Ontario Energy Board
EB-2008-0046

Board Staff Discussion Paper

on an Electricity Distributors' Deferral and Variance Account Review Initiative

April 1, 2009

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Executive Summary

The Ontario Energy Board (the "Board") is required under section 78 of the *Ontario Energy Board Act, 1998* (the "Act") to periodically review the electricity distributors' variance and deferral accounts (the "Accounts"). Specifically, the Act requires that the Board makes an order determining whether and how amounts recorded in the Accounts should be reflected in rates. The Account associated with the commodity of electricity (the "Commodity Account") is to be reviewed quarterly and the remaining Accounts (the "Non-Commodity Accounts") are to be reviewed annually.

In a letter dated February 19, 2008, the Board announced that it would consider options for the review and disposition of Account 1588 of the Uniform System of Accounts ("USoA"), the only Commodity Account currently in place. Further, the Board indicated that it may use Account disposition thresholds or "disposition triggers" for disposing of the balances in the Commodity Account. The Board also noted that it might extend this initiative to Non-Commodity Accounts that are similar in nature to Account 1588, such as the Retail Settlement Variance Accounts ("RSVA") and the Retail Cost Variance Accounts ("RCVA").

Given the legislative requirements to review the Accounts annually and one at least quarterly, Board staff is of the view that there would be benefits to extending this initiative to all the Accounts.

Under the current multi-year distribution rate-setting plan, the Board established a mechanistic price cap adjustment (2nd and 3rd Generation Incentive Regulation) to determine the allowable change in distribution rates for each year of the Incentive Regulation ("IR") plan term. Also, the IR plan includes a thorough rebasing (through a cost-of-service application) at the end of the plan term. Given the comprehensive nature of a cost-of-service application and the formulaic IR framework, Board staff is of the view that the annual review and disposition process should be differentiated in each case to reflect these fundamental differences.

During the IR plan term, Board staff proposes the use of preset disposition thresholds to determine whether Account balances should be disposed of. Board staff also suggests that the disposition thresholds and review process be differentiated based on whether a prudence review of the Account balances is required.

At the time of rebasing, Board staff proposes that distributors be required to file an application to dispose of all Account balances as part of their cost-of-service application. As a result, no disposition thresholds are being proposed in a rebasing year.

With respect to the quarterly review of Account 1588, Board staff proposes that the disposition threshold be set at a level that would limit the quarterly disposition to exceptional cases only.

Board staff also proposes that a default cost allocation methodology apply to all electricity distributors. Where appropriate, distributors could propose a different cost allocation methodology. The onus would be on the distributor to justify why a departure from the default approach would be warranted.

Consistent with the Board's previous findings, Board staff proposes that the use of volumetric rate riders be maintained to dispose of Account balances. Board staff also proposes that a one-year default disposition period be used to clear the Account balances through rate riders. Where appropriate, distributors could propose a different disposition period to mitigate rate impacts or address any other applicable considerations. The onus would be on the distributor to justify why a departure from the default approach would be warranted.

Finally, Board staff suggests that filing requirements be established to facilitate the filing and review process.

1. Introduction

The Ontario Energy Board (the "Board") is required under section 78 of the *Ontario Energy Board Act, 1998* (the "Act") to periodically review the electricity distributors' variance and deferral accounts (the "Accounts") and to make an order that determines whether and how amounts recorded in those Accounts should be reflected in rates. The Board is required to make such an order at least every three months for the Account associated with the commodity of electricity (the "Commodity Account") and at least once a year for the Accounts that do not relate to the commodity of electricity (the "Non-Commodity Accounts"). Excerpts of the applicable legislation under the Act are shown in Appendix A.

In a letter dated February 19, 2008, the Board announced that it would launch an initiative to consider options for the review and disposition of Account 1588 of the Uniform System of Accounts ("USoA"), the only Commodity Account currently in place. Further, the Board indicated that consideration would be given to use Account disposition thresholds or "disposition triggers" for disposing of the balances in the Commodity Account. The Board also noted that it would contemplate extending this initiative to Non-Commodity Accounts that are similar in nature to Account 1588, such as the Retail Settlement Variance Accounts ("RSVA") and the Retail Cost Variance Accounts ("RCVA").

Overview of this Discussion Paper

Board staff has prepared this discussion paper to invite comments from all interested parties on options that the Board may wish to consider for determining if, when, and how Account balances should be disposed of. Informed by Board staff's discussion paper and stakeholders' comments, it is expected that the Board will issue guidelines on the Accounts review process.

Board staff's proposals are guided by the objective of establishing a systematic approach that would improve regulatory efficiency, predictability and transparency.

Organization of this Discussion Paper

Board staff's discussion paper is organized as follows. Section 2 provides an overview of the Board's current review process and the Accounts subject to that review. Section 3 sets out the scope of the paper. Section 4 introduces the distinction between the annual review and disposition of Account balances during the incentive regulation ("IR") plan term and at the time of rebasing. Section 5 describes Board staff's proposals with respect to the annual review and disposition of Account balances during the IR plan term. Section 6 outlines Board staff's proposals regarding the annual review and disposition of Account balances at the time of rebasing. Section 7 describes the review and disposition process for the quarterly review of Account 1588. Section 8 offers a default methodology to allocate and dispose of the Account balances while section 9 depicts the proposed timelines for the Account review process. The proposed filing requirements are contained in section 10.

Appendix A contains excerpts of the Board's legislative requirements under Section 78 of the Act to review the electricity distributors' Commodity and Non-Commodity Accounts. Appendix B lists the Accounts while Appendix C provides a brief description of the Accounts based on the Accounting Procedures Handbook.

2. Current Situation

The Board's legislative requirement to make orders on whether and how amounts recorded in the Accounts should be reflected in rates came into effect on January 1, 2005. On September 28, 2005, the Board issued Guidelines for Reviewing Electricity Local Distribution Companies Variance and Deferral Accounts (the "Current Guidelines") that established the Board's process for the review of the Accounts and outlined the procedures that electricity distributors ("LDC" or "distributor") would be required to follow if the Board determined that one or more Accounts should be considered for disposition.

At present, orders have been issued but no order requiring the disposition of Account(s) under the Current Guidelines has been made. However, there have been instances where one or more Accounts have been disposed of as part of a distributor's rebasing application.

2.1 Review Process

The Board's legislative requirements apply to all existing deferral and variance accounts listed in the USoA (see Appendix B).

The Board's current review process of the Accounts is based on the information reported by the distributors under the Reporting and Record-keeping Requirements ("RRR"). Under the RRR, information on all of the Accounts is reported quarterly.

The Commodity Account balances are reviewed by the Board on a quarterly basis (based on balances as of March 31, June 30, September 30 and December 31) in accordance with section 78 of the Act. Non-Commodity Account balances are reviewed annually and are based on balances as of December 31. These Accounts are reviewed in conjunction with the Commodity Account's fourth quarter review.

When the Board requires a more detailed review of a distributor's Account balances, distributors must file additional information to assist the Board with its review. Following this review, the Board may initiate a notice of a written hearing on its own motion.

The Board issues orders for all distributors on completion of its quarterly and annual review of the Accounts. The orders reflect the Board's determination as to whether the Account balances reviewed ought to be disposed of, and if so, the balance(s) that will be disposed of and how they will be reflected in rates.

3. Scope

As set out in a letter dated February 19, 2008, the Board considered whether this initiative should be extended to deferral or variance accounts that are similar in nature to Account 1588. Given the legislative requirements to review all the Accounts at least annually, and Account 1588 at least quarterly, Board staff is of the view that there would be benefits to extending this initiative to all the Accounts.

Board staff invites comments from stakeholders on the scope of this initiative.

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4. Annual Review and Disposition of Account Balances

As previously indicated, Non-Commodity Account balances are reviewed annually and are based on balances as of December 31. This review also includes the Commodity Account's fourth quarter review.

Under the current multi-year distribution rate-setting plan, the Board established a mechanistic price cap adjustment (2nd and 3rd Generation IR) to determine the allowable change in distribution rates for each year of the IR plan term. Also, the IR plan includes a thorough rebasing (through a cost-of-service application) at the end of the plan term. Given the comprehensive nature of a cost-of-service application and the formulaic IR framework, Board staff is of the view that the annual review and disposition process should be differentiated in each case to reflect these fundamental differences.

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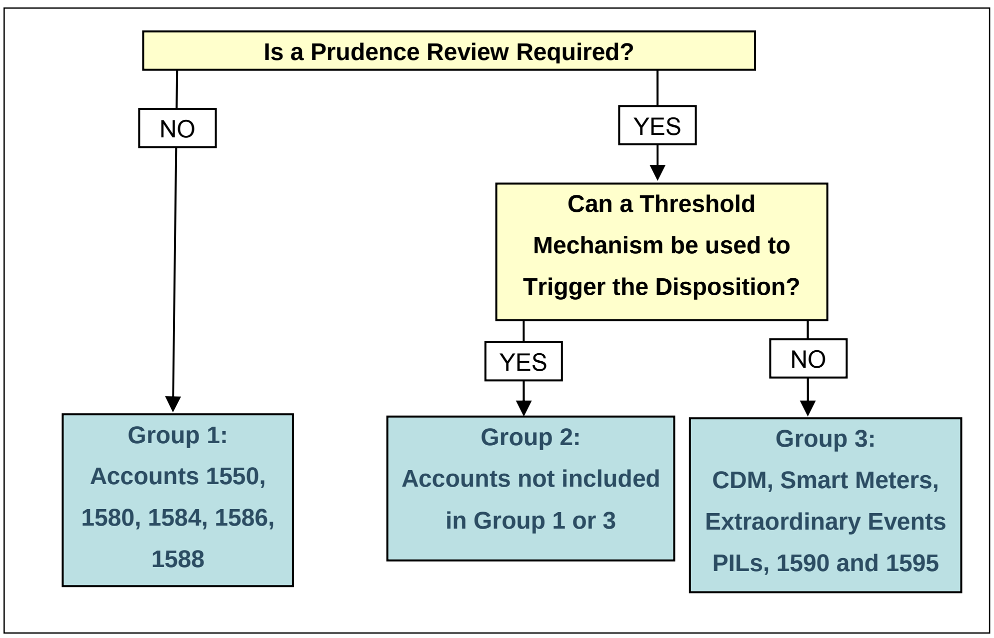
5. Annual Review Process and Disposition of Account Balances during the IR Plan Term

5.1 Accounts Classification Criteria

Based on a review of the nature of the Accounts, Board staff suggests that criteria be used to classify the Accounts into groupings for the annual review process and disposition of Account balances during the IR plan term. This would ensure that Accounts that have similar characteristics are treated the same way. The proposed classification criteria are: (i) whether a prudence review is required; and (ii) whether a threshold mechanism can be used to trigger their disposition.

Figure 1 below outlines Board staff's proposed classification criteria and the resulting three groupings.

Figure 1: Proposed Groupings of Accounts



5.1.1 Is a Prudence Review Required?

As noted in Figure 1, the first classification criterion suggested by Board staff is whether a review is required to determine if the amounts in the Accounts have been prudently incurred before disposition is considered during the IR plan term. For example, the Board has determined in its incentive regulation policies[1] that amounts recorded in Account 1572 (Extraordinary Event Costs) will be subject to a prudence review. In contrast, a prudence review is unlikely to be required for the amounts in Account 1584 (RSVA – Retail Transmission Network Charges)[2] since these amounts are considered to be cost pass-through.

Board staff observes that the balances in the following Accounts typically do not require a prudence review before being disposed since the amounts are considered to be cost pass-through. Therefore Board staff proposes that they be classified into Group 1:

1550 Low Voltage Variance Account
1580 RSVA – Wholesale Market Service Charges
1584 RSVA – Retail Transmission Network Charges
1586 RSVA – Retail Transmission Connection Charges
1588 RSVA – Power (including the Global Adjustment Sub-account)

While Board staff recognizes that Accounts 1590 (Recovery of Regulatory Asset Balances) and 1595 (Disposition and Recovery of Regulatory Balances Control Account) do not typically require a prudence review, Board staff does not propose to include them into Group 1 due to the considerations further discussed in section 5.1.2

Stakeholders are invited to comment on this proposed classification criterion and the composition of Group 1 Accounts.

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[1] *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* issued on December 20, 2006 and the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* issued September 17, 2008.
[2] This Account captures the difference between the amount charged by the Independent Electricity System Operator ("IESO") based on the settlement invoice for transmission network services and the amount billed to customers for the same service using the Board approved Transmission Network Service Charges.

5.1.2 Can a Threshold Mechanism be Used for Disposition?

As noted in Figure 1, the second classification criterion suggested by Board staff is whether a threshold mechanism can be used to trigger the disposition of the Account balances during the IR plan term.

Accordingly, Board staff proposes that Account balances that require a prudence review and lend themselves to a disposition threshold mechanism be classified as Group 2 Accounts. The following Accounts comprise the second grouping**:**

1508 Other Regulatory Assets
1518 RCVA – Retail
1525 Miscellaneous Deferred Debits
1548 RCVA – Service Transaction Request
1570 Qualifying transition costs
1571 Pre-Market Opening Energy Variances
1574 Deferred Rate Impact Amounts
1582 RSVA – One-time Wholesale Market Service
2425 Other Deferred Credits

The remaining Accounts have been classified as Group 3.

1555 Smart Meter Capital and Recovery Offset
1556 Smart Meter Operation, Maintenance and Administration
1562 Deferred Payment-in-Lieu of Taxes ("PILs")
1563 Contra Account – Deferred PILs
1565 Conservation and Demand Management Expenditures and Recoveries
1566 Conservation and Demand Management Contra Account
1572 Extraordinary Event Costs
1590 Recovery of Regulatory Asset Balances
1592 PILs and Tax Variances for 2006 and Subsequent Years
1595 Disposition and Recovery of Regulatory Balances Control Account

The rationale for Board staff not proposing a disposition threshold for Group 3 Accounts is as follows:

Smart Meters

The Board's *Guideline for Smart Meter Funding and Cost Recovery* (G-2008-0002) already outlines the process for smart meter cost recovery.

Payment-in-Lieu of Taxes ("PILs")

The Board has commenced a combined proceeding (EB-2008-0381) on its own motion where it will make findings on the methodology and the disposition of Account 1562 (Deferred PILs). The results of this proceeding may also impact other Accounts, such as 1563 (Contra – Deferred PILs), or 1592 (PILs and Tax Variances for 2006 and Subsequent Years). Pending the outcome of this proceeding, these Accounts have been classified as Group 3 Accounts.

Conservation and Demand Management ("CDM")

Account 1565 and contra Account 1566 track the distributors' revenues and spending on CDM programs financed by the third tranche of their market adjusted rate of return ("MARR"). Since these two Accounts are designed to offset each other, there is no need to dispose of them periodically.

Extraordinary Event Costs

This Account is used to record extraordinary event amounts that meet the criteria established in the 2000 Electricity Distribution Rate Handbook for rebasing applications. For 2nd and 3rd Generation IRM, the eligibility criteria for cost recovery are described in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, and the *Supplemental Report of the Board on 3ndGeneration Incentive Regulation for Ontario's Electricity Distributors* respectively. Since the eligibility criteria include prudence and specific materiality thresholds, Board staff classified Account 1572 into Group 3.

Recovery of Regulatory Asset Balances (Account 1590) and Disposition and Recovery of Regulatory Balances Control Account (Account 1595)

Account 1590 includes the regulatory asset or liability balances authorized by the Board for the recovery from or refund to ratepayers. Amounts received or refunded to ratepayers over time through rate riders are also recorded in this Account.

Board staff notes that the Board's combined Decision for the Recovery of Regulatory Assets – Phase 2 dated December 9, 2004 (the "Phase 2 Decision") contained provisions regarding the disposition of Account 1590:

> "As of April 30, 2006, distributors shall debit the Regulatory Asset Recovery Account (1590, Recovery of Regulatory Asset Balance) by the approved total recovery amounts. Starting May 1, 2006, revenue from the monthly rate riders shall be credited to the Regulatory Asset Recovery Account (1590). Interest shall continue to apply to this account. At the end of the two year period, at April 30, 2008, as there will be a residual (positive or negative) balance in the Regulatory Asset Recovery Account (1590), this balance shall be disposed of to rate classes in proportion to the recovery share as established when rate riders were implemented."

Board staff therefore suggests that Account 1590 be classified into Group 3 since it does not lend itself to an annual disposition threshold mechanism.

Similarly, Board Staff is of the view that the same rationale should apply to Account 1595 since it is similar in nature to Account 1590.

Stakeholders are invited to comment on Board staff's proposed second classification criterion and the composition of Group 2 and Group 3 Accounts.

5.2 Considerations for Disposition Thresholds for Groups 1 and 2

In support of a systematic approach that would improve regulatory efficiency, predictability and transparency, Board staff proposes the use of preset disposition thresholds during the IR plan term for Groups 1 and 2. This would determine whether the net balance of a grouping of Accounts should be disposed of. As noted in section 5.1.2, no disposition threshold is being proposed for Group 3 Accounts.

Before attempting to set specific disposition thresholds for Groups 1 and 2 during the IR plan term, Board staff examined the potential rate impact on customers as well as data quality.

5.2.1 Customer Rate Impact

In determining what would be an appropriate disposition threshold during the IR plan term, Board staff examined the potential rate impact on the residential customer rate class. This rate class was chosen because it typically has the greatest number of customers. As a starting point, Board staff considered the *2006 Electricity Distribution Rate Handbook*, where an "applicant must file a mitigation plan if total bill increases for any customer class or group exceed 10%." For a residential customer, this would amount to a charge of about $10 per month, before taxes, or $0.01/kWh assuming a 1,000 kWh per month consumption. Board staff therefore suggests that $0.01/kWh would be the upper limit of a disposition threshold absent of a rate mitigation plan.

Board staff suggests a threshold based on a $/kWh, as opposed to a fixed dollar amount, since this would take into account the size of the utility. This would ensure that all distributors dispose of their Account balances frequently enough regardless of their size.

Parties are invited to comment on the use of a $/kWh threshold.

5.2.2 Data

The year-end trial balance reported under section 2.1.7 of the RRR (the "Trial Balance Data") provides balances of all Accounts, as well as the balances in their related sub-accounts. The Trial Balance Data is supported by the distributors' audited financial statements and is based on methods that are consistently applied by a distributor from year to year.

5.3 Unitization of Groups 1 and 2 Account Balances

Board staff proposes that the sum of the Account balances within a group be divided by the total billed kWh for the corresponding calendar year.[3] If the resulting amount per kWh is greater than the preset disposition threshold, the disposition process for the grouping would be initiated.

Board staff invites comments on this approach.

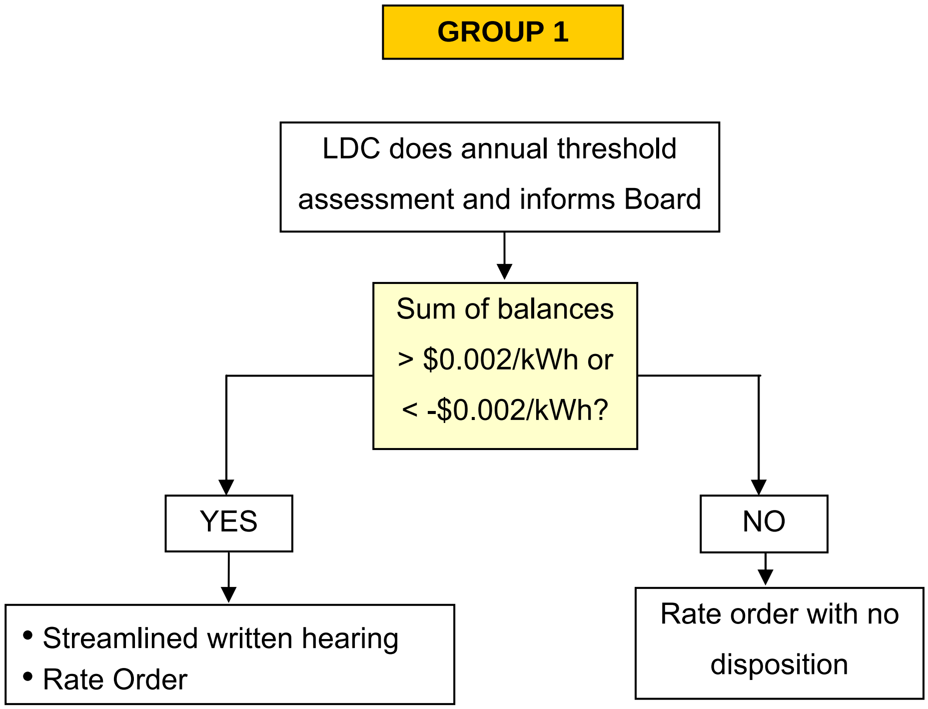
5.4 Review Process and Preset Disposition Threshold for Group 1 Accounts during the IR Plan Term

Board staff's proposed approach to determining the preset thresholds for Group 1 was informed by the considerations included in sections 5.2.1 and 5.2.2 above.

Figure 2 below summarizes Board staff's proposed review process and preset disposition threshold for Group 1 Accounts.

[3] Board staff notes these Account balances will be net of any amounts previously approved for disposition as amounts approved for disposition will have been transferred into Account 1595.

Figure 2: Proposed Review Process and Preset Disposition Threshold for Group 1 Accounts during the IR Plan Term



5.4.1 Preset Disposition Threshold for Group 1 Accounts

As discussed in section 5.1.1, Group 1 Accounts typically do not require a prudence review prior to their disposition. In addition, the annual review is based on the Trial Balance Data which is supported by the distributors' audited financial statements.

While a timely clearance of the Group 1 Accounts would minimize inter-generational inequities and mitigate the accumulation of large Account balances, consideration should also be given to the materiality of the amounts to be disposed of. Accordingly, Board staff proposes that if the sum of Group 1 Account balances exceed a preset disposition threshold of $0.002/kWh (credit or debit), the disposition process would be initiated (this would be equivalent to about $2 per month for a residential customer consuming 1,000 kWh per month). Board staff considers this disposition threshold level to be a reasonable trade-off between ensuring that the amounts being disposed are material while minimizing inter-generational inequities.

Board staff also suggests that distributors be required to file a rate mitigation plan when a net debit balance exists and exceeds $0.01/kWh when unitized. This plan could include extending the recovery of Group 1 Account balance over a period longer than one year.

Under the proposed threshold of $0.002/kWh, 62 distributors would have triggered the disposition of their Group 1 Accounts based on the December 31, 2007, balances. For illustrative purposes, Table 1 below provides a sensitivity analysis of various disposition thresholds. As expected, a lower threshold would give rise to a greater number of distributors exceeding the threshold.

Table 1 – Number of Distributors Exceeding Various Disposition Thresholds for Group 1 Accounts Based on the December 31, 2007, Trial Balance Data

Threshold	$0.004/kWh	$0.003/kWh	$0.002/kWh	$0.001/kWh
Number of Distributors	34	48	62	80

Board staff notes that while some distributors would initially have an annual disposition process triggered under the proposed disposition threshold, fewer would be expected in the future.

Stakeholders are invited to comment on Board staff's proposed annual disposition threshold of $0.002/kWh for Group 1 Accounts.

5.4.2 Determination that a Disposition is Triggered for Group 1 Accounts

Board staff proposes that distributors self-identify when the annual disposition of Group 1 Accounts is triggered.

5.4.3 Review Process if Disposition is Triggered for Group 1 Accounts

After self-identifying, Board staff proposes that distributors be required to file an application for the disposition of Group 1 Account balances based on the filing requirements included in section 10 of this paper. Board staff suggests that the applications be reviewed in a streamlined written hearing that could be completed within 30 calendar days, similar to the Quarterly Rate Adjustment Mechanism ("QRAM") process for natural gas utilities. As part of this process, distributors would be required to give notice to all participants in their most recent cost-of-service filing. Interested parties could make submissions and distributors would have an opportunity to reply. The proceeding would culminate with the Board issuing an order for the disposition of Group 1 Account balances.

Stakeholders are invited to comment on Board staff's proposed review process.

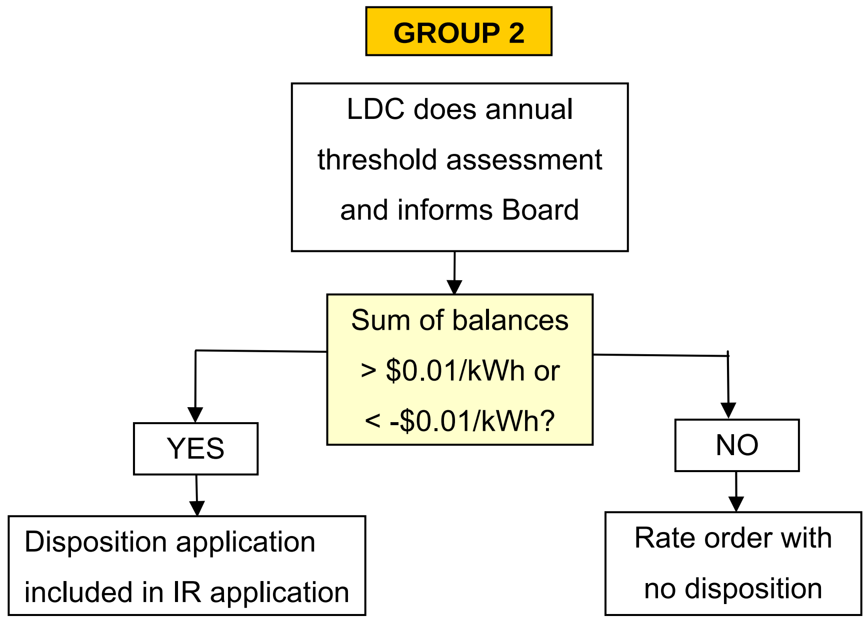
5.5 Review Process and Preset Disposition Threshold for Group 2 Accounts during the IR Plan Term

Board staff's proposed approach to determining the preset thresholds for Group 2 was also informed by the considerations included in sections 5.2.1 and 5.2.2 above.

As previously discussed, Account balances in Group 2 require a prudence review before their disposition. Board staff considers that the disposition of Account balances in Group 2 would be better addressed at the time of rebasing (i.e. within the context of a comprehensive cost-of-service rebasing proceeding). However, Board staff is proposing an annual disposition of Group 2 Accounts during the IR plan term, subject to a preset disposition threshold. Board staff suggests that the disposition threshold should be set at a level that would limit the disposition to exceptional circumstances only.

Figure 3 below summarizes Board staff's proposed review process and proposed disposition threshold for Group 2 Accounts.

Figure 3: Proposed Review Process and Preset Disposition Threshold for Group 2 Accounts during the IR Plan Term



5.5.1 Preset Disposition Threshold for Group 2 Accounts

As previously noted, Board staff is of the view that the disposition threshold during an IR year be set at a level that ensures that the review process deals with exceptional circumstances only. Accordingly, Board staff proposes that if the sum of Group 2 Account balances exceed a preset disposition threshold of $0.01/kWh (credit or debit), the disposition process would be initiated.

Board staff also suggests that distributors be required to file a rate mitigation plan when a net debit balance exists and exceeds $0.01/kWh when unitized. This plan could include extending the recovery of Group 2 Account balances over a period longer than one year.

For illustrative purposes, Table 2 below provides a sensitivity analysis of various disposition thresholds. As expected, a lower threshold would have more distributors exceeding the threshold.

Table 2 – Number of Distributors Exceeding Various Disposition Thresholds for Group 2 Accounts Based on the December 31, 2007, Trial Balance Data

Threshold	$0.01/kWh	$0.008/kWh	$0.006/kWh	$0.004/kWh
Number of Distributors	2	2	4	13

Stakeholders are invited to comment on Board staff's proposed annual disposition threshold of $0.01/kWh for Group 2 Account balances during the IR plan term.

5.5.2 Determination that a Disposition is Triggered for Group 2 Accounts

In the event that the disposition threshold is exceeded during the IR plan term, the distributor would self-identify.

5.5.3 Review Process if Disposition is Triggered for Group 2 Accounts

Board staff proposes that if the disposition of Group 2 Account balances is triggered during the IR plan term, application be made as part of the IR rate application for that year.[4] Board staff expects that the Board would then issue a notice of application.

Stakeholders are invited to comment on Board staff's proposed review process.

5.6 Review Process and Preset Disposition Threshold for Group 3 Accounts during the IR Plan Term

Due to the nature of these Accounts, Board staff proposes that the current annual case-by-case review should continue for Group 3 Accounts. Therefore, no preset disposition threshold is being proposed.

Stakeholders are invited to comment on this proposal.

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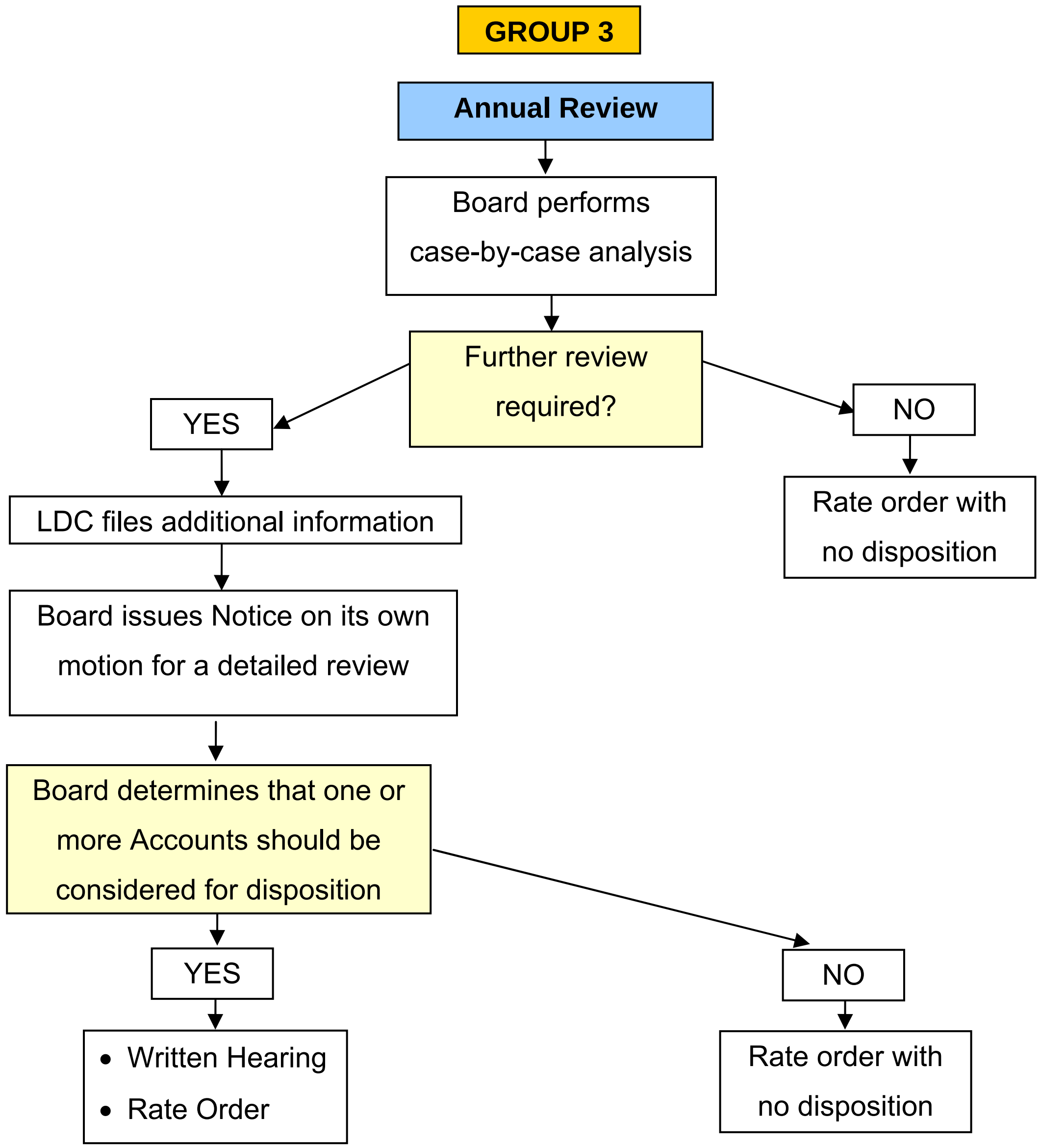
[4] For example, the December 31, 2008 balances for Group 2, as reported in the Trial Balance Data, would be submitted for disposition as part of the distributor's 2010 IR rate application were the disposition threshold is exceeded.

Figure 4 below summarizes the current review process as described in the Current Guidelines and outlined in section 2.1 of this paper.

Figure 4: Proposed Review Process for Group 3 Accounts



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6. Annual Review Process and Disposition of Account Balances in a Rebasing Year

In support of a systematic approach that would improve regulatory efficiency, predictability and transparency, Board staff proposes that distributors be required to file an application to dispose of all Account balances as part of their cost-of-service application, with the potential exception of Group 3 Accounts. The onus would be on the distributor to justify why any Account balance should not be considered for disposition Distributors should be required to file all Account balances regardless of whether they wish to dispose of an Account balance or not.

As a result, no disposition threshold is being proposed in a rebasing year.

Stakeholders are invited to comment on these proposals.

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7 Quarterly Review of Account 1588

7.1 Preset Disposition Threshold for Account 1588

The Trial Balance Data is not reported on a quarterly basis and therefore is not available for the quarterly review of Account 1588.

The data reported on a quarterly basis under section 2.1.1 of the RRR (the "2.1.1 Data") provides balances of all Accounts on a quarterly basis, as well as the balances in their related sub-accounts. It should be noted that these balances are not audited. Also, the basis for calculating the quarterly reported balances can vary across distributors – some distributors use the billed method of accounting while others use the accrual method.

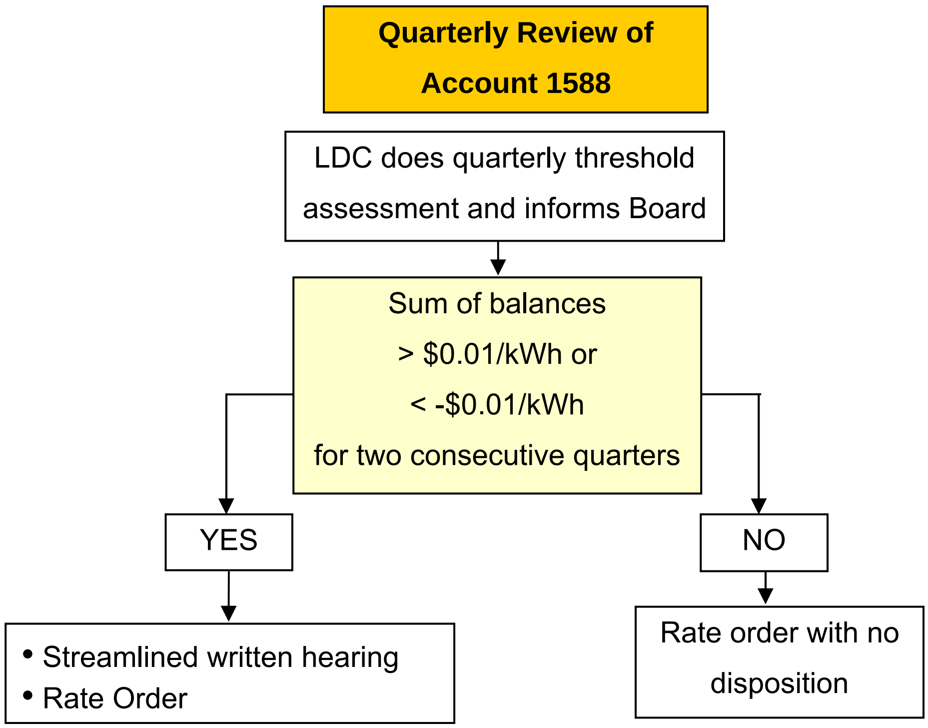
Due to these considerations, Board staff proposes that the disposition threshold for Account 1588 balances based on the 2.1.1 Data be set at a level that would limit the quarterly disposition to exceptional cases only.

Board staff proposes that when the balance exceeds a preset disposition threshold of $0.01/kWh for two consecutive quarters (credit or debit), the disposition process would be initiated. This level would limit the quarterly disposition process to exceptional cases only. Board staff also suggests that distributors be required to file a rate mitigation plan when a net debit balance exists and exceeds $0.01/kWh when unitized. This plan could include extending the recovery of Account 1588 balance over a period longer than one year.

If the distributor has a disposition request for Account 1588 before the Board, the quarterly threshold assessment of Account 1588 should be net of the balance already submitted for review.

Board staff's proposal for the quarterly review of Account 1588 is illustrated in Figure 5 below.

Figure 5: Quarterly Review of Account 1588



Based on the quarters ending June 30, 2008 and September 30, 2008, five distributors would have triggered the proposed disposition process for Account 1588. For illustrative purposes, Table 3 below provides a sensitivity analysis of various disposition thresholds. As expected, a lower threshold would have more distributors exceeding the disposition threshold.

Table 3 – Number of Distributors Exceeding Various Disposition Thresholds for Account 1588 Based on 2.1.1 Data for the 2nd and 3rd Quarter of 2008

Disposition Threshold	$0.01/kWh for two consecutive quarters	$0.01/kWh for one quarter	$0.005/kWh for two consecutive quarters	$0.005/kWh for one quarter
Number of Distributors	5	7	21	22

Board staff notes that since Account 1588 would be cleared annually (subject to a materiality threshold) during the IR plan term and automatically disposed of at the time of rebasing, fewer cases would be expected in the future.

Stakeholders are invited to comment on Board staff's proposed disposition threshold of $0.01/kWh for two consecutive quarters for the quarterly review of Account 1588.

7.2 Determination that a Disposition is Triggered

Board staff proposes that distributors self-identify when the disposition of Account 1588 is triggered.

7.3 Review Process if Disposition is Triggered

Board staff proposes that the quarterly review process for Account 1588 be identical to the process described for Group 1 Account balances during the IR plan term (see section 5.4.3).

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8. Disposition of Account Balances

This section sets out the proposed methodology to allocate and dispose of Account balances.

8.1 Cost Allocation Methodology

Board staff is of the view that a generic or default cost allocation methodology, where applicable, would facilitate the disposition process. It would also promote transparency and consistency across electricity distributors. As a result, Board staff proposes that a default cost allocation methodology apply to all electricity distributors. Where appropriate, distributors could propose a different cost allocation methodology in a cost of service review. The onus would be on the distributor to justify why a departure from the default approach would be warranted.

Table 4 below shows the allocation factors that were used in the 2006 EDR for the following Accounts, as directed in the Phase 2 Decision. The allocation factors for Account 1588 reflect the Current Guidelines. Appendix C provides a summary description of all Accounts as reflected in the Accounting Procedures Handbook.

Board staff notes that these groupings are not applicable for the annual review at the time of rebasing. However, to facilitate the discussion, Board staff has maintained the proposed Account groupings

Table 4

Group 1	*Allocation Factor*
1580 RSVA – Wholesale Market Service Charges	kWh or kW
1584 RSVA – Retail Transmission Network Charges	kWh or kW
1586 RSVA – Retail Transmission Connection Charges	kWh or kW
1588 RSVA – Power (excluding the Global Adjustment Sub-account)	kWh or kW
1588 RSVA – Power – Global Adjustment Sub-account	kWh or kW for non-RPP customers
Group 2	***Allocation Factor***
1508 Other Regulatory Assets	Dx Revenues for specific Hydro One Networks Inc. (“HONI”) accounts
1518 RCVA – Retail	Number of Customers
1525 Miscellaneous Deferred Debits – Rebate Cheques Sub-account	Number of Customers with rebate cheques
1548 RCVA – Service Transaction Request	Number of Customers
1571 Pre-Market Opening Energy Variance	kWh for Non-Time-of-Use Customers
1570 Qualifying Transition Costs	Number of Customers
1582 RSVA – One-Time Wholesale Market Service	kWh
Group 3	***Allocation Factor***
1572 Extraordinary Event Costs	Number of Customers (Enwin and CNPI), Dx Revenues (Essex), kW or KWh as billing determinants for all
1590 Recovery of Regulatory Asset Balances	Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.

Board staff proposes that the same allocation factors be maintained for the allocation of the balances included in the above listed Accounts unless changes took place that would warrant a change in the allocation factors. The following sections will provide Board staff's assessment on whether changes took place that would prompt an evaluation of alternative allocation factors.

8.2. Allocation of Group 1 Account Balances

Based on an assessment of Group 1 Accounts, Board staff proposes that the allocation factors used in the Phase 2 Decision be maintained.

Account 1550 – Low Voltage Variance Account did not exist at the time of the Phase 2 Decision. Amounts currently recorded in Account 1550 were then recorded in Account 1586, RSVA – Retail Transmission Connection Charges. At paragraph 2.0.35 of the Phase 2 Decision, the Board found that "the RSVA balances shall be allocated to customer classes on the basis of energy consumed (i.e., kWhs)." Board staff hence proposes that Account 1550 balances be allocated on the basis of kWh or kW.

Table 5 depicts the proposed default allocation factors for Group 1 Accounts:

Table 5

Group 1	***Allocation Factor***
1550 Low Voltage Variance Account	kWh or kW
1580 RSVA – Wholesale Market Service Charges	kWh or kW
1584 RSVA – Retail Transmission Network Charges	kWh or kW
1586 RSVA – Retail Transmission Connection Charges	kWh or kW
1588 RSVA – Power (excluding the Global Adjustment Sub-account)	kWh or kW
1588 RSVA – Power – Global Adjustment Sub-account	kWh or kW for non-RPP customers

8.3 Allocation of Group 2 Account Balances

Based on an assessment of Group 2 Accounts and the Phase 2 Decision, Board staff observes that changes occurred with respect to Accounts 1508 (Other Regulatory Assets **)** and 1525 (Miscellaneous Deferred Debits**)**. In addition, since Accounts 1574 (Deferred Rate Impact Amounts) and 2425 (Other Deferred Credits) did not exist at the time of the Phase 2 Decision, Board staff is proposing default allocation factors for these Accounts.

Board staff is not proposing any changes to the allocation factors used in the Phase 2 Decision for all remaining Accounts in Group 2.

Account 1508 – Other Regulatory Assets

In the case of Account 1508, the approved allocation factor was distribution revenues. Board staff notes that in the Phase 2 Decision, the sub-accounts considered for disposition were particular to HONI[5] and therefore were not of a generic application.

At present, there are two 1508 sub-accounts which differ from the nature of the account balances that were previously submitted by HONI. These sub-accounts are:

- OEB Cost Assessment ─ includes differences between cost assessments invoiced to the distributors by the OEB and cost assessments included in rates from April 1, 2004, up to April 30, 2006.
- Pension Contributions ─ includes cash contributions paid to Ontario Municipal Employees Retirement Savings (“OMERS”) for the period from January 1, 2005 to April 30, 2006.

With respect to the OEB Cost Assessment Sub-account, Board staff sees merit in using distribution revenues as the allocation factor. This approach is consistent with the fact that the OEB allocates applicable regulatory costs to licensed distributors on the basis of their distribution revenue.

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[5] The sub accounts that were considered were Deferred Low Voltage (LV) Costs, Variance in Energy Cost Recoverable, October 1, 2001 Delay in MARR and PILs Increase, March 1, 2002 Delay in MARR and PILs Increase, Rural and Remote Rate Protection Variance

In contrast, amounts recorded in the Pension Contributions Sub-account are expenses that distributors incur irrespective of distributed volumes or revenues.

Board staff invites comments on whether distribution revenues should be used as the allocation factor for those aforementioned 1508 sub-accounts.

Account 1525 – Miscellaneous Deferred Debits

In its Phase 2 Decision, the Board ruled on the cost allocation methodology for rebate cheques issued to low volume customers arising from the *Electricity Pricing, Conservation and Supply Act, 2002*, and, for Hydro One exclusively, costs associated with its Environmental program.

The Board found that the account balances associated with rebate cheques should be allocated to customer rate classes in proportion to the number of customers in each class that received the rebates.

Board staff invites comments on whether this approach would be reasonable for balances related to other sort of rebates like the Ontario Price Credit rebate established in 2005 by Regulation 48/05 or whether a case-by-case approach would be preferable.

Accounts 1574 and 2425 – Deferred Rate Impact Amounts, and Other Deferred Credits

Given that these Accounts capture elements that do vary in nature, Board staff proposes that balances be allocated on a case-by-case basis based on cost causality.

Board staff invites comments on whether case-by-case allocation factors should be used to allocate these Account balances.

Table 6 summarizes the proposed default allocation factors for Group 2 Accounts:

Table 6

Group 2	***Allocation Factor***
1508 Other Regulatory Assets – OEB Cost Assessment	Dx Revenues
1518 Retail cost variance Account	Number of Customers
1548 Retail cost variance Account STR	Number of Customers
1571 Pre-Market Opening	kWh for Non Time-of-use Customers
1570 Qualifying Transition Costs	Number of Customers
1574 Deferred Rate Impact Amounts	Case-by-case basis
1582 One-Time WMSC	kWh
2425 Other Deferred Credits	Case-by-case basis

8.4 Allocation of Group 3 Account Balances

Board staff proposes that the methodology set forth in the Phase 2 Decision continue for Accounts 1590 and 1595. Table 7 depicts the proposed default allocation factors for these Accounts.

Table 7

Group 3	Allocation Factor
1590 Recovery of Regulatory Asset Balances	Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.
1595 Disposition and Recovery of Regulatory Balances Control Account and Sub-accounts	Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.

For the remaining Group 3 Account balances, Board staff is not proposing any default allocation factors since they will be reviewed on a case-by-case basis. Moreover, Board staff notes that the allocation of some of these Account balances is currently being determined in other forums.

Board staff invites comments on whether case-by-case allocation factors should be used to allocate these Account balances.

8.5 Rate Rider Derivation

The recovery or refund of Account balances could be done in a manner consistent with the allocation factors used to allocate the Account balances. For example, if the allocation factor is the number of customers, the allocated balance by rate class could be unitized using the number of customers by rate class and the resulting unit rate could be included in the service charge. Similarly if the allocation factor is energy use or demand, the allocated balance could be unitized using energy use or demand and the resulting unit rate could be included in the volumetric charge. Balances allocated on the basis of distribution revenues could be recovered through a combination of fixed and variable charges. Alternatively, all allocated Account balances could be recovered or refunded through fixed or variable charges.

Board staff notes that in the Phase 2 Decision, the Board approved a volumetric rate rider to recover the sum of all regulatory asset balances. As described in Section 9.0.4, a volumetric rate rider was chosen for a number of reasons:

> "We find that recovery should be through the volumetric charge. There are a number of reasons underpinning this finding. First, it is consistent with the principle that fixed charges should be generally associated with the longer term assets of the utility; regulatory assets are not seen as fitting this profile. Second, as the Board will have to eventually address the significant variation in fixed charges among electricity distributors, recovery of regulatory asset costs from the fixed charge component would add to the complexity of assessing and developing a more consistent or standardized method. Third, recovery from the volumetric component is more conducive to encouraging and rewarding ratepayers for their conservation efforts".

Consistent with the Board's previous findings, Board staff proposes that the use of a volumetric rate rider be maintained. This approach would also lessen the regulatory burden associated with the alternatives described above.

Board staff also proposes that a one-year default disposition period be used to clear the Account balances through rate riders. Where appropriate, distributors could propose a different disposition period to mitigate rate impacts or address any other applicable considerations. The onus would be on the distributor to justify why a departure from the default approach would be warranted.

Board staff invites comments on these proposals.

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9. Timelines

9.1 Proposed Timelines during the IR Plan Term

To minimize rate fluctuations over time, Board staff proposes that the beginning and ending of the disposition period for Groups 1, 2 and 3 coincide with other regular distribution and electricity rate changes. Distribution rate adjustments usually occur on May 1 while the regulated price plan ("RPP") adjustments can occur on May 1 and November 1 of each year. Accordingly, Board staff proposes that any triggered disposition for Groups 1 and 2 be effective on May 1 or November 1. Accounts in Group 3 would be reviewed on a case-by-case basis, with any disposition implemented on May 1 or November 1. For the quarterly review of Account 1588, four different default start dates could be used, depending on the quarter being reviewed. Table 8 below summarizes the proposed timelines for Groups 1, 2 and 3 during the IR plan term.

Table 8 – Proposed Timelines during the IR Plan Term

	Period	RRR Data Used for Review	RRR Filing Due Date	If Disposition Triggered, Application Due On	Effective Date
Account 1588	Q1	2.1.1 Data	Apr. 30	June 15	Aug. 1
	Q2	2.1.1 Data	Jul. 31	Sept. 15	Nov. 1
	Q3	2.1.1 Data	Oct. 31	Dec. 15	Feb. 1
	Q4	2.1.1 Data	Jan. 31	Mar. 15	May 1
Group 1	Annual	Trial Balance Data	Apr. 30	Sept. 1	Nov. 1
Group 2	Annual	Trial Balance Data	Apr. 30	Included in annual IR rate application	May 1
Group 3	Annual	Trial Balance Data	Apr. 30	Not applicable, case-by-case review	May 1 or Nov. 1

9.2 Proposed Timelines in a Rebasing Year

As previously mentioned, Board staff proposes that distributors be required to file an application to dispose of all Account balances as part of their cost-of-service application. The expected effective start date for the disposition of the Account balances would be May 1. The quarterly review of Account 1588 would also proceed as illustrated in Table 8 above.

Parties are invited to comment on these proposed timelines.

10. Filing Requirements

Board staff suggests that filing requirements be established to facilitate the filing and review process. Board staff proposes that the filing requirements set out below apply to any disposition application as contemplated in this discussion paper.

10.1 General Filing Requirements

Each application should include:

a) A statement by the distributor's external auditor certifying that the information filed is consistent with the Board's accounting requirements and procedures in the Accounting Procedures Handbook and any other accounting procedures the Board may approve from time to time.[6]

b) A manager's summary which should summarize the application, note and explain any exceptions to the accounting procedures referenced in a), and include a certification by the distributor's Chief Executive Officer.

c) For each Account balance submitted for disposition:

    i) A continuity schedule.

    ii) The last Board approved balance (carrying charges shown separately), the date of the last Board approved balance, and a reference to the proceeding in which the balance was approved by the Board.

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[6] Information on the Accounting Procedures Handbook and other accounting procedures approved by the Board can be found at:
http://www.oeb.gov.on.ca/OEB/Industry+Relations/Rules+Codes+Guidelines+and+Forms/Rules+Codes+Guidelines+and+Forms+-+Regulatory#accountingprocedures

iii) A statement confirming whether the last Board approved balance provided in c) ii) has been transferred to Account 1590 or 1595, as appropriate. If not confirmed, a detailed explanation why the transfer has not occurred.

iv) The balance submitted for disposition (carrying charges shown separately), the date upon which this balance is based and a detailed explanation of any discrepancies between this balance and the reported RRR data.

v) The projected carrying charges for each Account balance provided in c) iv) to the proposed rate rider implementation date.

d) A statement as to the interest rates used to record carrying charges and whether this interest rate is consistent with the Board's prescribed rates. If the interest rates used deviates from the Board's prescribed rates, an explanation for the deviation.

e) A statement confirming whether all balances claimed are allocated to the rate classes based on the default cost allocation methodology to be set out in the Board's Guidelines expected to result from this proceeding (EB-2008-0046), and an explanation of any deviation, as applicable.

f) A customer rate impact analysis showing total bill increases in each rate class and, if total bill increases for any rate class or group exceed 10%, a rate impact mitigation plan.

g) A detailed calculation of the proposed rate rider(s).

10.2 Account Specific Filing Requirements

Board staff proposes the following Account specific additional filing requirements:

Accounts 1508, 1525 and 2425 (Various Regulatory Assets, Debits, and Credits)

The application should include:

a) A detailed description of the assumptions and methodology used for the Account;

b) A breakdown by sub-account and major category of charge; and

c) A description of each type of expense recorded and an explanation as to why each category of charge is not funded by the distributor's rates.

Account 1555 and 1556 (Smart Meters)

Additional filing requirements set out in the *Smart Meter Funding and Cost Recovery Guideline* dated October 22, 2008 (G-2008-0002).

Accounts 1562, 1563 and 1592 (PILs)

Additional filing requirements that may result from the combined PILs proceeding (EB-2008-0381).

Account 1572 (Extraordinary Event Costs)

An application to dispose of this Account should include:

a) A detailed description of the assumptions and methodology used for the Account;

b) A breakdown by sub-account and major category of charge; and

c) A description of each type of expense recorded and an explanation as to how the eligibility criteria have been met for each type of expense.

In addition to the Accounting Procedure Handbook, distributors should refer to the appropriate document (depending on whether they are filing a rebasing application, or a 2nd or 3rd Generation IRM application) to determine what the additional filing requirements associated with this Account are:

- **Rebasing application**: *2000 Electricity Distribution Rate Handbook*, dated March 9, 2000, as revised on November 3, 2000, and October 1, 2001.
- **2nd Generation IRM application**: *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* dated December 20, 2006.
- **3rd Generation IRM application**: *Supplemental Report of the Board 3ndGeneration Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008.

Accounts 1580, 1582, 1584, 1586, and 1588 (the RSVA Accounts)

A statement as to which approach (billed or accrual) has been used for the RSVA Accounts and whether this approach has been used consistently over time and among RSVA Accounts for the applicable period. If the approach (billed or accrual) has not been used consistently among RSVA Accounts over the applicable period, an explanation why this is the case and the time period during which each approach was used.

Account 1588 (RSVA Power)

A statement confirming whether the variance between Board-approved and actual line losses is reflected in Account 1588 for the applicable period.

Where a distributor has a disposition request for Account 1588 before the Board, the quarterly threshold assessment of Account 1588 should be net of the balance already submitted for review. A disposition application resulting from the quarterly review set out in section 7 would be exempt from filing requirement 10.1 a).

10.3 Rebasing Year

The cost-of-service application should include the information required in section 10.1 and 10.2 for all the Accounts in conjunction with other information the Board may require in accordance with the cost-of-service minimum filing requirements.

Appendix A: Legislative Requirements

The Board's legislative requirements to review the electricity distributors' Commodity and Non-Commodity Accounts are set out in Section 78 of the *Ontario Energy Board Act, 1998*:

S. 78…

(6.1) If a distributor has a deferral or variance account that relates to the commodity of electricity, the Board shall, at least once every three months, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates. 2003, c. 3, s. 52 (4).

(6.2) If a distributor has a deferral or variance account that does not relate to the commodity of electricity, the Board shall, at least once every 12 months, or such shorter period as is prescribed by the regulations, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates. 2003, c. 3, s. 52 (4).

(6.3) An order that determines whether and how amounts recorded in a deferral or variance account shall be reflected in rates shall be made in accordance with the regulations. 2003, c. 3, s. 52 (4).

(6.4) If an order that determines whether and how amounts recorded in a deferral or variance account shall be reflected in rates is made after the time required by subsection (6.1) or (6.2) and the delay is due in whole or in part to the conduct of a distributor, the Board may reduce the amount that is reflected in rates. 2003, c. 3, s. 52 (4).

(6.5) If an amount recorded in a deferral or variance account of a distributor is reflected in rates, the Board shall consider the appropriate number of billing periods over which the amount shall be divided in order to mitigate the impact on consumers. 2003, c. 3, s. 52 (4).

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Appendix B: Uniform System of Account Deferral and Variance Accounts

The electricity distributor variance and deferral accounts are classified as either commodity or non-commodity according to the nature of their market operations, utility function, and the type of transactions recorded therein. Generally, a commodity account is directly related to the electricity amount (e.g., MWh) charged to a distributor by the IESO, host distributor, or embedded generator in accordance with the settlement invoice for the electricity cost. All other variance and deferral accounts not meeting this general description are classified as non-commodity. A list of the commodity and non-commodity accounts is provided below.

Commodity accounts

1588 RSVA – Power (including the Global Adjustment Sub-account)

Non-commodity accounts

1508 Other Regulatory Assets
1518 RCVA – Retail
1525 Miscellaneous Deferred Debits
1548 RCVA – Service Transaction Request
1550 Low Voltage Variance Account
1555 Smart Meter Capital and Recovery Offset
1556 Smart Meter Operation, Maintenance and Administration
1562 Deferred PILs
1563 Contra Account – Deferred PILs
1565 Conservation and Demand Management Expenditures and Recoveries
1566 Conservation and Demand Management Contra Account
1570 Qualifying Transition Costs
1571 Pre-Market Opening Energy Variances
1572 Extraordinary Event Costs
1574 Deferred Rate Impact Amounts
1580 RSVA – Wholesale Market Service Charges
1582 RSVA – One-time Wholesale Market Service
1584 RSVA – Retail Transmission Network Charges
1586 RSVA – Retail Transmission Connection Charges
1590 Recovery of Regulatory Asset Balances
1592 PILs and Tax Variances for 2006 and Subsequent Years
1595 Disposition and Recovery of Regulatory Balances Control Account
2425 Other Deferred Credits

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Appendix C: Account Description

This section includes a brief description of the Accounts, based on excerpts from the Accounting Procedures Handbook. For a detailed description of those Accounts, please refer to the Accounting Procedures Handbook.

1508 Other Regulatory Assets – OEB Cost Assessment Sub-account

This account has been 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. When OEB cost assessments were incorporated in the distribution rates, distributor ceased recordings in this account, except for carrying charges.

1508 Other Regulatory Assets – Pension Contributions Sub-account

This account is used to record the pension costs associated with the cash contributions paid to 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.

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

1518 RCVA – Retail

This account is 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.

1525 Miscellaneous Deferred Debits

This account includes all debits not elsewhere provided for which will benefit future periods and are to be carried forward and charged to expense over the term of the benefit.
The Payment to Customers Sub-account includes the cost of issuing refund cheques/credits to electricity consumers in accordance with government legislation, regulations or Board requirements.

1548 RCVA – Service Transaction Request

This account is 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

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.

1550 Low Voltage Variance Account

On a monthly basis, this account is 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) (Account 4075).

Effective May 1, 2006, this account has been used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. Embedded distributors use account 1550 to record LV charges for which an LV amount was included in distribution rates.

1555 Smart Meter Capital and Recovery Offset

Amounts recorded in this account include the revenues approved by the Board for smart meters and related capital costs incurred by the distributor.

The Stranded Meter Costs Sub-account is 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.

1556 Smart Meter Operation, Maintenance and Administration

This account is used by the distributor to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters.

1562 Deferred PILs

This account records 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.

1563 Contra Account – Deferred PILs

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 Frequently Asked Questions on the Accounting Procedures Handbook. The offsetting entry of each entry in account 1562 shall be made to this contra account.

1565 Conservation and Demand Management Expenditures and Recoveries

Amounts recorded in this account 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 the market adjusted revenue requirement or an amount otherwise approved by the Board.

1566 Conservation and Demand Management Contra Account

This account shall be used to record the offsetting entry for amounts recorded in account 1565, Conservation and Demand Management Expenditures and Recoveries, for the reversal of entries to the accounts of original entries.

1570 Qualifying Transition Costs

This account has been used to record transition costs that meet the four qualifying criteria established in the 2000 Electricity Distribution Rate Handbook. Entries to this account, other than carrying charges, ceased on the electricity market opening (i.e., May 1, 2002), unless otherwise authorized by the Board.

1571 Pre-Market Opening Energy Variances

This account was 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. Amounts recorded in this account were restricted to the period starting January 1, 2001 and ending on the date prior to the opening of the electricity market in Ontario. After market opening, the electricity distributors have used Account 1588.

1572 Extraordinary Event Costs

This account is used to record extraordinary event costs that meet the criteria established in the 2000 Electricity Distribution Rate Handbook for rebasing applications. In the case of 2nd and 3rd Generation IRM, the eligibility criteria, including the materiality threshold, are contained in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, and the *Supplemental Report of the Board 3ndGeneration Incentive Regulation for Ontario's Electricity Distributors* respectively. 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 in rates.

1574 Deferred Rate Impact Amounts

This account has been 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. When authorized or directed by the Board, this account shall be used to record the difference between the rate of return reflected in rates and the market based rate of return.

1580 RSVA – Wholesale Market Service Charges

This account is used to record the net of:

i) the amount charged by the 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.

When applicable, embedded distributors use this account to record the difference between the amounts 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.

1582 RSVA – One-time Wholesale Market Service

This account is used to record the net of:

i) the amount charged by the 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.

1584 RSVA – Retail Transmission Network Charges, and
1586 RSVA – Retail Transmission Connection Charges

Distributors deemed to be transmission customers use these accounts to record the net of:

i) the amount charged by the 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 (in the case of account 1584) and the Board approved Transmission Connection Charge Rate (in the case of account 1586).

Embedded distributors also use these accounts to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network and connection services and the amount billed to customers using the Board-approved Transmission Network and Connection Charge Rates.

1588 RSVA – Power (including the Global Adjustment Sub-account)

This account is used to record the net of:

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;

The Sub-account Global Adjustment is used to record the 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 IESO, host distributor or embedded generator.

1590 Recovery of Regulatory Asset Balances

This account includes the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers. Payments received arising from the disposition of account balances recovered in rates or paid to customers per a Board order must be recorded in this account.

1592 PILs and Tax Variances for 2006 and Subsequent Years

For the period starting May 1, 2006, the distributor has used this account to record the tax impact of any of the following differences:

(ii) any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.

(iii) 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.

(iv) 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.

1595 Disposition and Recovery of Regulatory Balances Control Account

This account is used to record the disposition and recoveries of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process.

The Sub-account "Disposition of Account Balances Approved in 2008" captures amounts approved for recovery (or refund) through the 2008 rate review process.

2425 Other Deferred Credits

This account includes 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.