes or vaults.
5. Plugging and shelving ducts.
6. Repairs to sewers, drains, walls, and floors, rings and covers.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5150 Maintenance of Underground Conductors and Devices

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in account 1845, Underground Conductors and Devices.

Example items

Work of the following character on underground conductors and devices:

1. Repairing circuit breakers, switches, cutouts, network protectors, and associated relays and control wiring.
2. Repairing grounds.
3. Retraining and reconnecting cables in manholes including transfer of cables from one duct to another.
4. Repairing conductors and splices.
5. Repairing or moving junction boxes and potheads.
6. Refireproofing cables and repairing supports.
7. Repairing electrolysis preventive devices for cables.
8. Repairing cable bonding systems.
9. Sampling, testing, changing, purifying and replenishing insulating oil.
10. Transferring loads, switching and reconnecting circuits and equipment for

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- maintenance purposes.
11. Repairing line testing equipment.
 12. Repairing oil or gas equipment in high voltage cable systems and replacement of oil or gas.

The accounts shall be subdivided to show costs for subtransmission feeders and distribution lines and feeders separately.

5155 Maintenance of Underground Services

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of underground distribution line facilities, the book cost of which is included in the underground portion of account 1855, Services.

Example items

Work of the following character on underground services:

1. Cleaning ducts.
2. Repairing any underground service plant.

5160 Maintenance of Line Transformers

This account shall include the cost of labour, materials used and expenses incurred in maintenance of distribution line transformers, the book cost of which is included in account 1850, Line Transformers.

The cost shall include renewing oil, painting and the like, necessary to keep the equipment in service.

Note: All lightning arresters on the distribution system, excluding pothead arresters, are considered to be transformer equipment or devices and the maintenance thereof is chargeable to this account.

Records shall be kept to separately show costs related to overhead and underground transformers.

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Distribution Expenses - Maintenance**5165 Maintenance of Street Lighting and Signal Systems**

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant, the book cost of which is included in account 1875, Street Lighting and Signal Systems.

5170 Sentinel Lights - Labour

This account shall include labour related to servicing rental sentinel lights.

5172 Sentinel Lights - Materials and Expenses

This account shall include trucking, materials and other expenses related to servicing rental sentinel lights.

5175 Maintenance of Meters

This account shall include the cost of labour, materials used and expenses incurred in the maintenance of meters and meter testing equipment, the book cost of which is included in account 1860, Meters, and account 1945, Measurement and Testing Equipment, respectively.

The cost shall include cleaning and painting and other work necessary to keep the equipment in service. The labour and expenses incident to the operation of the meter repair department shall be a charge to these accounts.

5178 Customer Installations Expenses - Leased Property

This account shall include the cost of labour, materials used and expenses incurred in work on customer installations of leased property included in account 1870, Leased Property on Customer Premises and in rendering services to customers of the nature of those indicated by the list of items hereunder.

Example items

Labour:

1. Supervision specific to customer installations work.

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Distribution Expenses - Maintenance

2. Installing, connecting, reinstalling, or removing leased property on customers' premises.
3. Testing, adjusting, and repairing customers' fixtures and appliances in shop or on premises.
4. Cost of changing customers' equipment due to changes in service characteristics.

Materials and Expenses:

1. Materials used in servicing customers' fixtures, appliances and equipment.
2. Power, light, heat, telephone, and other expenses of appliance repair department.
3. Tool expense.
4. Transportation expense, including pickup and delivery charges.
5. Meals, traveling and incidental expenses.

5195 Maintenance of Other Installations on Customer Premises

This account shall include the cost of labour, materials used and expenses incurred in maintenance of plant the book cost of which is included in account 1865, Other Installations on Customer Premises.

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Other Expenses

5205 Purchase of Transmission and System Services

This account will be used to record expenses related to purchase of transmission and system services.

5210 Transmission Charges

This account will be used to record Transmission Charges incurred.

5215 Transmission Charges Recovered

This account will be used to record Transmission Charges recovered from customers.

Records shall be maintained so that the quantity of electricity supplied each party and the related revenues shall be readily available.

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Billing and Collecting**5305 Supervision**

This account shall include the cost of labour and expenses incurred in the general direction and supervision of customer accounting and collecting activities. Direct supervision of a specific activity shall be charged to account 5310, Meter Reading Expenses, account 5315, Billing, or account 5320, Collecting, as appropriate.

5310 Meter Reading Expenses

This account shall include the cost of labour, materials used and expenses (automobile, truck and other expenses) incurred in reading customer meters, and determining consumption when performed by employees in reading meters.

Where employees are engaged in other functions of the utility, only a pro-rata share of payroll costs shall be charged to this account.

Example items**Labour:**

1. Addressing forms for obtaining meter readings by mail.
2. Changing and collecting meter charts used for billing purposes.
3. Inspecting time clocks, checking seals, etc., when performed by meter readers and the work represents a minor activity incidental to regular meter reading routine.
4. Reading meters, including demand meters, and obtaining load information for billing purposes. Exclude and charge to account 5065, Meter Expenses, or to account 5315, Customer Billing, as applicable, the cost to obtaining meter readings, first and final, if incidental to the operation of removing or resetting, sealing, or locking, and disconnecting or reconnecting meters.
5. Computing consumption from meter reader's book or from reports by mail when done by employees engaged in reading meters.
6. Collecting from prepayment meters when incidental to meter reading.
7. Maintaining record of customers' keys.
8. Computing estimated or average consumption when performed by employees engaged in reading meters.

Materials and Expenses:

1. Badges, lamps, and uniforms.
2. Demand charts, meter books and binders and forms for recording

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Billing and Collecting

- readings, but not the cost of preparation.
3. Postage and supplies used in obtaining meter readings by mail.
 4. Transportation, meals, and incidental expenses.

Note: sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

5315 Customer Billing

This account shall include all costs related to the billing of customer accounts. These costs shall include salaries and wages with payroll burden, stationery, postage, delivery expense and the charges for contract billing performed by other parties. Where employees are engaged in other functions of the utility, only a prorated share of payroll costs shall be charged to this account.

Note: sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

5320 Collecting

This account shall include all costs related to the collection of customer accounts. These costs shall include salaries and wages with payroll burden, legal fees and other expenses. Where employees are engaged in other functions of the utility, only a pro-rata share of payroll costs shall be charged to this account.

Note: sub-accounts shall be used to distinguish between services for internal purposes, services provided to others, and services provided to the utility by other parties.

5325 Collecting - Cash Over and Short

This account shall be debited with cash shortages and credited with cash overages. At the end of the accounting period, a debit or credit balance in the account shall be transferred to account 5320, Collecting.

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Billing and Collecting**5330 Collection Charges**

This account shall include all amounts recovered due to the imposition of charges related to the collection of customer accounts.

5335 Bad Debt Expense

This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits shall be made to account 1130, Accumulated Provision for Uncollectible Accounts--Credit.

Note: Records shall be maintained demonstrating uncollectible amounts by category, customer class, etc.

5340 Miscellaneous Customer Accounts Expenses

This account shall include the cost of labour, materials used and expenses incurred not provided for in other accounts.

Example items

Labour:

1. General clerical and stenographic work.
2. Miscellaneous labour.

Materials and Expenses:

1. Communication service.
2. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 5310, Meter Reading Expenses, 5315, Customer Billing and 5320, Collecting.

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Community Relations**5405 Supervision**

This account shall include the cost of labour and expenses incurred in the general direction and supervision of customer service activities. Direct supervision of a specific activity shall be charged to the account where the costs of such activity are included.

5410 Community Relations - Sundry

This account shall include the cost of salaries and wages, with payroll burden, of employees directly engaged in providing services to the community. Services acquired outside the organization shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Note: Charges to this account must be directly associated with the operation of the electric utility.

5415 Energy Conservation

This account shall include the cost of salaries and wages, with payroll burden, of employees directly engaged in providing services related to energy conservation. Services acquired outside the organization such as advertising through agencies, newspapers, periodicals, circulars, handbills, booklets and the like, shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Note: Charges to these accounts must be directly associated with the operation of the electric utility.

5420 Community Safety Program

This account shall include the cost of salaries and wages, with payroll burden of employees directly engaged in providing services related to safety. Services acquired outside the organization such as advertising through agencies, newspapers, periodicals, circulars, handbills, booklets and the like, shall also be included. The cost of material and expenses incurred in carrying out this function shall be charged to this account.

Note: Charges to these accounts must be directly associated with the operation of the electric utility.

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Community Relations

5425 Miscellaneous Customer Service and Informational Expenses

This account shall include labour, materials and expenses incurred in connection with customer service activities which are not included in other customer service expense accounts.

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Sales Expenses**5505 Supervision**

This account shall include the cost of labour and expenses incurred in the general direction and supervision of sales activities, except merchandising. Direct supervision of a specific activity, such as demonstrating, selling, or advertising shall be charged to the account wherein the costs of such activity are included. (See Article 230, Definitions and Instructions, No. 16.)

5510 Demonstrating and Selling Expenses

This account shall include the cost of labour, materials used and expenses incurred in promotional, demonstrating, and selling activities, except by merchandising, the object of which is to promote or retain the use of utility services by present and prospective customers.

Example items

Labour:

1. Demonstrating uses of utility services.
2. Conducting cooking schools, preparing recipes, and related home service activities.
3. Exhibitions, displays, lectures, and other programs designed to promote use of utility services.
4. Experimental and development work in connection with new and improved appliances and equipment, prior to general public acceptance.
5. Solicitation of new customers or of additional business from old customers, including commissions paid employees.
6. Engineering and technical advice to present or prospective customers in connection with promoting or retaining the use of utility services.
7. Special customer canvasses when their primary purpose is the retention of business or the promotion of new business.

Materials and Expenses:

1. Supplies and expenses pertaining to demonstration and experimental and development activities.
2. Booth and temporary space rental.
3. Loss in value on equipment and appliances used for demonstration purposes.
4. Transportation, meals, and incidental expenses.

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Sales Expenses**5515 Advertising Expenses**

This account shall include the cost of labour, materials used and expenses incurred in advertising designed to promote or retain the use of utility service, except advertising the sale of merchandise by the utility.

Example items

Labour:

1. Direct supervision of department.
2. Preparing advertising material for newspapers, periodicals, billboards, etc., and preparing and conducting motion pictures, radio and television programs.
3. Preparing booklets, bulletins, etc., used in direct mail advertising.
4. Preparing window and other displays.
5. Clerical and stenographic work.
6. Investigating advertising agencies and media and conducting negotiations in connection with the placement and subject matter of sales advertising.

Materials and expenses:

1. Advertising in newspapers, periodicals, billboards, radio, etc., for sales promotion purposes, but not including institutional or goodwill advertising included in account 5660, General Advertising Expenses.
2. Materials and services given as prizes or otherwise in connection with civic lighting contests, canning, or cooking contests, bazaars, etc., in order to publicize and promote the use of utility services.
3. Fees and expenses of advertising agencies and commercial artists.
4. Novelties for general distribution.
5. Postage on direct mail advertising.
6. Premiums distributed generally, such as recipe books, etc., when not offered as inducement to purchase appliances.
7. Printing booklets, dodgers, bulletins, etc.
8. Supplies and expenses in preparing advertising material.
9. Office supplies and expenses.

Note A: The cost of advertisements which set forth the value or advantages of utility service without reference to specific appliances or, if reference is made to appliances invites the reader to purchase appliances from his dealer or refer to appliances not carried for sale by the utility, shall be considered sales promotion advertising and charged to this account. However, advertisements which are limited to specific makes of appliances sold by the utility and prices,

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Sales Expenses

terms, etc., thereof, without referring to the value or advantages of utility service, shall be considered as merchandise advertising and the cost shall be charged to Costs and Expenses of Merchandising, Jobbing and Contract Work, account 4330.

Note B: Advertisements which substantially mention or refer to the value or advantages of utility service, together with specific reference to makes of appliances sold by the utility and the price, terms, etc., thereof and designed for the joint purpose of increasing the use of utility service and the sales of appliances, shall be considered as a combination advertisement and the costs shall be distributed between this account and account 4330 on the basis of space, time, or other proportional factors.

Note C: Exclude from this account and charge to account 5665, Miscellaneous General Expenses, the cost of publication of stockholder reports, dividend notices, bond redemption notices, financial statements, and other notices of a general corporate character.

5520 Miscellaneous Sales Expenses

This account shall include the cost of labour, materials used and expenses incurred in connection with sales activities, except merchandising, which are not included in other sales expense accounts.

Example items**Labour:**

1. General clerical and stenographic work not assigned to specific functions.
2. Special analysis of customer accounts and other statistical work for sales purposes not a part of the regular customer accounting and billing routine.
3. Miscellaneous labour.

Materials and Expenses:

1. Communication service.
2. Printing, postage, and office supplies and expenses applicable to sales activities, except those chargeable to account 5515, advertising Expenses.

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Administrative and General Expenses**5605 Executive Salaries and Expenses**

This account shall include the salaries and expenses of the commissioners, presidents, vice-presidents, general managers, etc. of the utility.

5610 Management Salaries and Expenses

This account shall include the utility management salaries of middle managers (i.e. Human Resource managers), etc. with payroll burden and expenses.

5615 General Administrative Salaries and Expenses

This account shall include the salaries with payroll burden and expenses of the staff of the general administration office.

5620 Office Supplies and Expenses

- A. This account shall include office supplies and expenses incurred in connection with the general administration of the utility's operations which are assignable to specific administrative or general departments and are not specifically provided for in other accounts. This includes the expenses of the various administrative and general departments, the salaries and wages of which are included in account 5615, General Administration Salaries and Expenses.
- B. This account may be subdivided in accordance with a classification appropriate to the departmental or other functional organization of the utility.

Note: Office expenses which are clearly applicable to any group of operating expenses other than the administrative and general group shall be included in the appropriate account in such group. Further, general expenses which apply to the utility as a whole rather than to a particular administrative function shall be included in account 5665, Miscellaneous General Expenses. For employee courses, see account 5645, item 7.

Example items

1. Automobile service, including charges through clearing account.
2. Bank messenger and service charges.

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Administrative and General Expenses

3. Books, periodicals, bulletins and subscriptions to newspapers, newsletters, tax services, etc.
4. Building service expenses for customer accounts, sales, and administrative and general purposes.
5. Communication service expenses.
6. Cost of individual items of office equipment used by general departments which are of small value or short life.
7. Membership fees and dues in trade, technical, and professional associations paid by a utility for employees. (Company memberships shall be included in account 5665, Miscellaneous General Expenses.)
8. Office supplies and expenses.
9. Payment of court costs, witness fees and other expenses of legal department.
10. Postage, printing and stationery.
11. Meals, traveling and incidental expenses.

(Note: expenses recorded here should be net of any recoveries from other departments).

5625 Administrative Expenses Transferred–Credit

This account shall be credited with administrative expenses transferred to construction costs or to non-utility accounts from accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses.

5630 Outside Services Employed

- A. This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It shall include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility.
- B. This account shall be so maintained as to permit ready summarization according to the nature of service and the person furnishing the same.

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Administrative and General Expenses

Example items

1. Fees, pay and expenses of accountants and auditors, actuaries, appraisers, attorneys, engineering consultants, management consultants, negotiators, public relations counsel, tax consultants, etc.
2. Supervision fees and expenses paid under contracts for general management services.
3. Do not include inspection and brokerage fees and commissions chargeable to other accounts or fees and expenses in connection with security issues which are included in the expenses of issuing securities.
4. To the extent the cost of professional consulting services can be assigned to a particular function, activity or account, such costs shall be directly assigned to the relevant accounts.

5635 Property Insurance

- A. This account shall include the cost of insurance to protect the utility against losses and damages to owned or leased property used in its utility operations. It shall also include the cost of labour and related supplies and expenses incurred in property insurance activities.
- B. Recoveries from insurance companies or others for property damages shall be credited to the account charged with the cost of the damage. If the insurance proceeds relate to grouped assets and damaged property has been retired, the credit shall be to the appropriate account for accumulated amortization. If the proceeds relate to identifiable assets that have been retired, the proceeds are to be compared to the book value and a gain or loss on disposition is to be recorded, as applicable.
- C. Records shall be kept so as to show the amount of coverage for each class of insurance carried, the property covered, and the applicable premiums. Any dividends distributed by mutual insurance companies shall be credited to the accounts to which the insurance premiums were charged.

Example items

1. Premiums payable to insurance companies for fire, storm, burglary, boiler explosion, lightning, fidelity, riot, and similar insurance.

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Administrative and General Expenses

2. Special costs incurred in procuring insurance.
3. Insurance inspection service.
4. Insurance counsel, brokerage fees, and expenses.

Note A: The cost of insurance capitalized shall be charged to construction either directly or by transfer to construction work orders from this account.

Note B: The cost of insurance for the following classes of property shall be charged as indicated.

1. Materials and supplies and stores equipment to the appropriate materials account.
2. Transportation and other general equipment to appropriate clearing accounts that may be maintained.
3. Electric plant leased to others, to account 4320, Expenses of Electric Plant Leased to Others.
4. Non-utility property, to the appropriate non-utility income account.
5. Merchandise and jobbing property, to account 4330, Costs and Expenses of Merchandising, Jobbing, Etc.

Note C: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in property insurance work may be included in accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

5640 Injuries and Damages

- A. This account shall include the cost of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims. It shall also include the cost of labour and related supplies and expenses incurred in injuries and damages activities.
- B. Reimbursements from insurance companies or others for expenses charged hereto on account of injuries and damages and insurance dividends or refunds shall be credited to this account.

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Administrative and General Expenses

Example items

1. Premiums payable to insurance companies for protection against claims from injuries and damages by employees or others, such as public liability, property damages, casualty, employee liability, etc., and amounts credited to account 2305, Accumulated Provision for Injuries and Damages, for similar protection.
2. Losses not covered by insurance or reserve accruals on account of injuries or deaths to employees or others and damages to the property of others.
3. Fees and expenses of claim investigators.
4. Payment of awards to claimants for court costs and attorneys' services.
5. Medical and hospital service and expenses for employees as the result of occupational injuries, or resulting from claims of others.
6. Compensation payments under worker's compensation laws.
7. Compensation paid while incapacitated as the result of occupational injuries. (See Note A.)
8. Cost of safety, accident prevention and similar educational activities.

Note A: Payments to or on behalf of employees for accident or death benefits, hospital expenses, medical supplies or for salaries while incapacitated for service or on leave of absence beyond periods normally allowed, when not the result of occupational injuries, shall be charged to account 5645, Employee Pensions and Benefits. (See Note B of account 5645.)

Note B: The cost of injuries and damages or reserve accruals capitalized shall be charged to construction directly or by transfer to construction work orders from this account.

Note C: Exclude from this account the time and expenses of employees (except those engaged in injuries and damages activities) spent in attendance at safety and accident prevention educational meetings, if occurring during the regular work period.

Note D: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in injuries and damages activities may be included in accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

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Administrative and General Expenses**5645 Employee Pensions and Benefits**

- A. The cost of pension's expense and benefits expense as determined by Section 3461 of the CICA Handbook would be recorded in this account.
- B. This account shall include pensions paid to or on behalf of retired employees, or accruals to provide for pensions, or payments for the purchase of annuities for this purpose, when the utility has definitely, by contract, committed itself to a pension plan under which the pension funds are irrevocably devoted to pension purposes, and payments for employee accident, sickness, hospital, and death benefits, or insurance therefor. Include, also, expenses incurred in medical, educational or recreational activities for the benefit of employees, and administrative expenses in connection with employee pensions and benefits.
- C. The utility shall maintain a complete record of accruals or payments for pensions and be prepared to furnish full information to the Board of the plan under which it has created or proposes to create a pension fund and a copy of the declaration of trust or resolution under which the pension plan is established.
- D. There shall be credited to this account the portion of pensions and benefits expenses which is applicable to non-utility operations or which is charged to construction unless such amounts are distributed directly to the accounts involved and are not included herein in the first instance.
- E. Records in support of this account shall be so kept that the total pensions expense, the total benefits expense, the administrative expenses included herein, and the amounts of pensions and benefits expenses transferred to construction or other accounts will be readily available.

Example items

- 1. Payment of pensions under a nonaccrual or nonfunded basis.
- 2. Accruals for or payments to pension funds or to insurance companies for pension purposes.
- 3. Group and life insurance premiums (credit dividends received).
- 4. Payments for medical and hospital services and expenses of employees when not the result of occupational injuries.
- 5. Payments for accident, sickness, hospital, and death benefits or insurance.
- 6. Payments to employees incapacitated for service or on leave of absence beyond periods normally allowed, when not the result of occupational

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- injuries, or in excess of statutory awards.
7. Expenses in connection with educational and recreational activities for the benefit of employees.

Note A: The cost of labour and related supplies and expenses of administrative and general employees who are only incidentally engaged in employee pension and benefit activities may be included in accounts 5605, Executive Salaries and Expenses, 5610, Management Salaries and Expenses, 5615, General Administrative Salaries and Expenses, and 5620, Office Supplies and Expenses, as appropriate.

Note B: Salaries paid to employees during periods of non-occupational sickness may be charged to the appropriate labour account rather than to employee benefits.

5650 Franchise Requirements

- A. This account shall include payments to municipal or other governmental authorities, and the cost of materials, supplies and services furnished such authorities without reimbursement in compliance with franchise, ordinance, or similar requirements.
- B. The account shall be maintained so as to readily reflect the amounts of cash outlays, utility service supplied without charge, and other items furnished without charge.

Note A: Franchise taxes shall not be charged to this account but to account 6105, Taxes Other Than Income Taxes.

Note B: Any amount paid as initial consideration for a franchise running for more than one year shall be charged to account 1608, Franchises and Consents.

5655 Regulatory Expenses

- A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) applicable to utility operating expenses, incurred by the utility in connection with formal cases before the Board or other regulatory bodies, or cases in which such a body is a party, including payments

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made to a regulatory body for fees assessed against the utility for pay and expenses of such body, its officers, agents, and employees.

- B. Amounts of regulatory expenses that by approval or direction of the Board are to be spread over future periods shall be charged to account 1525, Miscellaneous Deferred Debits, and amortized by charges to this account.
- C. The utility shall be prepared to show the cost of each formal case.

Example items

1. Salaries, fees, retainers, and expenses of counsel, solicitors, attorneys, accountants, engineers, clerks, attendants, witnesses, and others engaged in the prosecution of, or defense against petitions or complaints presented to regulatory bodies, or in the valuation of property owned or used by the utility in connection with such cases.
2. Office supplies and expenses, payments to public service or other regulatory bodies, stationery and printing, traveling expenses, and other expenses incurred directly in connection with formal cases before regulatory bodies.

Note A: Exclude from this account and include in other appropriate operating expense accounts, expenses incurred in the improvement of service, additional inspection, or rendering reports, which are made necessary by the rules and regulations, or orders, of regulatory bodies.

Note B: Do not include in this account amounts included in account 1608, Franchises and Consents, or account 1425, Unamortized Debt Expense.

5660 General Advertising Expenses

This account shall include the cost of labour, materials used, and expenses incurred in advertising and related activities, the cost of which by their content and purpose are not provided for elsewhere.

Example items

Labour:

1. Supervision specific to advertising activities.

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Administrative and General Expenses

2. Preparing advertising material for newspapers, periodicals, billboards, etc., and preparing or conducting motion pictures, radio and television programs.
3. Preparing booklets, bulletins, etc., used in direct mail advertising.
4. Preparing window and other displays.
5. Clerical and stenographic work.
6. Investigating and employing advertising agencies, selecting media and conducting negotiations in connection with the placement and subject matter of advertising.

Materials and Expenses:

1. Advertising in newspapers, periodicals, billboards, radio, etc.
2. Advertising matter such as posters, bulletins, booklets, and related items.
3. Fees and expenses of advertising agencies and commercial artists.
4. Postage and direct mail advertising.
5. Printing of booklets, dodgers, bulletins, etc.
6. Supplies and expenses in preparing advertising materials.
7. Office supplies and expenses.

Note A: Properly included in this account is the cost of advertising activities on a local or national basis of a good will or institutional nature, which is primarily designed to improve the image of the utility or the industry, including advertisements which inform the public concerning matters affecting the company's operations, such as, the cost of providing service, the company's efforts to improve the quality of service, the company's efforts to improve and protect the environment, etc. Entries relating to advertising included in this account shall contain or refer to supporting documents which identify the specific advertising message. If references are used, copies of the advertising message shall be readily available.

5665 Miscellaneous General Expenses

This account shall include the cost of labour and expenses incurred in connection with the general management of the utility not provided for elsewhere.

Example items**Labour:**

1. Miscellaneous labour not elsewhere provided for.

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Expenses:

1. Industry association dues for company memberships.
2. Contributions for conventions and meetings of the industry.
3. Research and development expenses not charged to other operation and maintenance expense accounts on a functional basis.
4. Communication service not chargeable to other accounts.
5. Trustee, registrar, and transfer agent fees and expenses.
6. Stockholders meeting expenses.
7. Dividend and other financial notices.
8. Printing and mailing dividend checks.
9. Directors' fees and expenses.
10. Publishing and distributing annual reports to stockholders.
11. Public notices of financial, operating and other data required by regulatory statutes, not including, however, notices required in connection with security issues or acquisitions of property.

5670 Rent

This account shall include rent properly included in utility operating expenses for the property of others used, occupied, or operated in connection with the customer accounts, customer service and informational, sales, and general and administrative functions of the utility. (See Definitions and Instruction 18.)

5675 Maintenance of General Plant

- A. This account shall include the cost assignable to customer accounts, sales and administrative and general functions of labour, materials used and expenses incurred in the maintenance of property, the book cost of which is included in account 1908, Buildings and Fixtures, account 1910, Leasehold Improvements, account 1915, Office Furniture and Equipment, account 1920, Computer Equipment - Hardware, account 1925, Computer Equipment - Software, account 1955, Communication Equipment, and account 1960, Miscellaneous Equipment.
- B. Maintenance expenses on office furniture and equipment used other than in general, commercial and sales offices shall be charged to the following accounts: Power Generation, to account 4640, Maintenance of Miscellaneous Power Generation Plant. Transmission, to account 4965, Maintenance of Miscellaneous Transmission Plant. Distribution, to account 5110, Maintenance of Buildings and Fixtures - Distribution Stations. Merchandise and Jobbing, to account 4330,

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Administrative and General Expenses

Costs and Expenses of Merchandising, Jobbing, Etc. Garages, Shops, etc., to appropriate clearing account.

Note: Maintenance of plant included in other general equipment accounts shall be included herein unless charged to clearing accounts or to the particular functional maintenance expense account indicated by the use of the equipment.

5680 Electrical Safety Authority Fees

This account will include fees paid for permits, inspection and test and approvals performed by the Electrical Safety Authority.

5685 Independent Electricity System Operator Fees and Penalties

This account will include fees paid to the IESO. Records shall be kept to separately identify fees and penalties.

5695 OM&A Contra Account

- A. This account shall be used for the purposes of recording the offsetting entry for OM&A accounts recorded in account 1556, Smart Meter OM&A Variance Account.
- B. Separate sub-accounts within this OM&A contra account shall be created for the following categories of expenses: operating, maintenance, administration and depreciation or amortization.

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Amortization Expense**5705 Amortization Expense**

- A. This account shall include the amount of amortization expense for all classes of depreciable Electric Plant in Service except such amortization expense as is chargeable to clearing accounts or to account 4330, Costs and Expenses of Merchandising, Jobbing, Etc.
- B. The utility shall keep such records of property and property retirements as will reflect the service life of property which has been retired and aid in estimating probable service life by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric plant.

Note A: Amortization expense applicable to property included in account 2030, Electric Plant and Equipment Leased to Others, shall be charged to account 4320, Expenses of Electric Plant Leased to Others.

Note B: Amortization expenses applicable to transportation equipment, shop equipment, tools, work equipment, power operated equipment and other general equipment may be charged to clearing accounts as necessary in order to obtain a proper distribution of expenses between construction and operation.

Note C: Amortization expense applicable to transportation equipment used for transportation of fuel from the point of acquisition to the unloading point shall be charged to account 1305, Fuel Stock.

Note D: Records shall be kept in such a manner that the charges for amortization are shown separately for each depreciable utility plant account, or group of plant accounts that performs similar functions.

5710 Amortization of Limited Term Electric Plant

This account shall include amortization charges applicable to amounts included in the electric plant accounts for limited-term franchises, licenses, patent rights, limited-term interests in land, and expenditures on leased property where the service life of the improvements is terminable by action of the lease. The charges to this account shall be such as to distribute the book cost of each investment as evenly as may be over the

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Amortization Expense

period of its benefit to the utility. (See account 2120, Accumulated Amortization of Electric Utility Plant.)

Records shall be kept in such a manner that the charges for amortization are shown separately for each depreciable utility plant account, or group of plant accounts that performs similar functions.

5715 Amortization of Intangibles and Other Electric Plant

- A. When authorized by the Board, this account shall include charges for amortization of intangible or other electric utility plant which does not have a definite or terminable life and which is not subject to charges for amortization expense.
- B. This account shall be supported in such detail as to show the amortization applicable to each investment being amortized, together with the book cost of the investment and the period over which it is being written off.

5720 Amortization of Electric Plant Acquisition Adjustments

This account shall be debited or credited, as the case may be, with amounts authorized to be included in operating expenses, pursuant to approval or order of the Board, for the purpose of providing for the extinguishment of the amount in account 2060, Electric Plant Acquisition Adjustments.

5725 Miscellaneous Amortization

This account shall include amortization charges not included in other accounts. Charges included here, if significant in amount, must be in accordance with an orderly and systematic amortization program.

5730 Amortization of Unrecovered Plant and Regulatory Study Costs

This account shall be charged with amounts credited to asset account 1505, Unrecovered Plant and Regulatory Study Costs, when the Board has authorized the amount in that account to be amortized by charges to electric operations.

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Amortization Expense**5735 Amortization of Deferred Development Costs**

This account shall include the amount of the amortization charges relating to account 1560, Deferred Development Expenditures, and applicable to the current fiscal period.

5740 Amortization of Deferred Charges

This account shall include the amount of the amortization charges relating to Deferred Charges and applicable to the current fiscal period.

Example items

Amortization of amounts relating to:

1. Qualifying Transition Costs included in account 1570.
2. Extraordinary Event Losses included in account 1572.
3. Deferred Rate Impact Amounts included in account 1574.
4. Miscellaneous Deferred Debits included in account 1525.

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Interest Expense**6005 Interest on Long Term Debt**

- A. This account shall include the amount of interest on outstanding long-term debt issued or assumed by the utility, the liability for which is included in account 2505, Debentures Outstanding - Long Term Portion, account 2520, Other Long Term Debt, account 2525, Term Bank Loans - Long Term Portion, account 2530, Ontario Hydro Debt Outstanding - Long Term Portion, and account 2535, OMERS Past Service Liability - Long Term Portion.
- B. This account shall be so kept or supported as to show the interest expense on each class and series of long-term debt.

6010 Amortization of Debt Discount and Expense

- A. This account shall include the amortization of unamortized debt discount and expense on outstanding long-term debt. Amounts charged to this account shall be credited concurrently to accounts 1425, Unamortized Debt Expense, and 1445, Unamortized Discount on Long-Term Debt--Debit.
- B. This account shall be so kept or supported as to show the debt discount and expense on each class and series of long-term debt.

6015 Amortization of Premium on Debt--Credit

- A. This account shall include the amortization of unamortized net premium on outstanding long-term debt. Amounts credited to this account shall be charged concurrently to account 1435, Unamortized Premium on Long-Term Debt.
- B. This account shall be so kept or supported as to show the premium on each class and series of long-term debt.

6020 Amortization of Loss on Recquired Debt

- A. This account shall include the amortization of the losses on reacquisition of debt. Amounts charged to this account shall be credited concurrently to account 1540, Unamortized Loss on Recquired Debt.
- B. This account shall be maintained so as to allow ready identification of the loss amortized applicable to each class and series of long-term debt reacquired.

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Interest Expense**6025 Amortization of Gain on Recquired Debt–Credit**

- A. This account shall include the amortization of the gains realized from reacquisition of debt. Amounts credited to this account shall be charged concurrently to account 2415, Unamortized Gain on Recquired Debt.
- B. This account shall be maintained so as to allow ready identification of the gains amortized applicable to each class and series of long-term debt reacquired.

6030 Interest on Debt to Associated Companies

- A. This account shall include the interest accrued on amounts included in account 2550, Advances from Associated Companies, and on all other obligations to associated companies.
- B. The records supporting the entries to this account shall be so kept as to show to who the interest is to be paid, the period covered by the accrual, the rate of interest and the principal amount of the advances or other obligations on which the interest is accrued.

6035 Other Interest Expense

This account shall include all interest charges not provided for elsewhere

Example items

Interest expense on short-term debt:

1. Interest on notes payable on demand or maturing one year or less from date and on open accounts, except notes and accounts with associated companies.

Other interest expense:

1. Interest on customers' deposits.
2. Interest on claims and judgments, tax assessments, and assessments for public improvements past due.
3. Interest expense on customer benefits payable (see Account 2435).

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Interest Expense**6040 Allowance For Borrowed Funds Used During Construction–Credit**

This account shall include concurrent credits for Allowance for borrowed Funds Used During Construction ("AFUDC") that has been capitalized during the fiscal year.

The concurrent debit shall be to account 2055, Construction Work in Progress - Electric.

The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved or prescribed by the Board.

6042 Allowance For Other Funds Used During Construction–Credit

This account shall include concurrent credits for allowance for other than borrowed funds used during construction. The concurrent debit shall be to account 2055, Construction Work in Progress - Electric.

The rate of return shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved by the Board.

The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period, whether or not such funds have been borrowed, and shall be approved or prescribed by the Board.

6045 Interest Expense on Capital Lease Obligations

This account shall include the interest expense portion of the capital lease payments.

The interest expense shall be calculated using the discount rate for computing the present value of the minimum lease payments applied to the remaining balance of the obligation under capital lease.

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Taxes**6105 Taxes Other than Income Taxes**

- A. This account shall include the amounts of ad valorem, gross revenue or gross receipts taxes, "payments-in-lieu of taxes", capital taxes, payments equivalent to municipal and school taxes, property taxes, property transfer taxes, franchise taxes, commodity taxes, and all other related taxes assessed by federal, provincial, municipal, or other local governmental authorities, except income taxes.
- B. This account shall be charged in each accounting period with the applicable amounts of items listed in A above paid or payable with the concurrent credit to made to account 2294, Accrual for Taxes, "Payments in lieu of Taxes", etc., account 2290, Commodity Taxes or account 1180, Prepayments, as appropriate. When it is not possible to determine the exact amounts of taxes, the amounts shall be estimated and adjustments made in current accruals as the actual tax levies become known.
- C. The charges to these accounts shall be made or supported so as to show the amount of each tax and the basis upon which each charge is made.
- D. Sub-accounts shall be used to separately record each type of tax.

6110 Income Taxes

These accounts shall include the amounts of Provincial and Federal income taxes on income properly accruable during the period covered by the income statement to meet the actual liability for such taxes. Concurrent credits for the tax accruals shall be made to account 2294, Accrual for Taxes, "Payments in lieu of Taxes", etc., and as the exact amounts of taxes become known, the current tax accruals shall be adjusted by charges or credits to these accounts, so that these accounts as nearly as can be ascertained shall include the actual taxes payable by the utility.

Note: Interest on tax refunds or deficiencies shall not be included in these accounts but in account 4405, Interest and Dividend Income, or account 6035, Other Interest Expense, as appropriate.

Uniform System of Accounts

Income Statement

Taxes

6115 Provision For Future Income Taxes

The balance in this account shall represent the amount provided for future income taxes in the fiscal year. The offsetting entry to this provision should be to account 2296, Future Income Taxes - Current for any future income taxes provided with respect to any current timing differences and/or to account 2350, Future Income Taxes - Non-Current with respect to any non-current timing differences.

Uniform System of Accounts**Income Statement**

Other Deductions**6205 Donations**

This account shall include all payments or donations for charitable, social or community welfare purposes.

6210 Life Insurance

This account shall include all payments for life insurance of officers and employees where company is beneficiary (net premiums less increase in cash surrender value of policies).

6215 Penalties

This account shall include payments by the company for penalties or fines for violation of any regulatory statutes by the company or its officials, other than penalties related to account 5685, Independent Electricity System Operator Fees and Penalties.

6225 Other Deductions

This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges.

Example items

- 1 Loss relating to investments in securities written-off or written-down.
- 2 Loss on sale of investments.
- 3 Loss on reacquisition, resale or retirement of utility's debt securities, when the loss is not material or is not amortized or otherwise required to be treated by the Board.
- 4 Preliminary survey and investigation expenses related to abandoned projects, when not written-off to the appropriate operating expense account.
- 5 Costs of preliminary abandonment costs still recorded in accounts 1572, Extraordinary Event Losses, and 1505, Unrecovered Plant and Regulatory Study Costs, that the Board has not authorized or required to be amortized to account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs.

Uniform System of Accounts**Income Statement**

Extraordinary Items**6305 Extraordinary Income**

This account shall be credited with gains of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before Extraordinary Items, if reported other than as extraordinary items. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in account 6315, Taxes, Extraordinary Items.

6310 Extraordinary Deductions

This account shall be debited with losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before Extraordinary Items, if reported other than as extraordinary items. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in account 6315, Taxes, Extraordinary Items.

6315 Taxes, Extraordinary Items

This account shall include the amount of Provincial and Federal income taxes (or payments in lieu of taxes) which relate to Extraordinary Items.

Uniform System of Accounts**Income Statement**

Discontinued Operations**6405 Discontinued Operations - Income/gains**

This account shall include the income/gain from discontinued operations. Discontinued operations are the operations of a business segment that has been sold, abandoned, shut down or otherwise disposed. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in account 6415, Taxes, Discontinued Operations.

6410 Discontinued Operations - Deductions/losses

This account shall include the deductions/losses from discontinued operations. Discontinued operations are the operations of a business segment that has been sold, abandoned, shut down or otherwise disposed. Income tax (or payments in lieu of taxes) relating to the amounts recorded in this account shall be recorded in account 6415, Taxes, Discontinued Operations.

6415 Taxes, Discontinued Operations

This account shall include the amount of Provincial and Federal income taxes (or payments in lieu of taxes) which relate to discontinued operations.

Uniform System of Accounts

Definitions and Instructions

When used in this Uniform System of Accounts:

1. **Amortization** means the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.

For capital assets, amortization provides a rational and systematic basis for allocating the amortizable amount of a capital asset over its estimated useful life. Amortization is calculated by allocating the cost less salvage value or residual value of a capital asset to the periods of service provided by the asset. Amortization may also be termed depreciation or depletion.

2. A. **Affiliate:** See Definitions subsection in Article 340–Cost Allocation.
- B. **Associate**, pursuant to section 3 of the *Ontario Energy Board Act, 1998*, where used to indicate a relationship with any person, means,
 - a) Any body corporate of which the person owns, directly or indirectly, voting securities carrying more than 50 per cent of the voting rights attached to all voting securities of the body corporate for the time being outstanding,
 - b) Any partner of that person,
 - c) Any trust or estate in which the person has a substantial beneficial interest or as to which the person serves as trustee or in a similar capacity,
 - d) Any relative of the person, including the person’s spouse as defined in the *Ontario Business Corporations Act*, where the relative has the same home as the person, or
 - e) Any relative of the spouse, as defined in the *Ontario Business Corporations Act*, where the relative has the same home as the person.
- C. **Control:** See Article 510–Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*, subsection entitled “Transfer of Assets to the Incorporated Electric Utility” under “Accounting Issue”.
- D. **Subsidiary**, pursuant to section 2 of the *Electricity Act, 1998*, with respect to a corporation, has the same meaning as in the *Ontario Business*

Uniform System of Accounts

Definitions and Instructions

Corporations Act. Under Part I—Definitions and Application of the *Ontario Business Corporations Act*, a body corporate shall be deemed to be a subsidiary of another body corporate if, and only if,

- a) it is controlled by,
 - i) that other, or
 - ii) that other and one or more bodies corporate each of which is controlled by that other, or
 - iii) two or more bodies corporate each of which is controlled by that other; or

- b) it is a subsidiary of a body corporate that is that other's subsidiary.

Note that a subsidiary is an enterprise controlled by another enterprise (the parent) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks. For a complete discussion of accounting for subsidiaries, refer to CICA Handbook sections 1590—Subsidiaries.

- E. **Book cost** is the amount of consideration given up to acquire, construct, develop, or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use.

- F. **Original cost**, as applied to electric plant, means the cost of such property to the person first placing it into service.

- G. **Regulatory Assets** (debits) and **Liabilities** (credits): See Definitions subsection of Article 330—Treatment of Certain Revenues and Expenses.

- H. **Payroll burden**: The costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer's portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance. See also Article 340.

Uniform System of Accounts**Definitions and Instructions**

3. Item Lists.

Lists of items appearing in the texts of the accounts or elsewhere herein are for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive. The appearance of an item in a list warrants the inclusion of the item in the account mentioned only when the text of the account also indicates inclusion inasmuch as the same item frequently appears in more than one list. The proper entry in each instance must be determined by the texts of the accounts.

4. To 14. **RESERVED**

15. Allowances.

To be drafted as legislative requirements become known.

16. Supervision and Engineering.

The supervision and engineering expense included in the expense accounts shall consist of the pay and expenses of superintendents, engineers, clerks, other employees and consultants engaged in supervising and directing the operation or maintenance of each utility function. Wherever allocations are necessary in order to arrive at the amount to be included in any account, the method and basis of allocation shall be reflected by underlying records.

Example items

Labour

- A. Special tests to determine efficiency of equipment operation.
- B. Preparing or reviewing budgets, estimates, and drawings relating to operation or maintenance for departmental approval.
- C. Preparing instructions for operations and maintenance activities.
- D. Reviewing and analyzing operating results.
- E. Establishing organizational setup of departments and executing changes therein.
- F. Formulating and reviewing routines of departments and executing

Uniform System of Accounts

Definitions and Instructions

changes therein.

- G. General training and instruction of employees by supervisors whose pay is chargeable hereto. Specific instruction and training in a particular type of work is chargeable to the appropriate functional account (See Definitions and Instruction 20).
- H. Secretarial work for supervisory personnel, but not general clerical and stenographic work chargeable to other accounts.

Expenses

- A. Consultants' fees and expenses.
- B. Meals, traveling and incidental expenses.

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18. Rents.

- A. The rent expense accounts provided under the several functional groups of expense accounts shall include all rents, including taxes paid by the lessee on leased property, for property used in utility operations, except rents which are chargeable to clearing accounts, and distributed therefrom to the appropriate account. If rents cover property used for more than one function, such as production and transmission, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, an estimated basis.
- B. When a portion of property or equipment rented from others for use in connection with utility operations is subleased, the revenue derived from such subleasing shall be credited to the rent revenue account in operating revenues; provided, however, that in case the rent was charged to a clearing account, amounts received from subleasing the property shall be credited to such clearing account.
- C. The cost, when incurred by the lessee, of operating and maintaining leased property, shall be charged to the accounts appropriate for the expense if the property were owned.

19. **RESERVED**

Uniform System of Accounts

Definitions and Instructions

20. Components of construction cost.

The cost of construction properly included in the electric plant accounts shall include where applicable, the cost of labor; materials and supplies; transportation; work done by others for the utility; injuries and damages incurred in construction work; privileges and permits; special machinery services; allowance for funds used during construction; and such portion of general engineering, administrative salaries and expenses, insurance, taxes, and other similar items as may be properly included in construction costs.

Note : The cost of individual items of equipment of small value or of short life, including small portable tools and implements, shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

21. Electric Plant Constructed, Purchased or Sold.

General classification of electric plant:

The detailed electric plant accounts (1606 to 1995, inclusive) shall be stated on the basis of cost to the utility of plant constructed by it and the original cost, estimated if not known, of plant acquired as an operating unit or system. The difference between the original cost, as above, and the cost to the utility of electric plant after giving effect to any accumulated provision for depreciation or amortization shall be recorded in account 2060, Electric Plant Acquisition Adjustments. The original cost of electric plant shall be determined by analysis of the utility's records or those of the predecessor or vendor companies with respect to electric plant previously acquired as operating units or systems and the difference between the original cost so determined, less accumulated provisions for depreciation and amortization and the cost to the utility with necessary adjustments for retirements from the date of acquisition, shall be entered in account 2060, Electric Plant Acquisition Adjustments. Any difference between the cost of electric plant and its book cost, when not properly included in other accounts, shall be recorded in account 2065, Other Electric Plant Adjustments.

Uniform System of Accounts**Definitions and Instructions**

Specific instructions:

- A. When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly included in electric plant, shall be charged to account 2010, Electric Plant Purchased or Sold.
- B. The accounting for the acquisition shall then be completed as follows:
1. The original cost of plant, estimated if not known, shall be credited to account 2010, Electric Plant Purchased or Sold, and concurrently debited to the appropriate Electric Plant in Service accounts and to account 2030, Electric Plant Leased to Others, account 2040, Electric Plant Held for Future Use, and account 2055, Construction Work in Progress--Electric, as appropriate.
 2. The amortization applicable to the original cost of the properties purchased shall be debited to account 2010, Electric Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for amortization.
 3. The cost to the utility of any property included in account 2075, Non-Utility Property Owned or Under Capital Leases, shall be transferred thereto.
 4. The amount remaining in account 2010, Electric Plant Purchased or Sold, shall then be closed to account 2060, Electric Plant Acquisition Adjustments.
- C. If property acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary substantially to rehabilitate it in order to bring the property up to the standards of the utility, the cost of such work, except replacements, shall be accounted for as a part of the purchase price of the property.
- D. When any property acquired as an operating unit or system includes duplicate or other plant which will be retired by the accounting utility in the reconstruction of the acquired property or its consolidation with previously owned property, the proposed accounting for such property shall be presented to the Board.
- E. In connection with the acquisition of electric plant constituting an operating unit or system, the utility shall procure; if possible, all existing records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

Uniform System of Accounts**Definitions and Instructions**

- F. When electric plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 2060, Electric Plant Acquisition Adjustments. The amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in account 2340, Collateral Funds Liability, shall be charged to such accounts and contra entries made to account 2010, Electric Plant Purchased or Sold. Unless otherwise ordered by the Board, the difference, if any, between (1) the net amount of debits and credits and (2) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 4355, Gain on Disposition of Property, or account 4360, Loss on Disposition of Property.

22. Land and Land Rights.

- A. The accounts for land shall include the cost of land owned in fee by the utility. Do not include in the accounts for land costs incurred in connection with first clearing and grading of land and the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefited.

The accounts for land rights shall include the cost of rights, interests, and privileges held by the utility in land owned by others, such as easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

- B. The net profit from the sale of timber, cord wood, sand, gravel, other resources or other property acquired with the rights-of-way or other lands shall be credited to the appropriate plant account to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increases in value, the net profit (after giving effect to the cost of the natural resources) from the sales of timber or its products or other natural resources shall be credited to the appropriate utility operating income account when such land has been recorded in account 2040, Electric Plant Held for Future Use or classified as plant in service, otherwise to account 4390, Miscellaneous Non-Operating Income.

Uniform System of Accounts**Definitions and Instructions**

- C. Separate entries shall be made for the acquisition, transfer, or retirement of each parcel of land, and each land right, or water right, having a life of more than one year. A record shall be maintained showing the nature of ownership, full legal description, area, map reference, purpose for which used, city, region, etc. , from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of register of purchase. Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.
- D. When the purchase of land for electric operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 2040, Electric Plant Held for Future Use, or account 2075, Non-utility Property, as appropriate.
- E. Land Rights should be amortized to operations over the term of the agreements and immaterial amounts shall be charged to the appropriate operating account in the year of occurrence.
- F. The items of cost to be included in the accounts for land are as follows:
1. Purchase price.
 2. Unwanted buildings located thereon, and removal costs of unwanted buildings less salvage value.
 3. Clearing, filling, grading and drainage cost.
 4. Conveyancers' and notaries' fees.
 5. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.
 6. Appraisals prior to closing title.
 7. Cost of voiding leases upon purchase to secure possession of land.
 8. Surveys in connection with the acquisition.
 9. Title, examining, clearing, insuring and registering in connection with the acquisition
- G. The items of cost to be included in the accounts for land rights are as follows:
1. Clearing, filling, grading and drainage cost.
 2. Conveyancers' and notaries' fees.
 3. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.

Uniform System of Accounts**Definitions and Instructions**

4. Appraisals prior to closing title.
5. Surveys in connection with the acquisition of the right.
6. Title, examining, clearing, insuring and registering in connection with the acquisition of the right.
7. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

23. Buildings and Fixtures

These accounts shall include the cost of all buildings and fixtures for the operation of the electric utility. "Buildings and Fixtures" means permanent buildings and equipment to house or safeguard persons or property, and includes all fixtures permanently attached to and made part of a building.

Example Items

- A. Architects' plans.
- B. Excavations.
- C. Soil investigation for foundations.
- D. Foundations.
- E. Items of equipment which are associated with and form part of the building, such as plumbing, light, heat, ventilating and elevator, also special foundations and equipment piers for machinery or apparatus constructed as a permanent part of a building.
- F. Original fencing, except for fencing surrounding transformer station equipment and distribution station equipment.
- G. Landscaping, lawns, shrubbery.
- H. Sidewalks and pavements pertaining to the buildings.

Separate buildings shall be entered in such a manner that an accurate record of their individual cost shall be evident.

Note: Fencing and outdoor transformer pads associated with outdoor stations shall be included in account 1815, Transformer Station Equipment or account 1820, Distribution Station Equipment depending upon its location.

24. RESERVED

Uniform System of Accounts

Definitions and Instructions

25. For the purpose of this system of accounts:
- A. Transmission system means a system for transmitting electricity, and includes any structures, equipment or other things used for that purpose. This includes a line, transformers, plant or equipment used for conveying electricity at voltages greater than 50 kilovolts. A transmission system also includes those items specified as a result of the application of section 84 of the Ontario Energy Board Act, 1998.
 - B. Distribution system means a system for distributing electricity, and includes any structures, equipment or other things used for that purpose. This includes a line, transformers, plant or equipment used for conveying electricity at voltages less than 50 kilovolts. A distribution system also includes those items specified as a result of the application of section 84 of the Ontario Energy Board Act, 1998.

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
Current Assets		
1005	Cash	200. Cash in Bank and On Hand
1010	Cash Advances and Working Funds	210. Cash Advances
1020	Interest Special Deposits	
1030	Dividend Special Deposits	
1040	Other Special Deposits	
1060	Term Deposits	215. Term Deposits
1070	Current Investments	220. Investments - Current
1100	Customer Accounts Receivable	240. Accounts Receivable - Electrical Energy
1102	Accounts Receivable - Services	
1104	Accounts Receivable - Recoverable Work	245. Accounts Receivable - Recoverable Work
1105	Accounts Receivable - Merchandise, Jobbing, Etc.	Part of 244. Accounts Receivable - Sundry
1110	Other Accounts Receivable - Energy Sales	242. Accounts Receivable - Municipal Owned Street Lighting 243. Accounts Receivable - Street Lighting Transfer Part of 244. Accounts Receivable - Sundry 246. Accounts Receivable - Other Municipal Departments
1120	Accrued Utility Revenues	251. Unbilled Revenue
1130	Accumulated Provision for Uncollectible Accounts-Credit.	250. Allowance for Doubtful Accounts
1140	Interest and Dividends Receivable	
1150	Rents Receivable	
1170	Notes Receivable	
1180	Prepayments	255. Prepaid Expense
1190	Miscellaneous Current and Accrued Assets	265. Other Current Assets
1200	Accounts Receivable from Associated Companies	
1210	Notes Receivable from Associated Companies	

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
Inventory		
1305	Fuel Stock	
1330	Plant Materials and Operating Supplies	Part of 260. Inventory
1340	Merchandise	Part of 260. Inventory
1350	Other Materials and Supplies	
Non-Current Assets		
1405	Long Term Investments in Non-Associated Companies	275. Investments - Long Term
1408	Long Term Receivable - Street Lighting Transfer	292. Long Term Receivable - Street Lighting Transfer
1410	Other Special or Collateral Funds	290. Collateral Funds
1415	Sinking Funds	270. Sinking Fund Deposits
1425	Unamortized Debt Expense	Part of 280. Discount and Expenses or Premium on Debentures
1445	Unamortized Discount on Long-Term Debt--Debit	Part of 280. Discount and Expenses or Premium on Debentures
1455	Unamortized Deferred Foreign Currency Translation Gains/Loss	
1460	Other Non-Current Assets	295. Other Non-Current Assets
1465	OMERS Past Service Costs	296. OMERS Past Service Costs
1470	Past Service Costs -Employee Future Benefits	
1475	Past Service Costs - Other Pension Plans	
1480	Portfolio Investments - Associated Companies	
1485	Investment in Associated Companies - Significant Influence	
1490	Investment in Subsidiary Companies	
Other Assets and Deferred Charges		
1505	Unrecovered Plant and Regulatory Study Costs	

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
1508	Other Regulatory Assets	
1510	Preliminary Survey and Investigation Charges	
1515	Emission Allowance Inventory	
1516	Emission Allowances Withheld	
1525	Miscellaneous Deferred Debits	285. Deferred Charges
1530	Deferred Losses from Disposition of Utility Plant	
1572	Extraordinary Event Losses	
1540	Unamortized Loss on Reacquired Debt	
1545	Development Charge Deposits/Receivables	271. Development Charge Deposits/Receivable
1560	Deferred Development Expenditures	
1570	Qualifying Transition Costs	
1574	Deferred Rate Impact Amounts	
1605	Electric Plant in Service - Detailed Electric Plant in Service - Control Account	30. Generating Stations
	A. Intangible Plant	
1606	Organization	
1608		
1610	Miscellaneous Intangible Plant	
	Electric Plant in Service - Detailed Accounts	
	Generation Plant	
1615	Land	Part of 10. Land
1616	Land Rights	Part of 15. Land Rights
1620	Buildings and Fixtures	Part of 20. Buildings and Fixtures - Brick, Stone, Concrete and Steel Part of 25. Buildings and Fixtures - Other Construction
1630	Leasehold Improvements	Part of 125. Leasehold Improvements
1635	Boiler Plant Equipment	Part of 30. Generating Stations
1640	Engines and Engine-Driven Generators	Part of 30. Generating Stations

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
1645	Turbogenerator Units	Part of 30. Generating Stations
1650	Reservoirs, Dams and Waterways	Part of 30. Generating Stations
1655	Water Wheels, Turbines and Generators	Part of 30. Generating Stations
1660	Roads, Railroads and Bridges	
1665	Fuel Holders, Producers and Accessories	Part of 30. Generating Stations
1670	Prime Movers	Part of 30. Generating Stations
1675	Generators	
1680	Accessory Electric Equipment	
1685	Miscellaneous Power Plant Equipment	
Transmission Plant		
1705	Land	Part of 10. Land
1706	Land Rights	Part of 15. Land Rights
1708	Buildings and Fixtures	Part of 20. Buildings and Fixtures - Brick, Stone, Concrete and Steel Part of 25. Buildings and Fixtures - Other Construction
1710	Leasehold Improvements	Part of 125. Leasehold Improvements
1715	Station Equipment	
1720	Towers and Fixtures	Part of 60. Subtransmission Feeders – Overhead
1725	Poles and Fixtures	Part of 40. Transmission Lines on Wood Poles Part of 60. Subtransmission Feeders - Overhead
1730	Overhead Conductors and Devices	Part of 40. Transmission Lines on Wood Poles Part of 60. Subtransmission Feeders - Overhead
1735	Underground Conduit	Part of 65. Subtransmission Feeders - Underground
1740	Underground Conductors and Devices	Part of 65. Subtransmission Feeders - Underground
1745	Roads and Trails	

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
Distribution Plant		
1805	Land	Part of 10. Land
1806	Land Rights	Part of 15. Land Rights
1808	Buildings and Fixtures	Part of 20. Buildings and Fixtures - Brick, Stone, Concrete and Steel Part of 25. Buildings and Fixtures - Other Construction
1810	Leasehold Improvements	Part of 125. Leasehold Improvements
1815	Transformer Station Equipment - Normally Primary above 50 kV	50. Municipal Transformer Station Equipment - Normally Primary > 50 kV
1820	Distribution Station Equipment – Normally Primary below 50 kV	55. Municipal Distribution Station Equipment - Normally Primary <50 Kv
1830	Poles, Towers, and Fixtures	Part of 60. Subtransmission Feeder Overhead Part of 70. Distribution Lines and Feeders - Overhead
1835	Overhead Conductors and Devices	Part of 60. Subtransmission Feeder Overhead Part of 70. Distribution Lines and Feeders - Overhead
1840	Underground Conduit	Part of 65. Subtransmission Feeders - Underground Part of 75. Distribution Lines and Feeders - Underground
1845	Underground Conductors and Devices	Part of 65. Subtransmission Feeder- Underground Part of 75. Distribution Lines and Feeders - Underground
1850	Line Transformers	80. Distribution Transformers
1855	Services	
1860	Meters	90. Distribution Meters
1865	Other Installations on Customer Premises	
1870	Leased Property on Customer Premises	
1875	Street Lighting and Signal Systems	

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
General Plant		
1905	Land	Part of 10. Land
1906	Land Rights	Part of 15. Land Rights
1908	Buildings and Fixtures	Part of 20. Buildings and Fixtures - Brick, Stone, Concrete and Steel Part of 25. Buildings and Fixtures - Other Construction
1910	Leasehold Improvements	Part of 125. Leasehold Improvements
1915	Office Furniture and Equipment	110. General Office Equipment
1920	Computer Equipment - Hardware	115. Computer Equipment - Hardware
1925	Computer Software	
1930	Transportation Equipment	Part of 130. Rolling Stock and Equipment
1935	Stores Equipment	120. Stores Warehouse Equipment
1940	Tools, Shop and Garage Equipment	Part of 140. Miscellaneous Equipment, Major Tools and Instruments
1945	Measurement and Testing Equipment	Part of 140. Miscellaneous Equipment, Major Tools and Instruments
1950	Power Operated Equipment	Part of 130. Rolling Stock and Equipment
1955	Communication Equipment	
1960	Miscellaneous Equipment	
1965	Water Heater Rental Units	150. Water Heater Rental Units
1970	Load Management Controls - Customer Premises	151. Load Management Controls - Customer Premises
1975	Load Management Controls - Utility Premises	152. Load Management Controls - Utility Premises
1980	System Supervisory Equipment	153. System Supervisory Equipment
1985	Sentinel Lighting Rental Units	155. Sentinel Lighting Rental Units
1990	Other Tangible Property	
1995	Contributions and Grants	

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
Other Capital Assets		
2005	Property Under Capital Leases	
2010	Electric Plant Purchased or Sold	
2030	Electric Plant and Equipment Leased to Others	
2040	Electric Plant Held for Future Use	
2050	Completed Construction Not Classified - Electric	
2055	Construction Work in Progress--Electric	160. Construction In Progress
2060	Electric Plant Acquisition Adjustment	
2065	Other Electric Plant Adjustment	
2070	Other Utility Plant	
2075	Non-Utility Property Owned or Under Capital Leases	
Accumulated Amortization		
2105	Accumulated Amortization of Electric Utility Plant	405. Accumulated Depreciation - Buildings and Fixtures - Brick, Stone and Masonry 410. Accumulated Depreciation - Buildings and Fixtures - Other Construction 415. Accumulated Depreciation - Generating Stations 420. Accumulated Depreciation - Transmission Lines on Wood Poles 425. Accumulated Depreciation - Municipal Transformer Station Equipment 430. Accumulated Depreciation - Municipal Distribution Station Equipment Subtransmission Feeders - Underground 435. Accumulated Depreciation - Subtransmission Feeders - Overhead

Uniform System of Accounts

Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Balance Sheet		
		436. Accumulated Depreciation -
		440. Accumulated Depreciation - Distribution Lines and Feeders - Overhead
		445. Accumulated Depreciation - Distribution Lines and Feeders - Underground
		450. Accumulated Depreciation – Distribution Transformers
		455. Accumulated Depreciation - Distribution Meters
		480. Accumulated Depreciation - General Office Equipment
		481. Accumulated Depreciation – Computer Equipment - Hardware
		482. Accumulated Depreciation - Stores Warehouse Equipment
		483. Accumulated Depreciation - Rolling Stock and Equipment
		484. Accumulated Depreciation - Miscellaneous Equipment, Major Tools and Instruments
		485. Accumulated Depreciation - Water Heater Equipment
		488. Accumulated Depreciation System Supervisory Equipment
		489. Accumulated Depreciation - Sentinel Lighting Equipment
2120	Accumulated Amortization of Electric Utility Plant	490. Accumulated Amortization - Land Rights
		491. Accumulated Amortization - Leasehold Improvements
2140	Accumulated Amortization of Electric Plant Acquisition Adjustment	
2160	Accumulated Amortization of Other Utility Plant	

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Account Number	Account Description	Former Account
Balance Sheet		
2180	Accumulated Amortization of Non-Utility Property	
Current Liabilities		
2205	Accounts Payable	320. Accounts Payable - Trade
2208	Customer Credit Balances	340. Customer Credit Balances
2210	Current Portion of Customer Deposits	345. Current Portion of Deposits
2215	Dividends Declared	
2220	Miscellaneous Current and Accrued Liabilities	Part of 325. Accrued Liabilities 349. Other Current Liabilities
2225	Notes and Loans Payable	330. Demand and Bank Loans
2240	Accounts Payable to Associated Companies	
2242	Notes Payable to Associated Companies	
2250	Competition Transition Charges	
2252	Transmission Charges Payable	
2254	Electrical Safety Authority Fees Payable	
2256	Independent Electricity System Operator Fees and Penalties Payable	
2260	Current Portion of Long Term Debt	335. Debentures Outstanding - Current Portion 336. Term Bank Loans - Current Portion 339. Other Long Term Debt - Current Portion
2262	Ontario Hydro Debt - Current Portion	337. Ontario Hydro Debt - Current Portion
2264	Pensions and Employee Benefits - Current Portion	338 OMERS - Current Portion
2268	Accrued Interest on Long Term Debt	348. Accrued Interest - Long Term Debt
2270	Matured Long Term Debt	
2272	Matured Interest on Long Term Debt	
2285	Obligations Under Capital Leases-- Current	
2290	Commodity Taxes	326. Goods and Services Tax
2292	Payroll Deductions / Expenses Payable	Part of 325. Accrued Liabilities

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Account Number	Account Description	Former Account
Balance Sheet		
2294	Accrual for Income Taxes, "Payments in Lieu of Taxes", Etc.	
2296	Future Income Taxes - Current	
Non-Current Liabilities		
2305	Accumulated Provision for Injuries and Damages	
2306	Employee Future Benefits.	
2308	Other Pensions - Past Service Liability	
2310	Vested Sick Leave Liability	360. Vested Sick Leave Liability
2315	Accumulated Provision for Rate Refunds	
2320	Other Miscellaneous Non-Current Liabilities	370. Other Non-Current Liabilities
2325	Obligations Under Capital Lease--Non-Current	
2330	Development Charge Fund	371. Development Charge Fund
2335	Long Term Customer Deposits	350. Long Term Deposits
2340	Collateral Funds Liability	365. Collateral Funds Liability
2345	Unamortized Premium on Long Term Debt	Part of 280. Discount and Expenses or Premium on Debentures
2348	OMERS. - Past Service Liability - Long Term Portion	316. OMERS - Long Term Portion
2350	Future Income Tax - Non-Current	
Other Liabilities and Deferred Credits		
2405	Other Regulatory Liabilities.	
2410	Deferred Gains from Disposition of Utility Plant	
2415	Unamortized Gain on Reacquired debt.	
2425	Other Deferred Credits.	
2435	Accrued Rate-Payer Benefit	
Long Term Debt		
2505	Debentures Outstanding - Long Term Portion	305. Debentures Outstanding - Long Term Portion
2510	Debenture Advances	300. Debenture Advances

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Account Number	Account Description	Former Account
Balance Sheet		
2515	Reacquired Bonds	
2520	Other Long Term Debt.	319. Other Debt - Long Term Portion
2525	Term Bank Loans - Long Term Portion	310. Term Bank Loans - Long Term Portion
2530	Ontario Hydro Debt Outstanding - Long Term Portion	315. Ontario Hydro Debt Outstanding - Long Term Portion
2550	Advances from Associated Companies	
Shareholders' Equity		
3005	Common Shares Issued	
3008	Preference Shares Issued	
3010	Contributed Surplus	
3020	Donations Received	
3022	Development Charges Transferred to Equity	
3026	Capital Stock Held in Treasury	
3030	Miscellaneous Paid-In Capital	540. Equity Accumulated Through Contributed Capital
3035	Installments Received on Capital Stock	
3040	Appropriated Retained Earnings	650. Reserves for Other Purposes
3045	Unappropriated Retained Earnings	Part of 530. Accumulated Net Income Invested in Plant or Held as Working Capital
3046	Balance Transferred From Income	
3047	Appropriations of Retained Earnings - Current Period	
3048	Dividends Payable-Preference Shares	
3049	Dividends Payable-Common Shares	
3055	Adjustment to Retained Earnings	Part of 530. Accumulated Net Income Invested in Plant or Held as Working Capital
3065	Unappropriated Undistributed Subsidiary Earnings	

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Account Number	Account Description	Former Account
Income Statement		
Sales of Electricity		
4006	Residential Energy Sales	9500. Residential Service
4010	Commercial Energy Sales	9600. Commercial Light Service
4015	Industrial Energy Sales	9700. Industrial Power Service
4020	Energy Sales to Large Users	9770. Large Users
4025	Street Lighting Energy Sales	9800. Street Lighting
4030	Sentinel Lighting Energy Sales	
4035	General Energy Sales	9750. General Service
4040	Other Energy Sales to Public Authorities	
4045	Energy Sales to Railroads and Railways	
4050	Revenue Adjustment	9850. Unbilled Revenue Adjustment 9860. Prior Year Billing Adjustment
4055	Energy Sales for Resale	
4060	Interdepartmental Energy sales	
Revenues from Services - Distribution		
4080	Distribution Services Revenue	
4090	Electric Services Incidental to Energy Sales	
Revenues from Services - Transmission		
4105	Transmission Charges Revenue	
4110	Transmission Services Revenue	
Other Operating Revenues		
4205	Interdepartmental Rents	
4210	Rent from Electric Property	9905. Pole Rentals Part of 9913. Premises and other Rental
4215	Other Utility Operating Income	
4220	Other Electric Revenues	
4225	Late Payment Charges	9901. Late Payment Charges
4230	Sales of Water and Water Power	
4235	Miscellaneous Service Revenues	9906. Street Light - Non Energy

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Account Number	Account Description	Former Account
Income Statement		
		9907. Change of Occupancy Charges
		9909. Reconnection Charges
		9910. Dispute Meter Test Charges
4240	Provision for Rate Refunds	
4245	Government Assistance Directly Credited to Income	
	Other Income/ Deductions	
4305	Regulatory Debits	
4310	Regulatory Credits	
4315	Revenues from Electric Plant Leased to Others	
4320	Expenses of Electric Plant Leased to Others	
4325	Revenues from Merchandise, Jobbing, Etc.	Part of 9911. Profit on Sale of Materials and/or Services
4330	Costs and Expenses of Merchandising, Jobbing, Etc.	Part of 9911. Profit on Sale of Materials and/or Services
4335	Profits and Losses from Financial Instrument Hedges	
4340	Profits and Losses from Financial Instrument Investments	
4345	Gains from Disposition of Future Use Utility Plant	
4350	Losses from Disposition of Future Use Utility Plant	
4355	Gain on Disposition of Utility and Other Property	Part of 9919. Net Book Value of Disposal (Readily Identifiable Fixed Assets) ***
		Part of 9920. Proceeds and Costs - Disposal of Fixed Assets ***
4360	Loss on Disposition of Utility and Other Property	Part of 9919. Net Book Value of Disposal (Readily Identifiable Fixed Assets) ***
		Part of 9920. Proceeds and Costs - Disposal of Fixed Assets ***
4365	Gains from Disposition of Allowances for	

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Mapping of Former Accounts to USoA Accounts

Account Number	Account Description	Former Account
Income Statement		
	Emission	
4370	Losses from Disposition of Allowances for Emission	
4375	Revenues from Non-Utility Operations	Part of 9914. Water and Sewer Billing Services
4380	Expenses of Non-Utility Operations	Part of 9914. Water and Sewer Billing Services
4385	Non-Utility Rental Income	Part of 9913. Premises and Other Rental 9902 Water Heater Rental 9903 Sentinel Light Rental
4390	Miscellaneous Non-Operating Income	9912. Sales of Scrap Material 9915. Miscellaneous ***Other than amounts related to retirements
4398	Foreign Exchange Gains and Losses, Including Amortization	9110. Foreign Exchange
Investment Income		
4405	Interest and Dividend Income	9904. Interest Earned 9930. Income from Sinking Fund
4415	Equity in Earnings of Subsidiary Companies	
Power Production Expenses		
Generation Expenses- Operation		
4505	Operation Supervision and Engineering	Part of 1021. Hydraulic Generating Station - Operating Labour Part of 1031. Diesel Generating Station - Operating Labour
4510	Fuel	1033. Diesel Generating Station - Operating Fuel
4515	Steam Expenses	
4520	Steam from Other Sources	
4525	Steam Transferred--Credit	
4530	Electric Expenses	

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Account Number	Account Description	Former Account
Income Statement		
4535	Water for Power	
4540	Water Power Taxes	
4545	Hydraulic Expenses	1022. Hydraulic Generating Station – Operating Supplies and Expense
4550	Generation Expenses	1032. Diesel Generating Station - Operating Supplies and Expense
4555	Miscellaneous Power Generation Expenses	
4560	Rents	
4565	Allowances for Emissions	
Generation Expenses- Maintenance		
4605	Maintenance Supervision and Engineering	
4610	Maintenance of Structures	1025. Hydraulic Generating Station - Maintenance of Buildings and Fixtures 1035. Diesel Generating Station – Maintenance of Buildings and Fixtures
4615	Maintenance of Boiler Plant	
4620	Maintenance of Electric Plant	
4625	Maintenance of Reservoirs, Dams and Waterways	Part of 1024. Hydraulic Generating Station - Maintenance of Equipment
4630	Maintenance of Water Wheels, Turbines and Generators	
4635	Maintenance of Generating and Electric Plant	
4640	Maintenance of Miscellaneous Power Generation Plant	Part of 1024. Hydraulic Generating Station - Maintenance of Equipment 1034. Diesel Generating Station - Maintenance of Equipment
Other Power Supply Expenses		
4705	Power Purchased	1010. Power Purchased
4710	Cost of Power Adjustments	1015. Cost of Power – Adjustments

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Account Number	Account Description	Former Account
Income Statement		
4715	System Control and Load Dispatching	
4720	Other Expenses	
4725	Competition Transition Expense	
4730	Rural Rate Assistance Expense	
Transmission Expenses- Operation		
4805	Operation Supervision and Engineering.	Part of 2011. Transmission Lines - Operation
4810	Load Dispatching	
4815	Station Buildings and Fixtures Expenses	
4820	Transformer Station Equipment - Operating Labour	4011. Municipal Transformer Station Equipment - Operating Labour
4825	Transformer Station Equipment - Operating Supplies and Expense	4012. Municipal Transformer Station Equipment -Operation Supplies and Expense
4830	Overhead Line Expenses	
4835	Underground Line Expenses	
4840	Transmission of Electricity by Others	
4845	Miscellaneous Transmission Expense	
4850	Rents	
Transmission Expenses- Maintenance		
4905	Maintenance Supervision and Engineering	
4910	Maintenance of Transformer Station Buildings and Fixtures	4015. Municipal Transformer Station – Maintenance of Buildings and Fixtures
4916	Maintenance of Transformer Station Equipment	4014. Municipal Transformer Station - Maintenance of Equipment
4930	Maintenance of Towers, Poles and Fixtures	Part of 2014. Transmission Lines - Maintenance
4935	Maintenance of Overhead Conductors and Devices	Part of 2014. Transmission Lines - Maintenance
4940	Maintenance of Overhead Lines - Right of Way	Part of 2015. Transmission Right of Way - Maintenance

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Account Number	Account Description	Former Account
Income Statement		
4945	Maintenance of Overhead Lines - Roads and Trails Repairs	Part of 2014. Transmission Lines - Maintenance
4950	Maintenance of Overhead Lines - Snow Removal from Roads and Trails	Part of 2014. Transmission Lines - Maintenance
4960	Maintenance of Underground Lines	Part of 2014. Transmission Lines - Maintenance
4965	Maintenance of Miscellaneous Transmission Plant	
Distribution Expenses- Operation		
5005	Operation Supervision and Engineering	
5010	Load Dispatching	
5012	Station Buildings and Fixtures Expenses	
5014	Transformer Station Equipment - Operating Labour	4011. Municipal Transformer Station Equipment - Operating Labour
5015	Transformer Station Equipment - Operating Supplies and Expenses	4012. Municipal Transformer Station Equipment - Operation Supplies and Expense
5016	Distribution Station Equipment - Operating Labour	Part of 4031. Municipal Distribution Station Equipment - Operating Labour
5017	Distribution Station Equipment - Operating Supplies and Expenses	Part of 4032. Municipal Distribution Station Equipment - Operating Supplies and Expenses
5020	Overhead Distribution Lines and Feeders - Operation Labour	5011. Overhead Distribution Lines and Feeders - Operation Labour
5025	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	5012. Overhead Distribution Lines and Feeders - Operation Supply and Expense
5030	Overhead Subtransmission Feeders - Operation	Overhead part of 4021. Subtransmission Feeders - Operation
5035	Overhead Distribution Transformers- Operation	Overhead part of 5061. Distribution Transformers Operation
5040	Underground Distribution Lines and Feeders - Operation Labour	5051. Underground Distribution Lines and Feeders - Operation Labour

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Income Statement		
5045	Underground Distribution Lines and Feeders - Operation Supplies and Expense	5052. Underground Distribution Lines and Feeders - Operation Supplies and Expenses
5050	Underground Subtransmission Feeders - Operation	Underground part of 4021. Subtransmission Feeders -
5055	Underground Distribution Transformers Operation	Underground part of 5061. Distribution Transformers Operation
5060	Street Lighting and Signal System Expense	
5065	Meter Expense	5091. Distribution Meters - Operation
5070	Customer Premises- Operating Labour	6051. Customer Premises- Labour
5075	Customer Premises- Materials and Expenses	6054. Customer Premises- Materials and Expenses
5085	Miscellaneous Distribution Expense	
5090	Underground Distribution Lines and Feeders - Rental Paid	5053. Underground Distribution Lines and Feeders - Rentals Paid
5095	Overhead Distribution Lines and Feeders - Rental Paid	5013. Overhead Distribution Lines and Feeders - Rentals Paid
5096	Other Rent	
Distribution Expenses- Maintenance		
5105	Maintenance Supervision and Engineering	
5110	Maintenance of Buildings and Fixtures - Distribution Stations	4035. Municipal Distribution Station - Maintenance of Buildings and Fixtures
5112	Maintenance of Transformer Station Equipment	4014. Municipal Transformer Station – Maintenance of Equipment
5114	Maintenance of Distribution Station Equipment	4034. Municipal Distribution Station - Maintenance of Equipment
5120	Maintenance of Poles, Towers and Fixtures	Part of 5014. Overhead Distribution Lines and Feeders- Maintenance
5125	Maintenance of Overhead Conductors and Devices	Part of 5014. Overhead Distribution Lines and Feeders-Maintenance

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Account Number	Account Description	Former Account
Income Statement		
5128	Maintenance of Overhead Subtransmission Feeders	Overhead part of 4024. Subtransmission Feeders - Maintenance
5130	Maintenance of Overhead Services	Part of 5014. Overhead Distribution Lines and Feeders - Maintenance
5135	Overhead Distribution Lines and Feeders - Right of Way	5015. Overhead Distribution Lines and Feeders - Tree Trimming
5145	Maintenance of Underground Conduit	Part of 5054. Underground Distribution Lines and Feeders - Maintenance
5150	Maintenance of Underground Conductors and Devices	Part of 5054. Underground Distribution Lines and Feeders - Maintenance
5152	Maintenance of Underground Subtransmission Feeders	Underground part of 4024 Subtransmission Feeders- Maintenance
5155	Maintenance of Underground Services	Part of 5054. Underground Distribution Lines and Feeders - Maintenance
5160	Maintenance of Line Transformers	5064. Distribution Transformers - Maintenance
5165	Maintenance of Street Lighting and Signal Systems	
5170	Sentinel Lights - Labour	6081. Sentinel Light Rentals - Labour
5172	Sentinel Lights - Materials and Expenses	6084. Sentinel Light Rentals - Maintenance
5175	Maintenance of Meters	5094. Distribution Meters - Maintenance
5178	Customer Installations Expenses- Leased Property	
5185	Water Heater Rentals - Labour	6061. Water Heater Rentals - Labour
5186	Water Heater Rentals - Materials and Expenses	6064. Water Heater Rentals – Maintenance
5190	Water Heater Controls - Labour	6071. Water Heater Controls - Labour
5192	Water Heater Controls - Materials and Expenses	6074. Water Heater Controls - Maintenance
5195	Maintenance of Other Installations on Customer Premises	

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Income Statement		
Other Expenses		
5205	Purchase of Transmission and System Services	
5210	Transmission Charges	
5215	Transmission Charges Recovered	
Billing and Collecting		
5305	Supervision	
5310	Meter Reading Expense	7021. Meter Reading
5315	Customer Billing	7024. Billing
5320	Collecting	7027. Collecting
5325	Collecting- Cash Over and Short	7028. Cash Over and Short
5330	Collection Charges	9908. Collection Charges
5335	Bad Debt Expense	
5340	Miscellaneous Customer Accounts Expense	
Community Relations		
5405	Supervision	
5410	Community Relations - Sundry	7013. Community Relations - Sundry
5415	Energy Conservation	7011. Energy Conservation
5420	Community Safety Program	7012. Community Safety Program
5425	Miscellaneous Customer Service and informational Expenses	
Sales Expenses		
5505	Supervision	
5510	Demonstrating and Selling Expenses	
5515	Advertising Expenses	
5520	Miscellaneous Sales Expenses	
Administrative and General Expenses		
5605	Executive Salaries and Expenses	8011. Commissioners' Salaries and Expense
5610	Management Salaries and Expenses	8012. General Officers' Salaries and Expense

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Account Number	Account Description	Former Account
Income Statement		
5615	General Administrative Salaries and Expenses	8013. General Office Salaries and Expense
5620	Office Supplies and Expenses	Part of 8014. Miscellaneous General Expense
5625	Administrative Expense Transferred--Credit	
5630	Outside Services Employed	Part of 8014. Miscellaneous General Expense
5635	Property Insurance	
5640	Injuries and Damages	
5645	Employee Pensions and Benefits	
5650	Franchise Requirements	
5655	Regulatory Expenses	
5660	General Advertising Expenses	
5665	Miscellaneous General Expenses	Part of 8014. Miscellaneous General Expense
5670	Rents	
5675	Maintenance of General Plant	8015. General Office Building Operation and Maintenance
5680	Electrical Safety Authority Fees	
5685	Independent Electricity System Operator Fees and Penalties	
Amortization Expense		
5705	Amortization Expense	9130. Depreciation Expense - General Plant Incl. System Supervisory Equipment 9132. Depreciation Expense - General Office Equipment 9133. Depreciation Expense - Computer Equipment Hardware 9136. Depreciation Expense - Miscellaneous Equipment, Major Tools and Instruments 9138. Depreciation Expense - Load Management Equipment

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Account Number	Account Description	Former Account
Income Statement		
5710	Amortization of Limited Term Electric Plant	9140. Amortization Expense - Land rights 9141. Amortization Expense - Leasehold Improvements
5715	Amortization of Intangibles and Other Electric Plant	
5720	Amortization of Electric Plant Acquisition Adjustments	
5725	Miscellaneous Amortization	9137. Depreciation Expense - Water Heater Equipment 9139. Depreciation Expense - Sentinel Lighting Equipment
5730	Amortization of Unrecovered Plant and Regulatory Study Costs	
5735	Amortization of Deferred Development Costs	
5740	Amortization of Deferred Charges	
Interest Expense		
6005	Interest on Long Term Debt	9101. Interest Expense - Long Term Debt
6010	Amortization of Debt Discount and Expense	
6015	Amortization of Premium on Debt--Credit	
6020	Amortization of Loss on Reacquired Debt	
6025	Amortization of Gain on Reacquired Debt--Credit	
6030	Interest on Debt to Associated Companies	
6035	Other Interest Expense	9105. Interest Expense - Short Term Debt 9109. Interest Expense - Other
6040	Allowance for Borrowed Funds Used During Construction--Credit	
6042	Allowance for Other Funds Used During Construction--Credit	
6045	Interest Expense on Capital Lease Obligations	

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Account Number	Account Description	Former Account
Income Statement		
Taxes		
6105	Taxes Other Than Income Taxes	
6110	Income Taxes	
6115	Provision for Future Income Taxes	
Other Deductions		
6205	Donations	
6210	Life Insurance	
6215	Penalties	
6225	Other Deductions	
Extraordinary Items		
6305	Extraordinary Income	9010. Extraordinary/ Unusual Items
6310	Extraordinary Deductions	
6315	Taxes, Extraordinary Items	
Discontinued Operations		
6405	Discontinued Operations, Income/ Gains	
6410	Discontinued Operations, Deductions/ Losses	
6415	Taxes, Discontinued Operations	

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Purpose and Scope

The underlying accounting concepts for this Article are based on certain sections of the CICA Handbook, as referenced herein, which make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated capital assets. Accordingly, this Article should be read in conjunction with these referenced CICA Handbook sections.

The purpose of this Article is to:

- provide additional guidance in regard to accounting issues where further guidance specific to electric utilities is required; and
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

**Application of Accounting Concepts
Applying Generally Accepted Accounting Principles
in a Rate Regulated Environment**

General Summary

This Article summarizes the sources of Generally Accepted Accounting Principles (“GAAP”) for regulated electric utilities.

The Board expects electric utilities to use the APHandbook, with due regard for the need to reflect Board decisions or orders arising from the regulatory process, in the application of GAAP and, in conjunction with the CICA Handbook, in the determination of appropriate accounting policies and practices.

This Article also summarizes those CICA Handbook sections that make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated property, plant and equipment.

Lastly, this Article lists the APHandbook subsections that should be referred to for guidance on specific accounting issues affected by the regulatory process.

Definitions

Definitions of the following terms are provided in the CICA Handbook sections listed below:

CICA Terminology	CICA Handbook Section References
Rate-regulated property, plant and equipment	Section 3061.10
Rate-regulated enterprise	Section 3465.09 (k)

Accounting Issues

Generally Accepted Accounting Principles for Regulated Electric Utilities

Electric distribution utilities are required to prepare general purpose financial statements according to GAAP.

This APHandbook was prepared to provide a useful source of information for electric distribution utilities. Accounting guidance has been provided that is specific to Ontario electric utilities and encourages consistency in the application of GAAP that is used in the preparation of financial information required for regulatory purposes.

**Application of Accounting Concepts
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Guidance relating to GAAP for regulated electric utilities in Ontario arises from two principal sources: (1) the CICA Handbook and supporting releases and literature (see CICA Handbook paragraph 1100.12) including Accounting Guidelines issues by the CICA; and (2) other authoritative sources on the subject of accounting for rate-regulated enterprises such as SFAS 71 of the US Financial Accounting Standards Board.

Electric utilities are expected to use the APHandbook in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices, but with due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of GAAP.

Paragraphs 1100.12 and .35-36 of the CICA Handbook provide a useful interpretation of GAAP. Of particular relevance to regulated electric utilities is CICA Handbook paragraph 1100.12, which acknowledges that there are special circumstances where a different basis of accounting may be appropriate, for example, in financial statements prepared in accordance with regulatory legislation.

The CICA Handbook also recognizes that rate-regulated enterprises with rate-regulated property, plant and equipment, such as electric utilities, may follow a different basis of accounting due to special circumstances such as the need to follow regulatory requirements (see next subsection entitled “Alternative Accounting Treatment for Rate-Regulated Enterprises”).

A rate-regulated enterprise is defined as an enterprise that meets all of the following criteria:

- a) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products;
- b) The regulated rates are designed to recover the cost of providing the services or products; and
- c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for amounts recorded as recoverable under the rate formula.
(CICA s. 3465.09 (k))

**Application of Accounting Concepts
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Rate-regulated property, plant and equipment are defined in the CICA Handbook as property, plant and equipment held for use in operations meeting the criteria a) and b) above and the following:

- c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for any capitalized costs. (CICA s. 3061.10)

In spite of the Board's implementation of alternative methods of rate regulation, such as Performance Based Regulation (PBR) or Incentive Rate Mechanism (IRM), it is believed that the above definition for rate regulated enterprises and property, plant and equipment will continue to be applicable because the price cap used in the first generation PBR was based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also applicable for the second and third generation IRM since cost of service rebasing applications were reviewed by the Board for the 2006 rate year prior to the application of the price cap for the second and third generation IRM. In addition, distributors cost of service rates to be established in the 2008-10 rate year period will be rebased on historical and forward test information.

Alternative Accounting Treatment for Rate-Regulated Enterprises

This subsection summarizes those CICA Handbook sections and Accounting Guidelines issued by the CICA that make specific reference to alternative accounting treatment for rate-regulated enterprises and rate-regulated capital assets. This subsection also cross-references other APHandbook Articles where the Board has provided additional guidance on the related accounting issues.

CICA Handbook Section 1600—Consolidated Financial Statements

CICA Handbook Section 1600—Consolidated Financial Statements deals with the preparation of consolidated financial statements where the related business combination was accounted for by the purchase method. To the extent that transactions between the parent and its subsidiaries (i.e., "intercompany transactions") result in intercompany gains or losses, such gains or losses should be eliminated in preparing a consolidated income statement.

Application of Accounting Concepts Applying Generally Accepted Accounting Principles in a Rate Regulated Environment

For regulated utilities, the accounting treatment for intercompany gains and losses, in accordance with the CICA Handbook, is summarized below.

Where a parent or subsidiary manufactures or constructs facilities for a regulated public utility in the consolidated group, any intercompany gain or loss is deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a government regulatory body (CICA s. 1600.29). (Reference should be made to Article 340—Allocation of Costs and Transfer Pricing for transfer pricing guidelines).

As a result, electric utilities will first need to consider whether any intercompany gains or losses will be permitted in future rates prior to determining the appropriate accounting treatment. It should be noted however, that the Board reserves the right to review the accounting treatment applied and recommend a different accounting treatment, as it deems appropriate, for ratemaking purposes.

CICA Handbook Section 3061—Property, Plant and Equipment

CICA Handbook Section 3061—Property, Plant and Equipment establishes standards for the measurement, presentation and disclosure of property, plant and equipment by profit-oriented enterprises. That CICA Handbook section provides the following Accounting Recommendations for rate-regulated property, plant and equipment:

- For a rate-regulated capital asset, the cost to be included in the cost of a capital asset that is acquired, constructed, or developed over time should include the directly attributable allowance for funds used during construction allowed by the regulator (CICA s. 3061.23). Further guidance on this accounting issue is provided in Article 410—Property, Plant and Equipment in the subsection “Capitalization of Carrying Costs Including Interest Costs”.
- In determining the net recoverable amount of a rate-regulated capital asset, an enterprise should consider the extent to which rates will provide for the recovery of the cost of the capital asset (CICA s. 3161.10). Further guidance on this accounting issue is provided in Article 410—Capital Assets in the subsection “Capital Asset Disposals and Write Downs”.
- For rate-regulated operations, the regulator may require the difference between net carrying amount and the proceeds on disposal of a capital asset to be considered in the determination of future rates charged to customers (CICA s. 3475.26). Further guidance on this accounting issue is provided in Article 410—Capital Assets in the subsection “Capital Asset Disposals and Write Downs”.

**Application of Accounting Concepts
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CICA Handbook Section 3465—Income Taxes

CICA Handbook Section 3465—Income Taxes establishes standards for the recognition, measurement, presentation and disclosure of income and refundable taxes in an enterprise's financial statements, with limited application for certain rate-regulated enterprises. That CICA Handbook section provides the following Recommendations for rate-regulated enterprises:

- A rate-regulated enterprise need not recognize future income taxes as otherwise required by the Accounting Recommendations in CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future. However, if rate-regulated enterprises do not account for future income taxes in their financial statements, they must provide disclosure in their financial statements as to the reason future income taxes have not been accounted for and information about the amount of future income taxes that would have otherwise been recorded (CICA s. 3465.102).
- Pending further study of accounting for rate-regulated enterprises as a whole, rate-regulated enterprises are not required to record future income taxes for temporary differences that arise from assets and liabilities relating to their rate-regulated activities to the extent that these future income taxes will be included in the rates charged to customers in the future and will be recoverable at that time (CICA s. 3465.103).
- Future income taxes should be recognized in accordance with CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are not expected to be included in the rates charged to customers in the future. In addition, a rate-regulated enterprise that chooses to recognize future income taxes despite the expectation that they will be included in the rates charged to customers in the future would recognize all future income tax liabilities and future income tax assets in accordance with the requirements of that section (CICA s. 3465.104).

Further guidance on this accounting issue is provided in Article 440—Future Income Taxes.

CICA Handbook Section 3850—Interest Capitalized

CICA Handbook Section 3850—Interest Capitalized deals with disclosure of the amount of interest capitalized with a specific exception made for rate-regulated enterprises. For example, the CICA Handbook does not apply to interest capitalized by rate-regulated

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enterprises as part of an allowance for funds used during construction when such enterprises disclose the allowance for funds used during construction in the period. Further guidance on this accounting issue is provided in Article 410—Capital Assets in the subsection “Disclosure of Capitalized Interest”.

Accounting Guideline AcG-19 Disclosure by Entities Subject to Rate Regulation

The CICA Accounting Guideline AcG 19 is effective for fiscal years ending on or after December 31, 2005. It addresses the aspects of the disclosure and presentation of information in the financial statements of entities providing services or products for which customer rates are established, or subject to approval, by a regulator or a governing body empowered by statute or contract to set rates. The objective of AcG 19 is to ensure that financial statement users are better informed about the existence, nature and effects of all forms of rate regulation.

In order to meet the needs of financial statement users, entities subject to rate regulation should disclose general information facilitating an understanding of the nature and economic effects of rate regulation, as well as additional information on how rate regulation has affected the entity's financial statements. The information should be presented in such a manner as to enable a clear understanding of these effects.

The guideline states that when rate regulation has affected the accounting for a transaction or event, the entity should state this fact and disclose additional information about the effect on its financial statements. This information should include, at a minimum, the following:

- the specific financial statement items affected;
- for each item, how it has been reflected in the financial statements, as well as:
 - the rationale for this treatment, including information about either the supporting regulatory action, for example, issuance of a final rate order or approval to accumulate amounts pending final disposition at a later date (the date being disclosed, when known), or the expectations of the entity regarding future regulatory actions; and
 - how it would have been reflected in the absence of rate regulation;
- when a separate asset or liability has been recognized solely as a result of the effects of rate regulation:
 - the carrying amount of the asset or liability, as at the most recent balance sheet date, and the balance sheet line item that includes it when it is not otherwise evident

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- the income statement effect of such recognition for the current period;
- the remaining period over which the carrying amount of the asset is expected to be recovered or the liability is expected to be settled;
- a description of the regulatory risks and uncertainties affecting the eventual recovery of the asset or settlement of the liability and its timing, consistent with Measurement Uncertainty, Section 1508;
- when the regulator does not include a return on investment in the rate base for the asset during its recovery period, a statement to that effect; and
- when accounting for the effects of rate regulation has been discontinued since the last financial statements issued, a statement to that effect, together with the reasons for the discontinuance and identification of the rate-regulated operations affected.

Regulatory Accounting Procedures

This subsection lists Articles that should be referred to for guidance on specific accounting issues affected by the regulatory process:

- Article 330—Treatment of Certain Revenues and Expenses discusses the Board's authority to establish regulatory liabilities and assets through ratemaking actions.
- Article 340—Allocation of Costs and Transfer Pricing provides principles related to the allocation of costs that should be followed by the regulated utility and its affiliates in developing its policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates.
- Article 430—Development Charges and Contributions in Aid of Construction provides guidance on the accounting treatment of development charges transferred to the incorporated electric utility as well as contributions-in-aid of construction received by the incorporated electric utility.
- Article 480—Incentive Regulation and Deferral Accounts describes the Board's authority to implement performance based or alternative regulation and identifies the accounts that have been reserved in the USoA for this purpose.

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Proposed Changes to Accounting Standards for Rate Regulated Enterprises

In March 2007, the Accounting Standards Board (“AcSB”) issued an exposure draft, “Rate-Regulated Operations.” The exposure draft proposed to discontinue the exemption in Section 1100 related to the application of the recognition and measurement of assets and liabilities arising from rate regulation. In addition, it proposed to withdraw from CICA Handbook sections 1600, 3061, 3465 and 3475 all provisions specifically relating to rate regulated operations. CICA Accounting Guideline AcG-19, “Disclosure by Entities Subject to Rate Regulation”, will be also adjusted to reflect these consequential amendments. If these proposals are adopted in new accounting standards, it may have an effect on accounting and financial reporting for rate-regulated entities including electricity distributors.

The AcSB noted that once the proposed CICA Handbook guidance for rate regulated entities has been removed, FAS 71 is a possible “other source” of GAAP as described in Section 1100. This is made possible because CICA Handbook paragraph 1100.04 states that when the primary sources of GAAP do not adequately deal with an entity’s circumstances, the entity adopt accounting policies and disclosures that are consistent with the primary sources of GAAP and developed through the exercise of professional judgment and the application of the concepts described in Financial Statement Concepts, Section 1000.

As a result, the AcSB noted that Canadian entities subject to rate regulation intending to consult the pronouncements of accounting standard setters in other jurisdictions in the absence of CICA Handbook guidance adequately dealing with their circumstances are reminded of paragraph 1100.26, which states that such other sources of GAAP should be evaluated in the context of the relative manner in which the foreign standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement.

The AcSB also indicated that any entity choosing to rely on FAS 71 in accordance with the provisions of Section 1100 must apply the definition of a rate-regulated enterprise in FAS 71.

The definition in FAS 71 is provided in section 5 under Scope as follows:

“5. This Statement applies to general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

- a. The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent,

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third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.

- b. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
- c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.”

The AcSB expects to finalize new accounting standards in the fourth quarter of 2007. However, it is important to note that if these proposed changes are adopted, in part or in whole, they are not expected to impact financial reporting in the 2007 and 2008 calendar years for electricity distributors. The AcSB proposes implementation applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009.

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Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 1506—Accounting Changes, which establishes standards for the accounting treatment of a change in accounting policy as well as a change in an accounting estimate and a correction of an error relating to prior period financial statements and prior period adjustments. Accordingly, this Article should be read in conjunction with the CICA Handbook.

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Accounting Changes

The purpose of this Article is to:

- provide additional guidance in regard to accounting changes issues where further guidance specific to electric utilities is required; and
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

General Summary

This Article describes the recommended accounting treatment for accounting changes. These include changes in accounting policies, changes in accounting estimates and correction of prior period errors. Section 1506 of the CICA Handbook was amended to align with International Financial Reporting Standards IAS 8. Section 1506, as amended, is effective for interim and annual statements relating to fiscal years beginning on or after January 1, 2007. Section 1506 amendments deal with changes and the application of changes in accounting policies, changes in accounting estimates, errors and disclosure requirements.

Where a change in accounting policy affects allowable costs for regulatory purposes, the Board has the flexibility under GAAP, of deciding whether to apply prospective or retroactive restatement for a change in accounting policy. Therefore, the Board will be providing specific guidance as required in the future for such items.

Definitions

Definitions and accounting treatment of the following accounting changes issues are provided in CICA Handbook Section 1506—Accounting Changes and are listed below for ease of reference:

Accounting Changes Terminology	CICA Handbook Section References
Accounting policies	Section 1506.05.a
Changes in accounting estimates	Section 1506.05b,.32-.40
Change in accounting policies	Section 1506.14
Correction of error in prior period financial statements	Section 1506.42,.46

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Disclosure requirements for change in accounting policy	Section 1506.28-.31
Prior period errors	Section 1505.05.c
Prospective application	Section 1506.05.g
Retrospective	Section 1506.05.d
Retrospective application	Section 1506.22
Retrospective application-Limitations on	Section 1506.23-.27
Retrospective application-Impracticality in respect of	Section 1506.50-.53
Retrospective restatement	Section 1506.05.e

Accounting Issues

Accounting Changes

This subsection describes the recommended accounting treatment for changes in accounting policies, change in an accounting estimate, correction of an error relating to prior period financial statements) based on general CICA Handbook guidance and specific U.S. Financial Accounting Standards Board guidance for regulated enterprises.

Change In Accounting Policies

CICA Handbook Section 1506—Accounting Changes provides a detailed discussion of the accounting treatment for a change in accounting policy. An entity shall change an accounting policy only if the change (a) is required by a primary source of GAAP (Section 1100), or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows (Section 1506.14 (a) and (b)).

The CICA Handbook states that retrospective application with restatement of all prior periods that are presented shall be followed except to the extent it is impracticable to determine either the period specific effects or the cumulative effect of the change (Section 1506.19 and .23). Following this approach contributes to confidence in financial statement reporting by allowing readers to interpret earnings trends and other analytical data based on comparisons.

The CICA Handbook recognizes that, in certain circumstances, where it may be impractical to determine the period specific effects of changing an accounting policy on

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comparative information for one or more of the periods being presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities at the beginning of the earliest period for which retrospective application is practical, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period (Section 1506.23). When it is impractical to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practical (Section 1506.25).

Section 1506.28-31 describes the disclosure information required when reporting the impact of a change in accounting policy.

Change In Accounting Estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the periodic consumption of an asset, that results from the assessment of the present status of, and the expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments (Section 1506.05.b). Many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest, most reliable information.

Changes in accounting estimates are prospective and are recognized and reported as part of the current period in which the change was implemented or the period of the change and future periods, if the change affects both periods (CICA s. 1506.36).

Correction of Errors

Errors can arise in respect in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with generally accepted accounting principles if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of a financial position, financial performance or cash flows.

An entity shall correct material prior period errors retrospectively in the first set of financial statements completed after their discovery by: (a) restating the comparative amounts for the prior periods presented in which the error occurred or (b) if the error occurred before the earliest prior period being presented, restating the opening

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balances of assets, liabilities and equity for the earliest prior period presented (Section 1506.42 (a) and (b)).

Regulatory Treatment Considerations

While the CICA Handbook does not provide any specific guidance for rate-regulated enterprises, reference should be made to the U.S. Financial Accounting Standards Board SFAS 71 for guidance. SFAS 71, paragraph 32 offers the following clarification regarding the treatment of accounting changes by a regulated enterprise:

“If a regulated enterprise changes accounting methods and the change does not affect costs that are allowable for ratemaking purposes, the regulated enterprise would apply the change in the same manner, as would an unregulated enterprise. If a regulated enterprise changes accounting methods and the change affects allowable costs for ratemaking purposes, the change generally would be implemented in the way that it is implemented for regulatory purposes.”

As a result, if a change in accounting policy affects allowable costs for ratemaking purposes, the Board has the flexibility under GAAP, of specifying either prospective or retroactive restatement for a change in accounting policy. Consequently, the Board will be providing specific guidance as required in the future for such items and the utility should account for the change in the manner prescribed by the Board.

Alternatively, if a change in accounting policy does not affect costs that are allowable for rate-making purposes, the electric utility should account for the change in accordance with CICA Handbook Section 1506—Accounting Changes (i.e., using prospective or retroactive restatement as appropriate in the specific circumstances).

The APHandbook contains five significant accounting changes and provides specific guidance as to their treatment in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*. The accounting changes were made in the following areas:

- Change in Accounting Policy for Spare Transformers and Meters
- Change in Accounting Policy for Poles, Conductors and Conduit
- Change in Accounting Policy for Gains and Losses from the Retirement or Disposal of Readily Identifiable Assets

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Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 1000—Financial Statement Concepts and CICA Handbook Section 3400—Revenue.

CICA Handbook Section 1000—Financial Statement Concepts describes the concepts underlying the development and use of accounting principles in financial statements, including the accrual basis of accounting.

CICA Handbook Section 3400—Revenue deals with the timing of recognition of revenue in the financial statements.

Accordingly, this Article should be read in conjunction with the above mentioned CICA Handbook sections.

The purpose of this Article is to provide additional guidance in regard to accounting issues where further guidance specific to electric utilities is required.

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General Summary

This Article begins by explaining the accrual basis of accounting as described in CICA Handbook Section 1000—Financial Statement Concepts as it applies to the matching of costs and revenues. In accordance with the accrual basis of accounting, revenue and expense transactions and events should be recognized in the period in which the related transactions and events occur, regardless of whether there has been a payment or receipt of cash or cash equivalent.

This Article discusses the appropriate accounting treatment of unbilled revenue based on CICA Handbook Section 1000—Financial Statement Concepts and CICA Handbook Section 3400—Revenue. Since unbilled revenue meets the revenue recognition requirements specified in the CICA Handbook, unbilled revenue should be accrued at year-end using the accounts provided in the USoA.

In regard to the measurement of unbilled revenue, the CICA Handbook does not provide any guidance in estimating unbilled revenue for year-end accrual purposes. Therefore, depending upon the circumstances, an electric utility may use one or a combination of three general methods listed herein for calculating unbilled revenue for the period from the previous meter reading date to the utility's fiscal year end. One of the methods, Method C, recognizes that there may be other methods of estimation that result in a reasonable approximation of unbilled revenue.

This Article also discusses the Board's authority to establish regulatory liabilities and assets through rate-making actions pursuant to sections 70 (2) (e) and (f) and section 78 (3) of the *OEB Act, 1998*.

Lastly, this Article specifies the need to separately account for non-utility revenues and expenses pursuant to section 70 (2) (f) of the *OEB Act, 1998*. Note that for accounts provided in the USoA, where the activity envisioned by the account could encompass both regulated and non-regulated activities i.e. tree trimming, metering, billing, etc., the utility should establish sub-accounts within the existing USoA accounts to capture financial information relating to similar activities that may be non-regulated in nature.

Definitions

Definitions and accounting treatment of the following items related to power costs and revenues are provided in the following CICA Handbook sections and are listed below for ease of reference:

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CICA Terminology	CICA Handbook Section References
Expenses	Section 1000.38
Revenues	Section 1000.37, 47 and Section 3400.06

The following definitions are adopted for the purposes of the APHandbook as well as for this specific Article:

Power Cost and Revenue Terminology for Electric Utilities	Definition
Non-utility revenues and expenses	Non-utility revenues and expenses arise primarily from competitive or potentially competitive activities conducted within the regulated entity. Non-utility revenues and expenses should be accounted for separately from utility revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business.
Regulatory debits Regulatory credits	These items result from the regulatory actions of the Board. They arise from transactions that would otherwise have been included in the net income determination of the period under the general requirements of the USoA but instead will be included in a different period(s). These items are used for purposes of developing rates the utility is authorized to charge, or in the case of regulatory credits, to record refunds that will be required, and that have not been provided for in other accounts.
Unbilled revenue	Unbilled revenue is defined as that amount of revenue for power consumed prior to the utility's fiscal year end but not billed until the following year.

Accounting Issues

Matching of Costs and Revenues

CICA Handbook Section 1000—Financial Statement Concepts describes the concepts underlying the development and use of accounting principles in financial statements. Specifically, it states that items recognized in financial statements are to be accounted

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for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting encompasses deferrals that occur when a cash receipt or payment occurs prior to the criteria for recognition of revenue or expense being satisfied.

In accordance with the accrual basis of accounting, revenue and expense transactions and events should be recognized in the period in which the related transactions and events occur, regardless of whether there has been a payment or receipt of cash or cash equivalent. It is the electric utility's responsibility to ensure that revenues recognized in the period are matched to the services, commodity, etc. sold or consumed during the period.

Note that the Board has the authority to prescribe alternative accounting treatment and/or to establish regulatory liabilities and assets as explained later in the subsection "Regulatory Debits and Credits".

Unbilled Power/ Services Revenue

Unbilled revenue is defined as that amount of revenue for power/ services consumed prior to the utility's fiscal year end but not billed until the following year.

Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectibility of the consideration exists (CICA s.1000.47). More specific guidance is contained in CICA Handbook Section 3400—Revenue, which recommends that revenue from sales transactions be recognized when the requirements as to performance set out below are satisfied, provided that at the time of performance, ultimate collection is reasonably assured.

In a transaction involving the sale of goods, performance should be regarded as having been achieved when the following requirements have been fulfilled:

- a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and
- b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned. (CICA s. 3400.07)

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Since unbilled revenue meets the revenue recognition requirements specified in the CICA Handbook, unbilled revenue should be accrued at year-end using the current asset and revenue account, respectively, as provided in the USoA:

- account 1120, Accrued Utility Revenues. This account shall include the amount of revenue for power/ services consumed prior to the utility's fiscal year end but not billed until the following year.
- account 4050, Revenue Adjustment. This account shall include both unbilled revenue adjustments and prior year billing adjustments.

In the subsequent fiscal period, an entry should be recorded to clear the unbilled revenue accrual (account 1120, Accrued Utility Revenues) and distribute the accrual to the applicable sales accounts (accounts 4006 to 4110) based on actual billings rendered. Any significant difference between the estimate of unbilled revenue and the actual billings rendered should be recorded to account 4050, Revenue Adjustment.

The CICA Handbook does not provide any guidance in estimating unbilled revenue for year-end accrual purposes.

Therefore, depending upon circumstances, an electric utility may use one or a combination of the three general methods described below for calculating unbilled revenue for the period from the previous meter reading date to the utility's fiscal year end.

Method A

Where meters are read at year-end, all revenue from the year-end billing (for power/ services consumed in the period from the previous meter reading date to the utility's fiscal year end) is unbilled revenue. Therefore, no pro-rating or estimation is necessary.

Method B

Unbilled revenue is prorated between two financial statement years based on the number of days in the billing period which fall in each year, in situations where:

- a) meters are read after year end and include power/ services consumed prior to the utility's fiscal year end in the year covered by the financial statements; and
- b) the actual billings are available.

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Method C

Unbilled revenue is estimated in situations where:

- a) meters are read after year end and include power/ services consumed prior to the utility's fiscal year end in the year covered by the financial statements; but
- b) the actual billings are not available.

Any method of estimation may be used as long as it results in a reasonable approximation of unbilled revenue based on the information available at the time of the estimate. For example, an estimate of unbilled revenue may be calculated by multiplying the number of unbilled days by the average billing amount per day for the previous billing period.

Regulatory Debits and Credits

This subsection summarizes the Board's authority, pursuant to the *Ontario Energy Board Act, 1998* to establish regulatory debits and credits through regulatory actions. Those actions can result in asset, liability, revenue, or expense items as discussed below.

Pursuant to section 70 (2) (e) of the *Ontario Energy Board Act, 1998*, the licence conditions may specify methods or techniques to be applied in determining the licensee's rates.

Pursuant to section 70 (2) (f) of the *Ontario Energy Board Act, 1998*, licence conditions may require the licensee to maintain specified accounting records, prepare accounts according to specified principles and maintain organizational units or separate accounts for separate businesses in order to prohibit subsidies between separate businesses.

Pursuant to section 78 (3) of the *Ontario Energy Board Act, 1998*, the Board may make orders approving or fixing just and reasonable rates for the transmission or distribution of electricity and for the retailing of electricity in order to meet a distributor's obligations under section 29 of the *Electricity Act, 1998*.

The following balance sheet accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA:

- account 1505, Unrecovered Plant and Regulatory Study Costs. This account shall include: (1) Non-recurring costs of studies and analyses mandated by the Board related to plants in service, transferred from account 1510, Preliminary Survey and Investigation Charges, and not resulting in

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- construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been canceled or which have been prematurely retired.
- account 1508, Other Regulatory Assets. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of the Board.
 - account 1508, Other Regulatory Assets, Sub-account OEB Cost Assessment. This account shall be used to record the difference between OEB costs assessments invoiced to the distributor for the Board's 2004/05 and 2005/06 (up to April 30, 2006) fiscal years and OEB costs assessments previously included the distributor's rates.
 - account 1508, Other Regulatory Assets, Sub-account Pension Contributions. A distributor shall use this account to record the pension costs associated with the cash contributions paid to Ontario Municipal Employees Retirement Savings ("OMERS") for the period from January 1, 2005 to April 30, 2006 or where the distributor receives approval through an order of the Board to record pension costs in a deferral account for a specified period.
 - account 1525, Miscellaneous Deferred Debits. This account shall include all debits not elsewhere provided for which will benefit future periods and shall be carried forward and charged to expense over the term of the benefit.
 - account 1530, Deferred Losses from Disposition of Utility Plant. This account shall include losses from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to account 4350, Losses from Disposition of Future Use Utility Plant.
 - account 1555, Smart Meter Capital and Recovery Offset Variance Account. Amounts recorded in this account shall include the revenues approved by the Board for smart meters and related capital costs incurred by the distributor.
 - account 1555, Smart Meter Capital and Recovery Offset Variance Account, Sub-account Stranded Meter Costs. This sub-account shall be used to record the stranded costs associated with conventional or accumulation meters

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removed at the time of installation of smart meters. The distributor must have owned these stranded meters prior to January 1, 2006 in accordance with s.28.4 of the *Ontario Energy Board Act, 1998*. Distributors that are part of the government's smart metering initiative as referenced in Ontario Regulation 427/06 and Ontario Regulation 428/06 under the *Electricity Act, 1998*, are allowed to record stranded meter costs in this account.

- account 1556, Smart Meter OM&A Variance Account. This account shall be used by the distributor to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters.
- account 1562, Deferred Payments In Lieu of Taxes. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end.
- account 1570, Qualifying Transition Costs. When authorized or directed by the Board, this account shall be used to record transition costs that meet the qualifying criteria established in the Electric Distribution Rate Handbook. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. This account shall be credited with the amount expensed in the period.
- account 1572, Extraordinary Event Losses. When authorized or directed by the Board, this account shall be used to record extraordinary event losses that meet the qualifying criteria established in the Electric Distribution Rate Handbook. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. This account shall be credited with the amount expensed in the period.
- account 1574, Deferred Rate Impact Amounts. This account shall be used to record amounts equal to rate impacts associated with market-based rate of return, transition costs, and extraordinary costs that the utility has determined to be excessive and has decided to defer to future periods.

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- account 1590, Recovery of Regulatory Asset Balances. This account shall include the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers.
- account 1592, PILs and Tax Variances for 2006 and Subsequent Years. For the period starting May 1, 2006, the distributor shall use this account to record the tax impact of any of the following differences:
 1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.
 2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.
 3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
 - received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or
 - relating to any tax year ending prior to May 1, 2006.
- account 2010, Electric Plant Purchased or Sold. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Article 230--Definitions and Instructions, No. 21.
- account 2060, Electric Plant Acquisition Adjustments. This account shall include the difference between (1) the cost to the acquiring utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated if not known, of such property, less the amount or amounts credited by the acquiring utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property.
- account 2315, Accumulated Provision for Rate Refunds. This account shall be credited with amounts charged to account 4240, Provisions for Rate Refunds, to provide for estimated refunds where the utility is collecting amounts in rates subject to refund. When refund of any amount recorded in this account is ordered by the Board within the next year, such amount shall

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be charged to this account and credited to account 2220, Miscellaneous Current and Accrued Liabilities.

- account 2405, Other Regulatory Liabilities. This account shall include the amounts of regulatory liabilities, not included in other accounts, imposed on the utility by the ratemaking actions of regulatory agencies.
- account 2410, Deferred Gains From Disposition of Utility Plant. This account shall include gains from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to account 4345, Gains from Disposition of Future Use Utility Plant.
- account 3055, Adjustments to Retained Earnings. This account shall, with prior Board approval, include significant non-recurring transactions accounted for as prior period adjustments, such as: (1) correction of a material error in the financial statements of a prior year; and, (2) other adjustments that may be required by the Board.

The following income statement accounts should be used to record Board approved regulatory debits and credits, as provided for in the USoA:

- account 4240, Provision for Rate Refunds. This account shall be charged with provisions for the estimated pretax effects on net income of the portions of amounts being collected subject to refund, which are estimated to be required to be refunded. Such provisions shall be credited to account 2315, Accumulated Provision for Rate Refunds.
- account 4305, Regulatory Debits. This account shall be debited, when appropriate, with the amounts transferred to liability account 2405, Other Regulatory Liabilities, to record regulatory liabilities imposed on the utility by the rate-making actions of the Board. This account shall also be debited, when appropriate, with the amounts drawing down the balance in asset account 1508, Other Regulatory Assets (concurrent with the recovery of such amounts in rates).
- account 4310, Regulatory Credits. This account shall be credited, when appropriate, with the amounts transferred to asset account 1508, Other

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- Regulatory Assets, to establish regulatory assets. This account shall also be credited, when appropriate, with the amounts drawing down the balance in liability account 2405, Other Regulatory Liabilities (concurrent with the return of such amounts to customers through rates).
- account 4345, Gains from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to gains from the disposition of future use utility plant including amounts that were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.
 - account 4350, Losses from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to losses from the disposition of future use utility plant including amounts which were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.
 - account 4355, Gain on Disposition of Utility and Other Property. This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. (See Article 240-- Definitions and Instructions No. 21).
 - account 4360, Loss on Disposition of Utility and Other Property. This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. (See Article 240--Definitions and Instructions No. 21).
 - account 5655, Regulatory Expenses. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) applicable to utility operating expenses, incurred by the utility in connection with formal cases before the Board or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory body for fees assessed against the utility for pay and expenses of such body, its officers, agents, and employees. Amounts of regulatory expenses that by approval or direction of the Board are to be spread over future periods shall be charged to account 1525, Miscellaneous Deferred Debits, and amortized by charges to this account.
 - account 5720, Amortization of Electric Plant Acquisition Adjustments. This account shall be debited or credited, as the case may be, with amounts authorized to be included in operating expenses, pursuant to approval or

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order of the Board, for the purpose of providing for the extinguishment of the amount in account 2060, Electric Plant Acquisition Adjustments.

- account 5725, Miscellaneous Amortization. This account shall include amortization charges not included in other accounts. Charges included here, if significant in amount, must be in accordance with an orderly and systematic amortization program.
- account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs. This account shall be charged with amounts credited to asset account 1572, Extraordinary Event Losses. This account shall also be charged with amounts credited to asset account 1505, Unrecovered Plant and Regulatory Study Costs, when the Board has authorized the amount in that account to be amortized by charges to electric operations.

Non-Utility Revenues and Expenses

Pursuant to section 70 (2) (f) of the *OEB Act, 1998*, the Board may require the licensee to maintain specified accounting records, prepare accounts according to specified principles and maintain organizational units or separate accounts for separate businesses in order to prohibit subsidies between separate businesses.

Non-utility revenues and expenses arise primarily from competitive or potentially competitive activities conducted within the regulated entity. Such activities will be reviewed by the Board on a stand-alone basis, and will require approval to be retained within the regulated entity.

Non-utility revenues and expenses should be accounted for separately from utility revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business. Note that for accounts provided in the USoA, where the activity envisioned by the account could encompass both regulated and non-regulated activities i.e. tree trimming, metering, billing, conservation and demand management (“CDM”) programs, etc., the utility should establish sub-accounts within the existing USoA accounts to capture financial information relating to similar activities that may be non-regulated in nature. For activities not already covered by the USoA, the accounts below have been provided.

The following balance sheet account should be used to record non-utility assets as provided in the USoA:

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- account 2075, Non-Utility Property Owned or Under Capital Leases. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not included in account 2040, Electric Plant Held for Future Use.

The following income statement accounts should be used to record non-utility revenues and expenses as provided in the USoA:

- account 4375, Revenues from Non-Utility Operations. This account shall include revenues applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation is not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.
- account 4380, Expenses of Non-Utility Operations. This account shall include expenses applicable to operations that are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of a department where such operation not defined as a utility, or the operation of a service organization for furnishing supervision, management, engineering, and similar services to others.
- account 4385, Non-Utility Rental Income. This account shall include all rent revenues and related expenses of land, buildings, or other property included in account 2075, Non-Utility Property Owned or Under Capital Leases, which is not used in operations covered by accounts 4375, Revenues from Non-Utility Operations or 4380, Expenses of Non-Utility Operations.

Sub-accounts shall be established for the above-noted four accounts to capture details of and to separately disclose the various non-regulated activities

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Application of Accounting Concepts
Allocation of Costs and Transfer Pricing

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Purpose and Scope

The underlying concept for this Article is that transfer pricing and allocation of cost methods should not result in cross-subsidization between regulated and non-regulated lines of business, products or services. This Article addresses the following two related legislative requirements:

- Section 70 (2) (f) of the *Ontario Energy Board Act, 1998* which states that the Board may require the licensee to maintain specified accounting records, prepare accounts according to specified principles and maintain organizational units or separate accounts for separate businesses in order to prohibit subsidies between separate businesses.

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- Section 72 of the *Ontario Energy Board Act, 1998*, which states that every distributor shall keep its financial records associated with distributing electricity separate from its financial records associated with other activities.

In addition, reference is made to the “Affiliate Relationships Code For Electricity Distributors and Transmitters” (“Affiliate Relationships Code”) issued by the Ontario Energy Board.

The purpose of this Article is to:

- Provide regulated utilities and their affiliates with a framework for the development of their own policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates.
- Provide regulated utilities and their affiliates with an introduction to the Affiliate Relationships Code as it relates to accounting procedures or requirements in this APHandbook.
- Provide the Board with a framework for reviewing the policies and procedures developed by regulated utilities for allocating costs and accounting for affiliate transactions.

General Summary

This Article begins by providing the principles related to the allocation of costs that should be followed by the regulated utility and its affiliates in developing its policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates. This Article does not provide guidance related to the allocation of costs to rate classes.

Essentially, the methods used to allocate costs should not result in cross-subsidization between regulated and non-regulated lines of business, products or services.

The general method for charging indirect costs should be on a fully allocated cost basis. To the extent possible, all direct and allocated costs between regulated and non-regulated lines of business, services or products shall be traceable on the books of the regulated utility to the Uniform System of Accounts (USoA). Documentation shall be made available to the Board upon request regarding transactions between the regulated

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utility and its affiliates. Transactions of a commercially sensitive nature may be submitted in confidence to an Inspector of the Board.

The Article also discusses the need for entities that provide both regulated and non-regulated services or products to maintain documented policies on allocation of costs that are consistently applied and available for Board review.

Transfer pricing principles that should be followed by the regulated utility and its affiliates in accounting for transactions between the regulated utility and its affiliates are also discussed.

In performing procedures related to the allocation costs, the regulated utility and its affiliates must meet certain documentation and related requirements. Note that pursuant to section 108 of the *Ontario Energy Board Act, 1998*, an inspector appointed by the Board may, for the purposes of this Act, the *Electricity Act, 1998* and the regulations made under those Acts, as applicable, conduct an audit, investigation or review.

This Article then addresses the use of clearing accounts for overhead cost allocation. Electric utilities that allocate overhead costs to more than one account may initially include these costs in a “clearing account”. Once the basis of allocation is determined, the costs contained in the clearing account would then be distributed to the appropriate generation, transmission and distribution and other expense accounts as provided for in the USoA.

Note that clearing accounts have not been established in the USoA. Instead, it is expected that each electric utility will continue to maintain its own clearing accounts as required. However, each utility should keep records and supporting documentation which provide an audit trail and support the clearing account entries that are transferred to the financial statement accounts.

The basis of overhead allocation should be reviewed regularly by the electric utility. If necessary, the basis of overhead cost allocation should be revised in order to reflect changes in cost relationships and the related cost allocators. Any changes should be documented and the documentation should be available for Board review.

Examples of types of clearing accounts, possible basis for overhead allocation and year-end clearing of residual balances are provided for illustrative purposes.

Lastly, this Article discusses the allocation of joint costs. Where an electric utility incurs costs (e.g. general administration, office staff salaries, and rent) jointly with another

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utility or with its local municipality, the method of splitting the joint costs should be calculated in accordance with some reasonable method of determining a fair and equitable split. The allocation principles as set out in this Article should be applied as applicable.

Definitions

The following definitions are adopted for the purposes of the APHandbook as well as for this specific Article.

Allocation of Costs Terminology	Definition
Affiliate	Affiliate has the same meaning as in the <i>Ontario Business Corporations Act</i> . Under Part I—Definitions and Application of the <i>Ontario Business Corporations Act</i> , an affiliate means an affiliated body corporate. A body corporate means any body corporate with or without share capital and whether or not it is a corporation to which the <i>Ontario Business Corporations Act</i> applies. Accordingly, one body corporate shall be deemed to be affiliated with another body corporate if, but only if, one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person.
Allocation of Costs Document	An allocation of costs document provides formal documentation of a company's allocation of costs policies and related procedures.
Common costs	Common costs are the cost of facilities, services and products that are of joint benefit between regulated and non-regulated lines of business.
Compliance Measures	A utility shall be responsible for ensuring compliance with the Affiliate Relationship Code (ARC) by performing periodic compliance reviews (an internal management led review – note that the Board may selectively examine such management reviews or performs its own compliance review) communicating the ARC to its employees, and monitoring the compliance with ARC.
Confidential Information	Information the utility has obtained relating to a specific consumer, retailer or generator in the process of providing current or prospective utility service (consistent with the Affiliate Relationships Code).

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Allocation of Costs Terminology	Definition
Cost allocator	A cost allocator is the method or ratio used to apportion costs. A cost allocator may be based on the origin of costs, as in the case of cost drivers; the cause-and-effect relationship reflecting the linkage between the costs incurred and the activities undertaken to produce the services and products; or one or more overall factors referred to as general allocators.
Cost driver	A cost driver is a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
Direct costs	Direct costs are costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre. Direct costs vary in direct proportion to changes in the related total activity or volume.
Fully allocated cost	When costs are fully allocated to services and products, the fully allocated cost of the services and products include their direct cost plus a proportional share of indirect costs. Note that fully allocated cost and the term “absorption cost” have the same meaning.
Fair market value	Fair market value means the price reached in an open and unrestricted market between informed and prudent parties, acting at arm’s length and under no compulsion to act.
Indirect cost	Indirect costs are costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre. Indirect costs include but are not limited to overhead costs, administrative and general expenses and taxes. Indirect costs are fixed costs that can remain unchanged in total for a given time despite wide fluctuations in activity.
Non-regulated	Non-regulated refers to services and products that are not subject to regulation by the Board.
Payroll Burden	The costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer’s portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers’ Health and Safety Insurance, pension and other insurance.
Regulated	Regulated refers to services and products that are subject to regulation by the Board.

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Accounting Issues

Transfer Pricing and Principles Concerning the Allocation of Costs

Allocation of Costs

The following principles related to the allocation of costs should be followed by the regulated utility and its affiliates in developing its policies and procedures for allocating the cost of transactions, products or services between the regulated utility and its affiliates:

1. The methods used in the allocation of costs should not result in cross-subsidization between regulated and non-regulated lines of business, products or services.
2. To the maximum extent practicable, in consideration of the benefit versus cost constraint (i.e. the benefits expected to arise from providing information should exceed the cost of doing so), costs should be collected and classified on a direct basis for each product and service provided.
3. The general method for charging indirect costs should be on a fully allocated cost basis.
4. To the extent possible, all direct and allocated costs between regulated and non-regulated lines of business, services or products shall be traceable on the books of the regulated utility to the USoA.
5. All costs shall be classified to lines of business, services or products that are regulated, non-regulated, or common to both.
6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, shall be identified and used to allocate the cost between regulated and non-regulated lines of business, products or services.
7. The methods used in the allocation of costs should be documented and reviewed on a regular basis. If necessary, the cost methods should be revised in order to reflect changes in cost relationships and the related cost allocators. Any changes in the allocation method or the cost allocators used, including the supporting rationale, should be documented and the documentation should be available for Board review.

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Affiliate Transactions

Subsection 2.3 of the Affiliates Relationships Code specifies the following standards of conduct that impact the accounting for transactions between the regulated utility and its affiliates:

1. Where a utility provides a service, resource or product to an affiliate, the utility shall ensure that the sale price is no less than the fair market value of the service, resource or product.
2. In purchasing a service, resource or product, from an affiliate, a utility shall pay no more than the fair market value. For the purpose of purchasing a service, resource or product a valid tendering process shall be evidence of fair market value.
3. Where a fair market value is not available for any product, resource or service, a utility shall charge no less than a cost-based price, and shall pay no more than a cost-based price. A cost-based price shall reflect the costs of producing the service or product, including a return on invested capital. The return component shall be the higher of the utility's approved rate of return or the bank prime rate.
4. A utility shall sell assets to an affiliate at a price no less than the net book value of the asset.

In addition, subsection 2.4 outlines the following standards regarding financial transactions with affiliates:

1. A utility may provide loans, guarantee the indebtedness of, or invest in the securities of an affiliate, but shall not invest or provide guarantees or any other form of financial support if the amount of support or investment, on an aggregated basis over all transactions with all affiliates, would equal an amount greater than 25 percent of the utility's total equity.
2. A utility shall ensure that any loan, investment, or other financial support provided to an affiliate is provided on terms no more favorable than what that affiliate would be able to obtain on its own from the capital markets and in all cases at no more favourable terms than the utility could obtain directly for itself in the capital markets.

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Reference should be made to the Affiliate Relationships Code for additional requirements.

Common functions, such as an electricity distributor performing accounting functions for both electricity distributor and its affiliate (such as a retailer) are governed by the Affiliate Relationships Code (ARC). In particular, section 2.2.1 specifies that a service agreement is required where a utility shares services or resources with an affiliate. Section 2.2.2 requires that where there is sharing of information services all confidential information must be protected from access by an affiliate. Section 2.2.3 requires that where employees are shared with an affiliate, the employees cannot be involved in collecting or have access to confidential information. Lastly, section 2.2.4 states that a utility shall not share with an affiliate that is an energy provider, employees that carry out the day to day operation of the utility's transmission or distribution network.

The sharing of services between the affiliate and the utility should be structured in such a manner that is in compliance with rules relating to confidentiality of information of the ARC.

Documentation and Related Requirements

Pursuant to section 108 of the *Ontario Energy Board Act, 1998*, an inspector appointed by the Board may, for the purposes of this Act, the *Electricity Act, 1998* and the regulations made under those Acts, as applicable, conduct an audit, investigation or review.

For purposes of audit, investigation or review undertaken by the Board, regulated utilities are expected to meet the following requirements as they relate to affiliate transactions:

1. A utility shall maintain updated records in a form and manner as prescribed by the Board.
2. A utility shall be responsible for ensuring compliance with the Affiliate Relationships Code and shall:
 - a. perform periodic compliance reviews;
 - b. communicate the Code to its employees; and
 - c. monitor its employees' compliance with the Code.
3. Where a utility shares services or resources with an affiliate it shall do so in accordance with a Service Agreement, the terms of which may be reviewed

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- by the Board to ensure compliance with the Code. The Services Agreement shall include, among other items:
- a. the type, quantity and quality of service;
 - b. pricing mechanisms; and
 - c. cost allocation mechanisms.
4. Each entity that provides both regulated and non-regulated services or products shall maintain cost allocation documentation that is available for Board review. At a minimum, and in accordance with the subsection 2.8 of the Affiliate Relationships Code, the documentation should contain:
- a. a list of all affiliates with whom the utility transacts, including business addresses, a list of the officers and directors, and a description of the affiliates business activity;
 - b. a corporate organization chart indicating relationships and ownership percentages; and
 - c. the utility's specific costing and transfer pricing guidelines, tendering procedures and Services Agreements.
5. Where the total cost of transactions with a particular affiliate exceeds on an annual basis \$100,000 the utility shall maintain, and make available upon request by the Board, separate records showing:
- a. the name of the affiliate;
 - b. the product or service in question;
 - c. the form of price or cost determination; and
 - d. the start date and expected completion date of the transaction.

Clearing Accounts

Electric utilities that allocate overhead costs to more than one account may initially include these overhead costs in a "clearing account". Once the basis of allocation is determined, the overhead costs contained in the clearing account shall be distributed to the appropriate generation, transmission and distribution and other expense accounts as provided for in the USoA.

Note that clearing accounts have not been established in the USoA. Instead, it is expected that each electric utility will continue to maintain its own clearing accounts as required. In relation to the maintenance of clearing accounts the allocation principles, standards and conditions discussed in this Article should be followed. In particular:

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- Each clearing account entry shall be supported by such detailed information as will permit ready identification, examination, analysis, and verification of all facts relevant thereto, including a description of the basis of allocation.
- The records shall be maintained in such a manner as to be readily accessible for examination by authorized representatives of the Board.
- The basis of overhead cost allocation should be reviewed periodically by the electric utility. If necessary, the basis of overhead cost allocation should be revised in order to reflect changes in cost relationships and the related cost allocators. These changes should be documented, with supporting rationale, and the documentation should be available for subsequent Board review.
- Any year-end residual balances remaining after regular distribution, if any, should be cleared on a basis that will distribute the costs equitably.

Examples of types of clearing accounts, possible methods of allocation of costs and year-end clearing of residual balances are provided below for illustrative purposes.

Payroll Burden

A payroll burden clearing account may be used to accumulate the costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer's portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers' Health and Safety Insurance, pension and other insurance.

Items to include for employees whose time may be split between capital, maintenance, recoverable work and burden include vacations, statutory holidays, sick leave and other leaves of absence, vested sick leave costs, employee training, safety programs, unproductive labour, small tools, clothing, etc.

The method of allocating payroll burden may be based on percentages and added to work order labour and salaried payrolls. If this method is applied, the percentages should be calculated separately for each group. Most, if not all, labour burden costs do not apply when employees are paid overtime (since overtime is project specific and therefore could be directly allocated and application of labour burden costs to overtime can distort relative product or service costing). Therefore, the burden rate shall be applied to regular time only.

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Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

If required, the unallocated salaried payroll burden may be distributed to plant and operating accounts on the same basis as the salaries were distributed to these accounts. The balance remaining would then be attributable to work order labour and the distribution would ordinarily be to plant and operating accounts on the same basis as the labour was distributed to these accounts.

Stores Operation

A stores operation clearing account may be used to accumulate the cost of materials used by electric utilities including the costs associated with the acquiring, handling and storing of materials in addition to the gross purchase price. Labour costs and associated payroll burden of staff working in stores operation, such as the stockkeeper, may be included in this account.

Common stores operations costs may include such costs as property taxes, light and heat, janitor service, yard maintenance, snow removal, building maintenance, inventory insurance, shipping, storage charges, depreciation on stores equipment, freight-in where not otherwise allocated, and the write-off of overages and shortages and obsolete material. A stores operation account may also include the costs associated with purchasing activities, office clerical and/or computer costs that relate directly to stores operation.

The method of allocating stores operation overhead may be based as a standard percentage of the dollar value of materials issued, regardless of specific handling costs for separate items. However, an exception may be made for specific individual purchases that are unusual, expensive and generally non-recurring. For such specific items, it is appropriate to consider reducing or eliminating the overhead charge. For example, to apply the standard percentage overhead rate on the purchase of a single expensive item would distort the "cost" of that item and result in extreme fluctuations in the general overhead rate from year to year. Therefore, the application of a reduced or nil rate of overhead for specific items should be considered by the electric utility if this would result in a more equitable allocation of stores operation overhead.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute

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the costs equitably. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Rolling Stock Operation

A rolling stock operation clearing account may be used to accumulate the costs associated with maintaining automobiles, trucks and equipment, trailers and the like. Labour costs and the associated payroll burden of staff directly involved in rolling stock maintenance, such as mechanics, may be included in this account.

Common rolling stock operation costs may include such costs as rolling stock operating and depreciation expense, including fuel, lubricants, repairs and parts, license fees, insurance and all other items of expense necessary to keep the rolling stock in service. A rolling stock operation account may also include the costs associated with the operation and maintenance of garages and garage equipment as well as related office clerical and/or computer costs that relate directly to rolling stock operation.

The method of allocating rolling stock operation overhead may be based on a per kilometre rate or per hour of use or available for use basis depending on the various types of rolling stock.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Engineering

An engineering clearing account may be used to accumulate the costs associated with the costs of the engineering operation, including engineering staff.

Labour costs and the associated payroll burden of staff directly involved in detailed planning and design of utility plant as well as in its operation and maintenance may be included in this account. An engineering clearing account may also include the costs associated with the facilities, equipment and supplies in respect of engineering personnel as well as related office clerical and/or computer costs which relate directly to engineering.

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The method of allocating engineering overhead may be charged as a percentage of gross job costs.

Any residual balance remaining after regular distribution shall be cleared to the applicable plant and operating accounts by apportioning on a basis which will distribute the costs equitably. If the dollar amount of the unallocated balance is material, the original basis of allocation and related calculations should be checked to confirm or adjust the basis of allocation and related calculations.

Allocation of Costs for Services Rendered to Non-Affiliated Entities

Where an electric utility provides a service (e.g. billing and collecting) to the local non-affiliated municipality or to another non-affiliated public utility, such as water or sewage, the charges to the entity should be fair and equitable. A periodic review of these charges should be conducted to ensure that they remain fair and equitable and in compliance with the principles, standards and conditions outlined in this Article.

The method of calculating the charges for the services rendered should be calculated in accordance with some reasonable method of determining the customer utility's share of the operation involved. For example, the electric utility's total billing and collecting expenses could be allocated between the electric utility and the other public utilities for whom billing services were rendered based on the proportional number of bills rendered for each utility. Other acceptable methods of calculating the charge for the services rendered may involve other cost drivers such as the number of customers served, the number of vouchers passed in the case of a payable service, or a percentage of time allocation.

The costs related to the services rendered may be gathered using expense sub-accounts.

Allocation of Joint Costs

Where an electric utility incurs costs (e.g. general administration, office staff salaries, and rent) jointly with another utility or with its local municipality, the method of splitting the joint costs should be calculated in accordance with some reasonable method of determining a fair and equitable split. A periodic review of these charges should be conducted to ensure that they remain fair and equitable and in compliance with the principles, standards and conditions outlined in this Article.

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For example, the electric utility's share of general administration costs could be determined based on its estimated percentage use of general administration services. Shared office staff salaries could be split based on the proportion of time spent by staff on each utility's business. As another example, rent for shared accommodations could be allocated based on the floor area occupied by each utility's operations.

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Accounting for Specific Items

Property, Plant and Equipment

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3061—Property, Plant and Equipment, which establishes standards for the measurement, presentation and disclosure of property, plant and equipment by profit-oriented enterprises. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to:

- provide additional guidance in regard to property, plant and equipment accounting issues where further guidance specific to electric utilities is required; and
- provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Definitions

Definitions and accounting treatment of the following capital asset issues are provided in CICA Handbook Section 3061—Property, Plant and Equipment as well as other CICA Handbook sections and are listed below for ease of reference:

CICA Property, Plant and Equipment Terminology	CICA Handbook Section References
Allowance for funds used during construction	Section 3061.23, Section 3850.02
Amortization	Section 3061.28-.34
Assets	Section 1000.29-31
Asset Retirement Obligations	Section 3061.35, 3110.01-.27
Betterment	Section 3061.26-.27
Cost	Section 3061.05,.16-.27
Disposal (1)	Section 3475.26
Future removal and site restoration costs	Section 3110.24
Goodwill and Other Intangible Assets	Section 3062.01-.77
Impairment of Long-Lived Assets	Section 3063.03
Net carrying value	Section 3061.07
Net recoverable amount	Section 3061.07

Accounting for Specific Items

Property, Plant and Equipment

Property, plant and equipment	Section 3061.04
Rate-regulated long-lived asset	Section 3475.03.d
Rate-regulated property, plant and equipment (1)	Section 3061.10
Rate-regulated enterprise	Section 3465.09.k, Section 1100.36
Rental real estate	Section 3061.11
Residual value	Section 3061.12
Salvage value	Section 3061.13
Service potential	Section 3061.14
Useful life	Section 3061.15

Note (1) to Definitions

The CICA Handbook definition for rate-regulated assets recognizes that alternative treatment may be warranted for such assets due to special circumstances faced by rate-regulated enterprises. Accordingly, the CICA Handbook allows losses for disposals and write downs of rate-regulated assets to be deferred to the extent that the regulator allows these losses to be recovered from future rates. A detailed discussion of rate-regulated assets is provided in this Article in the subsection entitled "Property, Plant and Equipment Cost Deferrals".

The following additional capital asset definitions are adopted for the purposes of the APHandbook as well as for this Article:

Capital Asset Terminology for Electric Utilities	Definition
Distribution asset	Pursuant to section 56 of the <i>OEB Act, 1998</i> a distribution asset is used to distribute electricity, and includes any system, structures, equipment or other things used for that purpose. Pursuant to section 89, a distribution asset would include a line, transformers, plant or equipment used for conveying electricity at voltages of 50 kilovolts or less.

Accounting for Specific Items

Property, Plant and Equipment

Generation asset	Pursuant to section 56 of the <i>OEB Act, 1998</i> a generation asset is used to generate electricity or provide ancillary services, other than ancillary services provided by a transmitter or distributor through the operation of a transmission or distribution system, and includes any system, structures, equipment or other things used for that purpose.
Grouped assets	Grouped assets are those assets that by their nature make identification of individual components impractical. Examples include transmission lines, distribution lines, low voltage transformers and low value meters.
Group basis of amortization	The group basis of amortization refers to a system of grouping assets for amortization purposes using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. The group system contemplates that some part of the investment in a group of assets will likely be recovered through salvage realizations, and that there will likely be variations in the service lives of the assets constituting the group, even among assets of the same class. The amortization provision determined for the group should be determined based on the estimated average useful life of the respective assets in the group.
Non-utility asset	A non-utility asset is a capital asset that is held by the entity and used primarily in competitive or potentially competitive activities conducted within the regulated entity. Non-utility property, plant and equipment should be accounted for separately from utility property, plant and equipment for the purposes of rate regulation to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business.

Accounting for Specific Items

Property, Plant and Equipment

Readily identifiable asset	A readily identifiable asset is an asset that has a material unit cost for financial reporting purposes and is tracked on an individual unit basis. Examples include buildings, stations and rolling stock. Other examples could include high voltage pole type transformers, pad mounted transformers and meters of significant value.
Transmission asset	Pursuant to section 56 of the <i>OEB Act, 1998</i> a transmission asset is used to transmit electricity, and includes any system, structures, equipment or other things used for that purpose. Pursuant to section 89, a transmission asset would include a line, transformers, plant or equipment used for conveying electricity at voltages higher than 50 kilovolts.

a. Expenditures Qualifying As Property, Plant and Equipment

General Summary

This subsection describes the process and specific criteria used for determining if expenditures should be capitalized on the balance sheet or expensed to operations in the period incurred. In this regard, this subsection covers the following related accounting issues:

- Asset Classification
- Asset Costs
- Asset Recognition—Capitalization Versus Expensing
- Betterments Versus Repairs
- Property, Plant and Equipment Disposals and Write Downs
- Asset Retirement Obligations
- Property, Plant and Equipment Cost Deferrals

In addition, this subsection provides guidance on the accounting treatment of:

- Readily Identifiable Assets
- Grouped Assets
- Change in Accounting Policy for Spare Transformers and Meters
- Change in Accounting Policy for Poles, Conductors and Conduits
- Change in Accounting Policy for Contributions in Aid of Construction

Accounting for Specific Items

Property, Plant and Equipment

The purpose of capitalizing expenditures is to provide for an equitable allocation of cost among existing and future customers. As assets are expected to provide future economic benefits, expenditures incurred for the acquisition, construction or development of assets should be capitalized and allocated over the estimated useful lives of the associated assets in the form of amortization expense.

Accordingly, material expenditures relating to the acquisition or betterment of an asset should be capitalized as an asset and all other expenditures should be expensed in the accounting period incurred.

Accounting Issues

Asset Classification

For a complete discussion on asset classification, refer to CICA Handbook paragraphs 1000.29-31 for the general definition of an asset and paragraphs 3461.04 and 3461.10 for other related definitions.

In general, CICA Handbook paragraph 1000.29 defines assets as economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

- a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows, and, in the case of not-for-profit organizations, to provide services;
- b) the entity can control access to the benefit; and
- c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

In addition, in identifying a benefit, there must be:

- a) an ability to earn income or supply a service;
- b) a reasonable expectation that the benefit will be provided in future periods;
and
- c) the future period must be identifiable and greater than one year.

Accounting for Specific Items

Property, Plant and Equipment

The CICA Handbook specifically defines property, plant and equipment as identifiable assets comprising property, plant and equipment and intangible properties that meet all of the following criteria:

- a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment.
- b) have been acquired, constructed or developed with the intention of being used on a continuing basis; and
- c) are not intended for sale in the ordinary course of business (CICA s.3061.04).

In summary, in order for an expenditure to qualify as a tangible asset, it should meet both the definitions of an asset and of property, plant and equipment as discussed above.

Asset Costs

For the complete CICA Handbook discussion on determining the cost of property, plant and equipment, refer to CICA Handbook paragraphs 3061.05, 07 and 16-25.

Property, plant and equipment should be recorded at cost, which includes the purchase price and other acquisition costs such as: option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges.

For components of construction cost refer to **Article 230**, Definitions and Instructions, No. 20.

It should be noted that in determining the allowance for the cost of property to be included in the rate base, where the proposed cost is, in the opinion of the Board, not reasonable for inclusion in the rate base, the Board can determine an allowance for the cost of the property.

Asset Recognition—Capitalization Versus Expensing

In order to recognize property, plant and equipment (i.e. by capitalizing the related costs on the balance sheet versus expensing these costs to operations), an expenditure should, subject to materiality considerations, meet the definitions of an asset and property, plant and equipment (as discussed above under the heading "Asset Classification").

Accounting for Specific Items

Property, Plant and Equipment

In regard to whether to capitalize intangible property costs, the CICA Handbook states that the degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies, and in many cases, the expected future benefits may be too uncertain to justify asset recognition. However, when future benefits are reasonably assured, such costs should be capitalized (subject to materiality considerations) (CICA s.3061.23).

Betterments Versus Repairs

The CICA Handbook defines the terms “betterment” and “repair” in paragraph 3061.26

A “betterment” is defined as the cost incurred to enhance the service potential of a capital asset. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. E.g. a refurbished transformer or meter in which the service potential may be enhanced.

A “repair” is defined as the cost incurred in the maintenance of the service potential of a capital asset.

Accordingly, expenditures that meet the definition of a betterment should be capitalized while expenditures that meet the definition of a repair should be expensed.

Lastly, if a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment should be included in the cost of the capital asset.

Property, Plant and Equipment Disposals and Write Downs

The CICA Handbook definition of rate-regulated assets recognizes that alternative accounting treatment may be warranted due to special circumstances faced by rate-regulated enterprises (see Article 100, page 7, for definition of rate-regulated enterprise).

Rate-regulated property, plant and equipment is defined as property, plant and equipment held for use in operations meeting all of the following criteria:

- a) the rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products;
- b) the regulated rates are designed to recover the cost of providing the services or products; and

Accounting for Specific Items**Property, Plant and Equipment**

- c) it is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for any capitalized costs (CICA s.3061.10).

In spite of the Board's implementation of alternative methods of rate regulation, such as Performance Based Regulation (PBR) or Incentive Rate Mechanism (IRM), it is believed that the above definition for rate regulated enterprises and property, plant and equipment will continue to be applicable because the price cap used in the first generation PBR was based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also applicable for the second and third generation IRM since cost of service rebasing applications were reviewed by the Board for the 2006 rate year prior to the application of the price cap for the second and third generation IRM.

As mentioned previously, the term "rate-regulated" as used in this APHandbook does not imply a specific methodology for approving or fixing of rates. Such methodologies are normally referred to as rate based, price cap, social contract, or incentive based regulation, etc. Instead, the term refers to the fact that rates, however determined, are subject to approval by a legislated body.

Note that under Generally Accepted Accounting Principles, losses resulting from capital asset disposals and write-downs are permitted to be deferred under certain specific circumstances. The regulator may require the difference between net carrying amount and the proceeds and disposal/retirement costs on disposal of property, plant and equipment to be considered in the determination of future rates charged to customers. In such circumstances the difference is deferred, provided that there is reasonable assurance that:

- a) any excess of net carrying amount over proceeds on disposal will be recovered through future rates; or
- b) any excess of proceeds on disposal over net carrying amount will serve to reduce future rates (CICA s.3475.26).

In summary, in considering whether to defer or expense losses on capital asset disposals and write downs, electric utilities need to determine whether these losses are to be recovered from future rates. In general, losses should be deferred if they will be included in future rates. However, the Board reserves the right to review the accounting

Accounting for Specific Items**Property, Plant and Equipment**

treatment applied and recommend different accounting treatment if deemed appropriate.

Specific deferred gain, loss, and related revenue and expense accounts have been provided in the USoA for this purpose as listed below:

- account 1530, Deferred Losses from Disposition of Utility Plant. This account shall include losses from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a number of fiscal years and/or as authorized by the Board. The amortization of the amounts in this account shall be made by debits to account 4350, Losses from Disposition of Future Use Utility Plant. (See account 2040, Electric Plant Held for Future Use.)
- account 2410, Deferred Gains from Disposition of Utility Plant. This account shall include gains from the sale or other disposition of property previously recorded in account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a number of years and/or as otherwise authorized by the Board. The amortization of the amounts in this account shall be made by credits to account 4345, Gains from Disposition of Future Use Utility Plant. (See account 2040, Electric Plant Held for Future Use.)
- account 4345, Gains from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to gains from the disposition of future use utility plant including amounts that were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.
- account 4350, Losses from Disposition of Future Use Utility Plant. This account shall include, as approved by the Board, amounts relating to losses from the disposition of future use utility plant including amounts that were previously recorded in and transferred from account 2040, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof.
- account 4355, Gain on Disposition of Utility and Other Property. This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. Gains on land and land rights recorded in account 2040, Electric Plant Held for Future Use will be accounted for as

Accounting for Specific Items**Property, Plant and Equipment**

prescribed in paragraphs B, C, and D thereof. (See Article 240-- Definitions and Instructions No. 21(f)).

- account 4360, Loss on Disposition of Utility and Other Property. This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. Losses on land and land rights recorded in account 2040, Electric Plant Held for Future Use will be accounted for as prescribed in paragraphs B, C, and D thereof. (See Article 240-- Definitions and Instructions No. 21(f)).

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of a tangible long-lived asset that an entity is required to settle as the result of a law, statute or contract. (Section 3110.03.a) An example of this in the distribution sector would be that of a utility which will be required to pay for environmental remediation on certain properties in the future. An entity should recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made (Section 3110.05). Section 3110.08 describes fair value as the amount at which the liability could be settled in a current transaction between willing parties.

Extensive discussion is provided on determining fair value in the absence of being able to obtain quoted market prices in an active market. Section 3110.09 states that using the present value technique called expected cash flow approach will usually be the only appropriate technique for asset retirement valuation. An entity discounts the estimated cash flows using a credit adjusted risk-free rate which results in the effect of the entity's credit standing being reflected in the discount rate rather than in the estimated cash flows.

Section 3110.16 states that in periods subsequent to the initial measurement, an entity should recognize period to period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimates of undiscounted cash flows.

Section 3110.21 states that an entity should disclose a general description of the asset retirement obligations and the associated long-lived assets and the fair value of assets legally restricted for purposes of settling asset retirement obligations. In addition, a reconciliation of the beginning and ending carrying amounts and key assumptions on which the carrying amount of the asset retirement is based.

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Section 1506 Appendix B provides several examples on the accounting process to be followed in applying its' recognizing and measuring provisions. An entity computes the fair value of its asset retirement obligation liability and records the asset retirement cost as a long-lived asset and the asset retirement obligation as the corresponding liability. Over the life of the asset retirement obligation, depreciation charges are computed and expensed based on the asset retirement cost and charged to the accounting reporting periods. Over the life of the asset retirement obligation, the accretion expense, which is the increase in the carrying amount of an asset retirement obligation due to the passage of time, is computed and charged to the accounting periods with a corresponding amount being applied to increase the asset retirement obligation liability. In the period during which the asset retirement obligation is settled, a gain or loss would be computed and reported.

Property, Plant and Equipment Cost Deferrals

For the purposes of this subsection, the cost of a transaction related to property, plant and equipment may be deferred for disposition in a future period when the regulatory process introduces certain specific cause-and-effect relationships in the matching of a utility's revenues and expenses. For example, there may be a deferral of expenditures where major infrequent repair work involving major repair, rehabilitation or maintenance on existing assets occurs. Alternatively, there may be a deferral due to the regulatory process where the operating plant requires major repair that results in neither the replacement of plant nor a betterment to the existing asset. Similarly, repairs due to property losses resulting from extraordinary events such as the January 1998 ice storm in Eastern Ontario may be deferred.

Normally, GAAP would require that such repairs be expensed. However, rate-regulated enterprises face special circumstances due to the regulatory process. Accordingly, where such repairs would cause a significant rate impact, the Board may consider capitalization/deferral and subsequent amortization to operations over a reasonable number of years.

In summary, the cost of a transaction related to property, plant and equipment may be deferred subject to the requirements of the regulatory process. The following USoA accounts have been provided for this purpose:

- account 1505, Unrecovered Plant and Regulatory Study Costs. This account shall include: (1) nonrecurring costs of studies and analyses mandated by the Board related to plants in service, transferred from account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been canceled or that have been prematurely retired.

Accounting for Specific Items

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- account 1508, Other Regulatory Assets. This account shall include the amounts of regulatory-created assets, not included in other accounts, resulting from the ratemaking actions of the Board.
- account 1535, Extraordinary Property Losses. When authorized or directed by the Board, this account shall include extraordinary losses, which could not reasonably have been anticipated and which are not covered by insurance or other provisions, such as unforeseen damages to property. Also included will be losses on property abandoned or retired.

Readily Identifiable Assets

A readily identifiable asset is an asset that has a material unit cost for financial reporting purposes and is tracked on an individual unit basis (i.e., not a group or pooled asset). Accordingly, any capital asset that is readily identifiable in the plant records should be separately accounted for and amortized over its estimated useful life. The asset must remain on the books as long as the asset exists and is capable of providing future benefit.

When retired or disposed of, the asset and related accumulated amortization should be removed from the books. Based on the CICA Handbook, any difference between the net proceeds on disposal and the net carrying amount should be recognized in income in the period (i.e. as a gain or a loss on disposal) (CICA s. 1520.03(f)).

Such gains or losses on asset retirement or disposal are considered to result from the risks inherent in an entity's normal business activities and are not considered to be extraordinary. In particular, transactions and events, regardless of size, resulting from normal business activities would not result in extraordinary items (i.e. gains and losses from write-down or sale of property, plant, equipment or other investments) (CICA s. 3480.04).

This CICA Accounting Recommendation differs from the guidance provided in the former Accounting for Municipal Electric Utilities in Ontario manual (section 5101—Fixed Assets Depreciation General, page 2 of 4) in regard to the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. Specifically, it was previously required that any gains and losses on the disposal of readily identifiable assets, if material, be classified as an extraordinary item. The CICA Handbook does not allow gains and losses from the disposal of assets resulting from normal business activities to be accounted for as extraordinary items. Consequently, the size or materiality of the gain or loss is not relevant in determining whether transactions or events should be classified as extraordinary items on the income statement.

Accounting for Specific Items

Property, Plant and Equipment

A discussion of the recommended treatment of this change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Grouped Assets

Grouped assets are those assets that by their nature make identification of individual components impractical. The group basis of amortization refers to a system of grouping assets for amortization purposes using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. This accounting treatment recognizes that individual units are not readily identifiable.

For the purposes of applying the USoA and for financial statement reporting purposes, electric utilities have the option of grouping assets that are not readily identifiable due to the following circumstances:

- a) Regulatory accounting practice recognizes that it may be appropriate to group individually insignificant capital assets together. As an example, for some electric utilities, the individual unit cost of certain assets such as transformers and meters does not justify the time and effort to maintain the detailed accounting systems that would be required to track such items.
- b) The group basis of amortization will continue to allow the combined cost of the assets to be allocated over their estimated useful life in a rational and systematic manner.
- c) Allowing electric utilities to group assets provides symmetry with the method permitted for regulated gas utilities.
- d) Allowing electric utilities to group assets recognizes the fact that some electric utilities perform less detailed accounting than others and avoids placing an undue burden that would be associated with requiring individually insignificant assets to be separately accounted for.

It is difficult to prescribe one method of determining gross asset value as there are several factors which may impact which approach a utility may use (e.g. state of records). There are a number of implementation alternatives and use of professional judgment is also required. As one suggestion, a vintage approach may suit your purposes (e.g. costs of purchases for a year are averaged and the average cost for that year is applied when an asset of that vintage is retired).

Accounting for Specific Items**Property, Plant and Equipment**

While the group basis of amortization is acceptable, electric utilities should consider using an ungrouped basis of amortization for pad mounted transformers and high voltage pole-type transformers as well as for those meters that are of material value.

In summary, assets, including those with varying service lives, may be grouped and amortized using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. The amortization provision determined for the group should be determined based on the estimated average useful life of the respective assets in the group. Assets remaining in use after reaching the end of their average useful life are not regarded as fully depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal and disposal, and shall be credited with the salvage value and any other amounts recovered. (See account 2105, item B).

Change in Accounting Policy for Spare Transformers and Meters

In most cases, spare transformers and meters should be accounted for as property, plant and equipment capital assets, as it is expected that:

- a) the spare transformers and meters are not intended for resale and cannot be classified as inventory in accordance with CICA publication entitled “Terminology for Accountants” Fourth Edition;
- b) the spare transformers and meters have a longer period of future benefit as compared to inventory items;
- c) the spare transformers and meters form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant; and
- d) the spare transformers and meters provide future benefits because they are expected to be placed in service.

A discussion of the recommended treatment of spare transformers and meters as property, plant and equipment (as opposed to inventory) and the resulting change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

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Change in Accounting Policy for Poles, Conductors and Conduit

It is recommended that poles, conductors and conduit that have been placed into service be accounted for using the following accounts provided in the USoA:

For transmission:

- account 1720, Towers and Fixtures
- account 1725, Poles and Fixtures
- account 1730, Overhead Conductors and Devices
- account 1735, Underground Conduit
- account 1740, Underground Conductors and Devices

For distribution:

- account 1830, Poles, Towers and Fixtures
- account 1835, Overhead Conductors and Devices
- account 1840, Underground Conduit
- account 1845, Underground Conductors and Devices
- account 1855, Services

A discussion of the recommended treatment of poles, conductors and conduit using the accounts specified above and the resulting change in accounting policy is provided in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Note that the accounting treatment of poles and conductors that have not been placed into service is dealt with in Article 420—Inventory.

Change in Accounting Policy for Contributions in Aid of Construction

To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of regulated gas utilities, property, plant and equipment funded through contributions in aid of construction and any related amortization expense will be eliminated from the electric utility's rate base and revenue requirement, respectively.

Contributions in aid of construction are to be recorded initially in the cash and customer deposit accounts when received in cash. When monies so received are spent on construction of the agreed upon assets, the cash and customer deposit accounts would be relieved and the value of the assets constructed set up in the property, plant and equipment accounts with an equal and offsetting entry to asset contra account 1995, Contributions and Grants-Credit.

Accounting for Specific Items

Property, Plant and Equipment

Contributions in aid of construction received in the form of services or property should be recorded in the capital asset accounts with an equal and offsetting entry to contra asset account 1995, Contributions and Grants-Credit.

Account 1995, Contributions and Grants - Credit should be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related property, plant and equipment accounts effectively eliminating amortization expense related to the portion of property, plant and equipment cost funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

A discussion of the recommended treatment of contributions in aid of construction using asset contra account 1995, Contributions and Grants-Credit and the resulting change in accounting policy, is discussed in Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to the *Electricity Act, 1998*.

Article 430—Development Charges and Contributions in Aid of Construction provide a complete discussion of the accounting treatment for Contributions in Aid of Construction.

b. Construction in Progress and Related Carrying Costs

General Summary

This subsection describes the recommended accounting treatment for construction in progress and related carrying costs, including interest on construction costs.

At year end, any property, plant and equipment under construction and related carrying costs, including interest, shall be included in "Construction in Progress". When the asset is put into service or when construction is substantially complete, the related items in Construction in Progress should be transferred to the appropriate property, plant and equipment account and amortization shall be calculated from that date.

Accounting Issues

Capitalization of Construction Costs

For the complete CICA Handbook discussion on construction in progress and related interest costs, refer to CICA Handbook paragraphs 3061.05, 20, 23-25.

Accounting for Specific Items

Property, Plant and Equipment

The cost of a capital asset includes direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity (CICA s.3061.20).

Additional guidance is found in Article 230, Definitions and Instructions, No. 20. Components of construction cost are to include where applicable, the cost of labour; materials and supplies; transportation; work done by others for the utility; injuries and damages incurred in construction work; privileges and permits; special machinery services; allowance for funds used during construction; and such portion of overhead related costs as may be properly included in construction costs. Note that the capitalization policies for overhead related costs shall be approved by the Board.

Capitalization of Carrying Costs Including Interest Costs

In regard to the measurement of the carrying costs of a capital asset under construction and the capitalization of interest costs, the CICA Handbook notes that the cost of a capital asset that is acquired, constructed, or developed over time includes carrying costs directly attributable to the acquisition, construction, or development activity. For a rate-regulated capital asset, the cost includes the directly attributable allowance for funds used during construction (“AFUDC”) allowed by the regulator (CICA s.3061.23).

Consistent with the CICA Handbook, electric utilities will be allowed to include the cost to the utility for funds used for the purposes of construction. The AFUDC rate should be based on a reasonable allowance for the use of funds expended during the construction period, whether or not such funds have been borrowed for the purposes of the capital project. The appropriateness of the AFUDC rate used by the electric utility will be subsequently reviewed by the Board and will be approved based on the Board’s assessment of the reasonableness of the allowance.

As an interim measure, for the first generation IRM period, the Board viewed the debt cost rate (DCR) established in the Rate Handbook as a reasonable rate to be used as the maximum allowable limit for the AFUDC. For this period, a utility should use Table 3-1 of the Rate Handbook to determine the applicable DCR based on its deemed capital structure. As noted in Article 480, the Board may revisit the appropriateness of the DCR for purposes of the AFUDC rate for the period after the first generation IRM.

Article 480 provides details on the treatment of AFUDC related to qualifying transition costs and assets for market opening under “Construction Work in Progress”.

Upon subsequent review of the AFUDC and consultation with stakeholders in 2006, the Board adopted an interest methodology for AFUDC based on the Scotia Capital Inc. All Corporates Mid-Term Average Weighted Yield, as published on the Bank of Canada’s

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website. This prescribed rate of interest for AFUDC is effective from May 1, 2006 and is published each quarter on the Board's website (see CWIP account in webpage link: http://www.oeb.gov.on.ca/html/en/industryrelations/rulesguidesandforms_regulatory_prescribedinterestrates.htm.)

The following accounts have been provided for in the USoA for the purpose of recording the expense associated with borrowed or other funds used during construction:

- account 6040, Allowance For Borrowed Funds Used During Construction–Credit. This account shall include credits for Allowance for borrowed Funds Used During Construction ("AFUDC") that has been capitalized during the fiscal year. The debit shall be to account 2055, Construction Work in Progress - Electric. The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved by the Board.
- account 6042, Allowance For Other Funds Used During Construction–Credit. This account shall include credits for allowance for other than borrowed funds used during construction. The credit shall be to account 2055, Construction Work in Progress - Electric. The rate of return shall be based on a reasonable allowance for the use of funds expended during the construction period and shall be approved by the Board. The AFUDC rate shall be based on a reasonable allowance for the use of funds expended during the construction period, whether or not such funds have been borrowed, and shall be approved by the Board.

Ceasing the Capitalization of Carrying Costs

The CICA Handbook specifies that capitalization of carrying costs should cease when a capital asset is substantially complete and ready for productive use. Determining when a capital asset, or a portion thereof, is substantially complete and ready for productive use requires consideration of the industry circumstances. Normally it would be predetermined by management with reference to such factors as productive capacity, occupancy level, or the passage of time (CICA s.3061.23). The Board will review management's policies in this regard.

Inclusion of Net Revenue or Expense in Cost

The CICA Handbook recommends that net revenue or expense derived from the employment or use of a capital asset prior to substantial completion and readiness for use be included in the cost of the capital asset (CICA s.3061.25).

Accounting for Specific Items

Property, Plant and Equipment

Disclosure of Capitalized Interest

Disclosure considerations for capitalized interest are discussed in CICA Handbook Section 3850—Interest Capitalized, Disclosure Considerations.

Based on the CICA Handbook, electric utilities that have an accounting policy of capitalizing interest should disclose this policy as well as the amount of interest capitalized unless the interest capitalized is part of an allowance for funds used during construction, in which case such enterprises should disclose AFUDC in the period (CICA s. 3850.01-2).

c. Amortization Methods

General Summary

This subsection describes acceptable amortization methods and revisions to the amortization method and estimated useful life for property, plant and equipment.

The APHandbook does not provide prescriptive guidance for the amortization of property, plant and equipment but allows professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to the nature of the property, plant and equipment. Note that the Board may review the selected amortization methods, estimated useful lives and amortization rates, as it considers necessary.

Accounting Issues

Amortization Methods

The CICA Handbook states that amortization should be recognized in a rational and systematic manner appropriate to the nature of property, plant and equipment (with a limited life) and to its use by the enterprise. The amount of amortization that should be charged to income is the greater of:

- a) the cost less salvage value over the life of the asset; and
- b) the cost less residual value over the useful life of the asset (CICA s.3061.28).

The CICA Handbook recognizes that different methods of amortizing a capital asset result in different patterns of charges to income. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects

Accounting for Specific Items

Property, Plant and Equipment

service as a function of usage. Other methods may be appropriate in certain situations. For example, an increasing charge method may be used when an enterprise can price its goods or services so as to obtain a constant rate of return on the investment in the capital asset. As another example, a decreasing charge method may be appropriate when the operating efficiency of the capital asset declines over time (CICA s.3061.31).

Note that the CICA Handbook states that factors to be considered in estimating the life and useful life of a capital asset include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable terms (CICA s.3061.32).

In summary, the CICA Handbook does not provide prescriptive guidance for the amortization of property, plant and equipment but allows professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to the nature of the capital asset (i.e. based on its use by the enterprise and its estimated useful life).

In contrast, the former Accounting for Municipal Electric Utilities in Ontario manual (section 5102—Fixed Assets Depreciation Rates for General Plant Assets and section 5103—Fixed Assets Depreciation Rates for Other Capital Assets) provided set schedules of asset types, estimated useful life, and depreciation rates based on the straight line method of depreciation.

Appendix E, “Capital Asset – Amortization Rates” of the Electricity Distribution Rate Handbook provides rates based on the straight line method of amortization. Electric utilities that were subject to reporting using the Accounting for Municipal Electric Utilities in Ontario manual as prescribed by the former Ontario Hydro will be expected to use these rates until a change can be supported by an objective study and the change has been authorized by the Board.

Consistent with the CICA Handbook, this APHandbook does not provide prescriptive guidance in terms of the amortization methods to be used, the asset categories, the estimated useful lives or amortization rates. Instead, it is expected that in the absence of an objective study to support changes to the current methods, lives or rates, utilities will continue to use methods, lives or rates consistent with past practice. Note that the Board may review the selected amortization methods, estimated useful lives and amortization rates, as it considers necessary.

Accounting for Specific Items**Property, Plant and Equipment**

Revision of Amortization Method/Estimated Useful Life

The CICA Handbook recommends that the amortization method and estimates of the life and useful life of a capital asset be reviewed on a regular basis (CICA s.3061.33).

Furthermore, there may be a need to revise the amortization method or estimates of the life and useful life of a capital asset due to the following significant events:

- a) a change in the extent the property, plant and equipment is used; or
- b) a change in the manner in which the property, plant and equipment is used;
or
- c) removal of the property, plant and equipment from service for an extended period of time; or
- d) physical damage; or
- e) significant technological developments; or
- f) a change in the law, environment, or consumer styles and tastes affecting the period of time over which the property, plant and equipment can be used.
(CICA s.3061.34)

As an example specific to electric utilities, when property, plant and equipment previously classified as experimental electric plant is placed into service and reclassified as electric plant in service, a significant change has occurred in the manner in which the capital asset is used. Accordingly, the amortization method and estimated useful life of property, plant and equipment should be reviewed and revised accordingly in order to comply with GAAP.

Note that in accordance with the CICA Handbook, such a change would be treated as a change in accounting estimate because the change in the method of amortization in this example results from changed circumstances, experience or new information (CICA s.1506.05(b)). The effect of a change in an accounting estimate should be recognized prospectively by including it in net income in:

- a) the period of change, if the change affects that period only; or
- b) the period of change and future periods, if the change affects both.
(CICA s.1506.36)

See Article 320 for a discussion of changes in estimate.

Accounting for Specific Items**Inventory**

Table of Contents**Purpose and Scope****General Summary****Definitions****Accounting Issues**

- **Treatment of Spare Transformers and Meters as Capital Assets**
- **Treatment of Poles, Conductors and Water Heaters as Inventory**
- **Acceptable Methods of Cost Determination**

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3030—Inventories, which establishes standards for the measurement, presentation and disclosure of inventory. Accordingly, this subsection should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide additional guidance in regard to inventory accounting issues where further guidance specific to electric utilities is required.

Accounting for Specific Items

Inventory

General Summary

This Article discusses the former Accounting for Municipal Electric Utilities in Ontario manual (section 5250—Inventory, page 1 and section 5101—Fixed Assets Depreciation General, page 4 of 4), which recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be accounted for as inventory.

Note that the accounting treatment for spare transformers and meters is found in Article 410—Capital Assets and Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998*. These two Articles should be directly referred to for guidance in the accounting treatment of these items as property, plant and equipment as opposed to inventory. The treatment of this change in accounting policy is also dealt with in those Articles.

In most cases, spare transformers and meters should be accounted for as capital assets because these items:

- are not intended for resale,
- cannot be classified as inventory in accordance with the CICA Handbook,
- have a longer period of future benefit as compared to inventory items, and,
- form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Materials purchased or returned to stores for future use, that can be classified as “merchandise purchased for resale”, “raw materials that are to enter into production” and “inventories of work in process and finished goods”, should be accounted for as inventory. This would include, for example, poles and conductors purchased for future use.

This Article also provides a brief discussion of acceptable inventory cost determination methods as fully discussed in CICA Handbook Section 3030—Inventories.

Definitions

Definitions and accounting treatment of the following inventory issues are provided in CICA Handbook Section 3030—Inventory and are listed below for ease of reference:

Accounting for Specific Items

Inventory

CICA Inventory Terminology	CICA Handbook Section References
Average costing	Section 3030.07 (b)
Cost	Sections 3030.01-06
First In, First Out (FIFO) costing	Section 3030.07 (c)
Last In, First Out (LIFO) costing	Section 3030.07 (d)
Specific item costing	Section 3030.07 (a)
Other Terminology used in this APHandbook	Definition
Spares	Assets that are not intended for resale, cannot be classified as inventory in accordance with CICA Handbook Section 3030, have a longer period of future benefit as compared to inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Accounting Issues

Treatment of Spare Transformers and Meters as Property, Plant and Equipment

CICA Handbook Section 3030—Inventories does not specifically define inventory. However, in the discussion of inventory cost elements, references are made to definitions of “merchandise purchased for resale”, “raw materials which are to enter into production” and “inventories of work in process and finished goods”.

A formal definition provided in the CICA publication entitled “Terminology for Accountants, Fourth Edition” (page 117), defines inventory as:

Items of tangible property that are held for sale in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale.

The former Accounting for Municipal Electric Utilities in Ontario manual (section 5250—Inventory, page 1) recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be

Accounting for Specific Items

Inventory

classed as inventory. In addition, section 5101—Fixed Assets Depreciation General (page 4 of 4) recommended that when meters, transformers and water heaters are removed from service, inventory is debited and current year's additions to fixed assets is credited with the market value of the material removed. When items in these categories are subsequently returned to service, inventory is credited and that year's additions to fixed assets is debited with the value established when the material was previously removed from service.

The above Accounting for Municipal Electric Utilities in Ontario recommendations, as they apply to spare transformers and meters, are replaced by Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection “Change in Accounting Policy for Spare Transformers and Meters”). That Article provides a complete discussion of the classification issues leading to the recommendation that that spare transformers and meters be accounted for as a capital asset (i.e. capitalized and amortized over the estimated useful life of the original distribution plant to which they relate) and should be referred to for the treatment of this change in accounting policy.

Note that Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection “Change in Accounting Policy for Spare Transformers and Meters”) makes a clear distinction between regular inventory items and items held as spare capital assets. In most cases, spare transformers and meters should be accounted for as capital assets as they are not intended for resale, cannot be classified as inventory in accordance with CICA Handbook Section 3030, have a longer period of future benefit than do inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Treatment of Poles and Conductors as Inventory

Assets that can be classified as “merchandise purchased for resale”, “raw materials which are to enter into production” and “inventories of work in process and finished goods” should be accounted for as inventory. This would include, for example, poles and conductors purchased for future use.

The USoA provides the following accounts for inventory:

- account 1305, Fuel Stock. This account shall include the cost of fuel on hand.

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- account 1330, Plant Materials and Operating Supplies (includes poles and conductors). This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. It shall also include the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated depreciation provision, respectively.
- account 1340, Merchandise. This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising, jobbing, etc. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.
- account 1350, Other Materials and Supplies. This account shall include the book cost of other materials and supplies held primarily for non-regulated activities performed within the regulated entity. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

Once inventory items are placed into service, the related inventory accounts would be credited and the related capital asset or expense accounts would be debited for the related amounts. For guidance as to the accounting treatment of poles and conductors classified as capital assets, refer to Article 410—Property Plant and Equipment (see subsection “Poles, Conductors and Conduit”) and Article 510—Transitional Issues Relating to Setting Up Accounts Pursuant to Part XI of the *Electricity Act, 1998* (see subsection “Change in Accounting Policy for Poles, Conductors and Conduit”).

Acceptable Methods of Cost Determination

This subsection provides a summary of acceptable inventory cost determination methods as fully discussed in CICA Handbook Section 3030—Inventories.

The CICA Handbook states that the selection of the most suitable method for determining the cost will depend upon the particular circumstances of each enterprise and the industry in which it is engaged. In some cases, the choice of method may have little effect on the financial statements. In other cases, where the choice of method of inventory valuation is an important factor in determining income, the most suitable method for determining cost is that which results in charging against operations the costs that most fairly match the sales revenue for the period. The method selected for

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determining cost should be one that results in the fairest matching of costs against revenues regardless of whether or not the method corresponds to the physical flow of goods.

The methods of cost determination in most common use are specific item costing, average costing, First In, First Out (FIFO) and Last In, First Out (LIFO).

It should be noted that the CICA Handbook does not provide prescriptive guidance for the valuation of inventory but allows professional judgment to be applied.

Consistent with the CICA Handbook, this APHandbook does not provide prescriptive guidance in terms of the inventory valuation methods to be used. Instead, it is expected that electric utilities will use their professional judgment in order to choose the most suitable method of cost determination that results in the fairest matching of costs against revenues. The Board recognizes that the majority of electric utilities use average costing as their method of determining the cost of inventory. This method of cost determination remains acceptable and is likely the method preferred by most electric utilities.

Accounting for Specific Items**Development Charges and Contributions in Aid of Construction**

Table of Contents**Purpose and Scope****General Summary****Definitions****Accounting Issues**

- **Development Charges Transferred to the Electric Utility Incorporated Under Part XI of the *Electricity Act, 1998***
- **Contributions in Aid of Construction**

Purpose and Scope

The purpose of this Article is to provide information on the accounting for development charges and contributions in aid of construction.

General Summary

This Article provides guidance on the accounting treatment of development charges transferred to the incorporated electric utility as well as contributions in aid of construction received by the incorporated electric utility.

Development Charges

Part XI of the *Electricity Act, 1998* specifies transitional requirements associated with the conversion of the former Municipal Electric Utilities (“MEUs”) to corporations under the *Ontario Business Corporations Act*. Development charge funds were transferred to the incorporated electric utility along with the related obligations to expend the funds on qualifying growth-related property, plant and equipment. USoA accounts were provided to record the Development Charge deposit/ receivable, liability, and equity amounts associated with those funds.

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Development Charges and Contributions in Aid of Construction

Contributions in Aid of Construction

To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of gas utilities, portion of cost of property, plant and equipment funded through contributions in aid of construction and any related amortization expense will not be allowed to be included in the electric utility's rate base and revenue requirement, respectively.

An asset contra account 1995, Contributions and Grants-Credit, will be used to identify contributions in aid of construction received by the utility. Amounts in account 1995, will be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts effectively eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

Definitions

The following definition is adopted for the purposes of the APHandbook as well as for this specific subsection:

Development Charge Terminology for Electric Utilities	Definition
Development charges	Amounts collected under the authority of <i>the Development Charges Act, 1997</i> or predecessor legislation.

Accounting Issues**Development Charges Transferred to the Electric Utility Incorporated Under Part XI of the *Electricity Act, 1998***

Part XI of the *Electricity Act, 1998* specifies the transitional requirements associated with the conversion of existing MEUs to corporations incorporated under the *Ontario Business Corporations Act*. The transition required development charge funds collected under the authority of the *Development Charges Act, 1997* or its predecessor Acts, to be transferred from the municipality and/or the MEU to the incorporated electric utility. Effective January 1, 2000, neither will the incorporated electric utility nor the municipalities be permitted to collect development charges on behalf of the incorporated electric utility.

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

Pursuant to section 148 (2) of the *Electricity Act, 1998*, any amount transferred under a transfer by-law to the incorporated electric utility shall be used by the transferee only to pay for capital costs in respect of electrical power services for which the amount transferred was collected.

The accounting treatment for development charges transferred to the incorporated electric utility pursuant to the transitional requirements specified in Part XI of the *Electricity Act, 1998* and pursuant to the *Development Charges Act, 1997* is discussed below.

A non-current asset account, non-current liability account and a special equity account were established in the USoA to account for transactions pertaining to development charges transferred to the incorporated electric utility.

The asset account is:

- account 1545, Development Charge Deposits/Receivables. The purpose of this account is to record funds received or receivable in respect of future capital expenditures pursuant to Part XI of the *Electricity Act, 1998*. It recognizes that these funds should be accounted for separately. Interest earned on the funds must revert back to the fund and is not available for normal operating purposes.

Sub-accounts should be maintained to segregate amounts relating to deposits/receivables arising before January 1, 2000 from those arising after December 31, 1999.

Until the development charges collected are expended on qualifying growth-related capital projects, a non-current liability account is required to reflect the obligations associated with these funds. Accordingly, the following account is provided for in the USoA:

- account 2330, Development Charge Fund. The purpose of this account is to record the liability associated with funds collected for specific, future capital works. This account recognizes that there is an obligation to complete the specific capital work for which the funds were collected. The liability will increase each year by the amount of interest income earned on the fund.

If the liability relates to an amount accrued prior to January 1, 2000, once the obligation to complete the capital work has been fulfilled, the related amount shall be transferred to account 3022, Development Charges Transferred to Equity.

Accounting for Specific Items**Development Charges and Contributions in Aid of Construction**

If the liability relates to an amount accrued after December 31, 1999, once the obligation to complete the capital has been fulfilled, the related amount shall be transferred to asset contra account 1995, Contributions and Grants - Credit.

Sub-accounts should be maintained to segregate amounts relating to liabilities arising before January 1, 2000 from those arising after December 31, 1999.

Prior to January 1, 2000

Development charge funds receivable or on deposit with the electricity distributor prior to January 1, 2000 will be transferred from the non-current liability account (2330, Development Charge Fund) to the following account once the funds have been expended on capital projects:

- account 3022, Development Charges Transferred to Equity. This account shall include the amounts related to Development Charge Funds accrued to the benefit of the utility as at December 31, 1999 and subsequently expended on capital works in accordance with the obligations associated with those Funds.

On or After January 1, 2000

Development charge funds that become receivable or are placed on deposit with the electricity distributor on or after January 1, 2000 will be transferred from the non-current liability account (2330, Development Charge Fund) to the following account once the funds have been expended on capital projects:

- Account 1995, Contributions and Grants – Credit. This account shall include amounts relating to contributions or grants in cash, services or property from governments or government agencies, corporations, individuals and others received in aid of construction or for acquisition of fixed assets.

This account shall be maintained so that the utility 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).

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

An example of the accounting at cut-off date

A simple example is provided below to illustrate the new requirements for development charges based on the cut-off date. In this example, assume that in scenario 1, an electricity distributor collected development charges for a project/asset in 1999 for \$1,000 and the project is completed Sep. 30, 2000. In scenario 2, the electricity distributor collected development charges for another project/ asset on Jun. 30, 2000 for \$1,000. The total cost of this project/asset completed Oct. 31, 2000 is \$2000. The asset is amortized straight line over 25 years.

The required accounting entries related to the year 2000 under each scenario are shown in the charts below:

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
2000		Scenario 1: Development Charge Deposit/Receivable before Jan. 1, 2000		
Jan. 1	1545 2330	Development Charge Deposits/ Receivable ("black book" Account 271) Development Charge Fund ("black book Account 371) To record receipt of funds for Development Charges received before Jan. 1, 2000; transferred from "black book" to related USoA accounts.	1,000	1,000
Sept. 30	2330 1545	Development Charge Fund Development Charge Deposits/ Receivable To record fund expended on development charge obligation.	1,000	1,000
Sept. 30	1805 –1990 3022	Detail Asset Account (as applicable) Development Charge Transferred to Equity To record capital asset completed from development charge funds.	1,000	1,000

Accounting for Specific Items

Development Charges and Contributions in Aid of Construction

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
2000		Scenario 2: Development Charge Deposit/Receivable on or Jan. 1, 2000		
Jun. 1	1545 2330	Development Charge Deposits/ Receivables Development Charge Fund To record receipt of funds for Development Charges received.	1,000	1,000
Oct. 31	2330 1545	Development Charge Fund Development Charge Deposits/ Receivables To record fund expended on development charge obligation.	1,000	1,000
Oct. 31	1805-1990 1995 2225	Detail Asset Account (as applicable) Contributions and Grants – Credit Notes & Loans Payable To record the completion of capital asset.	2,000	1,000 1,000

DATE	ACCOUNT	PARTICULARS	DEBIT	CREDIT
2000		Scenario 2: Development Charge Deposit/Receivable on or Jan. 1, 2000		
Dec. 31	5705 2105	Amortization Expense Accumulated Amortization To record amortization of capital asset. (\$2000/25).	80	80
Dec. 31	1995 5705	Contributions and Grants-Credit (Subaccount Accumulated Amortization) Amortization Expense To record amortization of contra asset account 1995 (\$1000/25).	40	40

Accounting for Specific Items**Development Charges and Contributions in Aid of Construction**

Contributions in Aid of Construction

This subsection provides the accounting treatment for contributions in aid of construction. In general, contributions in aid of construction may be received in the form of monies (i.e. collected as an average charge), services or property (i.e. property, plant and equipment constructed by the developer and transferred to the incorporated electric utility).

In considering the regulatory treatment of contributions in aid of construction, the Board notes that MEUs were permitted to collect contributions in aid of construction. MEUs were able to earn a return on capital assets funded through contributions in aid of construction (i.e. these capital assets were allowed to be included in the MEUs rate base). In addition, the amortization expense associated with these capital assets was allowed to be included in the MEUs revenue requirement.

The past treatment of contributions in aid of construction for electric utilities is inconsistent with the treatment of contributions of aid of construction for regulated gas utilities. First, gas utilities do not include cost of the property, plant and equipment funded through contributions in aid of construction in the rate base. Second, gas utilities do not include amortization expense associated with property, plant and equipment funded through contributions in aid of construction in their revenue requirement.

To harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of gas utilities, the portion of property, plant and equipment funded through contributions in aid of construction and any related amortization expense are not allowed to be included in the electric utility's rate base and revenue requirement, respectively. When property, plant and equipment funded through contributions in aid of construction require rebuilding and therefore funding, the need to collect contributions will be demonstrated through a profitability evaluation presented to the Board.

Effective on or After January 1, 2000

In accordance with the Board Decision, RP 1999-0034, contributions in aid of construction and development charges will not be eligible for inclusion in the utility rate base or revenue requirement on or after January 1, 2000.

When contributions in aid of construction are initially received in the form of monies, the amount received should be recorded in the cash account (account 1005, Cash) and in the related customer liability account 2210, Current Portion of Customer Deposits and account 2335, Long Term Customer Deposits.

Accounting for Specific Items**Development Charges and Contributions in Aid of Construction**

When these monies are spent on the construction of capital assets, the cash and deposit accounts would be relieved to the extent of monies expended on the capital project and any unspent balance refunded. Entries should be made to the applicable asset accounts to record the value of the constructed capital assets. To record the value of the contributions in aid of construction, an entry should be made to account 1995, Contributions and Grants - Credit.

When contributions in aid of construction are received in the form of services or property, the value of the contribution should be recorded in the applicable asset accounts and the asset contra account (account 1995, Contributions and Grants - Credit).

It should be noted that account 1995, Contributions and Grants - Credit, should be amortized. Given that this account is an asset contra account, amortization should be recorded by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related property, plant and equipment accounts. Accordingly, amortization expense related to property, plant and equipment funded through contributions in aid of construction will be effectively eliminated from the determination of the electric utility's revenue requirement. The example cited above for development changes (see scenario 2) is also applicable to contributions in aid of construction with respect to the accounting for the receipt of monies, service or property as contributed capital and the related amortization. In summary, assets should be recorded at their gross values in order that the applicable portion of the contributions in aid of construction flows to account 1995.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario manual account 540, Equity Accumulated Through Contributed Capital, were to be transferred to USoA equity account 3030, Miscellaneous Paid-in Capital. Supporting documentation should be maintained for each contribution transferred to this USoA account.

Accounting for Specific Items**Future Income Taxes**

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- **Future Income Taxes**
- **Accounting Treatment of Future Income Taxes for Rate-Regulated Enterprises**
- **Regulatory Treatment of Future Income Taxes for Electric Utilities**
- **Payments In Lieu of Taxes**

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3465—Income Taxes, which has established standards for the recognition, measurement, presentation and disclosure of income and refundable taxes in an enterprise's financial statements, with limited application for certain rate regulated enterprises. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide guidance in those particular accounting areas where the CICA Handbook allows for differences in accounting treatment for rate-regulated enterprises.

Accounting for Specific Items

Future Income Taxes

General Summary

This Article summarizes the underlying concepts for the accounting treatment of “future income taxes” (formerly referred to as “deferred income taxes”) as fully explained in CICA Handbook Section 3465—Income Taxes and describes how “future income taxes” may be accounted for by rate-regulated enterprises.

The CICA Handbook states that a rate-regulated enterprise need not recognize future income taxes in accordance with the Accounting Recommendations in CICA Handbook Section 3465—Income Taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future and are expected to be recovered from future customers (CICA s. 3465.102).

The CICA Handbook also states that a rate-regulated enterprise that chooses to recognize future income taxes despite the expectation that they will be included in the rates charged to customers in the future would recognize all future income tax liabilities and future income tax assets in accordance with the requirements of CICA Handbook Section 3465—Income Taxes (CICA s. 3465.104).

It should be noted that the method of accounting for future income taxes will not affect the manner in which just and reasonable rates are set by the Board and the accounts provided in the Uniform System of Accounts (USoA) are provided only for the convenience of the electric utility.

Definitions

Definitions and accounting treatment of the following future income tax issues are provided in CICA Handbook Section 3465—Income Taxes and are listed below for ease of reference:

CICA Future Income Taxes Terminology	CICA Handbook Section References
Cost (benefit) of current income taxes	Section 3465.09 (g)
Cost (benefit) of future income taxes	Section 3465.09 (h)
Future income tax assets	Section 3465.02, .04, .05, .07, .09 (d), .10, .15
Future income tax liabilities	Section 3465.03-.04, .07, .09 (e), .10
Income taxes	Section 3465.09 (a)

Accounting for Specific Items

Future Income Taxes

More likely or not	Section 3465.09 (i)
Public enterprise	Section 3465.09 (j)
Rate-regulated enterprise	Section 3465.09 (k), .102-.104 (See also page 8 of Article 410)
Refundable taxes	Section 3465.09 (b), 3465.71-.78
Taxable income (tax loss)	Section 3465.09 (f)
Temporary differences	Section 3465.09 (c), .11-.17

Accounting Issues

Future Income Taxes

This subsection summarizes the underlying concepts for the accounting treatment of “future income taxes” (formerly referred to as “deferred income taxes”) as fully explained in CICA Handbook Section 3465—Income Taxes.

The CICA Handbook sets out standards for the financial statement presentation of the tax benefits and costs related to an income tax asset or liability, and the effects of subsequent adjustment of the corresponding tax liabilities and assets. It also sets out standards for the presentation of assets and liabilities related to income taxes currently payable or recoverable and disclosure requirements for information related to income taxes.

A fundamental principle in the preparation of financial statements is that an asset will be realized for at least its carrying amount in the form of future economic benefits. In some cases, realization of the carrying amount from sale or use of the asset will give rise to an increase or reduction in income taxes payable in the period of realization or later. For example, an asset with a carrying amount of \$1,000 may have a tax basis of \$600, such that realization of the carrying amount of \$1,000 will give rise to income of \$400 that is subject to tax, and an increase in income taxes otherwise payable (CICA s. 3465.02).

Another fundamental principle in the preparation of financial statements is that a liability will be settled for its carrying amount through the future transfer or use of assets, provision of services or other yielding of economic benefits. In some cases, settlement of the liability for the carrying amount will give rise to a decrease or an increase in income taxes payable in the year of settlement or later. For example, an accrued pension liability of \$1,000 might be deductible for tax purposes only when an amount is actually paid. Payment of the accrued amount will give rise to a deduction of \$1,000 in

Accounting for Specific Items

Future Income Taxes

computing income that is subject to tax, and a reduction in income taxes otherwise payable (CICA s. 3465.03).

Consequently, the resulting future tax outflows or inflows from the realization of assets and settlement of liabilities at their carrying amounts meet the conceptual definitions of assets and liabilities. Therefore, a future income tax asset or future income tax liability would be recognized for the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount (CICA s. 3465.04).

The assets or liabilities arising from the recognition and measurement of such tax outflows or inflows are referred to as "future income tax assets" and "future income tax liabilities" respectively. Future income tax assets are defined as the amounts of income tax benefits arising in respect of:

- a) deductible temporary differences;
- b) the carryforward of unused tax losses; and
- c) the carryforward of unused income tax reductions, except for investment tax credits.
(CICA s. 3465.09 (d.i-iii))

Future income tax liabilities are defined as the amounts of income taxes arising from taxable temporary differences (CICA s. 3465.09 (e)).

Accounting Treatment of Future Income Taxes for Rate-Regulated Enterprises

This subsection specifies how future income taxes may be accounted for by electric utilities in accordance with CICA Handbook Section 3465—Income Taxes.

The CICA Handbook specifically states that a rate-regulated enterprise need not recognize future income taxes to the extent that future income taxes are expected to be included in the approved rate charged to customers in the future and are expected to be recovered from future customers. However, the rate-regulated enterprise should disclose the following, in addition to the other income tax disclosure requirements specified by CICA Handbook sections 3465.91 and 3465.92:

- a) the reason why future income tax liabilities and future income tax assets have not been recognized; and

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- b) the amount of future income tax liabilities, future income tax assets and future income tax expense that have not been recognized.

Furthermore, the CICA Handbook recommends that pending further study of accounting for rate-regulated enterprises as a whole, rate-regulated enterprises are not required to record future income taxes for temporary differences that arise from assets and liabilities relating to their rate-regulated activities to the extent that these future income taxes will be included in the rates charged to customers in the future and will be recoverable at that time (CICA s. 3465.103).

Where future income taxes are not expected to be included in approved rates or where a rate-regulated enterprise chooses to recognize future taxes despite inclusion in the approved rates, future income tax liabilities and future income tax assets would be recognized in accordance with the normal requirements of CICA Handbook Section 3465.

Regulatory Treatment of Future Income Taxes for Electric Utilities

The method of accounting for future income taxes will not affect the manner in which the Board approves just and reasonable rates. Should an electric utility choose to recognize future income taxes in accordance with CICA Handbook Section 3465—Income Taxes, the following accounts have been provided in the USoA:

- account 2296, Future Income Taxes - Current. This current liability account is provided for those electric utilities that choose to record future income taxes in accordance with CICA Handbook Section 3465—Income Taxes. The current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.
- account 2350, Future Income Taxes - Non-Current. This account is provided for those entities that choose to record future income taxes in accordance with the Recommendations of CICA Handbook Section 3465—Income Taxes as applicable. The non-current portion of future income tax liabilities and future income tax assets should be netted in this account for financial statement presentation purposes.
- account 6115, Provision for Future Income Taxes. The balance in this account shall represent the amount provided for future income taxes in the fiscal year. The offsetting entry to this provision should be to account 2296, Future Income Taxes - Current for any future income taxes provided with

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respect to any current timing differences and/or to account 2350, Future Income Taxes - Non-Current with respect to any non-current timing differences.

Payments In Lieu of Taxes

If the electric utility is subject to Payments in Lieu of Taxes ("PILs") and chooses to account for future income taxes, it should use the future income tax accounts listed above to account for any balances. However, in order to record the PILs payable within the period, the utility should use the following accounts:

- account 2294, Accrual for Taxes, "Payments In Lieu of Taxes", Etc. This account shall be credited with the amount of taxes, "payments in lieu of taxes", etc. accrued during the accounting period, corresponding debits being made to the appropriate accounts for such charges. Such credits may be based upon estimates, but from time to time during the year as the facts become known, the amount of the periodic credits shall be adjusted so as to include as nearly as can be determined in each year the taxes, "payments in lieu of taxes", etc. applicable thereto.
- 1. account 6105, Taxes Other Than Income Taxes. This account shall include the amounts of ad valorem, gross revenue or gross receipts taxes, "payments-in-lieu of taxes", payments equivalent to municipal and school taxes, property taxes, property transfer taxes, franchise taxes, commodity taxes, and all other related taxes assessed by federal, provincial, municipal, or other local governmental authorities, except income taxes.

Accounting for Specific Items**Deposits and Collateral Funds**

Table of Contents**Purpose and Scope****General Summary****Definitions****Accounting Issues**

- **Deposits**
- **Collateral Funds**
- **Financial Instruments**
- **Financial Statement Note Disclosure - Deposits and Collateral Funds**

Purpose and Scope

The underlying accounting concepts for this Article are based on:

- CICA Handbook Section 3000—Cash, which specifies certain exclusions from current assets
- CICA Handbook Section 3861—Financial Instruments, Disclosure and Presentation: which prescribes certain requirements for presentation of recognized financial instruments and non-financial derivatives and identifies the information that should be disclosed.

There are several CICA Handbook sections that provide accounting guidance on issues discussed in this article including financial instruments. The implementation dates of these sections vary depending on the nature of the entity. Accordingly, this Article should be read in conjunction with the CICA Handbook.

Accounting for Specific Items

Deposits and Collateral Funds

Section 3855 Financial Instruments—Recognition and Measurement, generally applies to interim and financial statements for fiscal years beginning on or after October 1, 2006. The terms defined in Section 3855 are used in Section 3861. Accordingly the relevant definitions from Section 3855 are incorporated into this Article. However, Article 450 does not however incorporate the guidance provided by Section 3855. Therefore the reader should refer to that section for specific guidance with respect to recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

Section 3862 Financial Instruments—Disclosures, provides standards for disclosures about financial instruments, the risks associated with them and how the entity manages those risks. Section 3863 Financial Instruments—Presentations, establishes standards for presentation of financial instruments and non-financial derivatives. Section 3865 Hedges, provides standards for hedge accounting. Sections 3862 and 3863 generally apply to interim and financial statements for fiscal years beginning on or after October 1, 2007 and section 3855 for fiscal years beginning on or after October 1, 2006. These sections should be referred to for the accounting standards and implementation.

General Summary

This Article provides guidance on the accounting treatment of deposits and collateral funds where further guidance specific to electric utilities is required.

Deposits may be collected to guarantee payment of energy bills, performance of contract requirements or payment of construction costs. Collateral funds are customer or other types of funded deposits that have been pledged as security and segregated in special funds.

It is recommended that, at the time of acceptance, bearer bonds received as collateral should be recorded at market value. In regard to the measurement of performance bonds, power bonds and letters of credit, it is recommended that these types of unfunded deposits not be recorded on the books of the utility since they are contingent on a future event that may or may not occur.

This Article also summarizes the underlying concepts for the accounting treatment of financial instruments in accordance with the Accounting Recommendations of CICA Handbook Section 3861—Financial Instruments, Disclosure and Presentation.

The Board has not established investment guidelines in the past but reserves the right to review the implications of investment decisions on utility operations.

Accounting for Specific Items

Deposits and Collateral Funds

Definitions

Definitions and accounting treatment of the following items related to deposits and collateral funds are provided in CICA Handbook Section 3855—Financial Instruments, and are listed below for ease of reference:

CICA Inventory Terminology	CICA Handbook Section References
Equity instrument	Section 3855.19(d)
Fair value	Section 3855.19(j)
Financial asset	Section 3855.19(b)
Financial instrument	Sections 3855.19(a)
Financial liability	Section 3855.19(c)

Accounting Issues

Deposits

Deposits may be collected by the utility to guarantee:

- payment of energy bills; or
- performance of contract requirements; or
- payment of construction costs.

Deposits should be classified according to their nature and purpose. There are two types of deposits:

- those in cash or cash equivalent (e.g. bearer bonds); and
- those which are in effect insurance policies and therefore unfunded (e.g. performance bonds, power bonds and letters of credit).

In regards to the measurement of cash equivalent type deposits, CICA Handbook Section 3861—Financial Instruments, Disclosure and Presentation, does not prescribe the basis on which financial assets are recognized and measured. However, the following approaches may be considered:

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- a) assigning to the less easily measurable component (often an equity instrument) the residual amount after deducting from the instrument as a whole the amount separately determined for the component that is more easily measurable; and
- b) measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. (CICA s.3861.22)

The CICA Handbook concludes that the sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the carrying amount that would be ascribed to the instrument as a whole. No gain or loss arises from recognizing and presenting the components of the instrument separately.

The critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to the issuer. When such a contractual obligation exists, that instrument meets the definition of a financial liability regardless of the manner in which the contractual obligation will be settled. A restriction on the ability of the issuer to satisfy an obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the issuer's obligation or the holder's right under the instrument. (CICA s.3861.12)

As a result, a financial asset with an absolute right and obligation (e.g. bearer bonds) should be recognized in the financial statements, at fair value, at the time of acceptance. In contrast, a financial asset with a contingent right and obligation (e.g. performance bonds, power bonds and letters of credit) should not be recognized in the financial statements. However, disclosure of unrecognized financial assets in the notes to financial statements may be warranted as outlined later in this Article (see "Financial Statement Note Disclosure - Deposits and Collateral Funds").

In regard to financial statement presentation, CICA Handbook Section 3000—Cash, specifies that the following should be excluded from current assets:

- a) cash subject to restrictions that prevent its use for current purposes; and
- b) cash appropriated for other than current purposes unless such cash offsets a current liability.

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Essentially, consideration should be given to the purpose for which the deposits were collected in determining whether deposits should be recorded as current or non-current assets.

To recognize deposits with an absolute right and obligation in the financial statements, the following current and non-current asset and liability accounts have been provided in the USoA:

- account 1040, Other Special Deposits. This account shall include deposits with fiscal agents or others for special purposes other than the payment of interest and dividends. Such special deposits may include cash deposited with federal, provincial, or municipal authorities as a guarantee for the fulfillment of obligations; cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced; cash realized from the sale of the accounting utility's securities and deposited with trustees to be held until invested in property of the utility, etc.

This account shall also include the current portion of customer deposits on hand.

Entries to this account shall specify the purpose for which the deposit is made. Deposits for more than one year, which are not offset by current liabilities, shall not be charged to this account but to account 1410, Other Special or Collateral Funds.

- account 1410, Other Special or Collateral Funds. This account shall include the amount of cash and book cost of investments that have been segregated in special funds for insurance, employee pensions, and other purposes not provided for elsewhere.

This account shall include the non-current portion of customer deposits recorded in account 2335, as well as non-current deposits or securities held as collateral relating to account 2340, Collateral Funds Liability.

- account 2210, Current Portion of Customer Deposits. This account shall include the deposits expected to be refunded in the next year.
- account 2335, Long Term Customer Deposits. This account shall include all deposits except those included in account 2340, Collateral Funds Liability. The amounts expected to be refunded in the next year shall be included in account 2210, Current Portion of Customer Deposits.

Accounting for Specific Items

Deposits and Collateral Funds

Collateral Funds

Collateral funds are customer or other types of funded deposits that have been pledged as security and segregated in special funds. If collateral funds are established, the following requirements shall apply:

- a) In the case of deposits made with cash, a separate bank account or term deposit must be maintained. In the case of deposits made with non-cash financial assets, these non-cash financial assets must be maintained in a safety deposit box.
- b) Total assets received as collateral must equal the total collateral funds liability.

In regard to the accounting treatment of collateral funds, the following non-current asset and non-current liability accounts in the USoA should be used to record collateral fund transactions:

- account 1410, Other Special or Collateral Funds. This account shall include the amount of cash and book cost of investments that have been segregated in special funds for insurance, employee pensions, and other purposes not provided for elsewhere. This account shall include the non-current portion of customer deposits recorded in account 2335, as well as non-current deposits or securities held as collateral relating to account 2340, Collateral Funds Liability.
- account 2340, Collateral Funds Liability. This account shall include all deposits or securities received from customers or contractors and maintained in a separate bank account or safety deposit box. This account shall only be used in situations where it is necessary to fund customer or other deposits, such as deposits guaranteeing construction costs or contract performance.

Financial Instruments

This subsection summarizes the underlying concepts contained in CICA Handbook Section 3861—Financial Instruments, Disclosure and Presentation, which provides guidance related to the accounting treatment of financial instruments. The accounting standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives are provided in CICA Handbook Section 3855—Recognition and Measurement.

Accounting for Specific Items

Deposits and Collateral Funds

The CICA Handbook prescribes certain requirements for presentation of recognized financial instruments and identifies the information that should be disclosed about both recognized and unrecognized financial instruments.

CICA Handbook paragraphs 3861.10-35 provide Accounting Recommendations dealing with the classification of financial instruments as liabilities and equity, the recording of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities should be offset.

CICA Handbook paragraphs 3861.36-86 provide Accounting Recommendations dealing with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. In addition, these paragraphs encourage disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes that they serve, the risks associated with them and management's policies for controlling those risks.

It should be noted that the CICA Handbook does not prescribe the basis on which financial assets and financial liabilities are recognized and measured.

The following balance sheet accounts have been provided in the USoA to record financial instrument assets and liabilities:

- account 1070, Current Investments. Current investments shall be considered as those that are capable of reasonably prompt liquidation. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are current in nature.
- account 1405, Long Term Investments in Non-Associated Companies. This account shall include the book cost of investments in securities issued by non-associated companies, investment advances to such companies, and any investments not accounted for elsewhere. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial assets or equity instruments and are non-current in nature.
- account 2225, Notes and Loans Payable. This account shall include the face value of all notes, drafts, acceptances, temporary bank loans and advances, or other similar evidences of indebtedness, payable on demand or within a

Accounting for Specific Items

Deposits and Collateral Funds

time not exceeding one year from date of issue, to other than associated companies. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are current in nature.

- account 2520, Other Long Term Debt. This account shall include, until maturity all long-term debt not provided for in any other account. This covers such items as receivers' certificates, real estate mortgages executed or assumed, assessments for public improvements, notes and unsecured certificates of indebtedness not owned by associated companies, receipts outstanding for long-term debt, and other obligations maturing more than one year from date of issue or assumption. This account shall also include financial instruments (both those used as hedges against financial risks and those entered into for speculative investment purposes) that are classified as financial liabilities and are non-current in nature.

The following income statement accounts have been provided in the USoA to record profits and losses from financial instrument hedges and investments.

- account 4335, Profits and Losses from Financial Instrument Hedges. This account shall be used to record profits and losses from financial instruments used as hedges against financial risks such as price risk (i.e. currency risk, interest rate risk and market risk), credit risk, liquidity risk and cash flow risk. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.
- account 4340, Profits and Losses from Financial Instrument Investments. This account shall be used to record profits and losses from financial instruments entered into for speculative investment purposes. A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Financial Statement Note Disclosure - Deposits and Collateral Funds

Financial statement disclosure items are mentioned here solely for the benefit of the reader in determining other record keeping requirements that may be needed in addition to the requirements of the USoA and this APHandbook.

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Deposits and Collateral Funds

Financial statement note disclosure requirements for financial instruments are fully discussed in CICA Handbook Section 3861, paragraphs 3861.36-86. This subsection provides a summary of those CICA Accounting Recommendations relevant to deposits and collateral funds.

The CICA Handbook places significant obligations on financial statement preparers to provide disclosure regarding the terms and conditions, risk exposures due to interest rates or credit quality, and information about the fair value of the financial instruments.

The Board anticipates that in most cases, electric utilities will hold securities for deposits and collateral funds in high quality readily marketable government-backed bonds or debentures. Financial statement disclosures with respect to such funds will be relatively straightforward but should provide summarized information regarding the nature of securities held in the portfolio, market values and other terms necessary to satisfy CICA Handbook disclosure requirements.

If other types of financial instruments are being used, a detailed review of the accounting and disclosure requirements of CICA Handbook Section 3840 Related Party Transactions, and expert professional advice will be warranted.

When an entity carries one or more financial assets at an amount in excess of their fair value and objective evidence of impairment exists, but an impairment loss is not recognized in net income because the decline in recoverable amount (in the case of financial assets measured at cost) or fair value (in the case of all other financial assets) is not other than temporary, the CICA Handbook recommends the following disclosure:

- a) the carrying amount and the fair value of either the individual assets, or appropriate groupings of those individual assets; and
- b) the information considered by the entity (both positive and negative) in reaching the conclusion that the decline is not other than temporary (Section 3861.78).

Additional disclosures are encouraged when they are likely to enhance financial statement users' understanding of financial instruments. It may be desirable to disclose such information as:

- a) the total amount of the change in the fair value of financial assets and financial liabilities that has been recognized as income or expense for the period; and
- b) the average aggregate carrying amount during the year of recognized financial assets and financial liabilities, the average aggregate principal,

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stated, notional or other similar amount during the year of unrecognized financial assets and financial liabilities and the average aggregate fair value during the year of all financial assets and financial liabilities, particularly when the amounts on hand at the balance sheet date are unrepresentative of amounts on hand during the year. (CICA s. 3861.86)

Accounting for Specific Items**Reserves**

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- **Use of Reserves by Electric Utilities**

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3260—Reserves, which provides guidance on the accounting for reserves. Accordingly, this Article should be read in conjunction with CICA Handbook Section 3260—Reserves.

The purpose of this Article is to provide additional guidance in the accounting for reserves where further guidance specific to electric utilities is required.

General Summary

CICA Handbook Section 3260—Reserves, provides guidance on the use of reserves.

Reserves must be accounted for and reported in accordance with GAAP. Reserves are appropriations of retained earnings or surplus and as such are not “expenses”. Specifically, increases or decreases in reserves are not to be a factor in determining net income for the period but are to be shown as an increase or decrease in the statement of retained earnings. Accounts have been provided in the USoA to maintain reserves.

Accounting for Specific Items

Reserves

Definitions

CICA Reserves Terminology	CICA Handbook Section References
Use of the term “reserve”	Section 3260.01

Accounting Issues

Use of Reserves by Electric Utilities

In some cases, electric utilities have established reserves. GAAP permits the use of reserve accounts. However, specific accounting and disclosure requirements must be met. This subsection will outline these requirements for those electric utilities that may wish to continue their reserves subsequent to incorporation pursuant to the *Electricity Act*, 1998. Reference should be made to CICA Handbook Section 3260—Reserves.

Key aspects to be considered in the accounting for reserve accounts by electric utilities are:

1. Based on CICA Handbook Section 3260—Reserves, the use of the term “reserve” should be limited to an amount, which though not required to meet a liability or contingency known or admitted or a decline in value that has already occurred as at the balance sheet date, has been appropriated from retained earnings or other surpluses:
 - a) at the discretion of management, e.g. reserve for future decline in inventory values, reserve for general contingencies, reserve for future plant extension; or
 - b) pursuant to the requirements of a statute, the instrument of incorporation or by-laws of a company or trust indenture, or other agreement, e.g. sinking fund reserve, general reserve, preferred stock redemption reserve.
2. Reserves are appropriations of retained earnings or surplus and as such are not “expenses”. Specifically, increases or decreases in reserves are not to be a factor in determining net income for the period but are to be shown as an increase or decrease in the statement of retained earnings. The following accounts are provided for in the USoA as a control account for the electric utility’s reserves:

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- account 3040, Appropriated Retained Earnings. This account shall include retained earnings set aside or reserves maintained by the utility that are not provided for elsewhere. The account shall be maintained and subdivided in such a manner as to show the nature and purpose of each separate appropriation or reserve.
 - account 3047, Appropriations of Retained Earnings – Current Period.
3. Reserves are part of the electric utility's equity and should be reported as such in the financial statements.
 4. The electric utility's accounts should be maintained in a manner to facilitate determining any changes in reserves during the period and the financial statements should disclose information to allow the reader to determine the nature of changes in reserves.

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- **Employee Future Benefits**
- **Requirements Pursuant to the *Electricity Act, 1998***
- **Electricity Distributor's Pension Cost-OMERS Plan**
- **Electricity Distributor's Pension Cost-Own Plan Sponsor**
- **Vested Sick Leave**
- **Financial Statement Disclosure**

Purpose and Scope

The underlying accounting concepts for this Article are based on CICA Handbook Section 3461— Employee Future Benefits, which deals with the recognition, measurement, accounting for and disclosure of employee future benefits in the financial statements of an enterprise.

Employee future benefits describe benefits which are earned by active employees and expected to be provided to the employees when they are no longer actively working for the entity. Employee future benefits include pension and other post retirement benefits such as health care and life insurance which are expected to be provided after retirement. Post employment benefits such as disability income or health care benefits which are provided after active employment ceases but before retirement are also classified as future benefits. Termination benefits or compensated absences such as parental leaves for which it is expected employees will be paid are considered future benefits.

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Employee Future Benefits

A benefit plan is defined as any arrangement that is mutually understood by an entity and its employees whereby the entity undertakes to provide its employees with benefits after active service in exchange for their services. Benefits may commence immediately upon termination or suspension of active service or may be deferred until an employee attains a specified age.

Pension costs for employers who are OMERS plan participants are treated as if the plans were defined contribution pension plans.

CICA Handbook Section 3461 – Employee Future Benefits applies to all plans whether or not employees make contributions to the pension plan. Accordingly, this Article should be read in conjunction with the CICA Handbook.

The purpose of this Article is to provide additional guidance in regard to employee future benefit matters where further guidance specific to electric utilities is required.

General Summary

This Article begins by summarizing the underlying concepts for the accounting treatment of employee future benefits-pension and employee future benefits-non-pension costs and obligations as fully explained in CICA Handbook Section 3461—Employee Future Benefits.

This Article summarizes the relevant transitional requirements of Part XI of the *Electricity Act, 1998* that pertained to the conversion of MEUs to corporations incorporated under the *Ontario Business Corporations Act* and the resulting transfer of previous pension costs and obligations from MEUs to the incorporated electric utility.

Schedule D of the *Energy Competition Act, 1998* is discussed as it provided the required amendments to the Ontario Municipal Employees Retirement System (“OMERS”) Act that allowed incorporated electric utilities and their employees to continue their pension plan arrangements under OMERS. Since OMERS is a multi-employer pension plan, the accounting requirements are relatively straightforward for electricity distributors participating in OMERS..

The Article discusses pension costs for an electricity distributor which operates its own pension plan and is therefore a Plan Sponsor. Cost allocation follows the guidance provided for a defined benefit plan or defined contribution plan depending on the plan characteristics.

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Employee Future Benefits

This Article discusses vested sick leave as a specific accounting issue. Vested sick leave is that portion of unused sick leave that becomes payable to the employee on termination of employment under the terms of a union agreement or other definite commitment into which the utility has entered.

This Article discusses the financial statement disclosure. Section 3461 was updated in 2004 by the CICA to provide information about the effect of employee's future benefits on the entity's financial statements as well as plan obligations and assets for defined benefit plans.

Definitions

Definitions and accounting treatment of the following pension issues are provided in CICA Handbook Section 3461— Employee Future Benefits and are listed below for ease of reference:

CICA Pension Terminology	CICA Handbook Section References
Accrued benefit asset—defined benefit	Section 3461.024 (a)
Accrued benefit liability	Section 3461.024 (b)
Accrued benefit method-accumulated benefit method	Section 3461.024.(c).(i)
Accrued benefit method-projected benefit method prorated on services	Section 3461.024.(c).(ii)
Accrued benefit obligation	Section 3461.024 (d)
Actuarial assumptions	Section 3461.009 (a)
Actuarial gains and losses	Section 3461.024 (e)
Actuarial present value	Section 3461.024 (f)
Actuarial valuation	Section 3461.009 (b)
Benefit Plan	Section 3461.009 (c)
Defined benefit plan	Section 3461.009 (e)
Defined contribution plan	Section 3461.009 (f)
Fair Value	Section 3461.024 (i)
Multiemployer plan	Section 3461.145 (a)
Multiple-employer plan	Section 3461.145 (b)
Obligation for employee future benefits	Section 3461.024 (l)
Plan assets	Section 3461.024 (m)

Accounting for Specific Items

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Accounting Issues

Employee Future Benefits

This subsection summarizes the underlying concepts for the accounting treatment of employee future benefits-pension plan costs and employee future benefits, other than pension plan costs, as fully explained in CICA Handbook Section 3461— Employee Future Benefits..

CICA Handbook Section 3461— Employee Future Benefits deals with the accounting for, and disclosure of, employee future benefits-pension plan and employee future benefits-other than pension plan costs and obligations in the financial statements of an enterprise that has established a pension plan or plans to provide retirement income or other employee benefit plan coverage such as health care, sick leave, termination, life insurance or other benefits to its employees. Costs of retirement benefits and certain post retirement benefits are to be recognized over the periods in which employees render services to their employer in return for the benefit. Several examples include health care, sick leave, life insurance and voluntary exit. Costs for other post retirement benefits are recognized when the event which obligates the employer occurs. Examples include non-vested accumulated sick leave, parental leave, and non-service related short or long term disability plans.

Proper accounting and disclosure of employee future benefits is important because the method of accounting for employee future benefits affects the reported net income and financial position of an enterprise. It also affects the comparability of an enterprise's financial statements from one period to another, and with the financial statements of other enterprises.

Requirements Pursuant to the *Electricity Act, 1998*

This subsection summarizes the relevant sections of Part XI of the *Electricity Act, 1998* that pertained to the transitional requirements and the resulting transfer of pension costs and obligations from MEUs to the incorporated electric utility.

Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may have caused a corporation to be incorporated under the *Ontario Business Corporations Act* for the purpose of generating, transmitting, distributing or retailing electricity.

Pursuant to section 145 (1), the council of a municipality was permitted to make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal

Accounting for Specific Items

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corporation, or of a commission or other body through which the municipal corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity.

Pursuant to section 147 (1) of the *Electricity Act, 1998*, the employment of an employee who was transferred by or pursuant to a transfer by-law was not terminated by the transfer and was deemed to have been transferred to the transferee without interruption in service.

Pursuant to section 147 (2) of the *Electricity Act, 1998*, service with the transferor of an employee who was transferred by or pursuant to a transfer by-law was deemed to be service with the transferee for the purpose of determining probationary periods, benefits or any other employment-related entitlements under the *Employment Standards Act* or any other Act or under any employment contract or collective agreement.

Electricity Distributor's Pension Cost-OMERS Plan

Schedule D of the *Energy Competition Act, 1998* provides the required amendments to the *Ontario Municipal Employees Retirement System Act* ("OMERS Act") that allowed incorporated electric utilities and their employees to continue their pension plan arrangements under OMERS. The following sections of Schedule D of the *Energy Competition Act, 1998* broadens the definition of an "associated employer" under the OMERS Act thereby allowed incorporated electric utilities to remain within their previous pension plan arrangements without any changes in accounting procedures.

Pursuant to section 1 (1) of Schedule D of the *Energy Competition Act, 1998*, "associated employer" is defined as:

- a) a person who, under an agreement with a municipality or local board or under an Act, provides a service, program or thing to a person that the municipality or local board is authorized to provide to the person;
- b) a corporation incorporated in accordance with section 142 of the *Electricity Act, 1998* for the purpose of generating, transmitting, distributing or retailing electricity; or
- c) a person or association of persons that is designated by the Lieutenant Governor in Council as an associated employer under this Act.

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Pursuant to section 1 (2) of Schedule D of the *Energy Competition Act, 1998*, the definition of an “employer” was broadened to include an associated employer.

Pursuant to section 9.1 (1) of Schedule D of the *Energy Competition Act, 1998*, an employee of an associated employer is eligible to be a member of OMERS only if the employee’s duties relate primarily to the provision of the service, program or thing provided by the associated employer on behalf of the municipality or local board.

In summary, Schedule D of the Energy Competition Act, 1998 provided that incorporated electric utilities and their employees would continue their pension plan arrangements under OMERS and no changes in accounting procedures were required.

An electricity distributor which provides a defined benefit pension where OMERS is the plan sponsor qualifies under Section 3461.145 as a participant in a multiemployer pension plan. Under the provisions of CICA Handbook Paragraph 3461.147, multiemployer pension plans such as OMERS may be accounted for in the same manner as defined contribution pension plans as provided in Section 3461.014-023. Since OMERS is a multiemployer pension plan, the accounting requirements are relatively straightforward for electricity distributors participating in OMERS. As a result of being a participant in a multiemployer pension plan, the cost of pension benefits is equal to the employer’s required contribution provided in exchange for employees’ service rendered in the period (see CICA s.3461.146). The cost of pension benefits should be charged to account 5645, Employee Pensions and Benefits as provided in the USoA.

Guidance with respect to the accounting for past service obligations is provided in CICA Handbook Paragraphs 3461.019-021. A defined contribution benefit plan can give rise to a past service obligation cost where such a plan is initiated or amended. It will be necessary for the electric distributor to review the circumstances giving rise to the past service obligation in relation to the Recommendations of that section. To the extent that it is appropriate for any such past service obligations to be deferred, the USoA provides accounts to record this obligation.

The following accounts in the USoA are applicable to recording pension costs and obligations relating to a multi-employer pension plan such as OMERS.:

- account 1465, OMERS Past Service Costs. This account shall include the unamortized portion of OMERS past service costs, which will be expensed in future periods.
- account 2264, OMERS.- Current Portion. This account shall include the current portion of amounts payable to OMERS in regard to past service

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pension costs recorded in account 2348, OMERS - Past Service Liability - Long-Term Portion. Subaccounts should be used to record the current portion of non-OMERS past service pension costs, and Employee Future Benefits.

- account 2348, OMERS - Past Service Liability - Long-Term Portion. This account shall include the long-term portion of any known future principal amounts payable to OMERS in regard to past service pension costs. The current portion shall be kept in account 2264, OMERS - Current Portion.
- account 5645, Employee Pensions and Benefits. The cost of pensions expense and benefits expense as determined by Section 3461 of the CICA Handbook would be recorded in this account.

Electricity Distributor's Pension Cost-Own Plan Sponsor

This subsection discusses the accounting treatment of single employer pension plans including defined benefit pension plans and defined contribution pension plans. An electricity distributor which controls its Pension Plan is the Plan Sponsor of its Pension Plan.

Defined Benefit cost determination guidance is provided in Section 3461.069-.095. Section 3461.070 outlines the components of cost to be considered and Section 3461.071-095 provides more detailed guidance on the application of the components.

Defined Contribution cost determination guidance is provided in Section 3461.014-023. An entity's obligation for a reporting period is determined by the amounts to be contributed for that period. Section 3461.015 outlines the components of cost to be considered and Section 3461.016-023 provides more detailed guidance on the application of the components.

The following accounts have been provided in the USoA to record pension costs and obligations arising from defined benefit plans which include entities that are single employers (Plan Sponsors) or non-OMERS Pension Plans:

- account 1475, Past Service Costs -Other Pension Plans. This account shall include the unamortized portion of past service costs related to pension plans other than OMERS that will be expensed in future periods.

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- account 2306, Employee Future Benefits. This account shall include provision for other retirement benefits, such as health care benefits, life insurance and other benefits provided to employees after retirement.
- account 2308, Other Pension Liability. This account shall be used for non-OMERS pension assets/liabilities as required by Section 3461 of the CICA Handbook. See also related account 1475.
- account 2264, For non-OMERS pension, use sub-accounts of OMERS - Current Portion. This account shall include the current portion of amounts payable to OMERS in regard to past service pension costs recorded in account 2348, OMERS - Past Service Liability - Long-Term Portion. Sub accounts should be used to record the current portion of non-OMERS past service pension costs, and Employee Future Benefits.
- account 5645, Employee Pensions and Benefits. The cost of pension expense and benefit expense as determined by Section 3461 of the CICA Handbook (as described above) shall be recorded in this account.

Vested Sick Leave

Vested sick leave is that portion of unused sick leave that becomes payable to the employee on termination of employment under the terms of a union agreement or other definite commitment into which the utility has entered.

The vested portion of sick leave should be recorded as a liability and reflected in the operations of the period in which it was earned.

The current portion of the liability should recognize the amount required for the following year's retirements and an estimate of a further amount to cover separations for reasons other than retirements. The current liability portion of vested sick leave should be recorded in the following account provided in the USoA:

- account 2220, Miscellaneous Current and Accrued Liabilities. This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability.

The non-current liability portion of vested sick leave account should be recorded in the following account provided in the USoA:

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- account 2310, Vested Sick Leave Liability. This account shall include the vested sick leave entitlement as at year-end. Annual credits to this account shall be made in accordance with management or statutory requirements. The current portion of this liability shall be included in account 2220, Miscellaneous Current and Accrued Liabilities.

The expense side of these entries should be recorded in the following account provided in the USoA:

- account 5645, Employee Pensions and Benefits. The cost of pensions expense and benefits expense as determined by Section 3461 of the CICA Handbook would be recorded in this account.

Financial Statement Disclosure

In 2004, the CICA Handbook was updated effective June 2004 to include guidance on the disclosure requirements to provide users of financial statements with information about the effect of employee future benefits on the entity's financial statements and plan obligations and assets for defined benefit plans. (Section 3461.150-163)

Separate disclosure is required for plans that provide pension benefits (Section 3461.151 (a)) and plans that provide primarily other employee future benefits (Section 3461.151 (b)).

Disclosure is required of significant accounting policies that have been adopted as follows (Section 3461.152):

- Whether the projected benefit method, applicable where future salary levels or cost escalation affect the amount of future benefits, or the accumulated benefit method has been used to determine the accrued benefit obligation.
- Whether the expected return on plan assets is based on either fair or market-related value.
- The method used to amortize past service costs and the amortization period.
- Whether all actuarial gains or losses are amortized.
- Where an entity used defined contribution plan accounting as a result of having insufficient information to apply defined benefit plan accounting.

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Defined contribution plans are required to disclose costs recognized for the period and description and effect of each significant change affecting the comparability of the costs for the current and prior periods (Section 3461.153 (a-b)).

Defined benefit plans are required to provide a description of the types of plans, measurement data and dates of actuarial valuations, costs recognized, assets and liabilities, reconciliation of accrued benefit obligation to the accrued benefit liability or accrued benefit asset at the end of the period (Section 3461.154 (a-e)).

Several entities may also be plan sponsors such as OMERS. Entities who are plan sponsors are subject to disclosing the following information about defined benefit plans including, the benefits obligation including reconciliation of beginning and ending period balances along with separate disclosure of employee contributions, benefits paid, and current service cost interest, effect of non-routine events, actuarial gains or losses and effect of foreign currency changes. For plan assets a period reconciliation is required showing separately entity contributions, employee contributions, benefits paid, effect of significant non-routine events, actual return on plan assets and impact of foreign currency exchange rate changes specified asset class detail and related party detail (Section 3461.155 (a) (i)-(vii) and Section 3461.155 (b) (i)-(iii)).

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Purpose and Scope

In accordance with the *OEB Act, 1998*, licence conditions may include provisions specifying methods or techniques to be applied in determining the licensee's rates. In addition, the Board may establish standards, targets and criteria for utility performance evaluation purposes.

The Board has adopted a price cap mechanism to be applied in determining rates and has established performance criteria for electric distributors. For the purposes of this Article, this method of regulation is referred to as Performance Based Regulation ("PBR") or Incentive Regulation Mechanism ("IRM").

Accounting for Specific Items Incentive Regulation and Related Accounts

The application of IRM requires utilities to record accounting entries to reflect the impact of regulatory requirements. The CICA Handbook recognizes that financial statements prepared for regulated businesses are to be prepared taking into account the impact of rate regulation on the financial results of the entity. However, it does not provide guidance in this area. Accordingly, the purpose of this Article is to:

- describe the Board's authority to implement IRM;
- identify the accounts that are provided in the Uniform System of Accounts (USoA) to assist in the implementation of IRM; and
- summarize the implementation procedures and requirements related to the accounts.

General Summary

This Article summarizes the accounting procedures and requirements pertaining to the IR deferral and related accounts.

Authority to Implement Performance Based or Incentive Regulation

The Board has implemented IR pursuant to the following sections of the *OEB Act, 1998*:

- section 70 (2) (e), the conditions of an electric utility's licence may include provisions specifying methods or techniques to be applied in determining the licensee's rates.
- section 70 (2) (g), the conditions of an electric utility's licence may include provisions specifying performance standards, targets and criteria.
- section 83 (1), the Board may establish standards, targets and criteria for evaluation of performance by transmitters, distributors and retailers.
- section 83 (2), the Board may have regard to the standards, targets and criteria referred to in section 83 (1) in exercising its powers and performing its duties under this or any other Act in relation to transmitters, distributors and retailers, including establishing the conditions of a licence.

The discussion below follows from the implementation of IR and has been developed in conjunction with the requirements of the 2000 Electricity Distribution Rate Handbook.

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IRM Deferral Accounts

Authority for Use

Authorization for electric utilities to use the accounts indicated below is provided in the Board's Decision with Reasons RP-1999-0034. It should be noted that authorization to use the accounts does not imply Board acceptance of any amounts recorded. Amounts recorded will be subject to review and approval by the Board for the purposes of disposition.

The accounting procedures for the listed accounts are derived from the Board's Decision with Reasons RP-2000-0069, and Board's 2000 Electricity Distribution Rate Handbook issued March 9, as amended November 3, 2000. Additional implementation details included in this article have been approved by the Board and are designed to assist utilities in recording and reporting deferred items.

Valuation of Amounts Recorded

The amounts in the deferral accounts will be recorded at their nominal amounts i.e. not be grossed up for taxes.

The amounts to be booked to the Transition and Extraordinary Costs accounts will be determined by the utility based on actual expenditures incurred.

Corporate Reorganization and Transfer By-Law Costs

Costs incurred for corporate reorganization and the transfer by-law are not eligible for transition cost treatment. In addition, these costs will not be eligible for amortization for regulatory purposes based on the Board's Decision with Reasons RP-1999-0034 that they are an expense to be borne by the shareholder.

Qualifying Transition and Extraordinary Event Costs

Financing costs

Financing costs incurred to purchase capital assets (transition or extraordinary) will neither be accumulated in the deferral account nor permitted as a regulatory expense.

In capitalizing financing charges related to assets under construction, utilities will be guided by APH Article 410. In brief, the allowance for funds used during construction (AFUDC) must be a reasonable rate, and is subject to Board approval. Utilities will cease to capitalize interest when the asset is substantially complete and ready for productive use. Note that the "Construction Work in Progress" balance will be transferred to the deferral account when the asset is substantially complete and earn the Board approved return applicable to that deferred account.

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The appropriateness of the AFUDC rate used by the utility will be subsequently reviewed by the Board and will be approved based on the Board's assessment of the reasonableness of the allowance. The Board views the debt cost rate (DCR) established in the 2000 Electricity Distribution Rate Handbook as a reasonable rate to be used as the maximum allowable limit for the AFUDC in the first generation IRM period. A utility must use Table 3-1 of the 2000 Electricity Distribution Rate Handbook to determine the applicable DCR based on its deemed capital structure. The Board may revisit the appropriateness of the DCR for purposes of the AFUDC rate for the period after the first generation IRM.

The AFUDC will be applied as simple interest based on the monthly opening balance of the construction work in progress account (i.e. interest shall not be compounded). It should be noted the use of the DCR does not imply automatic Board acceptance of this rate. Other factors will be considered in the Board's assessment of the AFUDC such as the rates offered by financial institutions and other potential sources of financing.

Return on Deferred Capital Amounts

Capital assets recorded in these deferral accounts will be eligible to earn a "return".

However, no "return" will accrue on capital assets under construction (i.e. account 2055, Construction Work in Progress-Electric) since the AFUDC rate will be attributable to these capital expenditures until the asset is ready for productive service. The capital asset shall be transferred from "Construction Work in Progress" to the deferred account when the asset is ready for productive service.

The rate of return will be equal to the DCR based on the deemed capital structure for the utility and will be applied as simple interest based on the monthly opening balances in the deferral accounts (i.e. interest shall not be compounded).

Return on Deferred Non-Capital Amounts

Utilities will also be entitled to a return on non-capital amounts recorded in these accounts.

The rate of return will be equal to the DCR based on the deemed capital structure for the utility and will be applicable to all non-capital amounts in the deferral accounts. The rate will be applied as simple interest based on the monthly opening balances in the deferral accounts (i.e. interest shall not be compounded).

Accounting for Specific Items Incentive Regulation and Related Accounts

The return calculated on both the non-capital and capital components of deferral accounts should be added to non-capital component of the deferral account as the return is not a capital item.

Amortization of Capital Components within Deferral Accounts

Utilities will be required to amortize the capital components of the Transition and/ or Extraordinary Cost accounts similar to the manner in which those assets would be amortized had they been included in the rate base. The accounting treatment will be a credit to an Accumulated Amortization sub-account within the deferral account and a debit to the non-capital sub-account for the amortization amount.

The amount of the amortization expense will depend on the type of capital asset. Consequently, reference should be made to the guidance provided in Appendix E of the 2000 Electricity Distribution Rate Handbook (“Capital Assets - Amortization Rates”).

Note that the treatment described above for regulatory purposes will not change the requirements for income tax purposes. For example, where the capital assets in the deferral accounts are amortized at a rate different from the capital cost allowance rate prescribed by the *Income Tax Act (ITA)*, utilities will still be required to maintain records for the different requirements of the *ITA* as they would for any other asset subject to such differences.

No prior approval will be required for this accounting treatment. However, the Board may review the entries in the future.

Classifying and Recording Transition Costs

Guidance is provided in this sub-section to facilitate consistency in classifying and recording transition costs. The following list provides nine general categories of activities that will be used to record transition costs. The costs collected under each listed general category of activity will be recorded in a separate capital and / or non-capital sub-account within the deferral account. For example, if a utility purchases a new billing system for the sole purpose of facilitating unbundled customer billing that meets all the conditions of the four-part criteria test in the 2000 Electricity Distribution Rate Handbook, the asset would be recorded in a billing activity capital sub-account and the related amortization expense would be recorded in a billing activity non-capital sub-account. Note that the Board will consider other significant activities if the utility can demonstrate that expenses associated with an activity are consistent with the Board’s assessment criteria.

Accounting for Specific Items Incentive Regulation and Related Accounts

1. Billing activities (e.g. system modifications/ purchases to support unbundled customer billing, billing for standard supply customers and distributor billing options for retailers).
2. Customer education activities (e.g. billing inserts and call centres).
3. Wholesale market requirements (e.g. metering, settlement systems and validation, editing and estimation process).
4. IMO/IESO requirements (e.g. prudential requirements, registration, communication and market readiness testing).
5. Retailer/ customer requirements (e.g. retailer registration, prudential requirements, customer/ retailer information systems, and electronic business transactions system).
6. Staff adjustment activities (e.g. severance, counseling and retraining).
7. Regulatory costs (e.g. OEB license fee and proceeding costs).
8. Taxes (payments in lieu of taxes) to the extent an allowance is not provided by the Board in base rates.
9. Regulatory requirements (e.g. staff contract assistance and systems to accommodate record keeping, monitoring and filing requirements).

It should be noted transition cost eligibility is based on utility specific circumstances and shall be determined in accordance with the eligibility criteria established in the 2000 Electricity Distribution Rate Handbook. Consequently, utilities will be required to apply the four-part criteria test provided in the 2000 Electricity Distribution Rate Handbook on costs in order to determine their eligibility for “qualifying” transition cost treatment.

The CICA under Section 1000.35 offers a definition of net assets for profit oriented companies as the “equity representing ownership interests in the assets of a profit oriented enterprise after deducting its liabilities”. The Board’s letter to LDCs of November 9, 2001 regarding transition costs further provided for the use of rate base as defined in the Electricity Distribution 2000 Electricity Distribution Rate Handbook as an alternative materiality measure.

The materiality test for Qualifying Transition Costs should be applied to the cumulative balances of individual accounts that reflect the various activities of the wires company at the date of market opening (May 1, 2002).

It is particularly important to note that the materiality and causality criteria must be applied to transition costs in an ungrouped or segregated basis (i.e. the aggregating of costs that belong in the different general category of activity listed above is not permitted in order to test the materiality and causality criteria of the 2000 Electricity Distribution Rate Handbook).

Accounting for Specific Items Incentive Regulation and Related Accounts

With respect to the materiality criterion, a utility should separately record costs in the sub-account (classified by the general category of activity or “other” activity noted above) if the utility expects these costs will be material and subsequently eliminate the recorded amounts if the materiality assumptions proves to be incorrect. This test will be applied to the cumulative balances of each of the activity or “other” activity sub-accounts based on the utility’s financial results. Capital and non-capital sub-accounts of each activity are combined for the purpose of applying the materiality and causality criteria.

It is important to note also that the Other Regulated Charges discussed in Chapter 11 of the 2000 Electricity Distribution Rate Handbook are not to be included in the Qualifying Transition Cost. Separate variance accounts will be used to record other regulated charges.

Ineligible Transition Costs

The following is a non-exhaustive listing of ineligible transition cost/ items:

1. Incorporation and corporate reorganization costs (e.g. legal and consulting) of wires company and affiliate/ related company associated with but not limited to transfer-by-law and shareholder agreement.
2. Additions of staff (permanent, temporary, or consultants) required for transition activities unrelated to the “wires only” distribution restructuring.
3. Business plans or studies related to restructured business (external consultant’s costs including valuations or studies related to possible merger, acquisition, amalgamation and divestiture).
4. Structural/ physical separation of businesses related to electricity retailing.
5. Y2K compliance related costs.
6. Loss of funds related to contributions in aid of construction and development charges.
7. OEB annual assessment (deemed similar to avoided costs of Ontario Hydro regulation).

The above-noted costs and other costs considered by the Board to be ineligible will not qualify for transition cost treatment. For accounting purposes, these costs will be recorded in the appropriate USoA accounts in the normal manner required. As an example, the costs of incorporation including legal fees will be recorded in account 1606, Organization. For regulatory purposes however, this account will not be included in the rate base, and the related amortization expenses will not be included in the revenue requirement.

Accounting for Specific Items Incentive Regulation and Related Accounts

Account 1570, Qualifying Transition Costs

This account shall be used to record transition costs that meet the four qualifying criteria established in the Electricity Distribution Rate Handbook. Note that costs related to corporate reorganization and to the transfer by-law are not eligible for transition cost treatment.

Simple interest shall be calculated based on monthly opening balances in the account exclusive of the accumulated interest.

This account shall be further sub-divided by the appropriate general categories of activities as prescribed by the Board. Consequently, qualifying transition cost transactions shall be recorded in the appropriate sub-accounts to capture such costs as shown in the table below.

Records shall be maintained in a manner that permits ready identification of each cost contained in this account. More specifically, records shall be maintained as to permit the separate identification of any capital and non-capital cost components of this account. The capital sub-account will include capital assets that generally are included in the utility's rate base for rate-making purposes while the non-capital sub-account records the related annual amortization expense and operating and maintenance costs.

Entry at time of deferral

This account shall be debited with the amount deferred to a future period. The offsetting credit shall be recorded in the appropriate cash and/ or asset account as applicable.

Entry to record return on deferred amounts

This account shall be debited with an amount equal to the allowed return on the qualifying transition costs. The offsetting credit shall be to account 4405, Interest and Dividend Income.

Record keeping requirements/ sub-accounts

The following table summarizes the record keeping requirements/ sub-accounts associated with account 1570, Qualifying Transition Costs.

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General Categories of Activity	Capital Sub-account	Accumulated Amortization	Non-capital Sub-account
1. Billing Activities	✓	✓	✓
2. Customer Education Activities	✓	✓	✓
3. Wholesale Market Requirements	✓	✓	✓
4. IMO/IESO Requirements	✓	✓	✓
5. Retailer/ Customer Requirements	✓	✓	✓
6. Staff Adjustment Activities			✓
7. Regulatory Costs			✓
8. Regulatory Requirements			✓
9. Taxes (payments in lieu of taxes if applicable)			✓
10. Others (if applicable)			

Disposition of Account 1570

The Board allowed a partial recovery of transition costs for some electricity distributors in the 2002 rate year that continued in rates to the end of the 2003 rate year. Amounts collected resulting from the partial recovery of transition costs reduced the recovery of these costs in future periods. The Board later reviewed all transition costs against the criteria of both the 2000 Electricity Distribution Rate Handbook and the guidance provided in Article 480 of the APHandbook in the 2004 regulatory assets phase II preceeding and later as part of the 2006 rates applications

Starting in the 2004 rate year, transition cost recoveries were included in rates as part of the overall regulatory assets recovery allowed over a four-year period up to the end of the 2007 rate year. In the 2006 rate application process, the Board reviewed and approved eligible transition costs for distributors that filed applications. Inappropriately recorded or disallowed amounts were required to be written off. Distributors that filed for minimum reviews in their 2006 applications were required to write-off ten (10) percent of the principal amount recorded in account 1570 as a shareholder expense in 2005 net income using account 4380, Expense to Non-Utility Operations. It should be noted that the carrying charges related to the ten percent write-off of the principal amount were also required to be written-off in addition to the ten percent principal write-off amount.

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The eligible transition cost amount approved for recovery on a final basis is required to be transferred to account 1590, Recovery of Regulatory Asset Balances, to offset the recovered amounts which are also required to be recorded in 1590. The entry to transfer the final approved transition cost amount to account 1590 was required on May 1, 2006 to coincide with the start of the 2006 rate year and the final rate rider for regulatory assets recoveries

Account 1572, Extraordinary Event Costs

This account shall be used to record extraordinary event costs that meet the qualifying criteria established in the Electricity Distribution Rate Handbook.

Simple interest shall be calculated based on monthly opening balances in the account exclusive of the accumulated interest.

Extraordinary events by their nature are unique; therefore, this account shall be further sub-divided to reflect the nature of the activity resulting in the extraordinary expense entry. Consequently, extraordinary event costs transactions shall be recorded in appropriate sub-accounts for transactions of the same nature.

Records shall be maintained in a manner that permits ready identification of each cost contained in this account. More specifically, records shall be maintained as to permit the separate identification of any capital and non-capital cost components of this account. The capital sub-account will include capital assets that generally are included in the utility's rate base for rate-making purposes while the non-capital sub-account records the related annual amortization expense and operating and maintenance costs.

Entry at time of deferral

This account shall be debited with the amount deferred to a future period. The offsetting credit shall be recorded in the appropriate cash and/ or asset account as applicable.

Entry to record return on deferred amounts

This account shall be debited with an amount equal to the allowed return on extraordinary event costs. The offsetting credit shall be to account 4405, Interest and Dividend Income.

Disposition of Account 1572

Where an approval for recovery is granted by the Board for the disposition of a certain amount contained in Extraordinary Cost account 1572, the utility shall reduce the

Accounting for Specific Items Incentive Regulation and Related Accounts

deferral account by the actual amount collected on a monthly basis. Consequently, the revenues collected as a result of an approved disposition shall be recorded as a credit to the related deferral account.

The return earned on the deferral accounts will be determined on the net balances of these accounts.

Account 1570 Usage Illustrative Examples

Example 1: Capital purchase and related costs:

A utility purchased a new computer system for the purposes of the wholesale settlement activities on January 15. The purchase price including installation was \$100,000 and it was financed at 10% interest per year. Note that the financing was not included in the purchase price.

The purchase meets the criteria for transition cost treatment. This asset would normally be amortized over 5 years using straight-line amortization according to the guidance provided in Appendix E of the 2000 Electricity Distribution Rate Handbook (“Capital Assets-Amortization Rates”).

The asset related recurring operation, maintenance and administrative expenses are \$15,000 per year incurred on each November 15.

The debt cost rate (DCR) based on the deemed capital structure for the utility is 7.25% (according to Table 3-1 of the 2000 Electricity Distribution Rate Handbook).

Accounting treatment

The purchase cost of \$100,000 on January 15 would be recorded in account 1570, Qualifying Transition Costs under the category of activity “market participation requirement” capital sub-account. The offsetting credit is recorded in a liability account, for example, account 2225, Notes and Loans Payable.

On November 15, an amount equal to \$15,000 would be credited to the relevant operation, maintenance, and administrative expense accounts and debited to the category of activity “market participation requirement” non-capital sub-account of account 1570. At year-end, a return on the non-capital portion of account 1570 is allowed equal to the DCR based on the deemed capital structure for the utility (7.25% in this case). The return is calculated as simple interest based on the opening monthly balance for the non-capital portion of account 1570. Since the opening monthly balance

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for the non-capital portion was \$15,000 for December of this year, the return is calculated to be \$90 ($\$15,000 \times 7.25\% \times 1/12 = \90).

At December 31 of the year, the computer system would have depreciated \$20,000. A journal entry would record as a credit the \$20,000 amortization amount in a "market participation requirement" Accumulated Amortization sub-account, and the offsetting debit (for the amortization expense) would be recorded to the non-capital sub-account for "market participation requirement". Note that a return is allowed on the total non-capital portion of the deferral account, which should include the amortization expense. However, since the opening balance for the amortization expense sub-account is nil for this example, the return is nil.

At December 31, a return on the capital assets will accrue equal to the DCR applicable to the utility will be applied to all capital amounts in this account (1570). The return is calculated as simple interest based on the opening monthly balance for the capital portion of account 1570. Therefore, since the opening monthly balance for the capital portion was \$100,000 for eleven months of this year, the return is calculated to be \$6,646 ($\$100,000 \times 7.25\% \times 11/12 = \$6,646$). Note that this return on the capital portion should be calculated on the net balance. In this example the opening monthly balance is \$100,000. However, in the following year the net opening balance will take into account the Accumulated Amortization amount of \$20,000 for this year (credit). Consequently, for Jan. 1 the net balance in the sub-account, which will be subject to the return calculation, will be \$80,000.

Note also at December 31, the utility would have accrued an interest expense on the loan of \$100,000 at rate of 10%. This interest expense of \$9,583 ($\$100,000 \times 10\% \times 11.5/12$) will neither be accumulated in the deferral account nor permitted as a regulatory expense.

The accounting entries are summarized in the table below:

Event	Account	Entry
Jan. 15, Purchase	1570, Qualifying Transition Costs	\$100,000 DR "market participation requirement" (capital sub-account)
	2225, Notes and Loan Payable	\$100,000 CR
Nov. 30, Operating, Maintenance, Administration re-allocation	1570, Qualifying Transition Costs	\$15,000 DR "market participation requirement" (non-capital sub-account)
	O&M/ Admin.	\$15,000 CR

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Dec. 31, Amortization	1570, Qualifying Transition Costs	\$20,000 DR "market participation requirement" (non-capital sub-account) \$20,000 CR "market participation requirement" (accumulated amortization sub-account)
Dec. 31, Return on capital component	1570, Qualifying Transition Costs	\$6,646 DR "market participation requirement" (non-capital sub-account)
	4405, Interest and Dividend Income	\$6,646 CR
Dec. 31, Return on non-capital component	1570, Qualifying Transition Costs	\$90 DR "market participation requirement" (non-capital sub-account)
	4405, Interest and Dividend Income	\$90 CR
Dec. 31, Interest on loan	6035, Other Interest Expense	\$9,583 DR
	2225, Notes and Loan Payable	\$9,583 CR

Summary Of Year End Balances – Example 1	1570, Qualifying Transition Costs	\$100,000 DR "market participation requirement" (capital sub-account) \$20,000 CR "market participation requirement" (accumulated amortization sub-account) \$41,736 DR "market participation requirement" (non-capital sub-account)
	2225, Notes and Loan Payable	\$109,583 CR
	4405, Interest and Dividend Income	\$6,736 CR
	O&M/Admin.	\$15,000 CR
	6035, Other Interest Expense	\$9,583 DR

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Example 2: Construction work in progress and related costs:

A utility started work January 31 on a development project of a new billing system for the sole purpose of facilitating unbundled customer billing. The purchase price of the hardware and system equipment for the billing system was \$125,000, financed at 8% interest per year. Note that financing was not included in the purchase price.

The billing system development project involved several phases as summarized by activity and related costs including external labor in the table below. Note that a second loan was required for the software development, which also was financed at 8% interest per year.

The completed billing system meets the criteria for transition cost treatment. Normally, this asset would be amortized over 5 years using straight-line amortization according to the guidance provided in Appendix E of the 2000 Electricity Distribution Rate Handbook (“Capital Assets-Amortization Rates”).

The asset related recurring operation, maintenance and administrative expenses are \$10,000 per year incurred on each November 30.

The debt cost rate (DCR) based on the deemed capital structure for the utility is 7.25% (according to Table 3-1 of the 2000 Electricity Distribution Rate Handbook).

Date	Project Activity	Costs
Jan 31	Hardware for billing system – purchased	\$125,000
Apr 30	Software development – completed	\$50,000
Jun 30	Software testing – completed	\$10,000
Jun 30	Compliance testing – completed	\$5,000
Jul 7	Complete billing system implemented	N/A
Nov 30	Operation, maintenance and administrative expenses	\$10,000

Accounting treatment

The hardware and equipment purchase costs of \$125,000 would be recorded in account 2055, Construction Work in Progress-Electric, under a project sub-account on January 31 with the offsetting credit to a liability account, for example, account 2225, Notes and Loans Payable. On April 30, the software development phase of the project was completed. The cost of \$50,000 would be debited to account 2055, Construction Work

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in Progress-Electric, project sub-account and credited to account 2225, Notes and Loans Payable. The last two phases of the project, software and compliance testing were completed on June 30. The total costs of \$15,000 would be debited to account 2055, Construction Work in Progress-Electric, project sub-account and credited to account 2205, Accounts Payable.

On July 7, the billing system was completed and ready for productive use. An allowance for used funds during construction (AFUDC) is calculated based on the DCR for the utility and is applied as simple interest on the monthly opening balances of the Construction Work in Progress-Electric, project sub-account. In this example, the DCR is 7.25%. Therefore the AFUDC is \$5,529 calculated as follows: Feb to Apr: $(\$125,000 * 7.25\% * 3/12) = \$2,266$ + May to Jun: $(\$175,000 * 7.25\% * 2/12) = \$2,115$ + Jul: $(\$190,000 * 7.25\% * 1/12) = \$1,148$. The entry to record the AFUDC would be a debit to account 2055, Construction Work in Progress-Electric, project sub-account and a credit to account 6040, Allowance For Borrowed Funds Used During Construction-Credit.

The completed billing system meets the four-part test for transition costs treatment. On July 7, it is transferred to the deferral account with the following entry: \$195,529 debit to account 1570, Qualifying Transition Costs "billing activity" capital sub-account and \$195,529 credit to account 2055, Construction Work in Progress-Electric, project sub-account.

On November 30, an amount equal to \$10,000 would be credited to the relevant operation, maintenance, and administrative expense accounts and debited to the non-capital sub-account for "billing activities" of account 1570. At year-end, a return on the non-capital portion of account 1570 is allowed equal to the DCR for the utility (7.25%). The return is calculated as simple interest based on the opening monthly balance for the non-capital portion of account 1570. Since the opening monthly balance for the capital portion was \$10,000 for December of this year, the return is calculated to be \$60 $(\$10,000 * 7.25\% * 1/12 = \$60)$.

At December 31 of the year, the billing system would have depreciated \$39,106 $(\$195,529 * 20\%)$. A journal entry would record as a credit the \$39,106 amortization amount in the "billing activities" Accumulated Amortization sub-account and the offsetting debit (for the amortization expense) would be recorded to the non-capital sub-account for billing activities, both within account 1570.

At December 31, a return on the capital assets will accrue equal to the DCR to all capital amounts in this account (1570). The return is calculated as simple interest based on the opening monthly balance for the capital portion of account 1570. Therefore, since the opening monthly balance for the capital portion was \$195,529 for

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the months of August through December, the return is calculated to be \$5,907 ($\$195,529 * 7.25\% * 5/12 = \$5,907$).

Note also at December 31, the utility would have accrued interest expenses on the two loans. The total interest expense for the period was \$11,834 calculated as follow-: loan #1 Feb to Dec ($\$125,000 * 8\% * 11/12$) = \$9,167 + loan #2 May to Dec ($\$50,000 * 8\% * 8/12$) = \$2,667. This interest expense will neither be accumulated in the deferral account nor permitted as a regulatory expense.

The accounting entries are summarized in the table below:

Event	Account	Entry
Jan. 21, Hardware Purchase	2055, CWIP-Electric	\$125,000 DR (project sub-account)
	2225, Notes and Loan Payable	\$125,000 CR
Apr. 30, Software development	2055, CWIP-Electric	\$50,000 DR (project sub-account)
	2225, Notes and Loan Payable	\$50,000 CR
Jun. 30, Software and compliance testing	2055, CWIP-Electric	\$15,000 DR (project sub-account)
	2205, Accounts Payable	\$15,000 CR
Jul. 7, Financing cost – AFUDC (shown as one entry for convenience)	2055, CWIP-Electric	\$5,529 DR (project sub-account)
	6040, Allowance For Borrowed Funds Used During Construction-Credit	\$5,529 CR
Jul. 7, Completed billing system transferred	1570, Qualifying Transition Costs	\$195,529 DR “billing activities” (capital sub-account)
	2055, CWIP-Electric	\$195,529 CR (project sub-account)
Nov. 30, Operating, Maintenance, Administration (re-allocation)	1570, Qualifying Transition Costs	\$10,000 DR “billing activities” (non-capital sub-account)
	O&M/ Admin.	\$10,000 CR

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Event	Account	Entry
Dec. 31, Amortization	1570, Qualifying Transition Costs	\$39,106 DR "billing activities" (non-capital sub-account) \$39,106 CR "billing activities" (accumulated amortization capital sub-account)
Dec. 31, Return on capital component	1570, Qualifying Transition Costs	\$5,907 DR "billing activity" (non-capital sub-account)
	4405, Interest and Dividend Income	\$5,907 CR
Dec. 31, Return on non-capital component	1570, Qualifying Transition Costs	\$60 DR "billing activity" (non-capital sub-account)
	4405, Interest and Dividend Income	\$60 CR
Dec. 31, Interest on loans	6035, Other Interest Expense	\$11,834 DR
	2225, Notes and Loan Payable	\$11,834 CR
Summary Of Year End Balances – Example 2	1570, Qualifying Transition Costs	\$195,529 DR "billing activities" (capital sub-account) \$39,106 CR "billing activities" (accumulated amortization sub-account) \$55,073 DR "billing activities" (non-capital sub-account)
	2205, Accounts Payable	\$15,000 CR
	2225, Notes and Loan Payable	\$186,834 CR
	4405, Interest and Dividend Income	\$5,967 CR
	O&M/ Admin	\$10,000 CR
	6035, Other Interest Expense	\$11,834 DR
	6040, Allowance For Borrowed Funds Used During Construction-Credit	\$5,529 CR

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Purpose and Scope

Chapters 11 of the 2000 Electricity Distribution Rate Handbook make reference to variance accounts used to capture revenue and expense flows related to specific transactions. Generally, the variance accounts deal with the costs of certain Independent Electricity System Operator (“IESO”)/ host distributor charges and their recovery from customers (includes the cost of the energy itself) as well as expenses and revenues relating to the provisions of retail services by the distributor.

Accordingly, the purpose of this Article is to:

- Provide additional guidance relating to accounting for the variance accounts (and the related revenues and expense streams) mentioned in Chapter 11 of the 2000 Electricity Distribution Rate Handbook and arising out of the requirements of the Retail Settlement Code.
- Provide additional guidance relating to accounting for various other recoveries and charges mentioned in Chapter 11 of the 2000 Electricity Distribution Rate Handbook.

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General Summary

This Article summarizes the accounting procedures and requirements pertaining to all of the Retail Service Cost Variance Accounts (“RCVA”) and Retail Settlement Variance Accounts (“RSVA”) as well as miscellaneous recoveries and charges. It may be useful for the reader to refer to the 2000 Electricity Distribution Rate Handbook when reviewing this Article.

This Article emphasizes the need, for regulatory purposes, to provide detailed accounting for the revenue and expense streams associated with the variance accounts. This detail will provide information on utility cash flow and risk exposure and will assist the Board in making further decisions related to the use and disposition of the variance accounts and the appropriateness of Board approved rates, charges or fees.

The reader should note that while there may be alternative approaches to accounting and reporting of the material contained herein for external financial reporting purposes, this Article is primarily concerned with regulatory reporting requirements. As stated on page 8 of Article 100 of the APH “...the APHandbook does not prescribe how the accounts contained in the USoA are to be rolled up for financial statement reporting purposes. Accordingly, electric utilities should follow the general standards of financial statement presentation contained in the CICA Handbook”. In addition, page 7, item h) of Article 100 emphasizes that the APH provides a sufficient degree of flexibility for the utility to account for its activities in the manner most appropriate to its specific circumstances with the understanding that utilities are to report information to the Board in the format prescribed in the APH.

Authority to Establish and Use Variance Accounts

The authority to establish and use the variance accounts addressed in this Article is as follows:

RCVA – Chapter 11 of the 2000 Electricity Distribution Rate Handbook requires distributors to establish Retail Cost Variance Accounts to record the difference between rates, charges or fees set out in that chapter and the actual cost of providing the related services. These arise primarily as a result of requirements in Chapters 7, 8, 10, 11 and 12 of the RSC.

RSVA – Chapter 11 of the 2000 Electricity Distribution Rate Handbook requires all distributors to establish Retail Settlement Variance Accounts to record the differences

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between the amount owed to the IESO/ host distributor and the amount billed to customers and retailers under section 4, 5 and 6 of the RSC.

Regulated Charges

This Article refers to costs incurred to facilitate the operation of the retail market (Retail Service Charges) as well as costs incurred to bring the commodity to the distributor or the wholesale meter (Non-competitive Electricity Charges). Both types of charges are non-competitive in nature and are either regulated by the Board, required under Ontario Energy Board codes and guidelines, governed by the Market Rules, or are under the direction of the government of Ontario. Also included is some guidance on accounting for the cost of the commodity itself with respect to the default supply provision.

a) Retail Service Charges

Retail services refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity as set out in the RSC.

The Board has reviewed practices in other industries and developed a set of estimates for distributors to charge for retail services with the understanding that the actual costs for providing these services may vary. Consequently, distributors are required to establish variance accounts to record the difference between the rates, charges or fees (collectively “rates”) set out in the 2000 Electricity Distribution Rate Handbook and the actual costs of providing these services.

A distributor must establish at least two variance accounts for the purpose of recording variances between reasonable costs incurred for the provision of retail services and the standard rates set out in the 2000 Electricity Distribution Rate Handbook. These are:

- i) a Retail Cost Variance Account for Retail Services ($RCVA_{Retail}$), and
- ii) a Retail Cost Variance Account for Service Transaction Requests ($RCVA_{STR}$).

It should be noted that the RCVA relate only to the incremental costs of providing the retail services listed below (please refer to the 2000 Electricity Distribution Rate Handbook or to the section below under “Accounts” for examples of the specific types of incremental costs related to providing retail services). Note that “Incremental cost” is defined as the change in total expenses under a new condition (i.e. requirement to provide a new service) in comparison to some given or known condition (i.e. costs incurred prior to the requirement to provide the new service).

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Some costs to establish the capability to provide these services may be considered transition costs. Consequently, reference should be made to Article 480 "Incentive Regulation and Related Accounts" for treatment of transition costs. It should be noted that once the retail market opens it is expected that on-going incremental costs related to the Retail Service Charges mentioned in this section will no longer qualify for transition cost treatment since such costs are intended to be funded by the service fees mentioned in Chapter 11 of the 2000 Electricity Distribution Rate Handbook (and repeated below). Consequently, the RCVA will capture the net of the service fees and the post-market opening incremental expenses related to those service fees.

Also note that the Board will determine the methodology for disposition of both the $RCVA_{Retail}$ and $RCVA_{STR}$.

i) Retail Cost Variance Account for Retail Services ($RCVA_{Retail}$)

This variance account is established to record the difference between the amount billed and the incremental costs of providing retail services other than those related to a Service Transaction Request (STR). The distributor may use sub-accounts to capture variances related to the following services as applicable:

- a) Establishing Service Agreements
- b) Distributor-Consolidated Billing (with further sub-accounts required to capture bill-ready and rate-ready billing options)
- c) Retailer-Consolidated Billing
- d) Split Billing

The distributor must also complete Part I of the monitoring information shown in Appendix A at the end of this Article and submit it on a regular basis as required under section 2.1.2 of the Electricity Reporting and Record-keeping Requirement or as otherwise requested by the Board.

ii) Retail Cost Variance Account for Service Transaction Requests ($RCVA_{STR}$)

This variance account is established to record the difference between the amount billed in relation to a STR and the incremental costs of providing the initial screening and actual processing services for the STR. The distributor may use sub-accounts to capture variances related to the following items:

- a) Request fee
- b) Processing fee
- c) Information Request fee

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- d) Default fee
- e) Other Associated Costs fee

Mechanics:

The purpose of both of the above variance accounts is to enable an evaluation of the suitability of the prescribed rates at a later date. To accomplish this objective the variance accounts will need to reflect the net of:

- the revenue stream generated by the services, and
- the costs of providing the service.

Since the prescribed rates intend to cover the incremental costs of providing the services, the distributor will need to identify amounts equivalent to the incremental costs by analyzing the applicable USoA expense accounts. The incremental costs will, in most cases, be accumulated in existing USoA account 5315, Customer Billing, and possibly 5305, Supervision and 5340, Miscellaneous Customer Accounts Expenses while the revenues will be accumulated in USoA accounts 4082, Retail Services Revenue and 4084, STR Revenue described below under "Accounts".

The cumulative amount of the incremental costs at the end of a period should be compared to the cumulative end of period totals for the relevant revenue accounts. A journal entry to the variance accounts (on a regular basis as required by Chapter 11 of the 2000 Electricity Distribution Rate Handbook or otherwise specified by the Board) should then be made. The journal entry will decrease the higher of the:

- revenue accounts 4082 and/ or 4084,
- AND
- the expense accounts mentioned above (or other applicable accounts),

and provide an offsetting entry to the respective RCVA account.

Note that sub-accounts should be used within the expense accounts in order to facilitate the accumulation and tracking of incremental costs related to the provision of Retail and STR services.

As a guideline to calculating incremental costs, distributors are advised to consider the eligibility guidelines in section 5.1 of 2000 Electricity Distribution Rate Handbook. Note that the materiality guideline will not be applied for purposes of the RCVA since more information is required at this time in order to develop rates in the future.

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The balances in the variance accounts will therefore reflect, on a global basis, whether the prescribed rates are sufficient to cover the estimated incremental expenses or not. This information along with the monitoring of the account balances filed as part of the Electricity Reporting and Record-keeping Requirements (RRR) on a quarterly basis (see Part I of Appendix A) is used by the Board to adjust the prescribed rates for these services and to determine the methodology for disposition of the variance accounts. It is expected that the distributor will have reconciled all monitoring forms to its accounting records prior to submitting them to the Board. Any differences should be explained and included with the monitoring reports.

Accounts

The following USoA accounts will be used for the purposes of recording the variances mentioned above:

- account 1518, RCVA_{Retail}.

This account shall be used to record the net of:

- i) revenues derived from the following services described in the 2000 Electricity Distribution Rate Handbook:
 - a) Establishing Service Agreements;
 - b) Distributor-Consolidated Billing;
 - c) Retailer-Consolidated Billing; and
 - d) Split Billing;

AND

- ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (d) above, as applicable, and the avoided cost credit arising from Retailer-Consolidated Billing.

Sub-accounts may be used to separately record variances related to items a) to d) above.

- account 1548, RCVA_{STR}.

This account shall be used to record the net of:

- i) revenues derived from the Service Transaction Request services described in the 2000 Electricity Distribution Rate Handbook and charged by the distributor, as prescribed, in the form of a:

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- a) Request fee;
- b) Processing fee;
- c) Information Request fee;
- d) Default fee; and
- e) Other Associated Costs fee;

AND

- ii) the incremental cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.

Sub-accounts may be used to separately record variances related to the items listed above.

The following USoA accounts will be used for the purposes of recording revenues related to Retail and STR services mentioned above:

- account 4082, Retail Services Revenues. This account shall be used to record revenues derived from the following services described in the 2000 Electricity Distribution Rate Handbook:
 - a) Establishing Service Agreements;
 - b) Distributor-Consolidated Billing;
 - c) Retailer-Consolidated Billing; and
 - d) Split Billing;

Sub-accounts may be used to separately record amounts related to each of the above services.

- account 4084, STR Revenues. This account shall be used to record revenues derived from the Service Transaction Request services described in the 2000 Electricity Distribution Rate Handbook and charged by the distributor, as prescribed, in the form of a:
 - a) Request fee;
 - b) Processing fee;
 - c) Information Request fee;
 - d) Default fee; and
 - e) Other Associated Costs fee;

Sub-accounts may be used to separately record amounts related to the items listed above.

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Accounting Entries

Accounting for the revenue side will generally involve a debit to the appropriate accounts receivable account and a credit to the applicable revenue account 4082, Retail Services Revenues and/ or 4084, STR Revenues as services are provided.

Costs to provide services mentioned in the account description above will generally be accumulated in one or more of accounts 5315, Customer Billing or 5305, Supervision or 5340, Miscellaneous Customer Accounts and/ or other relevant accounts as they are incurred or accrued.

On a periodic basis (the basis prescribed in Chapter 11 of the 2000 Electricity Distribution Rate Handbook or otherwise required by the Board), the distributor will compare the balances of the revenue accounts (4082 and/ or 4084) to the amounts identified in the relevant expense accounts pertaining to retail services (i.e. incremental costs to provide those services) and enter a journal entry that will reduce the higher of the revenue or expense accounts with the offsetting entry to the RCVA_{Retail} or RCVA_{STR} accounts. The journal entry will be similar to the following:

DR: Revenue Accounts 4082 and/ or 4084

CR: Expense Accounts 5315, 5305, 5340, and/ or other relevant accounts

DR/CR: RCVA_{Retail} and/or RCVA_{STR}

To record the difference between the relevant expenses and revenues by decreasing the higher of the revenues and expenses and entering an offsetting amount in the applicable RCVA.

At the end of the next period, the entry made in the previous period will be reversed in order to preserve the integrity of the revenue and expense accounts. Then, another comparison of the balances of the revenue accounts (4082 and/ or 4084) to the amounts in the relevant expense accounts (i.e. incremental costs to provide those services) will be performed and a new journal entry similar to that above will be posted for that period. Note that in the last month of the fiscal period the cumulative difference between the revenue and expense accounts will be booked to the relevant RCVA and this amount will be carried forward to the next fiscal period.

b) Non-competitive Electricity Charges

Chapter 4 of the RSC indicates that all electricity distributors shall settle non-competitive electricity service costs based on rates approved by the Board. Since there will be differences between the amount ultimately owed (i.e. based on the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and

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retailers (i.e. using Board approved rates and calculated under section 4, 5 and 6 of the RSC), Retail Settlement Variance Accounts shall be used by all distributors to record such differences.

In this section, the RSVA refers to a set of accounts that will separately capture information relating to the following:

- a) Wholesale Market Service Charges (RSVA_{WMS})
- b) Non-recurring Wholesale Market Service Charges (RSVA_{One-time})
- c) Retail Transmission Network Service Charges (RSVA_{NW})
- d) Retail Transmission Connection Service Charges (RSVA_{CN})

Mechanics

The RSVA listed above are used to record the net difference between the amount paid in the month (i.e. using the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and retailers in the month based on Board-approved rates.

To accomplish this, distributors will need to compare related revenue and expense streams and record the difference in the appropriate RSVA by way of a monthly journal entry. It will be necessary to perform this comparison and resulting journal entry on a monthly basis since the net monthly opening balance will attract “Carrying Charges” as mentioned below. This approach is generally referred to as the “billed” method and the basis of the accounting procedures for the RSVAs on the original issuance of this Article.

Alternatively, however, a distributor may elect to use the accrual method. Under this method accruals are recorded monthly for unbilled revenue and for unbilled charges to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator. The difference between the respective revenues and expenses after recording the accruals are recorded into the various RSVA accounts. Where the accrual method is used, monthly carrying charges are calculated on these balances (i.e., not on a billed/cash basis). This approach also facilitates consistency in the case of distributors whose normal accounting practices includes accrual for monthly IESO charges and unbilled revenues.

The method chosen by the distributor shall be consistently applied on an ongoing basis to all RSVAs. Where a distributor elects to change from the billed to accrual method (one-time change permitted only on a prospective basis), Article 320 and CICA Handbook section 1506 should be consulted for the accounting and reporting requirements under the standards for Accounting Changes. Appropriate disclosure shall be provided as necessary. The distributor must ensure that the change in method

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is applied prospectively to all RSVA accounts (i.e. this is not a selective choice). The change must not impact any previous account balances filed for disposition as part of regulatory assets or other reviews for which recoveries (or refunds) have been approved in rates.

Accounting for the RSVA will generally involve the following entries:

Entry 1: Posting to the revenue/ “Billed” accounts

When the distributor bills customers, using Board approved rates for the above services, the related revenue will be accumulated in the “Billed” accounts established in the USoA (see accounts 4062, 4064, 4066, and 4068 below under “Accounts”).

When the accrual method is used, a distributor will include accruals for monthly unbilled revenue estimates in these accounts.

Entry 2: Posting to the expense/ “Charges” accounts

When the IESO (or host distributor) settlement invoice is received, the related expenses will be recorded in the “Charges” accounts 4708, 4712, 4714 and 4716 (described below under “Accounts”) depending on the item (i.e. WMS charges, Retail Transmission Network Charges, etc.).

When the accrual method is used, these accounts will include monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator.

Entry 3: Calculating the RSVA balance

Alternative A:

A comparison of the revenue/ “Billed” accounts to the expense/ “Charges” accounts will result in a journal entry which will reduce the higher of the revenue or expense account with an offsetting entry to the related RSVA accounts 1580, 1582, 1584, and 1586.

Alternative B:

Some utilities may find it easier to close out the related revenue and expense accounts at month end directly to each respective RSVA for that month.

Note: under both Alternative A and B the accounting entries will be reversed in the following month (i.e. after Entry 4: below is performed) in order to maintain the integrity of the revenue and expense accounts.

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Entry 4: Calculating carrying charges

In the next month, the opening balance of the RSVA for the month consistent with method used to determine the balance in the account (billed or accrual) will be used for purposes of calculating carrying charges for the month. It should be noted that a distributor shall not use one method (e.g., accrual) to determine the account's balance and another method (e.g., billed) to calculate carrying charges. The carrying charges will be recorded in a sub-account of the appropriate RSVA. Note that the carrying charges will be calculated on the balance net of accumulated interest to date (i.e. simple interest).

Entries 1 to 4 above will be repeated for each month in the fiscal period until the last month in the period.

Entry 5: Special entries required in final month of fiscal period

In the last month of the fiscal period the RSVA will need to represent the cumulative net differences between the revenue/ "Billed" and expense/ "Charges" accounts and include carrying charges. Consequently, in the last month of the fiscal period, the utility will book the cumulative difference for the fiscal period between these accounts and the cumulative differences will be rolled forward into the RSVA for the next fiscal period (subject to distributor/ Board review and request for disposition).

Under the billed method, the year-end entries that are used to permanently reduce the greater of the Billed and Charges accounts in the RSVA accounts do not include the year-end accruals of revenues and expenses (i.e., the permanent year-end entry to the RSVA accounts are completed before end-year accruals. This is illustrated in example 2, entry H and the general ledger summary, of this Article).

Entry 6: Exclusion of accruals in calculations of carrying charges in first month in new fiscal period (under the Billed method)

It should be noted that in closing the accounts for the fiscal period the utility will normally accrue for all related revenues and expenses. While these accruals will be reversed in the new fiscal period it is important to ensure that the carrying charges for the first month of the new period are calculated on the RSVA opening balance prior to any year-end accrued revenues and expenses (i.e., based on the permanent year-end entry discussed above in entry 5). This is because the purpose of the carrying charge is to provide a return on the net cash flows rather than on the accrued revenues and expenses. (Note: for purposes of the carrying charge calculation, the "Billed" amounts will be considered a cash inflow in the billing month.) Note where the accrual method is used, the monthly carrying charges are calculated on these balances derived using the accrual method.

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Maintenance and Recording

Each of the above RSVA shall be maintained at an aggregate level (i.e. not customer specific). A debit or credit to the balances of the variance accounts shall be calculated and posted on a monthly basis. At the end of each fiscal year, any outstanding balances in the variance accounts will be carried forward to the opening balance for the following year, unless otherwise directed by the Board.

Carrying Charges

The carrying charge amounts shall be calculated and recorded in a separate sub-account using simple interest applied to the monthly opening balances in the RSVA. For the period up to April 30, 2006, the distributor shall use an interest rate equal to the applicable deemed debt rate set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

This rate shall be applied to any balance in the account, either positive or negative, less any accumulated interest in the account.

Disposition

Any disposition shall be authorized by the Board. The Board has used a rate rider approach for the disposition of RSVA balances as part of regulatory assets approved for recovery in rates. The recovery period for regulatory assets is the 2004/05 to 2007/08 rate years. It should be noted however, the disposition methodology described below continues to be a viable alternative for future consideration. Ultimately, the disposition methodology for all RSVA will be specified by the Board.

Upon review of the RSVA balances at year-end, a distributor may apply to the Board for disposition of its RSVA in conjunction with the annual rate adjustment of distribution rates under Chapter 5 of the 2000 Electricity Distribution Rate Handbook.

If a distributor elects not to dispose of the year end balances in the RSVA, all outstanding balances shall be carried forward into the following year.

Note that the Board will be monitoring activity in these accounts and may order disposition if it determines the outstanding balances warrant such action.

According to Chapter 11 of the 2000 Electricity Distribution Rate Handbook, if an application is made to the Board to dispose of the RSVA balances, the full amount of the RSVA year-end balances shall be disposed. An application to dispose of either the $RSVA_{WMS}$ or the $RSVA_{Power}$ balances will automatically trigger a disposition for both accounts. (Note: the $RSVA_{Power}$ is discussed below in section “c) Power Charges”.

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The following disposition mechanism shall apply:

- (i) $RSVA_{Power}$ - losses on the distribution system are caused by all users of the distribution system including both wholesale market participant customers and retail customers.

To ensure that all users of the distributor's system proportionately share the variance amount in the $RSVA_{Power}$ balance associated with the difference between the annual total loss factor determined in accordance with the RSC and the calculated cost of losses for a distributor (the "Total Loss Factor ("TLF") Variance Amount"), this amount should be separated out from the $RSVA_{Power}$ year end balance for disposition purposes.

A distributor shall calculate the TLF Variance Amount and subtract it from the year end $RSVA_{Power}$ balance to arrive at the net $RSVA_{Power}$ balance (the "Net Power Variance Amount").

The disposition of the TLF Amount will be determined and communicated at a later date.

The Net Power Variance Amount will be added to the $RSVA_{WMS}$ for disposition purposes.

- (ii) $RSVA_{WMS}$ - The sum of the year end $RSVA_{WMS}$ balance and the Net Power Variance Amount will be rolled forward and included in the determination of the Wholesale Market Service Rate on a per kWh basis for the following year.
- (iii) $RSVA_{one-time}$ - a distributor may apply to the Board to recover the year-end outstanding balance.
- (iv) $RSVA_{NW}$, and
- (v) $RSVA_{CN}$ - the year-end balances of both these accounts will be rolled forward and included in the determination of the respective Retail Transmission Service Rates cost pools for the following year.

Monitoring requirements

Distributors are required to file quarterly monitoring information for all $RSVA$ in the form and manner required by the Board as part of the Electricity Reporting and Record-keeping Requirements (RRR) (see Part II of Appendix A) or as otherwise requested by the Board.

Accounting for Specific Items

Retail Services and Settlement Variances

Accounts

The following accounts will be used for purposes of recording the variances mentioned above:

- account 1580, $RSVA_{WMS}$.

This account shall be used to record the net of:

- i) the amount charged by the Independent Electricity System Operator (“IESO”) , based on the settlement invoice, for the operation of the IESO administered markets and the operation of the IESO – controlled grid (as defined in the *Electricity Act, 1998*) specified by the Board,

AND

- ii) the amount billed to customers using the Board-approved Wholesale Market Service Rate.

If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for wholesale market services and the amount billed to customers using the Board-approved Wholesale Market Service Rate.

A sub-account shall be used to separately record any related carrying charges.

- account 1582, $RSVA_{one-time}$.

This account shall be used to record the net of:

- i) the amount charged by the Independent Electricity System Operator (“IESO”) , based on the settlement invoice, for Wholesale Market Service Charges, specified by the Board (these charges are not normally already incorporated in the Wholesale Market Service Rate),

AND

- ii) the amount billed to customers for the same services using the Board-approved Rate.

A sub-account shall be used to separately record any related carrying charges.

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- account 1584, $RSVA_{NW}$.

This account shall be used by distributors deemed to be transmission customers to record the net of:

- i) the amount charged by the Independent Electricity System Operator (“IESO”) , based on the settlement invoice, for transmission network services,

AND

- ii) the amount billed to customers for the same services using the Board-approved Transmission Network Charge Rate.

If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network services and the amount billed to customers using the Board-approved Transmission Network Charge Rate.

A sub-account shall be used to separately record any related carrying charges.

- account 1586, $RSVA_{CN}$.

This account shall be used by distributors deemed to be transmission customers to record the net of:

- i) the amount charged by the Independent Electricity System Operator (“IESO”) , based on the settlement invoice, for transmission connection services,

AND

- ii) the amount billed to customers for the same services using the Board-approved Transmission Connection Charge Rate.

If applicable, embedded distributors shall also use this account to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission connection services and the amount billed to customers using the Board- approved Transmission Connection Charge Rate.

A sub-account shall be used to separately record any related carrying charges.

The following revenue accounts will be used to record amounts billed to customers by the distributor:

Accounting for Specific Items**Retail Services and Settlement Variances**

- account 4062, Billed - WMS. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers using the Board-approved Wholesale Market Service Rate for specified charge types.

A distributor may include accruals for monthly unbilled estimates in this account. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4708.

If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Wholesale Market Service Rate.

- account 4064, Billed - ONE-TIME. A distributor that is a wholesale Market Participant shall use this account to record amounts billed to customers relating to specified charge types for this account which are not normally already incorporated in the Board-approved Wholesale Market Service Rate.

A distributor may include accruals for monthly unbilled estimates in this account. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4712.

- account 4066, Billed - NW. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Network Service Rate approved by the Board.

A distributor may include accruals for monthly unbilled estimates in this account. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4714.

If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Network Service Rate.

- account 4068, Billed - CN. This account is to be used by distributors deemed by the Board to be transmission customers to record amounts billed to their customers using the Retail Transmission Connection Service Rate approved by the Board.

Accounting for Specific Items**Retail Services and Settlement Variances**

A distributor may include accruals for monthly unbilled estimates in this account. The distributor must ensure a proper matching of the billed amounts recorded in this account to those charges recorded in Account 4716.

If applicable, embedded distributors shall also establish and use this account to record the amount billed to customers using the Board-approved Retail Transmission Connection Service Rate.

The following expense accounts will be used to record service charges incurred by the distributor for services received from the IESO (or host distributor):

- account 4708, Charges – WMS. A distributor that is a wholesale Market Participant shall use this account to record the amounts charged by the Independent Electricity System Operator (based on the settlement invoice) for wholesale market service charge types specified by the Board. See Appendix B for charge types.

This account may include monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4062 to those charges recorded in this account.

If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for wholesale market services.

- account 4712, Charges - ONE-TIME. A distributor that is a wholesale Market Participant shall use this account to record the charges from the Independent Electricity System Operator (based on the settlement invoice) specified by the Board (these charges are not normally already incorporated in the Wholesale Market Service Rate). See Appendix B for charge types.

This account may include monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4064 to those charges recorded in this account.

- account 4714, Charges - NW. This account is to be used by distributors deemed by the Board to be transmission customers to record the amounts

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charged by the Independent Electricity System Operator (based on the settlement invoice) for retail transmission network services.

This account may include monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4066 to those charges recorded in this account.

If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission network services.

- account 4716, Charges - CN. This account is to be used by distributors deemed by the Board to be transmission customers to record the amount charged by the Independent Electricity System Operator (based on the settlement invoice) for retail transmission connection service.

This account may include monthly accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator. The distributor must ensure a proper matching of the billed amounts recorded in Account 4068 to those charges recorded in this account.

If applicable, embedded distributors shall also establish and use this account to record the amount charged by the host distributor (based on the settlement invoice) for retail transmission connection services.

c) Power Charges

i) Retail Settlement Variance Account for Power (RSVA_{Power})

The RSVA_{Power} account is established for the purpose of recording the “net difference” in energy cost only. “Net difference” refers to the difference between the amount charged by the IESO, host distributor or embedded generator based on the settlement invoice for the energy cost and the amount billed to customers for the energy cost. Note that these differences could be composed of differences in energy price and/ or energy quantities as well as the difference between estimated and actual line loss factors.

As indicated in Section b) above, a distributor may elect to use the accrual method for all RSVAs. With respect to RSVA_{Power} account, a distributor may include accruals for monthly unbilled estimates in Sales of Electricity and monthly

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accruals for amounts not yet invoiced by the IESO, host distributor or embedded generator for Power Purchased. The distributor must ensure a proper matching of the billed amounts recorded in the electricity sales accounts to those charges recorded in Account 4705.

For the purposes of the $RSVA_{Power}$, it is important to note that under either the billed or accrual method all components of energy differences shall be recognized and recorded in this account. These components include price and quantity differences (e.g. using the IESO preliminary data compared to the monthly settlement invoices for billing) and the difference between the Board-approved historic loss factor and the actual loss experienced by the distributor.

Mechanics

The amounts to be posted to the $RSVA_{Power}$ are determined by comparing the energy cost on the settlement invoice to the energy cost billed to customers.

Recording practices similar to those listed for the RSVA mentioned earlier in this Article apply to the $RSVA_{Power}$ account (see pages 10 to 13).

Maintenance and recording

Similar to practices for the other RSVA mentioned earlier in this Article. See page 13.

Carrying Charges

Similar to those for other RSVA mentioned earlier in this Article. See page 13.

Disposition

Instructions specifically related to $RSVA_{Power}$ are discussed on page 13 to 15 of this Article or as otherwise specified by the Board.

Monitoring Requirements

Similar to those for other RSVA mentioned earlier in this Article. See page 11.

Account

The following account will be used for the purposes of recording the $RSVA_{Power}$ variance:

- Account 1588, $RSVA_{Power}$.

This account shall be used to record the net difference between:

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i) the energy amount billed to customers,

AND

ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator.

ii) **Retail Settlement Variance Account for Global Adjustment/ Provincial Benefit (RSVA_{Power} Sub-account Global Adjustment)**

The RSVA_{Power} Sub-account Global Adjustment account is established for the purpose of recording the “net difference” in the global adjustment attributable to non-Regulated Price Plan (“RPP”) customers only. “Net difference” refers to the difference between the amount charged/credited by the IESO, host distributor or embedded generator based on the settlement invoice for the global adjustment and the amount billed to non-RPP customers for the global adjustment.

The “global adjustment” arises due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators/suppliers. The legislation (Bill 100) requires that the global adjustment be collected and credited or charged back to the various consumers of electricity. The global adjustment which is referred to as the Provincial Benefit for billing purposes came into effective on January 1, 2005.

The global adjustment is treated differently for RPP consumers compared to those that are non-RPP consumers. The global adjustment attributable to RPP consumers is captured in a RPP variance account held by the Ontario Power Authority (“OPA”). For the OPA account, the LDC settles the global adjustment related to RPP customers through a reconciliation and settlement process with the IESO. Consequently, the requirements for this sub-account relate to non-RPP customers only.

Mechanics

The amounts to be posted to the RSVA_{Power} Sub-account Global Adjustment are determined by comparing the global adjustment amount on the settlement invoice to the global adjustment amount billed to customers.

Recording practices similar to those listed for the RSVA mentioned earlier in this Article apply to the RSVA_{Power} Sub-account Global Adjustment account (see pages 10 to 13).

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Maintenance and recording

The same as practices for the other RSVA mentioned earlier in this Article. See page 13.

Carrying Charges

The same as for other RSVA mentioned earlier in this Article. See page 10.

Disposition

Instructions specifically related to RSVA_{Power} Sub-account Global Adjustment as specified by the Board.

Monitoring Requirements

The same as for other RSVA mentioned earlier in this Article or as otherwise specified by the Board. See page 15.

Account

The following account will be used for the purposes of recording the RSVA_{Power} Sub-account Global Adjustment variance:

- Account 1588, RSVA_{Power} Sub-account Global Adjustment

This sub-account shall be used to record the net difference between:

- i) the global adjustment amount billed to non-RPP customers,

AND

- ii) the global adjustment charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator.

d) Other Recoveries and Charges

i) SSS Administration Charge

The SSS charge allows the distributor to recover its cost of providing default supply service. The administration charge intends to cover only incremental costs that arise as a sole consequence of the existence of SSS service. These costs shall include customer service call handling related to SSS, Customer Information Systems ("CIS") expenses specifically related to RPP administration, CIS expenses directly related to bill display requirements and power procurement costs/ contract administration costs for distributors who use third party SSS

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supply. The SSS Code was amended to incorporate the RPP implementation which has been in effective since April 1, 2005.

Account

Distributors will use account 4080, Distribution Services Revenue to record revenues generated from the SSS Administration Charge. Distributors must use a sub-account to separately track such revenues in light of Board expectations that each distributor may establish a specific utility charge for recovery of SSS administrative costs.

ii) Distribution Wheeling/ Low Volume (LV) Service

Some distributors supply power to embedded distributors through distribution facilities and other facilities. As a result, the host distributors must apply to the Board for a rate to recover the costs associated with providing this service to the embedded distributors. Similarly, embedded distributors may apply for a rate to recover these charges from their customers.

Account

Host distributors will use account 4080, Distribution Services Revenue to record revenues generated from the Distribution Wheeling Service. Distributors must use a separate sub-account to track such revenues.

Embedded distributors shall use account 1550 to record new LV charges arising on or after May 1, 2006. This account was approved in the Board's decision of March 21, 2006 regarding the 2006 EDR generic issues proceeding (RP-2005-0020/EB-2005-0529). Account 1586, RSVA_{CN} shall be used to record LV charges approved for historic amounts included in regulatory assets rate rider(s).

iii) Debt Retirement Charge ("DRC")

The *Electricity Act*, 1998 and regulations made under that Act (Ontario Regulations 494/01 and 493/01) establish requirements for the payment and collection of charges to retire the residual stranded debt of the former Ontario Hydro. The DRC established for this purpose is payable by electricity consumed by most industrial, commercial and residential power consumers across the province.

The DRC rate, as set by regulation, is 0.7 cents per kWh of electricity consumed in most communities.

Account

Distributors shall use account 2250, Debt Retirement Charges to record the amounts collected and to be remitted in relation to the Debt Retirement Charge.

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iv) Rural or Remote Electricity Rate Protection (“RRRP”)

The RRRP (“RRRP”) provides rate protection for certain consumers that are in rural or remote areas of the province. The rules relating to the RRRP are set out in the *Ontario Energy Board Act, 1998* and in a regulation made under that Act (Ontario Regulation 442/01). RRRP is collected by the IESO for each kWh that is withdrawn from the IESO-controlled grid for use by consumers in Ontario.

Accounts

The RRRP is classified by the IESO as a wholesale market service and is charged to distributors on their monthly IESO settlement invoice. The 1580, RSVA_{WMS} and related 4062 and 4708 accounts are designated for use with respect to the RRRP charges. See pages 10 to 19 for RSVA_{WMS} requirements. The rate recovery of the RRRP charges has been incorporated in the Board-approved Wholesale Market Service Rate billed to consumers since the electricity market opening (May 1, 2002).

Accounting for Specific Items

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Accounts Usage Illustrative Examples

The following examples are provided to illustrate general concepts used under the **billed** method only. Note that while these examples were originally developed for the transition to the market opening, they are still relevant to the billed approach. Account 1520, PPVA cited in these examples has since been discontinued due to changes in legislation. The rural rate assistance (RRA) charge is now included as a charge in the IESO monthly settlement invoice and for billing purposes is included in the Board-approved wholesale market service rate.

Accounting – Example One – Basic Concepts

Assumptions:

- i) All distributor customers have energy only meters. Line losses are nil.
- ii) There are 20,000 customers in the distributor's franchise area. One half of these customers are on default supply and consume one half of the total energy usage.
- iii) The period covered by the billing period coincides with that of the settlement invoice and IESO charged usage is equal to the customer metered usage.
- iv) Preliminary data/ statement: IESO data received by distributor or host distributor data received by embedded distributor contains the following information:

Billed item	Total	Per unit cost
Total usage	13,500,000 kWh	--
Energy cost - WAHSP	--	0.022 Per kWh
TOTAL	\$ 762,800	--

- v) Board approved rates:

Item	Board approved rate	
Wholesale market service charges	Per kWh	\$ 0.0090
Retail transmission network charges	Per kWh	0.0098
Retail transmission connection charges	Per kWh	0.0105
Energy cost – Fixed Reference Price	Per kWh	0.0257
Distribution volumetric charge	Per kWh	0.0100
Distribution monthly service charge	Per month	10.0000
SSS Administration charge	per customer per month	0.2500

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- vi) Settlement Invoice: IESO invoice received by distributor or host distributor bill received by embedded distributor contains the following information:

Billed item	Total	Per unit cost
Total usage	13,500,000 kWh	--
Wholesale market service charges	\$ 129,600	\$0.0096 Per kWh
Wholesale market one time charges	\$ 50,000	Application fee
Retail transmission network charges	\$ 162,000	\$0.012 Per kWh
Retail transmission connection charges	\$ 128,250	0.0095 Per kWh
Energy cost - WAHSP	\$ 324,000	0.024 Per kWh
TOTAL	\$ 793,850	--

Accounting Entries: Using Alternative a: (see page 11)

- a) Record amounts billed to customers using the WAHSP and Board approved rates as applicable.

Account	Source of Rate	Rate per unit	Units	Total
4062, Billed - WMS	Board	\$ 0.009/ kWh	13,500,000	\$121,500
4064, Billed -One-time	N/A	N/A	N/A	N/A
4066, Billed - NW	Board	\$ 0.0098/kWh	13,500,000	132,300
4068, Billed - CN	Board	\$ 0.0105/kWh	13,500,000	141,750
4006, Residential Energy Sales	Board	\$ 0.0257/kWh	6,750,000	173,475
4055, Energy Sales for Retailers / Others	WAHSP	\$ 0.022/kWh	6,750,000	148,500
4080 Sub - account	Board	\$10.00/customer	20,000	200,000
4080 Sub - account	Board	\$ 0.01 / kWh	13,500,000	135,000
4080 Sub - account	Board	\$ 0.25 / customer	10,000	2,500

Description	DR Amount	CR Amount
Accounts Receivable (Residential Customers)	\$1,055,025	
4062, Billed - WMS		\$ 121,500
4064, Billed - One-time		--
4066, Billed - NW		132,300
4068, Billed - CN		141,750

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4006, Residential Energy Sales-default		173,475
4055, Energy Sales for Retailers / Others		148,500
4080, Distribution Service Revenue		
sub-account	Monthly Service Charge	200,000
sub-account	Volumetric Charge	135,000
sub-account	SSS Administrative Charge	2,500
		\$1,055,025
		\$1,055,025

To record month #1 billing to customers based on the WAHSP and Board approved rates.

b) Record amounts paid to IESO based on Settlement invoice.

Description	DR Amount	CR Amount
4708, Charges WMS	\$ 129,600	
4712, Charges One-time	50,000	
4714, Charges NW	162,000	
4716, Charges CN	128,250	
4705, Power Purchased	324,000	
2256, Accounts Payable (IESO)		\$ 793,850
	\$ 793,850	\$ 793,850

To record month #1 expense based on Settlement invoice.

c) Record entry to Power Purchase Variance Account (i.e. related to SSS customers only). Note that this account was discontinued due to legislative changes. No replacement or similar variance account was required for fixed reference prices since all energy fixed prices attributable to low volume and/or designated consumers are settled directly between the distributor and the IESO, host distributor or embedded generator. This includes the regulated price plan (RPP) in effect April 1, 2005 and the established settlement process for the RPP between the distributor and the IESO.

Residential Energy Sales – SSS – based on Fixed Reference Price 13,500,000 kWh / 2 = 6,750,000 kW * \$0.0257 per kWh	\$173,475
Residential Energy Sales – SSS – based on WAHSP 13,500,000 kWh / 2 = 6,750,000 kW * \$0.022 per kWh	\$148,000
Total PPVA amount	\$ 24,975

Accounting for Specific Items

Retail Services and Settlement Variances

Description	DR Amount	CR Amount
4006, Residential Energy Sales	\$ 24,975	
1520, PPVA		\$ 24,975
	<u>\$ 24,975</u>	<u>\$ 24,975</u>

To record the entry to the PPVA for default supply customers using the difference between the fixed reference price and the WAHSP energy cost for month #1.

- d) Perform an analysis of account balances to determine adjustment required to higher balances and journal entry to RSVA.

Charges / Expenses		Variance Account DR/(CR) for difference	Billed / Revenues	
Account	Month-end balance		Month- end balance	Account
4708, Charges WMS	\$ 129,600	\$ 8,100	\$ 121,500	4062, Billed - WMS
4712, Charges One-time	50,000	50,000	Nil	4064, Billed - One-time
4714, Charges NW	162,000	29,700	132,300	4066, Billed - NW
4716, Charges CN	128,250	(13,500)	141,750	4068, Billed - CN
4705, Power Purchased	324,000	27,000	148,500	4006, Residential Energy Sales
			<u>148,500</u>	4055, Energy Sales for Retailers/ Others
			297,000	

Description	DR Amount	CR Amount
1580, RSVA _{WMS}	\$ 8,100	
1582, RSVA _{One-time}	50,000	
1584, RSVA _{NW}	29,700	
4068, Billed - CN	13,500	
1588, RSVA _{Power}	27,000	
4708, Charges WMS		\$ 8,100
4712, Charges One-time		50,000
4714, Charges NW		29,700
1586, RSVA _{CN}		13,500

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4705, Power Purchased	27,000
	<u>\$ 128,300</u>
	<u>\$ 128,300</u>

To record the monthly adjustment to the "higher of" accounts and to the respective variance accounts for month #1.

- e) Calculate the carrying charges on the opening balances (assume opening balances were NIL for month one).

Assume that the deemed debt rate as set out in Chapter 3 of the 2000 Electricity Distribution Rate Handbook (See Table 3-1) for this utility is 7.25%.

For opening balances of variance accounts - month # 2: See item f) below

Description	DR Amount	CR Amount
1580, RSVA _{WMS}	\$ 49	
1582, RSVA _{One-time}	302	
1584, RSVA _{NW}	179	
1588, RSVA _{Power}	163	
1586, RSVA _{CN}		\$ 81
1520, PPVA		151
4405, Interest and Dividend Income		461
	<u>\$ 693</u>	<u>\$ 693</u>

To record carrying charges as calculated on Month # 2 opening balances of the variance accounts using the deemed debt rate.

- f) In month # 2, reverse month # 1 adjustment to the "higher of" accounts and their respective variance accounts.

Description	DR Amount	CR Amount
4708, Charges WMS	\$ 8,100	
4712, Charges One-time	50,000	
4714, Charges NW	29,700	
1586, RSVA _{CN}	13,500	
4705, Power Purchased	27,000	
1580, RSVA _{WMS}		\$ 8,100
1582, RSVA _{One-time}		50,000
1584, RSVA _{NW}		29,700
4068, Billed - CN		13,500
1588, RSVA _{Power}		27,000
	<u>\$ 128,300</u>	<u>\$ 128,300</u>

To reverse month #1 adjustment to preserve the integrity of the Charges and Billed accounts.

Accounting for Specific Items

Retail Services and Settlement Variances

g) Account Balances

Account	Opening Balance Month # 2 DR/ (CR)	Closing Balance Month # 2 DR/ (CR)
1520, PPVA	\$ (24,975)	\$ (24,975)
Sub-1520, PPVA (Carrying Charges)		151
1580, RSVA _{WMS}	8,100	
Sub-1580, RSVA _{WMS} (Carrying Charges)		49
1582, RSVA _{One-time}	50,000	
Sub-1582, RSVA _{One-time} (Carrying Charges)		302
1584, RSVA _{NW}	29,700	
Sub- 1584, RSVA _{NW} (Carrying Charges)		179
1586, RSVA _{CN}	(13,500)	
Sub-1586, RSVA _{CN} (Carrying Charges)		81
1588, RSVA _{Power}	27,000	
Sub-1588, RSVA _{Power} (Carrying Charges)		163
4006, Residential Energy Sales	(148,500)	(148,500)
4055, Energy Sales for Retailers/ Others	(148,500)	(148,500)
4062, Billed - WMS	(121,500)	(121,500)
4064, Billed - One-time	--	--
4066, Billed - NW	(132,300)	(132,300)
4068, Billed - CN	(128,250)	(141,750)
4705, Power Purchased	297,000	324,000
4708, Charges WMS	121,500.00	129,600.00
4712, Charges One-time	--	50,000.00
4714, Charges NW	132,300.00	162,000.00
4716, Charges CN	128,250.00	128,250.00

Accounting for Specific Items

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Accounting- Example Two: Complex (using Alternative b: (see page 11))

This is a comprehensive example developed with stakeholder assistance to reflect market opening activity based on an assumed market opening date of November 1, 2002 and continuing through an assumed year-end of December 31, 2002. While November 1, 2002 is not projected as the date of market opening, it was used in this example to illustrate start-up, year-end accruals and reversing accounting entries. Note that this example also is based on the billed method.

For this example, the reader should begin with the assumptions below (which include assumptions contained in the Billing Register and IESO Settlement Invoices) in order to assist in the review of the journal entries that follow.

Assumptions:

- i) All distributor customers have energy only meters. Line losses have been taken into account in billing.
- ii) Cycle # 1 bills - 5,000 customers, one-half on Standard Supply Service (Fixed Rate Exemption obtained), one-half on Retailer supply. Cycle # 2 bills - 15,000 customers, one-half on Standard Supply Service (Fixed Rate Exemption obtained), one-half on Retailer supply.
- iii) See Billing Register for WAHSP and other assumptions.
- iv) Board approved customer rates:

Item	Board Approved rate	
Effective November 1, 2002:		
Wholesale market services charges	Per kWh	\$0.0090
Retail transmission network charges	Per kWh	\$0.0098
Retail transmission connection charges	Per kWh	\$0.0105
Energy cost (utility has received SSS Exemption)	Per kWh	WAHSP
Distribution monthly service charge	Per customer per month	\$10.0000
Distribution kWh	Per kWh	\$0.0100
SSS Administration charge	Per month	\$0.2500
Debt retirement charge	Per kWh	\$0.0070
Rural rate assistance	Per kWh	\$0.0010

- v) IESO Charges: Settlement Invoice data as provided on page 36.
- vi) Deemed Debt Rate is 7.25%.

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BILLING REGISTER

Cycle #1: Monthly billing - Meters read on November 15, 2002								Notes:
Description of Charge	Component	From	To	Days	Units	Rate	Amount	
Monthly service charge	Customer	11/01/02	11/15/02	15	5,000	10.0000	50,000	AA
Distribution kWh	kWh	11/01/02	11/15/02	15	1,620,295	0.0100	16,203	EE
Wholesale market services charges	kWh	11/01/02	11/15/02	15	1,679,063	0.0090	15,112	GG
Retail transmission network charges	kWh	11/01/02	11/15/02	15	1,679,063	0.0098	16,455	BB
Retail transmission connection charges	kWh	11/01/02	11/15/02	15	1,679,063	0.0105	17,630	BB
Energy cost - SSS	kWh	11/01/02	11/15/02	15	839,532	0.0220	18,470	CC/DD
Energy cost - Retailers	kWh	11/01/02	11/15/02	15	839,532	0.0220	18,470	DD
Debt retirement charge	kWh	11/01/02	11/15/02	15	1,620,295	0.0070	11,342	GG
Rural rate assistance	kWh	11/01/02	11/15/02	15	1,679,063	0.0010	1,679	HH
SSS Administrative charges					2,500	0.2500	625	EE
							165,986	

Cycle #2: Bi-Monthly billing - Meters read on December 10, 2002								
Description of Charge	Component	From	To	Days	Units	Rate	Amount	
Monthly service charge		11/01/02	12/10/02	40	15,000	10.0000	150,000	EE
Distribution kWh	kWh	11/01/02	12/10/02	40	13,115,517	0.0100	131,155	GG
Wholesale market services charges	kWh	11/01/02	12/10/02	40	13,591,210	0.0090	122,321	BB
Retail transmission network charges	kWh	11/01/02	12/10/02	40	13,591,210	0.0098	133,194	BB
Retail transmission connection charges	kWh	11/01/02	12/10/02	40	13,591,210	0.0105	142,708	BB
Energy cost - SSS	kWh	11/01/02	12/10/02	40	6,795,605	0.0230	156,299	CC/DD
Energy cost - Retailers	kWh	11/01/02	12/10/02	40	6,795,605	0.0230	156,299	DD
Debt retirement charge	kWh	11/01/02	12/10/02	40	13,115,517	0.0070	91,809	GG
Rural rate assistance	kWh	11/01/02	12/10/02	40	13,591,210	0.0010	13,591	HH
SSS Administrative charges					7,500	0.2500	1,875	EE
							1,099,251	

Accounting for Specific Items
Retail Services and Settlement Variances

BILLING REGISTER

Cycle #1: Monthly billing - Meters read on December 15, 2002

Description of Charge	Component	From	To	Days	Units	Rate	Amount	
Monthly service charge		11/16/02	12/15/02	30	5,000	10.0000	50,000	
Distribution kWh	kWh	11/16/02	12/15/02	30	3,373,730	0.0100	33,737	GG
Wholesale market services charges	kWh	11/16/02	12/15/02	30	3,496,094	0.0090	31,465	BB
Retail transmission network charges	kWh	11/16/02	12/15/02	30	3,496,094	0.0098	34,262	BB
Retail transmission connection charges	kWh	11/16/02	12/15/02	30	3,496,094	0.0105	36,709	BB
Energy cost - SSS	kWh	11/16/02	12/15/02	30	1,748,047	0.0240	41,953	CC/DD
Energy cost - Retailers	kWh	11/16/02	12/15/02	30	1,748,047	0.0240	41,953	DD
Debt retirement charge	kWh	11/16/02	12/15/02	30	3,373,730	0.0070	23,616	GG
Rural rate assistance	kWh	11/16/02	12/15/02	30	3,496,094	0.0010	3,496	HH
SSS Administrative charges					2,500	0.2500	625	
							297,816	

BILLING REGISTER

Cycle #1: Monthly billing - Meters read on January 15, 2003

Description of Charge	Component	From	To	Days	Units	Rate	Amount	Accrued Revenue			
								Units	Rate	Amount	
Monthly service charge		12/16/02	01/15/03	31	5,000	10.0000	50,000			25,806	FF
Distribution kWh	kWh	12/16/02	01/15/03	31	3,558,287	0.0100	35,583	1,836,535	0.0100	18,365	GG
Wholesale market services charges	kWh	12/16/02	01/15/03	31	3,687,344	0.0090	33,186	1,903,145	0.0090	17,128	BB
Retail transmission network charges	kWh	12/16/02	01/15/03	31	3,687,344	0.0098	36,136	1,903,145	0.0098	18,651	BB
Retail transmission connection charges	kWh	12/16/02	01/15/03	31	3,687,344	0.0105	38,717	1,903,145	0.0105	19,983	BB
Energy cost - SSS	kWh	12/16/02	01/15/03	31	1,843,672	0.0260	47,935	951,573	0.0260	24,741	CC/DD
Energy cost - Retailers	kWh	12/16/02	01/15/03	31	1,843,672	0.0260	47,935	951,573	0.0260	24,741	DD
Debt retirement charge	kWh	12/16/02	01/15/03	31	3,558,287	0.0070	24,908	1,836,535	0.0070	12,856	GG
Rural rate assistance	kWh	12/16/02	01/15/03	31	3,687,344	0.0010	3,687	1,903,145	0.0010	1,903	HH
SSS Administrative charges				31	2,500	0.2500	625			323	FF
							318,712			164,497	

Accounting for Specific Items
Retail Services and Settlement Variances

BILLING REGISTER

Cycle #2: Bi-Monthly billing - Meters read on February 10, 2003

Description of Charge	Component	From	To	Days	Units	Rate	Amount	Accrued Revenue			
								Units	Rate	Amount	
Monthly service charge		12/11/02	02/10/03	62	15,000	10.0000	150,000			50,806	FF
Distribution kWh	kWh	12/11/02	02/10/03	62	17,955,975	0.0100	179,560	6,081,862	0.0100	60,819	GG
Wholesale market services charges	kWh	12/11/02	02/10/03	62	18,607,228	0.0090	167,465	6,302,448	0.0090	56,722	BB
Retail transmission network charges	kWh	12/11/02	02/10/03	62	18,607,228	0.0098	182,351	6,302,448	0.0098	61,764	BB
Retail transmission connection charges	kWh	12/11/02	02/10/03	62	18,607,228	0.0105	195,376	6,302,448	0.0105	66,176	BB
Energy cost - SSS	kWh	12/11/02	02/10/03	62	9,303,614	0.0260	241,894	3,151,224	0.0260	81,932	CC/DD
Energy cost - Retailers	kWh	12/11/02	02/10/03	62	9,303,614	0.0260	241,894	3,151,224	0.0260	81,932	DD
Debt retirement charge	kWh	12/11/02	02/10/03	62	17,955,975	0.0070	125,692	6,081,862	0.0070	42,573	GG
Rural rate assistance	kWh	12/11/02	02/10/03	62	18,607,228	0.0010	18,607	6,302,448	0.0010	6,302	HH
SSS Administrative charges				62	7,500	0.5000	3,750			1,270	FF
NOTES:							1,506,589			510,296	

- AA** Assume market opens Nov. 1/02
- BB** Usage has been uplifted for line losses (assume 3.62%)
- CC** Assume utility has received FRP exemption
- DD** Assume WAHSP is as shown
- EE** Assume first bill charged for one month regardless of days
- FF** Assume fee prorated for days for accrual purposes
- GG** Assume no uplifting for line losses required
- HH** Assume uplifting for line losses will be required

Accounting for Specific Items
Retail Services and Settlement Variances

IESO Settlement Invoices

November 2002:

Date received	December 15, 2002
Date paid	December 17, 2002
Total Usage (kWh)	13,500,000

NOTES:

Aa
Ab

Charges	Total	Per unit cost
Wholesale market services charges	\$132,300.00	\$0.0098
Wholesale market one time charge	\$50,000.00	
Retail transmission network charges	\$162,000.00	\$0.0120
Retail transmission connection charges	\$121,500.00	\$0.0090
Energy cost - WAHSP	\$337,500.00	\$0.0250
TOTAL	\$803,300.00	

December 2002:

Date received	January 15, 2003
Date paid	January 17, 2003
Total Usage (kWh)	14,500,000

Aa
Ab

Charges	Total	Per unit cost
Wholesale market services charges	\$142,100.00	\$0.0098
Wholesale market one time charge	\$-	
Retail transmission network charges	\$174,000.00	\$0.0120
Retail transmission connection charges	\$130,500.00	\$0.0090
Energy cost - WAHSP	\$410,350.00	\$0.0283
TOTAL	\$856,950.00	

Bb

Accounting for Specific Items
Retail Services and Settlement Variances

January 2003:

Date received	February 15, 2003	Aa
Date paid	February 17, 2003	Ab
Total Usage (kWh)	15,000,000	

Charges	Total	Per unit cost	
	\$148,500.00	\$0.0099	
Wholesale market services charges			
Wholesale market one time charge	\$-		
Retail transmission network charges	\$187,500.00	\$0.0125	
Retail transmission connection charges	\$142,500.00	\$0.0095	
Energy cost - WAHSP	\$360,000.00	\$0.0240	Bb
TOTAL	<u>\$838,500.00</u>		

NOTES:

Aa = IESO settlement invoice issued 10 business days after last trading day of month and covers an IESO billing period of one calendar month.

Ab = Payment due from market participant by second business day after invoice is issued.

Bb = WAHSP changed for this month

Accounting for Specific Items
Retail Services and Settlement Variances

JOURNAL ENTRIES

Entry #	Date	Account Number	Description	DR Amount	CR Amount
NOVEMBER					
A	11/16		Accounts Receivable	\$165,986	
		sub-4080	Distribution Revenue - Monthly service charge		\$50,000
		sub-4080	Distribution Revenue - Distribution kWh		\$16,203
		4062	Billed WMS		\$15,112
		4066	Billed NW		\$16,455
		4068	Billed CN		\$17,630
		sub-4006	Residential Energy Sales		\$18,470
		sub-4055	Energy Sales for Retailers/Others		\$18,470
		2250	DRC payable		\$11,342
		TBD	RRA payable		\$1,679
		sub-4080	SSS Administration Revenue		\$625
				\$165,986	\$165,986

To record Cycle #1 bills for the period 11/01/02 - 11/15/02 (using Billing Register).

B	11/30	4062	Billed WMS	\$15,112	
		4066	Billed NW	\$16,455	
		4068	Billed CN	\$17,630	
		sub-4006	Residential Energy Sales	\$18,470	
		sub-4055	Energy Sales for Retailers/Others	\$18,470	
		1580	RSVA WMS		\$15,112
		1582	RSVA One time		\$ -
		1584	RSVA NW		\$16,455
		1586	RSVA CN		\$17,630
		1588	RSVA Power		\$36,940
				\$86,137	\$86,137

To close out "Billed" accounts to RSVA's for November month –end (See General Ledger Summary at page 48).

DECEMBER					
C	12/01	6035	Interest Expense	\$520	
		sub-1580	RSVA WMS		\$91
		sub-1584	RSVA NW		\$99
		sub-1586	RSVA CN		\$107
		sub- 1582	RSVA One time		\$ -
		sub- 1588	RSVA Power		\$223
				\$520	\$520

To record carrying charges on the RSVA balances of December 1 (See General Ledger Summary at page 48).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
D	12/01	1580	RSVA WMS	\$15,112	
		1582	RSVA One time	\$ -	
		1584	RSVA NW	\$16,455	
		1586	RSVA CN	\$17,630	
		1588	RSVA Power	\$36,940	
		4062	Billed WMS		\$15,112
		4066	Billed NW		\$16,455
		4068	Billed CN		\$17,630
		sub-4006	Residential Energy Sales		\$18,470
		sub-4055	Energy Sales for Retailers/Others		\$18,470
				<u>\$86,137</u>	<u>\$86,137</u>

To reverse closing out entry # B re: November month –end.

E	12/15	4708	Charges WMS	\$132,300	
		4712	Charges One-time	\$50,000	
		4714	Charges NW	\$162,000	
		4716	Charges CN	\$121,500	
		4705	Power purchased	\$337,500	
		2256	IESO Fees and Penalties Payable		\$803,300
				<u>\$803,300</u>	<u>\$803,300</u>

To record the November 2002 IESO invoice (all figures per IESO invoice).

F	12/11		Accounts Receivable	\$1,099,251	
		sub-4080	Distribution Revenue - Monthly service charge		\$150,000
		sub-4080	Distribution Revenue - Distribution kWh		\$131,155
		4062	Billed WMS		\$122,321
		4066	Billed NW		\$133,194
		4068	Billed CN		\$142,708
		sub-4006	Residential Energy Sales		\$156,299
		sub-4055	Energy Sales for Retailers/Others		\$156,299
		2250	DRC payable		\$91,809
		TBD	RRA payable		\$13,591
		sub-4080	SSS Administration Revenue		\$1,875
				<u>\$1,099,251</u>	<u>\$1,099,251</u>

To record Cycle #2 bills for the period 11/01/02 - 12/10/02 (using Billing Register).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
G	12/16		Accounts Receivable	\$297,816	
		sub-4080	Distribution Revenue - Monthly service charge		\$50,000
		sub-4080	Distribution Revenue - Distribution kWh		\$33,737
		4062	Billed WMS		\$31,465
		4066	Billed NW		\$34,262
		4068	Billed CN		\$36,709
		sub-4006	Residential Energy Sales		\$41,953
		sub-4055	Energy Sales for Retailers/Others		\$41,953
		2250	DRC payable		\$23,616
		TBD	RRA payable		\$3,496
		sub-4080	SSS Administration Revenue		\$625
				\$297,816	\$297,816

To record Cycle #1 bills for the period 11/16/02 - 12/15/02 (using Billing Register).

H	12/31	4062	Billed WMS	\$36,598	
		4066	Billed NW	\$21,911	
		4068	Billed CN	\$75,547	
		sub-4006	Residential Energy Sales	\$47,972	
		sub-4055	Energy Sales for Retailers/Others	\$47,972	
		1582	RSVA One time	\$50,000	
		4712	Charges One-time		\$50,000
		1580	RSVA WMS		\$36,598
		1584	RSVA NW		\$21,911
		1586	RSVA CN		\$75,547
		1588	RSVA Power		\$95,944
				\$280,000	\$280,000

To permanently reduce the greater of the Billed and Charges accounts (for year-end RSVA purposes). (See General Ledger Summary at page 48).

Old year cut-off entries

2003					
I	01/15	4708	Charges WMS	\$142,100	
		4712	Charges One-time	\$ -	
		4714	Charges NW	\$174,000	
		4716	Charges CN	\$130,500	
		4705	Power purchased	\$410,350	
		2256	IESO Fees and Penalties Payable		\$856,950
				\$856,950	\$856,950

To accrue for the December 2002 IESO invoice.

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
J	01/16		Accounts Receivable	\$164,497	
		sub-4080	Distribution Revenue - Monthly service charge		\$25,806
		sub-4080	Distribution Revenue - Distribution kWh		\$18,365
		4062	Billed WMS		\$17,128
		4066	Billed NW		\$18,651
		4068	Billed CN		\$19,983
		sub-4006	Residential Energy Sales		\$24,741
		sub-4055	Energy Sales for Retailers/Others		\$24,741
		2250	DRC payable		\$12,856
		TBD	RRA payable		\$1,903
		sub-4080	SSS Administration Revenue		\$323
				<u>\$164,497</u>	<u>\$164,497</u>

To accrue for the Cycle #1 bills for the period 12/16/02 - 12/31/02 (using Billing Register).

K	01/16		Accounts Receivable	\$510,296	
		sub-4080	Distribution Revenue - Monthly service charge		\$50,806
		sub-4080	Distribution Revenue - Distribution kWh		\$60,819
		4062	Billed WMS		\$56,722
		4066	Billed NW		\$61,764
		4068	Billed CN		\$66,176
		sub-4006	Residential Energy Sales		\$81,932
		sub-4055	Energy Sales for Retailers/Others		\$81,932
		2250	DRC payable		\$42,573
		TBD	RRA payable		\$6,302
		sub-4080	SSS Administration Revenue		\$1,270
				<u>\$510,296</u>	<u>\$510,296</u>

To accrue Cycle #2 bills for the period 12/11/02 - 12/31/02 (using Billing Register).

YEAR 2002 BOOKS NOW CLOSED - January 2003 NEW FISCAL YEAR ENTRIES

AA	01/01	6035	Interest Expense	\$1,208	
		sub- 1582	RSVA One time	\$302	
		sub-1580	RSVA WMS		\$221
		sub-1584	RSVA NW		\$132
		sub-1586	RSVA CN		\$456
		sub- 1588	RSVA Power		\$700
				<u>\$1,510</u>	<u>\$1,510</u>

To record carrying charges on the RSVA balances at January 1 (excluding accruals).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AB	01/16	sub-4080	Distribution Revenue - Monthly service charge	\$25,806	
		sub-4080	Distribution Revenue - Distribution kWh	\$18,365	
		4062	Billed WMS	\$17,128	
		4066	Billed NW	\$18,651	
		4068	Billed CN	\$19,983	
		sub-4006	Residential Energy Sales	\$24,741	
		sub-4055	Energy Sales for Retailers/Others	\$24,741	
		2250	DRC payable	\$12,856	
		TBD	RRA payable	\$1,903	
		sub-4080	SSS Administration Revenue	\$323	
			Accounts Receivable		\$164,497
				<u>\$164,497</u>	<u>\$164,497</u>

To reverse accrual for the Cycle #1 bills for period 12/16/02-12/31/02 (see entry J).

AC	01/16		Accounts Receivable	\$318,712	
		sub-4080	Distribution Revenue - Monthly service charge		\$50,000
		sub-4080	Distribution Revenue - Distribution kWh		\$35,583
		4062	Billed WMS		\$33,186
		4066	Billed NW		\$36,136
		4068	Billed CN		\$38,717
		sub-4006	Residential Energy Sales		\$47,935
		sub-4055	Energy Sales for Retailers/Others		\$47,935
		2250	DRC payable		\$24,908
		TBD	RRA payable		\$3,687
		sub-4080	SSS Administration Revenue		\$625
				<u>\$318,712</u>	<u>\$318,712</u>

To record Cycle #1 bills for the period Dec. 16/02 to Jan. 15/03 (Billing Register).

AD	01/16	sub-4080	Distribution Revenue - Monthly service charge	\$50,806	
		sub-4080	Distribution Revenue - Distribution kWh	\$60,819	
		4062	Billed WMS	\$56,722	
		4066	Billed NW	\$61,764	
		4068	Billed CN	\$66,176	
		sub-4006	Residential Energy Sales	\$81,932	
		sub-4055	Energy Sales for Retailers/Others	\$81,932	
		2250	DRC payable	\$42,573	
		TBD	RRA payable	\$6,302	
		sub-4080	SSS Administration Revenue	\$1,270	
			Accounts Receivable		\$510,296
				<u>\$510,296</u>	<u>\$510,296</u>

To reverse accrual re: Cycle #2 bills for the period 12/11/02 - 12/31/02 (see entry K).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AE	01/16	2256	IESO Fees and Penalties Payable	\$856,950	
		4708	Charges WMS		\$142,100
		4712	Charges One-time		\$ -
		4714	Charges NW		\$174,000
		4716	Charges CN		\$130,500
		4705	Power purchased		\$410,350
				<u>\$856,950</u>	<u>\$856,950</u>

To reverse the December 2002 IESO invoice accrual.

AF	01/16	4708	Charges WMS	\$142,100	
		4712	Charges One-time	\$ -	
		4714	Charges NW	\$174,000	
		4716	Charges CN	\$130,500	
		4705	Power purchased	\$410,350	
		2256	IESO Fees and Penalties Payable		\$856,950
				<u>\$856,950</u>	<u>\$856,950</u>

To record the December 2002 IESO invoice.

AG	01/31	4062	Billed WMS	\$33,186	
		4066	Billed NW	\$36,136	
		4068	Billed CN	\$38,717	
		sub-4006	Residential Energy Sales	\$47,935	
		sub-4055	Energy Sales for Retailers/Others	\$47,935	
		1580	RSVA WMS		\$33,186
		1584	RSVA NW		\$36,136
		1586	RSVA CN		\$38,717
		1588	RSVA Power		\$95,870
				<u>\$203,909</u>	<u>\$203,909</u>

To close "Billed" accounts to RSVA for January month-end (See General Ledger Summary at page 48).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AH	01/31	1580	RSVA WMS	\$142,100	
		1582	RSVA One time	\$ -	
		1584	RSVA NW	\$174,000	
		1586	RSVA CN	\$130,500	
		1588	RSVA Power	\$410,350	
		4708	Charges WMS		\$142,100
		4712	Charges One-time		\$ -
		4714	Charges NW		\$174,000
		4716	Charges CN		\$130,500
		4705	Power purchased		\$410,350
				\$856,950	\$856,950

To close "Charges" accounts to RSVA for January month-end (See General Ledger Summary at page 48).

February

AI	02/01	sub-1580	RSVA WMS	\$437	
		sub-1584	RSVA NW	\$701	
		sub-1586	RSVA CN	\$98	
		sub- 1582	RSVA One time	\$302	
		sub- 1588	RSVA Power	\$1,149	
		4405	Interest and Dividend Income		\$2,687
				\$2,687	\$2,687

To record carrying charges on the RSVA balances at February 1 (See General Ledger Summary at page 48).

AJ	02/11	1580	RSVA WMS	\$33,186	
		1584	RSVA NW	\$36,136	
		1586	RSVA CN	\$38,717	
		1588	RSVA Power	\$95,870	
		4062	Billed WMS		\$33,186
		4066	Billed NW		\$36,136
		4068	Billed CN		\$38,717
		sub-4006	Residential Energy Sales		\$47,935
		sub-4055	Energy Sales for Retailers/Others		\$47,935
				\$203,909	\$203,909

To reverse closing out of "Billed" accounts re: January month-end (see entry AG).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AK	02/11	4708	Charges WMS	\$142,100	
		4712	Charges One-time	\$ -	
		4714	Charges NW	\$174,000	
		4716	Charges CN	\$130,500	
		4705	Power purchased	\$410,350	
		1580	RSVA WMS		\$142,100
		1582	RSVA One time		\$ -
		1584	RSVA NW		\$174,000
		1586	RSVA CN		\$130,500
		1588	RSVA Power		\$410,350
				\$856,950	\$856,950

To reverse closing out of "Charges" accounts re: January month-end (see entry AH).

AL	02/11		Accounts Receivable	\$1,506,589	
		sub-4080	Distribution Revenue - Monthly service charge		\$150,000
		sub-4080	Distribution Revenue - Distribution kWh		\$179,560
		4062	Billed WMS		\$167,465
		4066	Billed NW		\$182,351
		4068	Billed CN		\$195,376
		sub-4006	Residential Energy Sales		\$241,894
		sub-4055	Energy Sales for Retailers/Others		\$241,894
		2250	DRC payable		\$125,692
		TBD	RRA payable		\$18,607
		sub-4080	SSS Administration Revenue		\$3,750
				\$1,506,589	\$1,506,589

To record Cycle #2 bills for the period Dec.11/02 to Feb. 10/03 (using Billing Register).

AM	02/15	4708	Charges WMS	\$148,500	
		4712	Charges One-time	\$ -	
		4714	Charges NW	\$187,500	
		4716	Charges CN	\$142,500	
		4705	Power purchased	\$360,000	
		2256	IESO Fees and Penalties Payable		\$838,500
				\$838,500	\$838,500

To record the January 2003 IESO invoice.

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AN	02/28	4062	Billed WMS	\$200,651	
		4066	Billed NW	\$218,487	
		4068	Billed CN	\$234,093	
		sub-4006	Residential Energy Sales	\$289,829	
		sub-4055	Energy Sales for Retailers/Others	\$289,829	
		1580	RSVA WMS		\$200,651
		1582	RSVA One time		\$ -
		1584	RSVA NW		\$218,487
		1586	RSVA CN		\$234,093
		1588	RSVA Power		\$579,658
				\$1,232,889	\$1,232,889

To close "Billed" accounts to RSVA for February month-end (See General Ledger Summary at page 48).

AO	02/28	1580	RSVA WMS	\$290,600	
		1582	RSVA One time	\$ -	
		1584	RSVA NW	\$361,500	
		1586	RSVA CN	\$273,000	
		1588	RSVA Power	\$770,350	
		4708	Charges WMS		\$290,600
		4712	Charges One-time		\$ -
		4714	Charges NW		\$361,500
		4716	Charges CN		\$273,000
		4705	Power purchased		\$770,350
				\$1,695,450	\$1,695,450

To close "Charges" accounts to RSVA for February month-end (See General Ledger Summary at page 48).

March

AP	03/01	sub-1580	RSVA WMS	\$322	
		sub-1584	RSVA NW	\$732	
		sub- 1582	RSVA One time	\$302	
		sub- 1588	RSVA Power	\$452	
		sub-1586	RSVA CN		\$221
		4405	Interest and Dividend Income		\$1,587
				\$1,808	\$1,808

To record carrying charges on the RSVA balances at March 1(See General Ledger Summary at page 48 and footnote AP below).

Accounting for Specific Items

Retail Services and Settlement Variances

Entry #	Date	Account Number	Description	DR Amount	CR Amount
AQ	03/02	1580	RSVA WMS	\$200,651	
		1582	RSVA One time	\$ -	
		1584	RSVA NW	\$218,487	
		1586	RSVA CN	\$234,093	
		1588	RSVA Power	\$579,658	
		4062	Billed WMS		\$200,651
		4066	Billed NW		\$218,487
		4068	Billed CN		\$234,093
		sub-4006	Residential Energy Sales		\$289,829
		sub-4055	Energy Sales for Retailers/ Others		\$289,829
				\$1,232,889	\$1,232,889

To reverse closing out of "Billed" accounts re: February month-end (see entry AN).

AR	03/02	4708	Charges WMS	\$290,600	
		4712	Charges One-time	\$ -	
		4714	Charges NW	\$361,500	
		4716	Charges CN	\$273,000	
		4705	Power purchased	\$770,350	
		1580	RSVA WMS		\$290,600
		1582	RSVA One time		\$ -
		1584	RSVA NW		\$361,500
		1586	RSVA CN		\$273,000
		1588	RSVA Power		\$770,350
				\$1,695,450	\$1,695,450

To reverse closing out of "Charges" accounts re: February month-end (see entry AO).

NOTES:

Entry Details

C \$91 = \$15,112CR *0.0725/12	AI \$437 = \$72,316DR *0.0725/12
\$99 = \$16,455CR *0.0725/12	\$701 = \$115,953DR *0.0725/12
\$107 = \$17,630CR *0.0725/12	\$98 = \$16,236DR *0.0725/12
\$0 = \$0*0.0725/12	\$302 = \$50,000DR *0.0725/12
\$223 = \$36,940CR *0.0725/12	\$1,149 = \$190,138 DR *0.0725/12

Accounting for Specific Items

Retail Services and Settlement Variances

K Note: utility will not normally keep books of accounts open too long after year end. Consequently, an estimation process may need to be used to arrive at the accrual entry for such customers.

TBD To be Determined at a later date

AA \$302 = \$50,000DR *0.0725/12

\$221 = \$36,598CR *0.0725/12

\$132= \$21,911CR *0.0725/12

\$456 = \$75,547CR *0.0725/12

\$700= \$115,860 CR *0.0725/12

AP \$322 = \$53,351DR
 *0.0725/12
 \$732 = \$121,102DR
 *0.0725/12
 \$302 = \$50,000DR
 *0.0725/12
 \$452 = \$74,832 DR
 *0.0725/12
 \$221= \$36,640CR
 *0.0725/12

Accounting for Specific Items

Retail Services and Settlement Variances

GENERAL LEDGER SUMMARY																																	
Entry	Date	WHOLESALE MARKET SERVICE						NETWORK SERVICES						CONNECTION SERVICES						ONE - TIME			ENERGY										
		4062 Billed WMS	Sub-4062 Accrued WMS ***	4708 Charges - WMS	Sub-4708 Accrued Charges - WMS ***	1500 RSYA - WMS	Sub-1500 RSYA - WMS Interest	4066 Billed - NW	Sub-4066 Accrued Billed - NW ***	4714 Charges - NW	Sub-4714 Accrued Charges - NW ***	1504 RSYA - NW	Sub-1504 RSYA - Interest	4060 Billed - CN	Sub-4060 Accrued Billed - CN ***	4716 Charges - CN	Sub-4716 Accrued Charges - CN ***	1506 RSYA - CN	Sub-1506 RSYA - Interest	4712 Charges - one time	1502 RSYA - one time	Sub-1502 RSYA - interest	Sub-4006 Energy Sales- Residential	Sub-4006 Accrued Energy Sales- Residential ***	Sub-4055 Energy Sales- Other	ENERGY Sub-4055 Accrued Energy Sales- Other ***	4705 Power Purchase	Sub-4705 Accrued Power Purchase ***	1500 RSYA - Power	Sub-1500 RSYA - Power Interest			
JANUARY 1 OPEN BAL.		0	0	0	0	-36598	-91	0	0	0	0	-21911	-99	0	0	0	0	-75547	-107	0	50000	0	0	0	0	0	0	0	0	-95944	-223		
AA	01/01/2003						-221												-132														-580
AB	1/16			17128						18651																							
AC	1/16	-33186								-36136																							
AD	1/16			56722						61764																							
AE	1/16					-142100																											
AF	1/16																																
Jan sub-totals		-33186	73850	142100	-142100	-36598	-312	-36136	80415	174000	-174000	-21911	-231	-38717	86159	130500	-130500	-75547	-563	0	50000	302	-47935	106673	-47935	106673	410350	-410350	-95944	-803			
AG	1/31	33186				-33186		36136						38717																			
AH	1/31					-142100																											
BALANCE FEBRUARY 1		0	73850	0	-142100	72316	-312	0	80415	0	-174000	115953	-231	0	86159	0	-130500	16236	-563	0	50000	302	0	106673	0	106673	0	-410350	218536	-803			
AI	2/1																																
AJ	2/11	-33186				33186		-36136						36136																			
AK	2/11					142100		-142100																									
AL	2/11	-167465								-182351																							
AM	2/15					148500																											
		-200651	73850	290600	-142100	-36598	125	-218487	80415	361500	-174000	-21911	470	-234093	86159	273000	-130500	-75547	-465	0	50000	604	-289829	106673	-289829	106673	770350	-410350	-95944	346			
AN	2/28	200651				-200651		218487																									
AO	2/28					-290600		290600																									
BALANCE MARCH 1		0	73850	0	-142100	53351	125	0	80415	0	-174000	121102	470	0	86159	0	-130500	-36640	-465	0	50000	604	0	106673	0	106673	0	-410350	94748	346			
AP	3/1																																
AQ	3/2	-200651				200651		-218487																									
AR	3/2					290600		-290600																									
BALANCE MARCH 31		-200651	73850	290600	-142100	-36598	447	-218487	80415	361500	-174000	-21911	1201	-234093	86159	273000	-130500	-75547	-686	0	50000	906	-289829	106673	-289829	106673	770350	-410350	-95944	919			
*** accrual shown separately to remove impact on carrying charge calculations																																	

Accounting for Specific Items

Retail Services and Settlement Variances

Appendix A

This form is used to record information related to the RCVA filed quarterly under section 2.1.2 of the Electricity Reporting and Record-keeping Requirements (RRR).

PART I – Monitoring requirements for RCVA per Chapter 11 of the 2000 Electricity Distribution Rate Handbook				
REVENUES				
Service Description	Charge Per Unit ***	Number Of Units	Unit Measure	Total Revenue
Section 1 - Service Agreements				
i) Standard Charge	\$100.00		Per agreement per retailer	
ii) Monthly Fixed Charge	\$20.00		Per month per retailer	
iii) Monthly Variable Charge	\$0.50		Per month per customer	
Section 2 - Distributor- Consolidated Billing				
i) Bill- ready billing	\$0.30		Per month per customer	
ii) Rate- ready billing	As approved		As approved	
Section 3 - Retailer- Consolidated Billing				
Avoided Cost Credit	\$0.30		Per month per customer	
Section 4 – Split Billing				
Split Billing	As approved		As approved	

Accounting for Specific Items

Retail Services and Settlement Variances

Service Description	Charge Per Unit ***	Number Of Units	Unit Measure	Total Revenue	
Section 5 - Service Transaction Request					
i) Request Fee	\$0.25		Per request		
ii) Processing Fee	\$0.50		Per request		
iii) Information delivery charge- other than EBT	\$2.00plus any incremental delivery costs		Per request greater than 2 requests		
Section 6 – Retailer Settlement Payment Default					
i) Request Fee	\$0.25		Per request		
ii) Processing Fee	\$0.50		Per request		
Section 7 - Other associated costs to be recovered – Please specify					
INCREMENTAL COSTS INCURRED					
Accounts where costs recorded	Cumulative Incremental Cost				Account Balance to date
	For this Period ending:		For this fiscal period to date:		
	Retail Services Related \$	STR Related \$	Retail Services Related \$	STR Related \$	

*** Charges per Unit according to Chapter 11 of the 2000 Electricity Distribution Rate Handbook

Accounting for Specific Items

Retail Services and Settlement Variances

This form is used to record information related to the RSVA filed quarterly under section 2.1.2 of the Electricity Reporting and Record-keeping Requirements (RRR).

PART II – Monitoring of RSVA per Chapter 11 of the 2000 Electricity Distribution Rate Handbook								
For the month ending:								
Account	Opening Balance DR/ (CR)	Carrying Charges ** DR/ (CR)		Net Accruals DR/ (CR)		Other Adjustments DR/ (CR)		Closing Balance DR/ (CR)
		To Date	For this period	To Date	For this period	To Date	For this period	
1580, RSVA _{WMS}								
1582, RSVA _{One-time}								
1584, RSVA _{NW}								
1586, RSVA _{CN}								
1588, RSVA _{Power}								

**** Note: simple interest (not compounded).**

Accounting for Specific Items

Retail Services and Settlement Variances

Appendix B

IESO Charge Type Number	IESO Charge Type Name of Non-Competitive Wholesale Market Electricity (WMS) Service Charges	Electricity USoA
150	Net Energy Market Settlement Uplift <ul style="list-style-type: none"> • Line Losses • Intertie Offer Guarantee 	Account 4708, Charges WMS
155	Congestion Management Settlement Uplift	
250 251 252 253 254 255 450 452 454 550	Ancillary Services Operating Reserve: <ul style="list-style-type: none"> • 10 Minute Spinning Market Reserve Hourly Uplift • 10 Minute Spinning Market Reserve Shortfall Debit • 10 Minute Non-Spinning Market Reserve Hourly Uplift • 10 Minute Non-Spinning Market Reserve Shortfall Debit • 30 Minute Operating Reserve Market Hourly Uplift • 30 Minute Operating Reserve Market Shortfall Debit Black Start Capability Settlement Debit Reactive Support and Voltage Control Settlement Debit Regulation Service Settlement Debit Must Run Contract Settlement Debit	
102 118 141 163 164 165 166 167 168 169 170 182 183 184 186 460 700 750 751 753	Other Wholesale Market Service Uplifts Transmission Rights Clearing Account Credit Emergency Energy Rebate Fixed Wholesale Charge Rate Settlement Amount Additional Compensation for Administrative Pricing Debit Outage Cancellation/Deferral Debit Unrecoverable Testing Costs Debit Tieline Reliability Maintenance Debit Emergency Energy and EDRP Debit Transmission Rights Market Shortfall Debit Station Service Reimbursement Debit Local Market Power Rebate Hour-Ahead Dispatchable Load Offer Guarantee Debit Generator Cost Guarantee Recovery Debit Demand Response Debit Intertie Failure Charge Rebate IESO-Controlled Grid Special Operations Debit Dispute Resolution Settlement Credit Dispute Resolution Settlement Debit Dispute Resolution Board Service Debit Rural and Remote Settlement Debit	

Accounting for Specific Items

Retail Services and Settlement Variances

754	OPA Administration Debit	
850	Market Participant Default Settlement Debit (Recovery)	
1188	Day-Ahead Fuel Cost Compensation Debit	
9990	IESO Administration Charge	
N/A	IESO Application Fee	
N/A	Administrative Penalties (e.g. late payment charges)	Account 4712, WMS Charges – One -Time

**Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts
Pursuant to Part XI of the *Electricity Act, 1998***

Table of Contents

Purpose and Scope

Transitional Issues

- **Replacement of the Accounting for Municipal Electric Utilities in Ontario Manual**
- **Transfer of Assets to the Incorporated Electric Utility**
- **Change in Accounting Policy for Contributions in Aid of Construction**
- **Change in Accounting Policy for Spare Transformers and Meters**
- **Change in Accounting Policy for Poles, Conductors and Conduit**
- **Change in Accounting Policy for Gains and Losses from the Retirement or Disposal of Readily Identifiable Assets**
- **Change in Accounting Estimate for Amortization of Capital Assets**
- **Share Capital and Contributed Surplus**
- **Retained Earnings**
- **Accounting Procedures Handbook Article 340—Allocation of Costs and Transfer Pricing**

Interpretation Bulletin
Transitional Issues Relating to Setting Up Accounts
Pursuant to Part XI of the *Electricity Act, 1998*

Purpose and Scope

The purpose of this Article is to provide guidance on the transitional issues relating to record keeping and related compliance issues pursuant to the requirements of the *Energy Competition Act, 1998*.

Most of the transitional issues listed in the Table of Contents to this Article arise directly from the requirements of Part XI of the *Electricity Act, 1998*. For example, the subsection “Replacement of the Accounting for Municipal Electric Utilities in Ontario Manual” as well as the subsections dealing with a change in accounting policy are direct reflections of the need for electric utilities incorporated under the *Ontario Business Corporations Act* to prepare financial statements in accordance with GAAP. As another example, the subsection “Transfer of Assets to the Incorporated Electric Utility” addresses the valuation of assets and liabilities upon their transfer to the electric utility incorporated under the *Ontario Business Corporations Act*, pursuant to Part XI of the *Electricity Act, 1998*.

Other transitional issues discussed in this Article arise from the Board’s authority, pursuant to *OEB Act, 1998*, to prescribe accounting practices (See Accounting Procedures Handbook Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment).

Transitional Issues

Replacement of the Accounting for Municipal Electric Utilities in Ontario Manual

The Board assumed responsibility for the regulation of the distribution of electricity effective April 1, 1999. The APHandbook has been prepared to ensure consistency in the recording and reporting of transactions by all organizations distributing electricity in Ontario as of January 1, 2000.

The policies and procedures in the APHandbook are based on GAAP with modifications, where and as necessary for regulatory purposes, to ensure the procedures and requirements are in accordance with the requirements of the *Energy Competition Act, 1998* as well as the *Ontario Business Corporations Act*.

GAAP for the purposes of this APHandbook is defined in Article 100—Background and Purpose of the Handbook and Article 310—Applying Generally Accepted Accounting Principles in a Rate-Regulated Environment.

Pursuant to sections 70 (2) of the *OEB Act, 1998*, the Board has the authority to interpret GAAP based on the CICA Handbook and to prescribe the Accounting

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Pursuant to Part XI of the *Electricity Act, 1998*

Procedures or Requirements contained in this APHandbook. Furthermore, in accordance with the CICA Handbook, the Board may interpret GAAP and prescribe alternative accounting treatment if warranted due to special circumstances relating to regulated enterprises.

It is expected that electric utilities will use this APHandbook, with due regard for the need to reflect Board decisions or orders arising from the regulatory process in the application of GAAP, and in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices.

Transitional Requirements

To assist in the transition process, this Article should be used together with Article 520—Superseded Sections of the Accounting for Municipal Electric Utilities in Ontario Manual. Article 520 provides a list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual cross-referenced to this APHandbook, and/or other applicable sources of GAAP.

Note that most of the guidance contained in the former Accounting for Municipal Electric Utilities in Ontario Manual is superseded by related Articles in the APHandbook and/or the CICA Handbook. Some former sections are no longer needed and have been deleted. Article 520 provides a cross-referenced list of sections in the superseded manual to the current guidance.

Transfer of Assets to the Incorporated Electric Utility

Background

The purpose of this subsection is assist utility accounting and finance professionals by referencing guidance that is available with respect to accounting for the transfer of assets and liabilities of an MEU to the incorporated electric utility.

- Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may cause a corporation to be incorporated under the *Ontario Business Corporations Act* for the purpose of generating, transmitting, distributing or retailing electricity.
- Pursuant to section 142(2) of the *Electricity Act, 1998*, every municipal corporation that generates, transmits, distributes or retails electricity, directly or indirectly, shall cause a corporation to be incorporated under section 142(1) no later than the second anniversary of the day this section comes into force. This section came into force on November 7, 1998. Accordingly, the deadline for conversion is November 7, 2000.

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Pursuant to Part XI of the *Electricity Act, 1998*

- Pursuant to section 142 (4) of the *Electricity Act, 1998*, the municipal corporation or corporations that incorporate a corporation pursuant to section 142 shall subscribe for all the initial shares issued by the corporation that are voting securities.
- Pursuant to section 145 (1) of the *Electricity Act, 1998*, the council of a municipality may make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal corporation, or of a commission or other body through which the municipal corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity by the corporation incorporated pursuant to section 142 of the *Electricity Act, 1998*.
- Pursuant to section 149 of the *Electricity Act, 1998*, a transfer by-law may require the transferor or the transferee to pay for anything transferred by, or pursuant to, the by-law and may specify to whom the payment shall be made.

Accounting Issue

To understand the guidance provided in this subsection, the reader might wish to review the following defined terms from the CICA Handbook:

- Carrying amount:** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value (CICA s. 3840.03 (a)).
- Exchange amount:** is the amount of consideration paid or received as established and agreed to by related parties (CICA s. 3840.03(b)).
- Related parties:** exist when one party has the ability to exercise, directly or indirectly, control, joint ownership or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence (CICA s. 3840.03 (g)).
- Control:** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others (CICA s. 3840.03 (d)).

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Transitional Issues Relating to Setting Up Accounts
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Utilities will need to carefully consider the control structure of their organizations and the relationship between the municipal corporation, the newly incorporated entity and the commission or body through which it generates, transmits, distributes or retails electricity before and after restructuring. If the transfer of assets takes place between related parties (see the above definition), Section 3840 of the CICA Handbook applies. That section provides that transactions between related parties should be measured at the carrying amount except as specified in Paragraphs 3840.18 and 3840.26.

Paragraph 3840.18 deals with transactions in the normal course of business and is not applicable to this situation.

Paragraph 3840.26 requires certain related party transactions that are not in the normal course of business to be measured at the exchange amount. Transactions that result in a substantive change in ownership interests (defined in CICA s. 3840.31 and .32 as greater than 20% change and/ or a change in the degree of influence) and for which the exchange amount can be supported by independent evidence should be measured at the exchange amount.

In summary, for related party transactions, assuming that the transfers being made do not result in a substantive change in ownership interests, the Accounting Recommendations of the CICA suggest that the transfer should be recorded at the carrying amount.

If a review of the control structure suggests that the transfer of assets has taken place between parties that are not related, CICA Handbook Section 1580—Business Combinations applies. The definition of a business combination includes acquiring a group of assets that constitute a business. According to that section, the acquiring company's interests in the acquired assets is accounted for by the purchase method. Paragraphs 1580.25 through 1580.29 provide guidance on the application of the purchase amount and the determination of cost.

Recommendation

It is recommended that electric utilities follow the guidance contained in CICA Handbook Section 3840—Related Party Transactions and Section 1580—Business Combinations in determining the appropriate value for assets and liabilities transferred to an incorporated utility under the provisions of a transfer by-law.

Note however, that the Board reserves the right to review the accounting treatment applied and recommend a different accounting treatment if deemed appropriate for regulatory purposes.

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Transitional Requirements

Account 2060 –Electric Plant Acquisition Adjustments in the USoA should be used by electric utilities to record the difference between the carrying amount as shown on the books prior to the transfer and the exchange amount resulting from the transfer, if necessary. Sufficient supporting information should exist in the electric utility's accounts to detail differences by asset category between the carrying amount prior to the transfer and exchange amount (the value the asset was established at in the incorporated electric utility's accounts).

Change in Accounting Policy for Contributions in Aid of Construction**Accounting Issue**

This subsection discusses the accounting treatment of contributions in aid of construction.

Under the former Accounting for Municipal Electric Utilities in Ontario Manual section 7020—Capital Contributions, it was recommended that net fixed assets financed by contributed capital be included in the asset base for rate of return purposes and that the corresponding depreciation be charged to operating costs and hence included in the revenue requirement. In regard to the accounting treatment, the former Accounting for Municipal Electric Utilities in Ontario manual section 5710—Contributed Capital recommended that capital contributions be treated as permanent components of equity of an MEU receiving such contributions. As such, the corresponding assets were to be treated as fixed assets in the asset base of the utility and depreciation charged to operations at rates consistent with rates established for the respective asset class.

The accounting issue centers on how to account for capital assets financed through contributed capital and the resulting impact on the asset base, depreciation expense, and the electric utility's revenue requirement.

As fully discussed in Article 430—Development Charges and Contributions in Aid of Construction, in light of legislative constraints and in order to harmonize the regulatory treatment of contributions in aid of construction for electric utilities with that of regulated gas utilities, capital assets funded through contributions in aid of construction and any related amortization expense will not be allowed to be included in the electric utility's rate base and revenue requirement, respectively.

Recommendation

Effective January 1, 2000, contributions in aid of construction received should be recorded using the accounts provided in the USoA as follows:

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- a) When contributions of aid of construction are initially received in the form of monies, the amount received should be recorded in the cash account (account 1005, Cash) and in the related customer liability account 2210, Current Portion of Customer Deposits and account 2335, Long Term Customer Deposits.

When these monies are spent on the construction of capital assets, the cash and deposit accounts would be relieved to the extent of monies expended on the capital project and any unspent balance refunded. Entries should be made to the applicable asset accounts to record the value of the constructed capital assets. To record the value of the contributions in aid of construction, an entry should be made to account 1995, Contributions and Grants - Credit.

- b) When contributions of aid of construction are received in the form of services or property, the value of the contribution should be recorded in the applicable asset accounts and the contra asset account (account 1995, Contributions and Grants - Credit).

Account 1995, Contributions and Grants - Credit should be amortized by debiting an accumulated amortization account and crediting an amortization expense account. This accounting entry will offset the amortization expense and accumulated amortization of the related capital asset accounts effectively eliminating amortization expense related to capital assets funded through contributions in aid of construction from the determination of the electric utility's revenue requirement.

These Accounting Procedures or Requirements are also referenced in Article 430—Development Charges and Contributions in Aid of Construction.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario Manual account 540, Equity Accumulated Through Contributed Capital, should be transferred to USoA equity account 3030, Miscellaneous Paid-In Capital. Supporting documentation should be maintained for each contribution transferred to this USoA account.

Transitional Requirements

These Accounting Procedures or Requirements will result in a change in accounting policy for electric utilities. The change in accounting policy relating to the recording of contributions in aid of construction should be applied on a prospective basis.

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Change in Accounting Policy for Spare Transformers and Meters

Accounting Issue

This subsection explains the accounting treatment for spare transformers and meters. Spare transformers and meters are items that are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired. Therefore, spares are held and dedicated for the specific purpose of backing up plant in service as opposed to assets that are available for other uses at the discretion of the user. Consequently, transformers and meters held “in reserve” or as “spares” are to receive the same treatment as the related assets “in service”. This removes the requirement for year end valuation of “inventory” that had been placed in and out of service during the course of the year. It also removes the bookkeeping requirement to have movement of these assets between capital assets and inventory booked as prescribed in the former Accounting for Municipal Electric Utilities in Ontario Manual.

Under the former Accounting for Municipal Electric Utilities in Ontario Manual, section 5250—Inventory (page 1), it was recommended that materials purchased or returned to stores for future use such as transformers, conductors, meters, water heaters and poles, etc. be classified as inventory.

Further guidance was provided in the former Accounting for Municipal Electric Utilities in Ontario Manual, section 5101—Fixed Assets Depreciation General (page 4 of 4), which recommended that when meters, transformers and water heaters were removed from service, inventory was debited and current year’s additions to fixed assets was credited with the market value of the material removed. When items in these categories were subsequently returned to service, inventory was credited and that year’s additions to fixed assets was debited with the value established when the material was previously removed from service.

In regard to U.S. accounting practice, it is noted that the past accounting treatment of spare transformers and meters as inventory is inconsistent with guidance provided in the FERC Uniform System of Accounts—Electric.

In regard to Canadian accounting practice, CICA Handbook Section 3030—Inventories and Section 3060—Capital Assets provide guidance on the classification of inventory versus capital assets.

CICA Handbook Section 3030 does not specifically define inventory. However, in the discussion of inventory cost elements contained in CICA Handbook paragraph 3030.02, references are made to the definitions for “merchandise purchased for resale”, “raw materials which are to enter into production” and “inventories of work in process and finished goods”.

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A formal definition is provided in the CICA publication entitled “Terminology for Accountants, Fourth Edition” (page 117), which defines inventory as:

Items of tangible property that are held for sale in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale.

CICA Handbook paragraph 3060.04 defines a capital asset as an identifiable asset comprising property, plant and equipment and intangible properties that meet all of the following criteria:

- a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other capital assets;
- b) have been acquired, constructed or developed with the intention of being used on a continuing basis; and,
- c) are not intended for sale in the ordinary course of business.

Accordingly, based on the CICA Handbook, spare transformers and meters do not meet the definition of inventory. The key factor that distinguishes inventory from capital assets is the fact that inventory is intended for resale whereas capital assets are not. Secondly, capital assets may be distinguished from inventory by the expected period of benefit as capital assets would have a longer period of future benefit.

In addition to the above two distinguishing criteria, the following three questions should be asked in determining whether spare transformers and meters should be accounted for as a capital asset rather than inventory:

- 1) Are the spare transformers and meters an integral part of the original distribution plant? If so, spare transformers and meters should be capitalized and amortized over the estimated useful life of the original distribution plant. The definition of “integral” may be assessed by determining whether these spares enhance the system reliability of the original distribution plant. Not all spare transformers and meters may meet the definition of “integral”. For example, in utilities located in rapidly growing municipalities, it is common that an inventory of these items is maintained for use in construction of new subdivisions (as opposed to being used to enhance the system reliability of the original distribution plant). In this circumstance, transformers and meters purchased for new service should be inventoried until their initial placement in service. Similarly, if due to system rebuilding, an unreasonable level of

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“spares” were built up and were unlikely to be used, these spares should be reallocated as inventory and disposed of, retired or written down as warranted.

- 2) Do the spare transformers and meters provide future benefits? If so, they should be capitalized and amortized over the estimated useful life of the original distribution plant. The identification of future benefits may be assessed by determining the expected use of the spare transformers and meters. If these spares are expected to be placed in service to substitute for original distribution plant transformers and meters when these original plant assets are being repaired, then there are future benefits and these spares should be recorded as capital assets. Alternatively, if these spares are not expected to be placed into service because distribution plant failure is not expected, then they should be recorded as inventory.
- 3) Is the accounting treatment of spare transformers and meters consistent with the regulatory treatment of spare transformers and meters? In other words, CICA Handbook definitions aside, GAAP for regulated enterprises could require that the spare transformers and meters be accounted for on a basis consistent with the ratemaking process. The accounting treatment required for regulatory purposes would result in the appropriate matching of rate revenues and related costs in the manner required by the Board.

Recommendation

In most cases, spare transformers and meters should be accounted for as capital assets, as it is expected that all of these conditions will be met:

- a) the spare transformers and meters are not intended for resale and cannot be classified as inventory in accordance with CICA Handbook Section 3030;
- b) the spare transformers and meters have a longer period of future benefit than inventory items have;
- c) the spare transformers and meters form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant;
- d) the spare transformers and meters provide future benefits because they are expected to be placed in service; and
- e) the accounting treatment of spare transformers and meters as capital assets is consistent with the regulatory treatment of spare transformers and meters.

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When such assets are removed from service for refurbishing, they should be recorded in a sub-account of the capital assets to which they relate.

Any portion of transformers and meters that does not meet all of the conditions (a) to (e) above should be accounted for as inventory.

These Accounting Procedures or Requirements are also referenced in Article 410—Capital Assets and Article 420—Inventory.

Transitional Requirements

These Accounting Procedures or Requirements may result in a change in accounting policy for some electric utilities. If so, it is recommended that the change in accounting policy relating to the treatment of spare transformers and meters as capital assets be applied on a prospective basis as of the effective date of this APHandbook.

Accordingly, electric utilities will be required to restate their opening account balances (e.g. inventory, capital assets, and/or retained earnings) for the fiscal year beginning on or after the effective date. If accurate and complete financial information is not available to do so, the impacts of this change in accounting policy on opening account balances should be estimated by:

- a) applying professional judgment;
- b) gathering the necessary data on which to base the accounting estimates;
- c) developing reasonable assumptions and a supportable method of calculation;
- d) preparing and documenting accounting estimates using qualified personnel and proper management review and approval;
- e) considering whether the accounting estimates are reasonable and consistent with the electric utility's operations and business plans;
- f) including the accounting estimates in the proper accounts, reclassifying inventory and capital assets, and restating opening balances; and
- g) considering financial statement disclosure depending on the materiality of the impact of the accounting estimates in relation to the financial statements as a whole.

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Change in Accounting Policy for Poles, Conductors and Conduit

Accounting Issue

This subsection discusses the accounting treatment of poles, conductors and conduit that have been placed into service. Note that the accounting treatment of poles and conductors that have **not** been placed into service is dealt with in Article 420—Inventory.

This accounting issue is specific to electric utilities and there is no guidance provided by the CICA Handbook.

The accounts specified below should be used to record poles, conductors and conduit as provided in the USoA because:

- 1) This approach allows for enhanced reporting of transmission and distribution assets.
- 2) Increased precision in the recording of transmission and distribution assets will allow for better matching of transmission revenues and expenses and distribution revenues and expenses.
- 3) The application of these asset accounts will allow utilities to consider the appropriateness of the amortization method, estimated useful life and amortization rate currently being used to amortize the cost of poles, conductors and conduits and may allow amortization to be recognized in a more rational and systematic manner. (Refer to the subsection entitled “Change in Accounting Estimate for Amortization of Capital Assets” for specific guidance on accounting for a change in amortization method).

Recommendation

It is recommended that poles, conductors and conduit that have been placed into service be accounted for using the following asset accounts provided in the USoA:

For Transmission:

- account 1720, Towers and Fixtures
- account 1725, Poles and Fixtures
- account 1730, Overhead Conductors and Devices
- account 1735, Underground Conduit
- account 1740, Underground Conductors and Devices

For Distribution:

- account 1830, Poles, Towers and Fixtures
- account 1835, Overhead Conductors and Devices

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- account 1840, Underground Conduit
- account 1845, Underground Conductors and Devices
- account 1855, Services

This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Transitional Requirements

This Accounting Procedure or Requirement may result in a change in accounting policy for some electric utilities. If so, it is recommended that the change in accounting policy relating to the classification of poles, conductors and conduit using separate asset accounts be applied on a prospective basis as of the effective date of this APHandbook.

Accordingly, electric utilities will be required to reclassify their opening account balances for these transmission and distribution assets for the fiscal year beginning on or after the effective date. If accurate and complete financial information is not available to do so, the reclassification of poles, conductors and conduits should be determined by:

- a) applying professional judgment;
- b) gathering the necessary data on which to base the accounting estimates and asset reclassifications;
- c) developing reasonable assumptions and a supportable method of calculation;
- d) preparing and documenting accounting estimates and related asset reclassifications using qualified personnel and proper management review and approval;
- e) considering whether the accounting estimates and related asset reclassifications are reasonable and consistent with the electric utility's operations and business plans; and
- f) reclassifying the assets using the specified asset accounts provided in the USoA.

Specific guidance as to how the allocation of past months is to be performed is not provided due to the fact that the state of records and extent of record keeping varies among utilities. However, some suggested techniques include analyzing previous records over a representative period of time to determine what the allocation could be, obtaining quotes from external sources, and contacting neighboring utilities that may have more comprehensive records or to corroborate the analysis performed by the

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utility. The utility should ensure any allocation performed is adequately supported and properly documented.

Change in Accounting Policy for Gains and Losses from the Retirement or Disposal of Readily Identifiable Assets

Accounting Issue

This subsection explains the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. The change in accounting policy results from the application of CICA Handbook paragraph 3480.04, which supersedes the former Accounting for Municipal Electric Utilities in Ontario Manual section 5101—Fixed Assets Depreciation General, (page 2 of 4).

CICA Handbook paragraph 3480.04 states that transactions and events, regardless of size, resulting from normal business activities would not result in extraordinary items and specifically provides, as one example, gains and losses from write-down or sale of property, plant, equipment or other investments.

This CICA Accounting Recommendation differs from the former recommendation provided in the former Accounting for Municipal Electric Utilities in Ontario Manual (section 5101—Fixed Assets Depreciation General, page 2 of 4) in regard to the accounting treatment for gains and losses from the retirement or disposal of readily identifiable assets. Specifically, it was previously required that any gains and losses on the disposal of readily identifiable assets, if material, be classified as an extraordinary item.

Recommendation

As noted above, the CICA Handbook does not allow gains and losses from the disposal of assets resulting from normal business activities to be accounted for as extraordinary items. Consequently, the size/materiality of the gain or loss is not relevant in determining whether transactions or events should be classified as extraordinary items in the USoA. Furthermore, it should be noted that the Board has the authority to address the regulatory treatment of such items as deemed appropriate in the circumstances.

The following accounts have been provided for in the USoA to record these transactions:

- account 4345, Gains from Disposition of Future Use Utility Plant
- account 4350, Losses from Disposition of Future Use Utility Plant
- account 4355, Gain on Disposition of Utility and Other Property
- account 4360, Loss on Disposition of Utility and Other Property

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This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Transitional Requirements

This Accounting Procedure or Requirement may result in a change in accounting policy for some electric utilities. It is recommended that the change in accounting policy relating to the treatment of gains and losses from the disposal of readily identifiable assets resulting from normal business activities be applied on a prospective basis.

Retroactive restatement is not considered to be necessary because this change in accounting policy does not affect allowable costs for rate-making purposes but merely income statement presentation.

Note that Article 410—Capital Assets provides the recommended accounting treatment for capital asset disposals and write downs and should be referred to for complete guidance on this accounting issue. In particular, that Article recommends that electric utilities consider whether losses on capital asset disposals are to be recovered from future rates in accounting for these transactions.

Change in Accounting Estimate for Amortization of Capital Assets**Accounting Issue**

This subsection discusses the accounting treatment for the amortization of capital assets. The change in accounting policy results from the application of CICA Handbook paragraphs 3060.31-36, which supersede the former Accounting for Municipal Electric Utilities In Ontario Manual section 5102—Fixed Assets Depreciation Rates for General Plant Assets and section 5103—Fixed Assets Depreciation Rates for Other Capital Assets.

The CICA Handbook states that amortization should be recognized in a rational and systematic manner appropriate to the nature of a capital asset with a limited life and its use by the enterprise.

The CICA Handbook recognizes that different methods of amortizing a capital asset result in different patterns of charges to income. For example, a straight-line method reflects a constant charge for the service as a function of time whereas a variable charge method reflects service as a function of usage. In addition, other methods may be appropriate in certain situations.

The CICA Handbook does not provide prescriptive guidance for the amortization of capital assets but allows professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to

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the nature of the capital asset (i.e. based on its use by the enterprise and its estimated useful life). This is in contrast to the former Accounting for Municipal Electric Utilities in Ontario manual sections 5102 and section 5103.

Recommendation

This APHandbook does not prescribe the amortization methods, estimated useful lives or amortization rates to be used. Instead, it is expected that, in the interim, electric utilities will continue with the rates and methods previously established until they are able to support changes through independent studies and the changes are approved by the Board.

This Accounting Procedure or Requirement is also referenced in Article 410—Capital Assets.

Transitional Requirements

A change in useful lives of these assets and/ or methods of amortization would be considered a change in accounting estimate. The change in amortization period or method should be applied in accordance with CICA Handbook paragraph 1506.25 that states that the effect of a change in an accounting estimate should be accounted for in:

- a) the period of change, if the change affects the financial results of that period only; or
- b) the period of change and applicable future periods, if the change affects the financial results of both current and future periods.

Note that the Board may specify the manner in which the change should be treated.

Share Capital and Contributed Surplus**Accounting Issue**

This subsection summarizes the relevant sections of Part XI of the *Electricity Act, 1998*, which specify the transitional requirements associated with the conversion of existing MEUs to corporations incorporated under the *Ontario Business Corporations Act*. This subsection also identifies the appropriate CICA Handbook sections for incorporated electric utilities to apply in accounting for share capital and contributed surplus transactions.

The relevant sections of Part XI of the *Electricity Act, 1998* that relate to share capital transactions are summarized as:

- Pursuant to section 142 (1) of the *Electricity Act, 1998*, one or more municipal corporations may cause a corporation to be incorporated under the *Ontario*

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Business Corporations Act for the purpose of generating, transmitting, distributing or retailing electricity.

- Pursuant to section 142 (4) of the *Electricity Act, 1998*, the municipal corporation or corporations that incorporate a corporation pursuant to section 142 shall subscribe for all the initial shares issued by the corporation that are voting securities.
- Pursuant to section 142 (5) of the *Electricity Act, 1998*, a municipal corporation may acquire and hold shares in a corporation incorporated pursuant to section 142 that carries on business in the municipality.
- Pursuant to section 145 (1) of the *Electricity Act, 1998*, the council of a municipality may make by-laws transferring employees, assets, liabilities, rights and obligations of the municipal corporation, or of a commission or other body through which the municipality corporation generates, transmits, distributes or retails electricity, to a corporation incorporated under the *Ontario Business Corporations Act* pursuant to section 142 of the *Electricity Act, 1998* for a purpose associated with the generation, transmission, distribution or retailing of electricity by the corporation incorporated pursuant to section 142 of the *Electricity Act, 1998*.
- Pursuant to section 149 (1) of the *Electricity Act, 1998*, a transfer by-law may require the transferor or the transferee to pay for anything transferred by, or pursuant to, the by-law and may specify to whom the payment shall be made.
- Pursuant to 149 (3) of the *Electricity Act, 1998*, the transfer by-law may require that the payment be made in cash, by set off, through the issuance of securities or in any other form specified by the by-law.
- Pursuant to 149 (4) of the *Electricity Act, 1998*, if the transfer by-law requires that the payment be made through the issuance of securities, it may specify the terms and conditions of the securities or may authorize a person designated by the by-law to specify the terms and conditions.

In summary, pursuant to Part XI of the *Electricity Act, 1998*, electric utilities will issue shares and will be wholly owned by their local municipality upon incorporation under the *Ontario Business Corporations Act*.

Recommendation

Given the incorporation of the electric utilities, share capital and contributed surplus transactions should be accounted for in accordance with the following CICA Handbook sections:

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- CICA Handbook Section 3240—Share Capital deals with disclosure of share capital and acquisition and redemption of shares. The Accounting Recommendations of this CICA Handbook section are in addition to those in CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation.
- CICA Handbook Section 3250—Surplus –discusses the use of the term “surplus” and provides standards for the classification and disclosure of surplus.
- CICA Handbook Section 3610—Capital Transactions describes capital transactions and notes that capital transactions should be excluded from the determination of net income.

Note that Article 430—Development Charges and Contributions in Aid of Construction and CICA Handbook Section 3070—Deferred Charges should be referred to for guidance on the accounting treatment of development charges and contributions in aid of construction using the equity accounts provided in the USoA.

Transitional Requirements

The following equity accounts in the USoA should be used to record share capital and contributed surplus transactions:

- account 3005, Common Shares Issued
- account 3008, Preference Shares Issued
- account 3010, Contributed Surplus
- account 3020, Donations Received
- account 3026, Capital Stock Held in Treasury
- account 3030, Miscellaneous Paid-In Capital
- account 3035, Installments Received on Capital Stock

Note that development charges transferred to the incorporated electric utility should be recorded in equity account 3022, Development Charges Transferred to Equity.

Note that any contributions previously recorded in the former Accounting for Municipal Electric Utilities in Ontario Manual, account 540, Equity Accumulated Through Contributed Capital, should be transferred to USoA equity account 3030, Miscellaneous Paid-In Capital (See Article 430).

Contributions received by the incorporated electric utility in aid of construction should be recorded in account 1995, Contributions and Grants - Credit. (See Article 430).

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Retained Earnings

Accounting Issue

This subsection highlights the use of the new retained earnings accounts that have been established in the USoA. Note that Article 460—Reserves should be referred to for guidance in the use of reserves by electric utilities.

In general, retained earnings have as their source the earnings of the enterprise. The retained earnings account reflects the accumulated balance of income less losses of the enterprise, after taking into account dividends and other appropriate charges or credits. Retained earnings are further classified as “appropriated” and “unappropriated” as explained below.

The measurement of appropriated retained earnings is important because this portion of retained earnings has been transferred to a reserve(s). As a result, dividends may not be distributed to shareholders from appropriated retained earnings.

Account 3040, Appropriated Retained Earnings has been established in the USoA to record the cumulative retained earnings set aside, or reserves maintained, by the utility that are not provided for elsewhere. The accounting entry to transfer the surplus to a reserve would be to debit account 3047, Appropriations of Retained Earnings – Current Period and credit account 3040, Appropriated Retained Earnings.

The measurement of unappropriated retained earnings is important because this portion of retained earnings has not been transferred to a reserve. Therefore, dividends may be distributed to shareholders from unappropriated retained earnings.

Account 3045, Unappropriated Retained Earnings has been established in the USoA to record the accumulated balance of retained earnings arising from earnings and losses of the utility. This account shall not include any amounts representing the undistributed earnings of subsidiary companies (which is to be included in account 3065, Unappropriated Undistributed Subsidiary Earnings). Net changes to this account for the current period are explained by the sum of the activities in accounts 3046 to 3055.

Recommendation

Account 3040, Appropriated Retained Earnings should be used to record those retained earnings set aside, or reserves maintained, that are not provided for elsewhere. This account represents a cumulative balance of appropriations made to the retained earnings.

Account 3045, Unappropriated Retained Earnings should be used to record the accumulated balance of retained earnings arising from earnings and losses of the utility.

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Accounts 3046 to 3055, as they relate to account 3045, Unappropriated Retained Earnings, should be used as follows to record transactions related to unappropriated retained earnings:

- Account 3046, Balance Transferred From Income should include the net credit or debit transferred from income for the year.
- Account 3047, Appropriations of Retained Earnings - Current Period should include retained earnings transferred to a reserve for the current period. To record such a transaction, account 3047, Appropriations of Retained Earnings should be debited and 3040, Appropriated Retained Earnings credited.
- Account 3048, Dividends Payable - Preference Shares should include amounts declared payable out of retained earnings as dividends on outstanding preferred capital stock of the utility. At the date of declaration, account 2215, Dividends Declared should be credited and account 3048, Dividends Payable - Preference shares should be debited. At the date of payment, account 2215, Dividends Declared should be debited and account 1005, Cash should be credited.
- Account 3049, Dividends Payable - Common Shares should include amounts declared payable out of retained earnings as dividends on outstanding common capital stock of the utility. At the date of declaration, account 2215, Dividends Declared should be credited and account 3049, Dividends Payable - Common shares should be debited. At the date of payment, account 2215, Dividends Declared should be debited and account 1005, Cash should be credited.
- Account 3055, Adjustments to Retained Earnings should include, with prior Board approval, significant non-recurring transactions accounted for as prior period adjustments, such as correction of a material error in the financial statements of a prior year or other adjustments that may be required by the Board. All other items of profit and loss recognized during a year should be included in the determination of net income for that year. This account should be debited or credited, as appropriate, to reflect the nature of the adjustment and the other side of the accounting entry should be booked to the appropriate related balance sheet or income statement account.

At the beginning of the new accounting period, the amounts in accounts 3046 to 3055 should be closed out to account 3045, Unappropriated Retained Earnings.

Note that in order to account for the earnings of subsidiaries, the USoA provides the following specific accounts:

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- Account 4415, Equity in Earnings of Subsidiary Companies. The parent utility's share of the subsidiary's earnings should be recorded to this income statement account.
- Account 3065, Unappropriated Undistributed Subsidiary Earnings. The parent utility's share of the subsidiary's undistributed earnings (included in amounts in 4415) shall be recorded in this account by a debit or credit to account 3047, Appropriations of Retained Earnings - Current Period and an offsetting entry to account 3065, Unappropriated Undistributed Subsidiary Earnings. This account is reduced when dividends are paid by a subsidiary to the parent utility. At that time, account 3065 will be debited and account 3047 credited.

These two accounts carry the subsidiary's earnings on an equity accounting basis. When the accounts are consolidated for financial statement reporting purposes, the consolidation entry will of course, eliminate these account balances.

Transitional Requirements

The following equity accounts are provided in the USoA to record transactions relating to retained earnings:

- account 3040, Appropriated Retained Earnings
- account 3045, Unappropriated Retained Earnings
- account 3046, Balance Transferred From Income
- account 3047, Appropriations of Retained Earnings - Current Period
- account 3048, Dividends Payable - Preference Shares
- account 3049, Dividends Payable - Common Shares
- account 3055, Adjustments to Retained Earnings
- account 3065, Unappropriated Undistributed Subsidiary Earnings

Accounting Procedures Handbook Article 340—Allocation of Costs and Transfer Pricing

Accounting Issue

This subsection highlights Article 340—Allocation of Costs and Transfer Pricing, which provides additional guidance to electric utilities on issues related to the allocation of costs and transfer pricing.

The underlying concept of Article 340 is that there should not be cross-subsidization between regulated and non-regulated lines of business, products or services, or between the regulated utility and affiliates.

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There is also a requirement for electric utilities to maintain documentation related to the allocation of costs and detailing: the organizational structure of the regulated utility; information on affiliates; and the allocation and transfer pricing methods being used.

Recommendation

Electric utilities should follow the guidance contained in Article 340—Allocation of Costs and Transfer Pricing, in developing allocation of costs and transfer pricing policies.

Transitional Requirements

Clearing accounts have not been provided for in the USoA. It is expected that each electric utility will continue to maintain its own clearing accounts as required. However, each utility shall keep records and supporting documentation that provide an audit trail and support the clearing account amounts transferred to other accounts.

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Purpose and Scope

For transitional purposes, this Article provides a cross-referenced list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual along with a description of the applicable source(s) of guidance for regulated electric utilities.

Transitional Issues

Superseded Sections of the Accounting for Municipal Electric Utilities in Ontario Manual

As discussed in Article 510, the former Accounting for Municipal Electric Utilities in Ontario Manual will not apply to electric utilities effective January 1, 2000.

Related Articles in this APHandbook and/or CICA Handbook supersede most of the guidance contained in the former accounting manual. Some sections are no longer required and have been omitted from this APHandbook.

For transitional purposes, the following table provides a cross-referenced list of the superseded sections of the Accounting for Municipal Electric Utilities in Ontario Manual along with a description of the applicable source(s) of guidance for regulated electric utilities.

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**Accounting for Municipal Electric
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Guidance Provided

**Section 1000—General
Information**

Section 1010—Scope and Purpose of the Manual	APHandbook Article 100—Introduction to the Accounting Procedures Handbook
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Section 2000—Chart of Accounts

Section 2005—Index to Chart of Accounts	APHandbook Article 210—Index
Section 2010—Account Description	APHandbook Article 220—Account Descriptions

**Section 3000—Statements and
Reports**

Section 3005—Financial Statements	APHandbook Article 100— Introduction to the Accounting Procedures Handbook Accounting Recommendations of the CICA Handbook
Section 3010—Financial Statements - Pro Forma Format	APHandbook Article 100— Introduction to the Accounting Procedures Handbook
Section 3020—Key to Financial Statements - Introduction	Section not included in APHandbook. The Board will establish separate monitoring and reporting requirements. APHandbook Article 100— Introduction to the Accounting Procedures Handbook
Section 3025—Trial Balance to Financial Statements	Section not included in APHandbook. The Board will establish separate monitoring and reporting requirements. APHandbook Article 100— Introduction to the Accounting Procedures Handbook

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Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 3100—Annual Report	This section provided guidance on information to be submitted to Ontario Hydro for Mudbank and is not included in the APHandbook. The Board will establish separate monitoring and reporting requirements.
Section 4000—Specialized Accounting	
Section 4100—Expenditures Qualifying as Capital	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 4110—Matching of Power Costs and Revenues	APHandbook Article 330—Matching of Power Costs and Revenues
Section 4130—Allocation of Overheads	APHandbook Article 340—Allocation of Costs and Transfer Pricing
Section 4150—Deferment of Debt Retirement Charge Included in the Cost of Power, Power Corporations Act Section 76 (Sinking Fund Relief)	This section provided guidance on the treatment of sinking fund relief accounts pursuant to the former <i>Power Corporations Act</i> and is not needed.
Section 5000—Balance Sheet	
Section 5101—Fixed Assets - Depreciation - General	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5102—Fixed Assets - Depreciation Rates - General Plant Assets	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5103—Fixed Assets - Depreciation Rates - Other Capital Assets	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5104—Fixed Assets - Allocated Depreciation	APHandbook Article 300— Allocation of Costs and Transfer Pricing
Section 5105—Fixed Assets - Capitalization of Interest During Construction	APHandbook Article 410—Capital Assets CICA Handbook Section 3060—Capital Assets CICA Handbook Section 3850—Interest Capitalized, Disclosure Considerations

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Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 5220—Investments - General	Section not required for purposes of this APHandbook. Sufficient guidance provided in sources listed below. CICA Handbook Section 3010—Temporary Investments CICA Handbook Section 3050—Long-Term Investments CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation
Section 5225—Allowance for Doubtful Accounts	Section not required for purposes of this APHandbook. Sufficient guidance provided in sources listed below. CICA Handbook Section 3020—Accounts and Notes Receivable
Section 5250—Inventory	APHandbook Article 400—Inventory CICA Handbook Section 3030—Inventories
Section 5260—Construction in Progress	APHandbook Article 400—Capital Assets CICA Handbook Section 3060—Capital Assets
Section 5410—Long-term Debt – General	CICA Handbook Section 3210—Long-Term Debt CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation
Section 5420—Long-term Debt - Bond Discount and Premium	CICA Handbook Section 1520—Income Statement CICA Handbook Section 3070—Deferred Charges CICA Handbook Section 3210—Long-Term Debt
Section 5430—Long-term Debt – Sinking Funds	Not included. This section provided guidance on basic accounting techniques that are beyond the scope of this APHandbook.
Section 5505—Vested Sick Leave	APHandbook Article 470—Pension Costs and Obligations
Section 5610—Deposits	APHandbook Article 450—Deposits and Collateral Funds CICA Handbook Section 3000—Cash CICA Handbook Section 3860—Financial Instruments, Disclosure and Presentation

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Accounting for Municipal Electric Utilities in Ontario (Superseded)	Guidance Provided
Section 5710—Contributed Capital	APHandbook Article 430—Development Charges and Contributions in Aid of Construction CICA Handbook Section 3240—Share Capital CICA Handbook Section 3250—Surplus CICA Handbook Section 3610—Capital Transactions
Section 5715—Development Charges	APHandbook Article 430—Development Charges and Contributions in Aid of Construction
Section 5835—Prior Period Adjustments	APHandbook Article 320—Accounting Changes CICA Handbook Section 1506—Accounting Changes Financial Accounting Standards Board No. 71
Section 5840—Capital Leases	Section not included in the APHandbook. Sufficient guidance provided in source listed below. CICA Handbook Section 3065—Leases
Section 6000—Statement of Operations	
Section 6005—Netting of Revenues And Expenses	This section provided guidance restricting the netting of Revenues and Expenses except in certain specific circumstances. For regulatory purposes Revenues and Expenses should not be netted against one another. The USoA accounts reflect this requirement.
Section 6010—Streetlighting Operating Expenses	This section provided basic guidance on setting up an account receivable for streetlighting expenses recoverable from the municipality and is not needed.
Section 6015—Extraordinary Items – Unusual Items	Section not required for purposes of this APHandbook. Sufficient guidance provided in source listed below. CICA Handbook Section 3480—Extraordinary Items
Section 6020—Pension Costs	APHandbook Article 470—Pension Costs and Obligations CICA Handbook Section 3460—Pension Costs and Obligations
Section 6025—Allocation of Joint Costs for a Public Utility Commission	APHandbook Article 340— Allocation of Costs and Transfer Pricing
Section 6026—Allocation of Costs re: Services Rendered	APHandbook Article 340— Allocation of Costs and Transfer Pricing

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Guidance Provided

Section 6027—Allocation of Joint
Costs in a Municipality

APHandbook Article 340—Allocation of Costs and
Transfer Pricing

**Section 7000—Transition
Procedures**

Section 7020—Capital Contributions

APHandbook Article 430—Development Charges and
Contributions in Aid of Construction

Section 7060—Changes in Asset
Classification and/or
Asset Lives

APHandbook Article 410—Capital Assets
CICA Handbook Section 1506—Accounting Changes

Section 7070—Fixed Assets -
Change in Asset Lives

APHandbook Article 410—Capital Assets
CICA Handbook Section 1506—Accounting Changes

**Section 8000—Management
Reporting**

Section 8010—Cash Flow
Information

Section not included in this APHandbook. The Board
will establish separate monitoring and reporting
requirements.

Section 8020—Key Indicators

CICA Handbook Section 1540—Cash Flow Statements
This section provided guidance on information to be
submitted to the Municipal Electric Association and is
not included for purposes of this APHandbook. The
Board will establish separate monitoring and reporting
requirements.

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Clarification of Operation and Maintenance Activities

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Pursuant to section 83(1) and (2) of the *OEB Act, 1998*, the Board may establish standards, targets and criteria for evaluation of performance by transmitters, distributors and retailers. Pursuant to section 83(2) of the *OEB Act, 1998*, the Board may have regard to these standards, targets and criteria in exercising its powers and performing its duties under the Act or any other Act in relation to transmitters, distributors and retailers, including establishing the conditions of a licence.

The purpose of this Article is to clarify the distinction between Operation and Maintenance (“O&M”) activities described in the accounts provided in the Uniform System of Accounts (“USoA”). In order to do so, this Article analyzes the O&M account descriptions in the chart of accounts in the Accounting For Municipal Electric Utilities in Ontario Manual (“former accounting manual”) and compares those descriptions to the O&M account descriptions found in the USoA. The definitions according to the Oxford Dictionary are also referenced.

The USoA was developed under a number of premises. One underlying premise was that any information captured in the accounts prescribed in the former accounting manual should be preserved where possible and where considered useful. Another premise was that for Performance Based Regulation or Incentive Regulation purposes, the USoA should be constructed in a manner that would facilitate comparability of the activities conducted by a utility with those of another utility. Lastly, where an acceptable and tested method of recording information was in use in another jurisdiction, and that method could readily be adopted for the purpose of regulating Ontario electric utilities, it was considered beneficial, from a comparability standpoint, to incorporate that method in the USoA.

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General Summary

The O&M account descriptions found in the USoA provide more specific guidance than was provided in the former accounting manual. These detailed account descriptions will enable the user to infer, if necessary, from the examples provided, the types of O&M activities to be classified under the respective accounts.

In addition, the O&M account structure in the USoA enhances the Board's ability to perform the duties envisioned under section 83(1) and (2) of the *OEB Act, 1998*.

Definitions

The Oxford Dictionary provides the following definitions for Operate and Operation respectively:

“Effect by action or the exertion of force or influence...Cause or direct the functioning of; control the working of (a machine etc.)...Manage, direct...”

“Exertion of force or influence; working, activity; an instance of this. Also, the way in which a thing works... Power to ...produce effects; efficacy, force.”

The Oxford Dictionary provides the following definitions for Maintain and Maintenance respectively:

“Go on with, continue...Preserve...Cause to continue (a state of affairs, a condition, an activity, etc.); keep vigorous, effective, or unimpaired; guard from loss or deterioration...Orig., secure the continuance of...Later, cause to continue in a specified state, relation, or position...Keep in good order...keep (a road, a building, etc.) in repair; take action to preserve (a machine, etc.) in working order.”

“The action of upholding or preserving a cause, state of affairs, etc.; ...The action of keeping something in working order, in repair,...the keeping up of a building...by providing means or provision for upkeep...”

The main principle underlying the use of the USoA “Operation” accounts is that an operation activity encompasses actions of a detective, preventive, and/or monitoring nature. The principle underlying the use of the “Maintenance” activity encompasses

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actions performed in a reactionary manner based on the results of an Operation activity. Operation activities are normally planned or scheduled while Maintenance activities are normally activities in response to an unplanned or unscheduled activity or due to a breakdown. It is recognized that in performing an unplanned maintenance activity, some "Operations" type activities may be performed. It is **not** expected that such operations activities incidental to the maintenance work be separated out using the "Operations" accounts. The opposite is also true (i.e. in performing a **planned** operations activity, any maintenance activity incidental to the operations work does not require separate recording using the "maintenance" accounts).

Given the above distinction, for example, should a work crew be assigned (as part of a plan to ensure the integrity of the distribution system) to seek and straighten wood poles in a subdivision, this task would be considered an operation activity and all costs related to that exercise would be recorded to the Operations accounts (i.e. accounts 5005 to 5096). Consequently, if a pole broke or was considered to be deficient while it was being straightened and it was replaced that activity would be recorded in accounts 5020, Overhead Distribution Lines and Feeders - Operation Labour and 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses.

On the other hand, if the work crew responded to a power outage due lightening, all activities performed to restore such power would be recorded in Maintenance accounts (i.e. accounts 5105 to 5195). Consequently, in restoring power if a transformer had to be tested, inspected, and replaced along with the pole on which it was located, this activity would also be in "Maintenance" accounts (using account 5160, Maintenance of Line Transformers and account 5120, Maintenance of Poles, Towers and Fixtures) since the testing and inspection is incidental to the unplanned activity.

To ensure staff are properly and accurately recording their work activity, proper training should be provided to staff. Also, the utility's accounting department should periodically test the accuracy of the completed O&M forms.

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The following are a sample of O&M accounts that were found in the chart of accounts in the former Accounting For Municipal Electric Utilities in Ontario manual:

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Operation Accounts	Corresponding Maintenance Accounts
4021, Subtransmission Feeders- Operation	4024, Subtransmission – Maintenance
4031, Municipal Distribution Station Equipment - Operating Labor, and 4032, Municipal Distribution Station Equipment - Operating Supplies and Expenses	4034, Municipal Distribution Station - Maintenance of Equipment
5011, Overhead Distribution Lines and Feeders – Operating Labor, and 5012, Overhead Distribution Lines and Feeders – Operating Supplies and Expenses	5014, Overhead Distribution Lines and Feeders – Maintenance
5051, Underground Distribution Lines and Feeders - Operating Labor, and 5052, Underground Distribution Lines and Feeders - Operating Supplies and Expenses	5054, Underground Distribution Lines and Feeders – Maintenance
5061, Distribution Transformers - Operation	5064, Distribution Transformers - Maintenance
5091, Distribution Meters - Operation	5094, Distribution Meters - Maintenance

An analysis of the account descriptions for these former O&M accounts revealed very few distinguishing characteristics between Operation versus Maintenance types of activities, as demonstrated below:

Operation	Maintenance
<ul style="list-style-type: none"> a) Inspecting b) Patrolling c) Testing d) Investigating line trouble e) Investigating cable trouble f) Removing and resetting transformers and devices 	<ul style="list-style-type: none"> a) making repairs and minor replacements to keep the existing equipment in service

The above analysis led to the conclusion that there may have been a deficiency in the former types of O&M accounts and related account descriptions with respect to distinguishing between Operation and Maintenance types of activities. As a result, those former O&M accounts may have been neither understood nor properly and consistently followed by electric utilities in recording O&M expenditures.

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Given the above conclusion, the following sample of related accounts provided in the USoA to record O&M expenditures were selected:

USoA Operation Accounts	USoA Corresponding Maintenance Accounts
5030, Overhead Subtransmission Feeders - Operation, and 5050, Underground Subtransmission Feeders – Operation	5120, Maintenance of Poles, Towers and Fixtures, and 5125, Maintenance of Overhead Conductors and Devices
5020, Overhead Distribution Lines and Feeders - Operation Labor, and 5025, Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	5120, Maintenance of Poles, Towers and Fixtures, and 5125, Maintenance of Overhead Conductors and Devices
5040, Underground Distribution Lines and Feeders - Operating Labor, and 5045, Underground Distribution Lines and Feeders - Operating Supplies and Expenses	5145, Maintenance of Underground Conduit, and 5150, Maintenance of Underground Conductors and Devices
5035, Overhead Distribution Transformers - Operation, and 5055, Underground Distribution Transformers – Operation	5160, Maintenance of Line Transformers
5065, Meter Expenses	5175, Maintenance of Meters
5015, Station Expense	5115, Maintenance of Station Equipment

The USoA provides a framework where information can be collected in a manner that is uniform across the range of utilities. It is recognized that there will be some difference between the requirements of the USoA and the old chart of accounts or other systems in use at the utilities. The purpose of the USoA is to provide a basis for recording expenses so that comparisons among utilities will be meaningful and consistent.

An analysis of the account descriptions for the above USoA O&M accounts demonstrates the following distinguishing characteristics between Operation and Maintenance types of activities:

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Operation	Maintenance
<ul style="list-style-type: none"> a) inspecting b) patrolling c) testing d) supervising specific to line operation e) changing line transformer taps f) performing load tests and voltage surveys of feeders and circuits g) removing and resetting transformers and devices h) disconnecting and reconnecting, removing and re-installing, sealing or unsealing meters and other meter equipment i) consolidating meter installations j) changing or relocating meters and other metering equipment k) adjusting station equipment such as regulating the flow of cooling water, changing voltage of regulators l) keeping station logs and records and preparing station reports m) calibrating station equipment 	<ul style="list-style-type: none"> a) installing b) moving line c) moving or changing position of conduit or pipe d) painting e) readjusting and changing position of guys or braces f) realigning and straightening poles, etc. g) reconditioning reclaimed pole fixtures h) relocating pole fixtures i) repairing j) repairing circuit breakers, switches, cutouts, etc. k) repairing grounds l) making minor alterations of handholes, manholes, or vaults m) cleaning insulators and bushings n) cleaning ducts, etc. o) refusing line cutouts p) resagging, retying q) sampling, testing, changing, purifying, and replenishing insulating oil r) transferring loads, switching, and reconnecting circuits and equipment s) refastening, repairing or moving racks, ladders, or hangers in manholes or vaults

To facilitate the information gathering and recording to categorize O & M activities, a utility, may use standardized work order forms. For example, a blue work order form labelled as “Scheduled” or “Preventative” or “Planned” may be used to capture “Operation” activities related to Operations accounts 5005 to 5096. A green work order labelled as “Unscheduled” or “Unplanned” or “Breakdown” may be used to capture “Maintenance” activities related to Maintenance accounts 5105 to 5195.

In summary, the O&M accounts and related account descriptions provided in the USoA provide more specific guidance as to the type of activities encompassed by the terms Operation and Maintenance. The USoA O&M account descriptions provide more detail than the former accounting manual and will enable the reader to infer, if necessary, from

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the examples provided, other types of activities that should be classified under the respective Operation or Maintenance account.

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The following Article has been prepared based on comments received through the stakeholder consultation process. A summary of each issue (in bold lettering) is provided with references to the "Accounting Procedures Handbook for Electric Distribution Utilities – 1999 May" draft as applicable.

Revisions, where applicable, made to the 1999 May draft of the APHandbook are outlined in the response to each issue. The comments have been addressed in the order found in the APHandbook.

ARTICLES:

1) Article 100

a) Records items a), b), and c) on pages 7 & 8 of Article 100: Comment sought clarification as to what guidelines exist relating to the retention and destruction of records

Please note that the issue related to the retention of records has yet to be considered by the Board. Monitoring guidelines to be developed at a later date will likely address this issue. Board staff has received some examples regarding the "retention and destruction of records system" in use by utilities for consideration in developing any future guidelines.

b) Records items f), and h) of Article 100: Comment suggested that fewer accounts and accounts that were more general in nature would allow each utility the flexibility to set up extra or sub-accounts and allow each utility to obtain the information it requires

Please note that on page 8 of Article 100, under Records, items f) and h) essentially provide that the utilities may further subdivide any and all accounts as needed and that utilities may also use a different numbering system for its own purposes. It should also be noted that the USoA establishes minimum guidelines for utilities in Ontario. It is not intended to replace management information systems or preclude management from subdividing accounts to a greater detail than that provided for in the USoA. In fact, management may find it desirable to supplement this USoA with additional accounts for internal management purposes.

The Ontario Energy Board worked closely with a group of utility stakeholders in developing the account structure and detail in the USoA. At the outset of the development process, the OEB initiated a process to identify utility reporting requirements for management purposes and used the information gathered to shape the current USoA. The detail in the current USoA is to become the

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cornerstone of any future refinement to a Performance Based Regulation process that could include benchmarking and rebasing of rates using a cost of service model. Accounts of a general nature are not consistent with the standardization necessary to facilitate meaningful benchmarking.

c) Page 8 of Article 100: Comment received related to a utility currently undergoing a computer conversion, and whether the new USoA can be used with the new software

The USoA is the minimum standard that can be used for your conversion. For internal purposes, it is recognized that utilities may need the flexibility to be able to use different account numbers and/or additional accounts beyond those provided in the USoA. This is reflected in Article 100, page 8, items f) and h). Mapping to the USoA will be required for whatever system is used by the utility.

It should be noted that the process of reporting information to the OEB will require utilities to report 1999 fiscal information separately from 2000 fiscal information. As a result, depending on your year end and implementation date of the new system, you will need to ensure that the same basis is used to record and report the information within each of the respective periods.

d) Page 9 of Article 100: Comment sought clarification related to examples where materiality would be different for regulatory purposes

The APH avoids using specific examples that may not be interpreted consistently by all readers. The statement on page 9 stating “As a result, the materiality range for regulatory reporting purposes will be narrower than that for financial reporting purposes” has been revised to read “As a result, the materiality level for regulatory reporting purposes may be different than that for financial reporting purposes. The Board may review information and determine for regulatory policy or other purposes that the accounting treatment should be different than that accorded to the item by the utility, irrespective of the size or nature of the item.”

e) Comment requested information on process for incorporating revisions related to various sections that to date have not been fully developed in the APHandbook i.e.- whether changes related to those sections will be circulated for review and/or input

Many of the changes or revisions to sections that have not been fully developed will result from Board decisions that will occur outside of the APHandbook consultation process. The opportunity to comment on those decisions pertaining to such changes or revisions may consequently be provided through some other process.

However, where there are Board decisions that can be accommodated in the APHandbook or USoA by alternative accounting methods, utilities may be asked

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to review or provide input (in accordance with the “Policy Introduction” process defined in Article 100) so that the method ultimately chosen will reflect industry preference and experience, as well as encourage consistency in recording and reporting of information.

2) Article 210

Comment sought clarification on the need for control account 1600, Electric Plant in Service (page 3 of Article 210) and control account 4000 (page 9 of Article 210)

Control account 1600 has been included in the USoA to help distinguish between assets considered “Electric Plant In Service” (i.e.- accounts 1602 to 1995) from “Other Capital Assets” (i.e.- accounts 2000 to 2075). This distinction is particularly useful in light of references made to “electric plant in service” in some account descriptions and in Article 230, Definitions and Instructions.

Control account 4000 has been removed for the time being and may be reintroduced at a later date along with some other expense related control accounts.

3) Article 220

- a) Account 1100 Customer Accounts Receivable – Retail: Comment sought clarification regarding whether account should include distribution tariff** this account has been renamed “Customer Accounts Receivable”. The account will include energy sales as well as the distribution tariff. Note that the account shall be maintained so as to permit ready segregation of the amounts due for each class of receivable.

A comment was also received relating to the number of accounts receivable accounts contained in the USoA. It should be noted that utilities are only expected to use those accounts applicable to their operations. In addition, the APHandbook specifically states that the procedures or requirements need not be applied to immaterial items.

- b) Temporary Facilities Account 1520: Comment sought clarification regarding the need for a separate account for temporary services since the item is a Current Asset/ Accounts Receivable type account**

This account has been reclassified to the “Current Assets” section of the USoA. This account has been renumbered 1104 and renamed Accounts Receivable - Recoverable Work. For purposes of Article 240 (Mapping), former black book

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account 245 Accounts Receivable – Recoverable Work has been mapped to renumbered account 1104. In addition, account 1100 has been modified to remove the reference to recoverable work and renamed “Customer Accounts Receivable”.

A comment was also received requesting clarification of the term “jobbing” as used in account 1105 and how this differs from the term “recoverable work”

The term “jobbing” can be derived from the term “jobber” which is defined in the Oxford Dictionary as “a person who buys goods, etc. in bulk from a producer or importer and sells them to a retailer or consumer”. As a result, jobbing or stock jobbing implies the act of supplying goods or acting as middleman. This is different from the term “recoverable work”, which refers to the supply of a service such as the installation of electrical lines for temporary purposes, the cost of which will be recovered from the customer. Items related to recoverable work have been removed from account 1105 and have been included in 1104 as described earlier in response 3 b).

c) Intangible Plant – Account 1602: Comment sought clarification regarding nature and extent of permitted consulting costs that could be classified as organizational start up costs and deferred

The nature of the costs that are considered “transition costs” will be limited to those meeting the qualifying criteria in the Electric Distribution Rate Handbook. All qualifying costs meeting the criteria are to be expensed over the first generation PBR. If significant, these may be posted to a “balancing” or deferral account and amortized. (See item 7 (g) below).

In general, the organizational start-up costs included in account 1602 are of a more limited nature than the transition type expenditures that will be incurred by utilities.

In addition, while no general rule of thumb is applicable regarding the extent of costs, there are some established criteria for balancing account treatment in the Electric Distribution Rate Handbook (see Section 3.3.4 and Chapter 4). The Board does reserve the right to review the amounts claimed and any expenses that appear unreasonable could be challenged or denied in setting rates.

d) Account 1950 Power Operated Equipment and 1930 Transportation Equipment: Comment sought clarification of phrase “Diggers” and whether this refers to Radial Boom Derricks and the treatment of aerial devices

The phrase “Diggers” in item 1950 refers to earth digging equipment. The Radial Boom Derricks are “generally self-propelled or mounted on moveable equipment” and as a result would be covered by item 5 in account 1950 (i.e.- cranes and

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hoists). Aerial devices are covered by account 1930, which mentions “aerial ladders”.

Generally, the larger equipment would either fall under account 1930 or, if not included there, then under account 1950. Account 1950 has been revised to include backhoes as a substitute for “Diggers”.

e) Account 2100 Accumulated Amortization of Electric Utility Plant- Property, Plant and Equipment: Comment sought clarification of use of retirement work order, treatment of removal costs/ salvage values, gains/ losses on disposals

The procedure related to the retirement of assets has been modified to conform to that followed by the regulated gas utilities as well as the practice in other jurisdictions for electric utilities. Essentially, a retirement work order serves to document the retirement event and would include removal costs and salvage recoveries. As a result, associated removal costs and salvage recoveries would **not** go to the income statement accounts but instead be applied against/to account 2100.

An asset that is being **retired** would **not** normally have any associated or significant gains or losses that are the subject of accounts 4355, Gain on Disposition of Utility and Other Property and 4360, Loss on Disposition of Utility and Other Property. Instead accounts 4355 and 4360 serve to record gains and losses, respectively, on disposals other than retirements (i.e.- assets with some life left in them).

The above procedure therefore differs from past practice in that removal costs and salvage recoveries related to **retired** assets are applied to account 2100 Accumulated Amortization of Electric Utility Plant- Property, Plant and Equipment, instead of flowed to the income statement.

The mapping in Article 240 (accounts 4355 and 4360) has been modified to exclude amounts in former Black Book accounts 9919 and 9920 related to retirements (i.e.- only include gains and losses on other disposals). In addition, the phrase “This account shall not include gains on retirement of property described above” has been included in accounts 4345 and 4355, and the phrase “This account shall not include losses on the property described above” has been included in accounts 4350 and 4360.

f) Account 2264 O.M.E.R.S. – Current Portion: Comment sought clarification as to whether this account refers to the per pay withholding from payroll

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This account relates to 2535 O.M.E.R.S. - Past Service Liability - Long Term Portion (**renumbered 2348**) and not the per pay withholding from employee payroll.

Withholding amounts deducted and payable can be included in a subaccount of account 2292 Payroll Deductions/Expenses Payable.

g) Account 2292 Payroll Deductions Payable: Comment sought clarification as to whether Employer Health Tax is an item that needed to be included here

The account heading for account 2292 has been modified to read "Payroll Deductions/ Expenses Payable". Also, the account description now includes Employer Health Tax. This account is intended to capture payroll deduction and expense related accruals at year-end.

h) Account 2340 Collateral Funds Liability: Comment suggested that due to the short-term nature of tender deposits this account should be classified as a current liability

This account mirrors former account 365 and covers deposits of a long-term nature. Rather than reclassify this account as a current liability, tender deposits to be refunded within the year can be recorded in account 2220 Miscellaneous Current and Accrued Liabilities. Account 2220 now includes these in the description.

i) Distribution Expenses – Operation: Comment suggested that inconsistency between some operations accounts should be removed

The USoA has been modified. As a result, account 5015, Station Expense has been renumbered 5012 and revised (renamed Station Building and Fixtures Expenses) to contain operation expenses related only to buildings and fixtures. In addition, a **new** account, 5014, has been added to capture Transformer Station Equipment operation expenses (labor) and a **new** account, 5015, will capture Transformer Station Equipment operation expenses (materials and supplies). A **new** account, 5016, will capture Distribution Station Equipment operation expenses (labor) and a **new** account, 5017, will include Distribution Station Equipment operation expenses (materials and supplies). These new accounts will map with former accounts 4011/ 4012 and 4031/4032 respectively and preserve the consistency between labor, and materials and supplies, in the operation expense accounts.

A comment was also received stating that perhaps the distinction between Labour, and Supplies and Expenses should be removed from the USoA, identified separately by utilities, and be available for Board review

The distinction is a carry-forward from the former Black Book accounts and has been retained due to the familiarity utilities have with this treatment. In addition,

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the Board wishes to preserve accounting information that was collected in the past that could be useful for future Performance Based Regulation mechanisms. Consequently, this suggestion was not adopted.

- j) **Transmission Expenses – Operation and Maintenance:** Comment sought clarification of differences between station expenses and transformer expenses. The titles and descriptions for various accounts mentioned below have been clarified to distinguish between building and fixtures related expenses and transformer equipment related items.

Account 4815 has been renamed Station Buildings and Fixtures Expenses. The account description has been modified such that the expenses included in this account will be those specific to assets included in account 1705, Buildings and Fixtures and 1710, Leasehold Improvements.

Account 4820 and 4825 descriptions have been modified and make reference to expenses (Labour, and Supplies and Expenses respectively) related to assets contained in account 1715, Station Equipment.

In addition, account 4910 has been renamed Maintenance of Transformer Station Buildings and Fixtures with a minor modification to the account description. Account 4925 (renumbered 4916) now includes all maintenance expenses related to transformer station equipment. Lastly, accounts 4915 and 4920 have been deleted since they were no longer necessary.

- k) Tree trimming and Right of Way Accounts: Comment sought clarification of use of account**

Account 4955, Maintenance of Right of Way has been removed and the description has been combined with that of 4940, (renamed Maintenance of Overhead Lines – Right of Way) to remove duplication. Similarly, account 5140 has been removed and combined with 5135, (renamed Overhead Distribution Lines and Feeders – Right of Way).

- l) Allocation of overhead expenses – Comment sought clarification of where over/under allocations would reside**

While the USoA does not contain clearing accounts, utilities should maintain these as required. Note that Article 340, Page 7, discusses the use of clearing accounts. In relation to over/ under allocations, the Article states that the basis of overhead cost allocation should be reviewed periodically and, if necessary, adjusted in order to reflect changes in cost relationships and related cost allocators. Any year end residual balances remaining after regular distributions should be cleared on a basis that will distribute the cost equitably.

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Dispensing of any monthly over/under allocations will be left to the discretion of the utility.

m) Comment sought definition of the term “payroll burden”

Payroll burden is defined on page 8 of Article 340 as the costs of benefits directly associated with labour in addition to actual payroll costs. Such costs may include fringe benefits, the employer’s portion of Employment Insurance and Canada Pension Plan contributions, medical care, Workers’ Health and Safety Insurance, pension and other insurance. This definition has now been included in the Definitions subsection of Article 340.

4) Article 230

a) Comment sought clarification of “training” costs in paragraph number 20

Paragraph number 20 has been modified to remove references to training costs and to remove note b) related to training costs. Paragraph number 20 will now be consistent with the discussion on page 14 of Article 410 that discusses “Capitalization of Construction Costs”. The circumstances in which training costs would be capitalized under Canadian GAAP are limited or unusual and the practice is to normally expense such costs.

b) Comment sought clarification of whether shared premises requires splitting under Paragraph number 23, Buildings and Fixtures

On a practical level, a building having two uses, for example, administrative and service, would be recorded based on the principal use of the building. As a result, if the building is mainly used by the administrative group, it would appear under 1905, etc.

However, if the service center charged specific rates to recover its costs, perhaps even becoming a competitive line of business, it would become essential for the utility to allocate an appropriate portion of the building overhead expense to that activity in order to prevent cross-subsidization.

5) Article 310

Comment sought clarification of the role of regulator in establishing reporting standards/ generally accepted accounting principles (GAAP)

It is not the intent of this Article or the APHandbook to establish standards for what is normally reported in external financial information. The APHandbook attempts to provide guidance as to the requirements for regulatory accounting and reporting purposes. This guidance will, to the extent possible, reflect GAAP so as

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to reduce the burden of having to maintain different “books” of accounts, but recognize that the regulatory process introduces certain cause and effect relationships that may require special applications of GAAP. Consequently, utilities are required to use the APHandbook in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices but with due regard for the need to reflect Board decisions, orders, and other pronouncements arising from the regulatory process in the application of GAAP.

Article 310 and related references in the APHandbook has been modified as follows:

- i) removed first two paragraphs under “Generally Accepted Accounting Principles for Regulated Electric Utilities” on page 2 of Article 310 and inserted the following:

“Electric distribution utilities are required to prepare general purpose financial statements according to GAAP.

This APHandbook was prepared to provide a useful source of information for electric distribution utilities. Accounting guidance has been provided that is specific to Ontario electric utilities and encourages consistency in the application of GAAP that is used in the preparation of financial information required for regulatory purposes.

Guidance relating to GAAP for regulated electric utilities in Ontario arises from two principal sources: (1) the CICA Handbook and supporting releases and literature (see CICA Handbook paragraph 1000.60); and (2) other authoritative sources on the subject of accounting for rate-regulated enterprises such as SFAS 71 of the US Financial Accounting Standards Board.

Electric utilities are expected to use the APHandbook in conjunction with the CICA Handbook in the determination of appropriate accounting policies and practices, but with due regard for the need to reflect Board decisions, orders and other pronouncements arising from the regulatory process in the application of GAAP.”

- ii) removed paragraph on page 3 of Article 310 beginning with “As mentioned in Article 100, due to the current consideration and impending implementation...” and inserted the following:

“In spite of the current consideration and impending implementation of an alternative method of rate regulation, chiefly Performance Based

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Regulation (PBR), it is believed that the above definition for rate regulated enterprises and capital assets will continue to be applicable because the proposed price cap in the first generation PBR will be based on current costs (including qualifying adjustments) of providing the distribution service. The definition is also expected to be applicable for the second generation PBR given that it is proposed that a cost of service study will be performed prior to the rebasing of the price cap for the second generation.”

Note also that the definition for rate-regulated enterprises and the comment regarding the “consideration and impending implementation” of PBR were removed from the top of page 7 of Article 100 to eliminate duplication and increase clarity of that Article.

- iii) removed the last paragraph of the subsection entitled “Generally Accepted Accounting Principles for Regulated Electric Utilities” on page 3 of Article 310 and moved the first two paragraphs of page 4 to the top of page 3.

6) Article 340

Comment sought clarification regarding “Compliance Audits” referred to in this Article and the Affiliate Code

The compliance “**reviews**” in this Article are referenced from the Affiliate Code subsection 2.7.1. that states the “utility shall be responsible for ensuring compliance with the Code and shall: (a) perform periodic compliance reviews”. The Board has not yet developed any guidelines with respect to the scope of these reviews. These guidelines may be included in future revisions to this APHandbook and/ or communicated to you by some other means.

7) Article 350

While not the result of comments received, the APHandbook has been modified to accommodate the proposals contained in the Electric Distribution Rate Handbook as follows:

- a) Account 1570 has been renamed “Qualifying Transition Costs” and the description now reads:

“When authorized or directed by the Board, this account shall be used to record transition costs that meet the qualifying criteria established in the Electric Distribution Rate Handbook. Records shall be maintained in a

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manner that permits ready identification of each cost contained in this account. This account shall be credited with the amount expended in the period.”

- b) Account 1571 has been renumbered 1574 and renamed “Deferred Rate Impact Amounts” with the following account description:

“This account shall be used to record amounts equal to rate impacts associated with market- based rate of return, transition costs, and extraordinary costs that the utility has determined to be excessive and has decided to defer to future periods.”

- c) Account 1535 has been renumbered 1572 and renamed “Extraordinary Event Losses” with the following account description:

“When authorized or directed by the Board, this account shall be used to record extraordinary event losses that meet the qualifying criteria established in the Electric Distribution Rate Handbook. Records shall be maintained in a manner that permits ready identification of each cost contained in this account. This account shall be credited with the amount expended in the period.”

- d) Account 2435 has been renamed “Accrued Rate-Payer Benefit” with the following description:

“This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the PBR plan. This account will include related accrued interest.”

- e) Account 2436 has been deleted.

- f) Account 4395 has been renamed “Rate-Payer Benefit Including Interest” with the following description:

“This account shall be used to record the amounts over the ROE Ceiling that will be returned to ratepayers as part of the profit sharing mechanism incorporated in the Performance Based Regulation plan. This account will also include the related accrued interest, as applicable. The corresponding Deferred Credit account is 2435, Accrued Rate - Payer Benefit.”

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- g) Account 5740 has been renamed “Amortization of Deferred Charges” and revised to read:

“This account shall include the amount of amortization charges relating to Deferred Charges and applicable to the current fiscal period.

Example items

Amortization amounts relating to:

1. Qualifying Transition Costs included in account 1570.
2. Extraordinary Event Losses included in account 1572.
3. Deferred Rate Impact Amounts included in account 1574.
4. Miscellaneous Deferred Debits included in account 1525.”

8) Article 410

- a) **Comment sought clarification of treatment of pad mounted transformers (page 12)**

One of the arguments in favor of the grouped asset method was that the some assets are generally of low value and not readily identifiable. Page 12 of this Article recommends that utilities consider using an ungrouped basis of amortization for pad mounted transformers (as well as high voltage pole type transformers and meters that are of material value). Transformers of this type are generally of high value, easily identifiable and require more attention from an accountability perspective due to their high value. As such, these assets would be prime examples of assets that could be treated as readily identifiable. Consequently, it is recommended that they not be grouped.

- b) Comment sought clarification of the requirement to remove fully depreciated grouped assets from the records (page 12)

The phrase beginning “Such assets and accumulated amortization...” on page 12 has been revised to read “Assets remaining in use after reaching the end of their average useful life are not regarded as fully depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal, and shall be credited with the salvage value and any other amounts recovered. (See account 2100, item B).”

- c) Comment suggested that while the APHandbook implies that the current straight-line method of depreciation will be continued (Article 410, Page

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17, second paragraph) there may be a requirement for the use of Capital Cost Allowance based on fair market value for tax purposes.

It should be noted that the regulatory accounting treatment could vary from the tax treatment of an item. It is not uncommon in industry for the depreciation policy to differ from the allowed tax treatment.

Further guidance related to amortization rates may be provided as part of the Electric Distribution Rate Handbook.

9) Article 420

Comment sought clarification of the treatment of spares

The purpose of this and related Articles is ensure that transformers and meters that are “in-service” and the related “reserve or spare” assets that are substitutes for the in-service assets receive the same treatment (i.e.- treated as capital assets). This does not necessarily mean that all transformers and meters on hand will be considered capital assets.

As stated in Article 420, page 3, (the Definitions subsection on page 2 has been modified to include this definition), “spares” are those assets that are not intended for resale, cannot be classified as inventory in accordance with the CICA Handbook Section 3030, have a longer period of future benefit as compared with inventory items and form an integral part of the original distribution plant by enhancing the system reliability of the original distribution plant.

Example:

CASE A

Assume that the utility has 100 transformers in service. Assume that it estimates that at any one time 10 additional transformers will be required to substitute for transformers that will need to go out of service for repairs, etc. Also assume that the utility is expecting to provide services to a new subdivision that will require an additional 25 transformers in the immediate future.

The 100 transformers in service and 10 substitute transformers would be grouped together as a capital asset. If the utility purchases the 25 transformers for the new subdivision in advance and holds on to these until needed, these would be treated as inventory until they are put in service. Therefore, in accordance with the APHandbook, a total of 110 transformers would be included in the rate base as capital assets and depreciation expense would be incurred. The 25 transformers for the new subdivision would also be included in the rate base as part of working capital but no depreciation expense would be determined.

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CASE B

Same facts as in CASE A above except for the following. It is later found that the new subdivision was downsized and only 15 transformers were in fact needed. The 15 would be treated as capital assets once they were in service and the remaining 10 would continue in inventory until needed and/ or disposed by the utility *. Therefore, in accordance with the APHandbook, a total of 125 transformers (100+10+15) would be included in the rate base as capital assets and be depreciated. Only the 10 transformers no longer needed for the new subdivision would appear as inventory and would not be depreciated.

(* Note that in determining the working capital allowance for the utility, the Board may review the prudence of management's actions in acquiring, using, and/or disposing of these transformers).

10) Article 430**Comment sought clarification regarding the treatment of development charges and contributions-in-aid in the rate base, the extent of documentation required to transfer amounts to the Miscellaneous Paid in Capital (account 3030), and "grandfathering" provisions**

This Article deals with the treatment of contributed capital/ development charges going forward. While there is mention of identifying the past contributed capital by transferring it to a new "Miscellaneous Paid in Capital" account, it should be noted that the Board has not yet made a decision regarding the treatment or grandfathering of past contributions. The current proposal in the Distribution Rate Handbook is that contributions prior to a date yet to be determined will be removed from the rate base in determining the utility's market based return. However, the prior contributions will receive a return equal to the five-year actual average historic return.

When the final decision is made with respect to past contributed capital, the APHandbook will be revised accordingly and/ or the decision will be communicated to you.

11) Article 440**Comment sought clarification regarding the disposition of timing differences (held in the Future Income Tax account) when assets are transferred**

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Please note that the purpose of the APHandbook is, among other things, to bring about consistency in reporting for regulatory purposes. It is not geared to address complexities related to audited financial statements prepared for external purposes.

In addition, Article 440 page 2 states: "It should be noted that the method of accounting for Future Income Taxes will not affect the manner in which just and reasonable rates are set by the Board and the accounts provided in the Uniform System of Accounts (USoA) are provided only for the convenience of the electric utility." The APHandbook is not set up to prejudge Board policy. However, the disposition of Future Income Taxes may be further considered based on the specifics of each circumstance.

12) Article 450

Comment sought clarification as to whether guidelines will be issued outlining Board expectations regarding acceptable investments

There will be some freedom in investment practices of the utilities. The General Summary subsection on page 2 has been revised to include the following; "The Board has not established investment guidelines in the past but reserves the right to review the implications of investment decisions on utility operations."

13) Article 460

Comment sought clarification regarding regulatory levels that must be incorporated into any reserve strategy

Note that the former chart of accounts included at least two accounts related to reserves (accounts 650 and 699). In order to accommodate the possibility for the use of reserves it was decided that the APHandbook should include this Article. Please note however, that the APHandbook states (page 1 of this Article) that "Reserves are appropriations of retained earnings or surplus and as such are **not** "expenses". Specifically, increases or decreases in reserves are **not** to be a factor in determining net income for the period but are to be shown as an increase or decrease in the statement of retained earnings."

Consequently, reserve or appropriation levels will ultimately be determined by your shareholders since the potential distribution of earnings to them will be affected. Your ratepayers will not be affected by decisions to maintain such reserves.

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14) Article 510**Comment sought clarification between Bill 35 reference to the transfer of assets at fair market value versus discussion in Article 510 of carrying amount or exchange amount**

There can be a difference between asset values used as a basis for calculating the transfer tax, asset values for capital cost allowance for income tax or taxes in lieu calculation purposes, and those that will be permitted for inclusion in the rate base for regulatory purposes.

Generally, for regulatory purposes, it will be difficult to justify a change in asset values due simply to a change in ownership where the benefits to the ratepayer are non-existent or not in line with the proposed rate impact. Note that page 7 of the "Discussion Paper for MAADs Draft Filing Guidelines" states:

"The value of the assets to customers does not change with a change in ownership. The utility invested in assets to provide service to customers. Previous Board decisions have generally involved the use of net book values in determining rates after ownership changes. Anticipated efficiencies to be derived from the acquisition of the utility operation may justify a higher asset valuation (with the increased depreciation and return costs offset by efficiency savings). However, these efficiency gains are also reflected in the performance based regulation methodology proposed by the Board and therefore the justification for a higher asset valuation on efficiency grounds may be diminished."

15) Article 530**Page 5: Comment sought clarification as to whether storm restoration is an operating or maintenance activity**

Utilities themselves may request, or the Board may authorize, storm restoration that **is significant and extraordinary** in nature to be treated as an extraordinary item and/or as Other Regulatory Assets (account 1505)/ Other Regulatory Liabilities (account 2400). Naturally the distinction between O&M for such items is less relevant since that distinction is geared to gage efficiencies in normal operating circumstances rather than unusual or infrequent circumstances.

Storm restoration activity that is not significant and extraordinary could have both operating and maintenance characteristics as listed on page 5 of Article 530 and should be apportioned accordingly.

A comment was also received requesting clarification of the distinction and need for operations and maintenance accounts.

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Article 530 was specifically added to highlight the differences between Operation activities and Maintenance activities described in the Uniform System of Accounts.

As the Article states, the USoA was developed under a number of premises. One premise was that any information captured in the accounts prescribed in the former accounting manual should be preserved where possible and where considered useful. Another premise was that for Performance Based Regulation purposes, the USoA should be constructed in a manner that would facilitate comparability of the activities conducted by a utility with those of another utility.

It should be noted that the classification of Operation / Maintenance type expenditures could be useful in formulating future service reliability criteria. As described on page 2, Operation activities encompass actions of a detective and/or monitoring nature such as inspecting, patrolling, testing, and investigating while Maintenance activities are performed in a reactionary manner, often based on the results of an Operation activity.

It should also be noted that the distinction between Operation and Maintenance activities is in wide use in other jurisdictions. It was considered beneficial, from a comparability standpoint, to incorporate this in the USoA.

16) GENERAL

a) Comment sought clarification related to which revenue account should be used to record water heater rentals

After careful analysis of Article 240 – Mapping of Former Accounts to USoA Accounts, and considering the possible implications of the new Affiliate Relationships Code, water heater rental income will be recorded in account 4385 Non-Utility Rental Income. The use of 4385 for such revenues will free up use of accounts 4375 and 4380 (Revenues and Expenses of Non-Utility Operations respectively) for other possibilities and not require changes to the related water heater and control expense accounts numbered 5185, 5186, 5190, and 5192.

The description for account 4385 has been modified to specifically refer to revenue related to water heater rental units. In addition, Article 240 has been revised to map the Black Book account 9902 to the USoA Account 4385.

b) Request made to have the first five account numbers of each category of the accounts reserved for category headers

This request has resulted in the following changes to the USoA numbering system in addition to any numbering changes already identified previously in this Article.

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Previous Number	Account	Revised Number	Account
1000		1005	
1300		1305	
1400		1405	
1405		1408	
1500		1505	
1505		1508	
1600		1605	
1602		1606	
1604		1608	
1606		1610	
1700		1705	
1701		1706	
1705		1708	
1800		1805	
1801		1806	
1805		1808	
1900		1905	
1901		1906	
1905		1908	
2000		2005	
2100		2105	
2200		2205	
2205		2208	
2300		2305	
2305		2306	
2400		2405	
2500		2505	
3000		3005	
3005		3008	
4005		4006	
6320		6405	
6325		6410	
6330		6415	

c) Miscellaneous changes

- i) Non-Current Asset accounts 1470, Past Service Costs – Employee Future Benefits and 1475, Past Service Costs – Other Pension Plans have been added to supplement the 1465, O.M.E.R.S. Past Service Costs account.

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- ii) Account 2264 has been renamed “Pensions and Employee Benefits – Current Portion” and its account description revised to include current portions of all pension and employee benefits plans.
- iii) Account 2308 has been renamed “Other Pensions – Past Service Liability” to better describe its purpose.
- iv) Account 2330, Development Charge Fund has been revised to provide more detail on the disposition of amounts in this account and to reflect the wording used in the Electric Distribution Rate Handbook. The account description now reads:
- “The purpose of this account is to record the liability associated with funds collected for specific, future capital works. This account recognizes that there is an obligation to complete the specific capital work for which the funds were collected. The liability will increase each year by the amount of interest income earned on the fund.
- If the obligation to complete the capital work has been fulfilled prior to the date designated by the Board, the related amount shall be transferred to account 3022, Development Charges Transferred to Equity.
- If the obligation to complete the capital work has been fulfilled after the date designated by the Board, the related amount shall be transferred to asset contra account 1995, Contributions and Grants - Credit.”
- v) Account 2535, O.M.E.R.S. – Past Service Liability – Long Term Portion has been renumbered 2348 to better reflect the nature of this account (i.e. – a Non-Current Liability).
- vi) Account 4225: the item “collection charges” has been removed from the description since this item is already included in account 5330. Also, the wording for account 5330 now refers to “imposition of charges” instead of “payment penalties”.
- vii) Account 5115 has been divided into two accounts (accounts 5112, Maintenance of Transformer Station Equipment and 5114, Maintenance of Distribution Station Equipment) to separate amounts relating to maintenance of transformer station equipment from those relating to distribution station equipment. This is now more consistent with the changes made to the operation accounts and is in accordance with past practices used to record such expenses.

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- viii) Page 2 of Article 320. In the Definitions section, beside Prior Period Adjustments, the reference to CICA Handbook Section 3600 has been removed. This section was removed from the CICA Handbook when Section 1506 was revised. The guidance that was contained in Section 3600 is now contained in Section 1506.
- ix) Page 2 of Article 440. In the Definitions Section, the reference beside Refundable Taxes should be 3465.71-.78 (instead of .80)
- x) Account 5730 has been renamed “Amortization of Unrecovered Plant and Regulatory Study Costs” and revised to remove the reference to Extraordinary Property Losses.

d) Comment suggested that the APHandbook assumes a thorough knowledge of corporate accounting principles and the CICA’s accounting rules

It should be noted that the requirement to follow Generally Accepted Accounting Principles does not come from the APHandbook itself, but from the legislative requirement that a “municipal electric utility” (defined in s.88 of the Electricity Act, 1998) be incorporated under the Business Corporations Act. The Business Corporations Act (s.155 and Regulation 62) in turn requires that financial statements be prepared in accordance with GAAP as defined in the CICA Handbook.

The APHandbook provides guidance that reflects GAAP, to the extent possible, in order to reduce the burden of having to maintain different books of accounts: one for the regulator, and the other to comply with the Business Corporations Act.

The APHandbook contains procedures and guidelines that are consistent with many of the requirements that Ontario utilities (particularly MEU’s) have had to follow in the past as well as general accounting principles followed by regulated utilities in other jurisdictions.

e) Comment suggested that a different version of the APHandbook for smaller utilities would have been useful

A proposal was originally made by Board staff to have a different set of accounts applied to small distribution utilities. This proposal was rejected early in the USoA development process based on the advice received from external stakeholders involved in the development process. The stakeholders represented a broad spectrum of utilities of various sizes. Some of the reasons for rejecting the proposal for a different set of accounts included: the potential for complications where utilities of various sizes planned to amalgamate; difficulties that would be encountered for benchmarking purposes; administrative problems associated with

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two accounting standards; and, the proposal could not be justified based on the level of reporting detail that would still be necessary for smaller utilities.

f) Comment suggested that using the Uniform System of Accounts for utility comparison purposes might not be possible due to inherent utility differences

The information in the USoA is expected to provide input for future benchmarking and variance analysis. This analysis would begin with a comparison of similar utilities and lead to the review of the sources of the differences.

For example, two utilities subject to comparable weather may differ from an overall average by different amounts. Therefore, there may be other factors beyond weather that need to be investigated to fully explain the extent of the variance. The sources of these differences are as important to management as they are to the regulator. Therefore the effort required to gather this information is purposeful and may currently be performed by utilities.

The information gathered during Phase I of the PBR plan proposed by the Board will either highlight benchmarking opportunities or support the consideration of alternative PBR strategies.

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