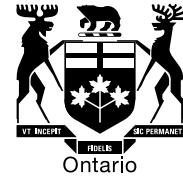


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**VIA EMAIL AND WEB POSTING**

June 25, 2013

**TO: Licensed Electricity Distributors  
All Other Interested Parties**

**RE: Accounting Policy Changes for Accounts 1575 and 1576**

This letter serves to inform electricity distributors of accounting policy changes to Accounts 1575 and 1576 with respect to the disposition of these account balances effective for the 2014 cost of service rate applications and subsequent rate years. The Board will require a rate of return component to be applied to the balance in Account 1576 upon its disposition in rates and will require the use of separate rider riders for the disposition of the balances in Accounts 1575 and 1576.

## **Background**

In March 2012, the Canadian Accounting Standards Board's ("AcSB") provided an optional deferral until January 1, 2013 to rate-regulated entities for their mandatory changeover from Canadian GAAP ("CGAAP") to International Financial Reporting Standards ("IFRS"). By way of a letter on July 17, 2012, the Board provided electricity distributors electing to remain on CGAAP in 2012 the option of implementing regulatory accounting changes for depreciation and capitalization policies effective on January 1, 2012. This letter also specified that the implementation of these changes is mandatory effective on January 1, 2013. The Board established Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising from these accounting changes.

Since the issuance of this accounting direction however, the AcSB has provided rate-regulated entities two further deferrals for their IFRS changeover that is currently set for January 1, 2015. Since most distributors are generally expected to remain on CGAAP

for financial reporting until December 31, 2014, the result will be more distributors using Account 1576 instead of Account 1575 for a longer period of time than anticipated. Account 1576 was intended only as a short-term measure to address the interim deferral of IFRS in 2012 with the expectation of a changeover to IFRS in 2013. In addition, modified IFRS was expected to be the accounting basis used and approved for the 2013 cost of service rate applications and thus the use of Account 1575 would have applied rather than Account 1576.

### **Rate of Return Required for Account 1576 on Disposition**

In several of the proceedings for 2013 cost of service rate applications, an issue was raised about the applicability of applying a rate of return component on the disposition of the balance in Account 1576, as required for Account 1575. The Board acknowledges that this issue has been a concern for parties in these proceedings and may continue to persist in the future since the use of Account 1576 will continue in light of the IFRS changeover deferrals. The Board is of the view that a generic policy on this issue provides for greater clarity and efficiency in the application proceedings. Consequently, the Board will require a rate of return component to be applied to the balance of Account 1576 upon its disposition in rates. This policy is effective for the 2014 cost of service rate applications and subsequent rate years.

### **Separate Rate Riders required for Disposition of Balances in Accounts 1575 and 1576**

The Board's policy for Accounts 1575 and 1576 requires the dispositions of these account balances in rates to be applied through adjustments to the revenue requirement in the cost of service rate applications. The recoveries or refunds arising from the disposition of these balances were usually set for a period of four years to align with the rate-setting cycle. Due to the changes arising from the Renewed Regulatory Framework for Electricity, which provides distributors with rate application filing options, i.e., 4<sup>th</sup> Generation Incentive Rate-Setting ("IR"), Custom IR and Annual IR Index, there will be different rate-setting cycles for distributors depending on the option selected. As a result, the Board will require the use of separate rate riders for the disposition of these account balances to permit greater flexibility, effective for the 2014 cost of service rate applications and subsequent rate years.

Please note that the Board's determination for disposition period will be on a case-by-case basis and that it be guided primarily by such considerations as bill impacts and the financial impact on distributors. The Board is of a view that a volumetric rate rider to dispose of the account balances is appropriate. Rate rider expiry dates will be set out in the rate orders to align with the approved disposition period.

The Board intends to update Chapter 2 of the Filing Requirements for Electricity Distributors and Transmitters later this summer to reflect this new policy.

Any questions regarding the above matters should be directed to the Market Operations Hotline at 416-440-7604 or by e-mail at [market.operations@ontarioenergyboard.ca](mailto:market.operations@ontarioenergyboard.ca). The Board's toll free number is 1-888-632-6273.

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary