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Ontario

BY FAX 1

October 29, 2004 2

To: All Local Distribution Companies 3

Re: Amendment of the Accounting Procedures Handbook - Conservation and Demand Management Account 1565 4
Board File No. RP-2004-0203

On October 5, 2004 the Board issued a procedural order that outlined a process to address LDCs' conservation and demand management plans. The procedural order also indicated that the Board has amended the Accounting Procedures Handbook (APH) and the Uniform System of Accounts (USoA) to establish deferral accounts. 5

The purpose of this letter is to provide LDCs with information concerning the deferral account established to record the costs of their conservation and demand management activities and investment expenditures, and related revenues (i.e. the third tranche of market adjusted revenue requirement or MARR). 6

The Board has amended the APH/USoA to authorize account 1565, Conservation and Demand Management Expenditures and Recoveries for the purposes of this initiative (see Attachment for the account description). This amendment will be updated in the APH/USoA as soon as practicable in the future. 7

An outline of the requirements and procedures for account 1565 follows: 8

- Program expenses and capital expenditures incurred from July 1, 2004 to February 28, 2005 are to be recorded in account 1565. Carrying charges prescribed at 5.75 percent per annum will be applied on a simple interest basis to the (outstanding) opening monthly balance in the deferral account to February 28, 2005. 9

- At the time of filing for the 2005 rate adjustment, LDCs may seek disposition of carrying charges balance in the account. Carrying charges will cease after February 28, 2005. 10

- Beginning March 1, 2005, LDCs will (continue to) record program expenses and expenditures in account 1565. In addition, for regulatory reporting (RRR- reporting and record keeping requirements) only, the balance in the account will be reduced at the start of each month (with a credit entry) during the period between March 1, 2005 and February 28, 2006 11 by 1/12 of approved incremental revenue requirement for the third tranche. Consequently, the MARR financial commitment will be recorded over twelve months while the program costs may be recorded until September 30, 2007.

- The procedural order states that: “Distributors may seek to recover any financing costs of 12
a conservation program provided that the program expenditures were made on or after March 1, 2005 and before March 1, 2006.” In this regard, the Board wishes to clarify its intent on this issue to mean that financing costs associated with the program are allowable, but are limited as part of an LDC’s total MARR commitment. That is, financing costs are not incremental to the total MARR.

- The account is required to be further sub-divided by major program activities or initiatives. 13
Consequently, LDCs will be required to subdivide account 1565 in separate sub-accounts to permit the separate identification of any capital and non-capital cost components by activity or initiative. This will facilitate future reporting needs.

- Where the LDC undertakes program activities with respect to the development of capital 14
asset, the program costs should be recorded in a separate capital asset subaccount.

- Account 1565 balance will be reported as part of the LDC’s quarterly RRR filings effective 15
March 31, 2005.

The Board may provide further accounting guidance at a later time. For clarifications or questions, 16
please contact Ben Baksh at 416-440-8128.

Yours truly, 17

Original signed by
Peter H. O’Dell
Assistant Board Secretary

ATTACHMENT 18
Account 1565 - Conservation and Demand Management Expenditures and Recoveries

A This account shall include costs of conservation and demand management activities and investments outlined in a distributor’s Conservation and Demand Management Plan. 19

B For regulatory reporting purposes only, this account shall also include amounts a distributor collects in rates for its third tranche or final instalment of MARR (market adjusted revenue requirement) designated for conservation and demand management programs. Therefore, amounts collected in rates shall be recorded (as credits) each month over the approved collection period between March 1, 2005 and February 28, 2006 by 1/12 of approved incremental revenue requirement for the third tranche. 20

C This account shall be further sub-divided by major program activities or initiatives. 21

D Separate sub-accounts shall be maintained to permit the separate identification of any capital and non-capital cost components of this account. 22

E Costs tracked in this account shall commence from July 1, 2004 to the time the investment of the final instalment of MARR is completed, but no later than September 30, 2007. 23

F 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. Carrying charges cease after February 28, 2005. 24

G The records supporting the entries to this account shall be kept so that the distributor can furnish full information as to the nature and amount of operating and capital costs included in this account, including justification for inclusion of such amounts. 25