



BRITISH COLUMBIA  
UTILITIES COMMISSION

ORDER  
NUMBER G-55-95

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CANADA

AN ORDER IN THE MATTER OF the Utilities Commission  
Act, S.B.C. 1980, c. 60, as amended

and

Amendments to the Uniform System of Accounts for  
Gas and Electric Utilities

**BEFORE:** M.K. Jaccard, Chairperson; and )  
L.R. Barr, Deputy Chairperson ) June 29, 1995

**O R D E R**

**WHEREAS:**

- A. The Commission, in its April 25, 1989 Decision on Revenue Requirements for West Kootenay Power Ltd. ("WKP"), directed the utility to amortize its expenditures on Demand-Side Management ("DSM") over the economic life of such DSM investments; and
- B. The Commission, in its subsequent review of DSM expenditures for other regulated utilities, recognized the need for a policy and standardization in the accounting treatment for such expenditures including the amortization of such costs in the cost of service. The Commission, on February 3, 1995, requested staff to undertake a multi-utility development of generic DSM accounting policies that would include input from other interested parties; and
- C. On February 14, 1995 Commission staff coordinated a meeting with regulated utilities and other interested parties and circulated an action plan that would be followed in order to attempt a consensus on the issues and a standardization of accounting treatment for DSM expenditures; and
- D. During the period February through May 18, 1995, the DSM Accounting Working Group met, exchanged ideas, corresponded and achieved majority agreement on issues affecting the accounting and amortization of DSM program expenditures; and
- E. The staff presented the working group majority proposal, final comments of the working group and staff recommendation to the Commission for review and approval.

BRITISH COLUMBIA  
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2

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**NOW THEREFORE** the Commission orders as follows:

1. Pursuant to Section 56 of the Utilities Commission Act, the Commission requires all regulated gas, electric and steam heat utilities to follow an interpretation of the Uniform System of Accounts to account for expenditures and amortization of DSM costs in accordance with Appendix A to this Order.
2. The DSM Accounting Policy shall become effective for each utility with the first test year in its next revenue requirement application.
3. The Commission will review the economic justification for the specific accounting treatment adopted in the next revenue requirements hearing for each utility.

**DATED** at the City of Vancouver, in the Province of British Columbia, this *30th* day of June 1995.

BY ORDER



Dr. Mark K. Jaccard  
Chairperson

## BRITISH COLUMBIA UTILITIES COMMISSION

### Demand-Side Management ("DSM") ACCOUNTING POLICY

#### 1. Uniform System of Accounts

Accounts that are hereby interpreted under section 56 of the Utilities Commission Act for use in recording DSM costs are:

- No. 186 E, No. 179 G: Other Deferred Charges
- No. 404 E, No. 304 G: Amortization

This accounting policy provides sufficient flexibility to accommodate the underlying economic circumstances of a specific utility and its DSM programs. Therefore, the appropriate accounting treatment for each utility may vary. A utility may be required to justify its specific accounting policy.

#### 2. Deferred Costs Included in Rate Base and Earning a Return

Costs incurred at different stages of program commercialization reflect varying degrees of uncertainty as to beneficial outcomes and shall be deferred according to the following criteria:

- (a) A significant or material, non-recurring cost shall be deferred and amortized using a rapid write-off for the purpose of smoothing the impact on rates.
- (b) Direct program costs, indirect administration costs and allocated overhead, shall be deferred according to the intent of section 3450 - Research and Development, of the Canadian Institute of Chartered Accountants, Accounting Recommendations Handbook. Generally speaking, those criteria treat research costs as expenses and treat as assets, those development costs that have a high probability of achieving net financial benefits.

#### 3. Load Building by Fuel Substitution

Utilities engaged in strategic load building by fuel substitution may account for this in the same manner as other DSM strategies subject to Commission directions specific to that utility.

Changes to this accounting policy may need to be made following a multi-utility review of the economic evaluation of fuel substitution.

#### 4. Program Failure and Prudence

When management concludes that a program, representing significant or material cost, has failed and no remedial action appears probable, then a partial or full abandonment may occur. The unamortized costs of the abandoned program or portion shall be amortized using a rapid write-off.

Prudence may be determined by the Commission, case by case, in the same manner as supply-side investments.

#### **5. Accounting for Income Tax Effect**

If deferred expenses or credits are included in the utility's actual tax calculation in the year they are first recorded, then the amounts shall be recorded in rate base on a net of tax basis. If such expenses or credits are not included in the utility's tax calculation then the amounts shall be on a before tax basis (Ref. Order No. G-53-94 and Regulatory Accounting Guidelines for Natural Gas Utilities).

#### **6. Amortization Rates**

DSM costs that have been deferred shall be subject to the following amortization periods as appropriate:

- Rapid write-off for significant or material, non-recurring costs — 2 - 3 years
- Normal write-off for recurring costs that qualify as assets — 3 - 10 years

A utility may apply for a normal write-off longer than 10 years.

#### **7. Summary Report Format**

A utility shall inform the Commission about the forecast, budgeted and annual results of its DSM investment and shall provide a summary in a format substantially similar to the one that follows on Page 3. All DSM costs, whether expensed or deferred shall be represented in the summary.

Demand-Side Management Summary Report from \_\_\_\_\_ for the period \_\_\_\_\_

	A	B	C	D	E	F	G	H	I	J	K	L	M
1			Utility Costs						Wholesale	Customer	Total	Benefit/Cost Ratios	
2		Direct	Direct	Program	Program	Research,	Total	Customer	Incurred	Resource	Societal	Total	Rate
3		Incentives	Information	Labour	Evaluation	Adm. & OH		Admin.	Costs	Cost	Cost	Resource	Impact
4	<b>Sector/Program</b>												
5													
6	<b>Residential</b>												
7	New Construction												
8	Program a,b,c...												
9	Retrofit												
10	Program a,b,c...												
11	Total												
12													
13	<b>Commercial</b>												
14	New Construction												
15	Program a,b,c...												
16	Retrofit												
17	Program a,b,c...												
18	Total												
19													
20	<b>Industrial</b>												
21	New Construction												
22	Program a,b,c...												
23	Retrofit												
24	Program a,b,c...												
25	Total												
26													
27	<b>Generic</b>												
28	Project, 1,2,3...												
29	<b>Total</b>												
30													
31													
32	Level Unit Energy Cost										Energy Saved Per Year		
33	Level Unit Capacity Cost										Capacity Saved Per Year		
34													
35	n o t e s												
36	(a) Col. H for use by WKP and PLP												
37	(b) Rows 32 & 33, Col. A-G: Use 8% real discount rate												
38	(c) Rows 32 & 33, Col. A-G: Energy and capacity combined												
39	(d) Fuel substitution, Strategic Load Building: include under sector headings												