



# Account 1589 RSVA Global Adjustment GA Analysis WorkForm Webinar

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# Agenda

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1. Background
2. GA Analysis WorkForm
3. DVA Continuity Schedule Adjustments
4. RPP Settlement True-Up Adjustments
5. Reconciling Items
6. Materiality Threshold
7. Walkthrough Example
8. Other Reconciling Items
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# Background

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## Implementation of the GA Analysis WorkForm:

- OEB instituted the GA Analysis WorkForm for all 2018 rate application filers due to concerns over the accuracy of commodity-related pass through account balances of electricity distributors.
- In rate applications, many instances where account balances were counter intuitive and could not be adequately explained for approval for final disposition.
- Through OEB audits of distributor RPP settlement processes, issues with account balance accuracy were identified. OEB audit identified the commodity pass-through accounts as high risk.

# Background - Continued

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## Implementation of the GA Analysis WorkForm Continued:

- In 2017 and 2018 Cost of Service and IRM rate applications the OEB did not allow disposition of account balances in some cases and ordered Special Purpose Audits, OEB Audits, or required distributors to perform internal reviews of RPP settlement processes to have more assurance that account balances were accurate.
- GA Analysis WorkForm was developed as a reasonability tool to assess the accuracy of the balance in account 1589 - RSVA<sub>GA</sub>. It helped distributors assess the accuracy of the balance in this account before making requests for disposition.
- Account 1588 – RSVA<sub>power</sub> is closely interrelated with account 1589. GA Analysis WorkForm helps assess accuracy of account 1588 as well.

# Background - Continued

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## Reasons for GA Analysis WorkForm:

- Complexities of RPP Settlement with the IESO, and the associated accounting.
- Distributors using different approaches and data for RPP settlements and accounting.
- Distributors are accountable for ensuring that the amount recorded in the GL is accurate.
- Ministry of Finance used to Audit distributors RPP Settlements, but ceased to do this several years ago.
- Effective 2018, the IESO ceased to require distributors to self-certify their RPP Settlement processes.

# Background - Continued

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## Impacts to Customers and Distributors:

- Accounts 1588 and 1589 relate to different subsets of customers, inaccuracies in account 1589 may impact the accuracy of account 1588.
- Where one account is overstated, and another is understated, RPP customers may not pay/recover their fair share, and the converse is true for non-RPP customers.
- From a Financial Statement audit perspective, external auditors group DVA accounts together and use a high level of materiality. Such audits typically do not uncover issues with the RSVA account balances.
- Issues with corrections to previously approved account balances on a final basis, has caused some rate retroactivity issues for distributors.
- OEB is accountable to protect customer interests as well as the financial viability of the electricity sector.
- OEB must ensure customers paying fair share of costs, so they are billed just and reasonable rates.

# Background - Continued

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## Outcomes:

- The OEB has legislative accountability to ensure account balances are accurate.
- Later this year the OEB will be issuing accounting guidance based on lessons learned in recent rate proceedings and OEB audits of distributors.
- OEB would also be consulting with a sample of distributors with a view to subsequently issue more prescriptive and detailed guidance.
- Interim disposition of Group 1 accounts will be used on a case-by-case basis for 2019 rate applications.

# GA Analysis WorkForm

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- 2019 GA Analysis WorkForm was posted on the OEB website last week.
- Detailed instructions document, including some generic questions that are required to be answered.
- OEB has received positive feedback from distributors about the WorkForm - that it has helped them understand the balances of account 1589 better and some have incorporated it in their month-end/year-end processes.



# Methodology of GA Analysis WorkForm

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- WorkForm calculates an amount that can be reasonably expected in account 1589 and is reconciled to the G/L balance of account 1589.
- The WorkForm is an annual reconciliation analysis based on monthly kWh volumes.
- All reconciling items in the WorkForm are to be completed.
- Expected account balance is the difference between monthly revenues at the GA rate billed (1st estimate, 2nd estimate or actual) and monthly expense at the IESO actual GA rate.
- WorkForm requires kWh volumes for revenues and expenses on calendar month basis.
- Assumes kWh volumes sold adjusted for losses are equal to purchased kWh volumes based on formula:

Billed kWhs **minus** prior month unbilled kWhs **plus** current month unbilled kWhs

# Methodology of GA Analysis WorkForm (cont'd)

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- The same GA rate is to be used for all non-RPP Class B customers within a customer class (per O.Reg. 429/04, Section 16(3)).
- More than one GA rate can be used so long as no more than one GA rate is used per customer class.
- Multiple GA rates are not permissible within a single customer class, in this event a distributor would need to establish unique rate riders due to cost causality.
- Where a distributor uses multiple GA rates, but no more than one GA rate within a customer class to bill non-RPP Class B customers, the GA Analysis would have to be adapted for this.
- Distributors who have more precisely allocated monthly kWh volume data available may propose to use this data in the GA Analysis.
- Any other methodology that differs from the one in the WorkForm must be disclosed and explained.

# DVA Continuity Schedule Adjustments

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- The DVA Continuity Schedules will be impacted by some of the items identified as reconciling items.
- The reconciling items shown as principal adjustments on the DVA Continuity Schedule in one year would need to be reversed in the following year

# RPP Settlement True-Up Adjustments

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- As per the OEB letter dated May 23, 2017, RPP settlement true-up adjustments that have not been reflected in the correct calendar year must be made to the DVA Continuity Schedule.
- The OEB letter required distributors to do settlement true-ups at least on a quarterly basis.
- RPP settlement true-ups impact both accounts 1588 and 1589 and are to be incorporated in both the GA Analysis WorkForm and the DVA Continuity Schedule.
- Distributors must ensure that all of the consumption for the calendar year is trued-up and included in the amounts proposed for disposition.
- If more than one month of true-up adjustments are made after year-end, each month trued-up must be reflected in the year it relates to.

# Reconciling Items

## Reconciling items may include:

<b>1a</b>	True-up of GA Charges based on Actual Non-RPP Volumes – prior year
<b>1b</b>	True-up of GA Charges based on Actual Non-RPP Volumes – current year
<b>2a</b>	Remove prior year end unbilled to actual revenue differences
<b>2b</b>	Add current year end unbilled to actual revenue differences
<b>3a</b>	Remove difference between prior year accrual/forecast to actual from long term load transfers
<b>3b</b>	Add difference between current year accrual/forecast to actual from long term load transfers
<b>4</b>	Remove GA balances pertaining to Class A customers
<b>5</b>	Significant prior period billing adjustments recorded in current year
<b>6</b>	Differences in GA IESO posted rate and rate charged on IESO invoice
<b>7</b>	Differences in actual system losses and billed TLFs
<b>8</b>	Others as justified by distributor

# Materiality Threshold

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- Materiality is assessed on an annual basis based on a threshold of +/- 1% of the annual IESO GA charges.
- The GA Analysis WorkForm is to be completed for each year not disposed to date, adjustments at the end of one year become reversing adjustments for the following year.
- Any unexplained discrepancy greater than materiality could prompt further analysis before disposition is approved.

# Walkthrough Example of Reconciling Item 1a

## True-up of GA Charges based on Actual Non-RPP Volumes – prior year

Information related to the RPP settlement true-up claim with the IESO for December 2016:

- ✓ Year end cost of power accrual reversed and the IESO power bill for December 2016 was booked in the December 2016 GL
  - ✓ Estimated Class B non-RPP volumes - 275,000,000 kWhs
  - ✓ Actual Class B non-RPP volumes - 296,759,443 kWhs
  - ✓ IESO Global Adjustment Actual Rate - \$0.1000/kWh
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- The estimate of GA cost for non-RPP Class B customers for December 2016 would have been recorded as \$27,500,000.
  - The actual GA cost for non-RPP Class B customers for December 2016 was \$29,675,944.
  - If the true-up claim was not reflected in the 2016 General Ledger, a debit of \$2,175,944 would have been added as an RPP settlement true-up reconciling adjustment in the 2016 GA Analysis WorkForm.
  - In the 2017 GA Analysis WorkForm \$2,175,944 would have to be reversed as an RPP settlement true-up reconciling adjustment and shown as a credit of \$2,175,944.

# Walkthrough Example of Reconciling Item 1b

## True-up of GA Charges based on Actual Non-RPP Volumes – current year

- Information related to the RPP settlement true-up claim with the IESO for December 2017:
  - ✓ Year end cost of power accrual reversed and the IESO power bill for December 2017 was booked in the December 2017 GL
  - ✓ Estimated Class B non-RPP volumes - 263,000,000 kWhs
  - ✓ Actual Class B non-RPP volumes - 277,345,455 kWhs
  - ✓ IESO Global Adjustment Actual Rate - \$0.1100/kWh
- The updated estimate of GA cost for non-RPP Class B customers for December 2017 would have been \$28,930,000.
- The actual GA cost for non-RPP Class B Customers for December 2017 was \$30,508,000.
- If the true-up claim was not reflected in the 2017 General Ledger, a debit of \$1,578,000 would have been added as an RPP settlement true-up reconciling adjustment for 2017 in the GA Analysis WorkForm.
- In 2018's GA Analysis WorkForm the \$1,578,000 would be reversed and shown as a credit of \$1,578,000.



# Walkthrough Example of Reconciling Item 2a

## Prior year Unbilled Revenue Differences

- Information related to unbilled revenue differences for December 2016
  - ✓ Class B non-RPP volumes used to calculate the difference between unbilled revenue for 2016 and billed revenue in 2017 relating to 2016 fiscal year:
    - ✓ December 2016 Unbilled quantities for December consumption - 335,000,000 kWhs
    - ✓ December 2016 Unbilled quantities for November consumption - 5,750,000 kWhs
    - ✓ Actual consumption billed in 2017 relating to December 2016 - 329,650,550 kWhs
    - ✓ Actual consumption billed for 2017 relating to November 2016 - 4,225,750 kWhs
  - IESO Global Adjustment 1st Estimate Rate for December - \$0.0975/kWh
  - IESO Global Adjustment 1st Estimate Rate for November - \$0.1230/kWh
- The unbilled revenue amount for Class B customers at the end of 2016 was \$33,369,750 and the amount of GA billed to customers in 2017 related to 2016 for non-RPP Class B customers was \$32,660,696. 2016 unbilled revenue was \$709,054 higher than the revenue billed in 2017.
- As 2016 unbilled revenue was higher than billed revenue a debit adjustment of \$709,054 would have been made to the 2016 GA Analysis WorkForm for this reconciling item.
- In the 2017 GA Analysis WorkForm the debit of \$709,054 would have to be reversed and shown as a credit of \$709,054.

# Walkthrough Example of Reconciling Item 2b

## Current year Unbilled Revenue Differences

- Information related to unbilled revenue differences for December 2017
  - ✓ Class B non-RPP volumes used to calculate the difference between unbilled revenue for 2017 and billed revenue in 2018 relating to 2017 fiscal year:
    - ✓ December 2017 Unbilled quantities for December consumption - 348,000,000 kWhs
    - ✓ December 2017 Unbilled quantities for November consumption - 7,750,000 kWhs
    - ✓ Actual consumption billed for 2018 relating to December 2017 - 335,750,750 kWhs
    - ✓ Actual consumption billed for 2018 relating to November 2017 - 6,500,000 kWhs
  - IESO Global Adjustment 1st Estimate Rate for December - \$0.1075/kWh
  - IESO Global Adjustment 1st Estimate Rate for November - \$0.1185/kWh
- The unbilled revenue amount for Class B customers at the end of 2017 was \$38,328,375 and the amount of GA billed to customers in 2018 related to 2017 for non-RPP Class B customers was \$36,863,456. 2017 unbilled revenue was \$1,464,919 higher than the revenue billed in 2018.
- As 2017 unbilled revenue was higher than billed revenue a debit adjustment for \$1,464,919 would have been made to the 2017 GA Analysis WorkForm for this reconciling item.
- In the 2018 GA Analysis WorkForm the \$1,464,919 would have to be reversed and shown as a credit adjustment of \$1,464,919.

# Walkthrough Example of Reconciling Item 3a

## Prior Year Load Transfer Accrual Differences

- Relates to long term and short term load transfers as applicable.
- Could have differences between accrued and actual cost as geographic distributor or differences between accrued and billed revenue as physical distributor. Example based on differences between accrued and billed revenue as physical distributors.
- Information related to load transfer revenue differences for December 2016.
  - ✓ Actual geographic distributor's volumes used to calculate the difference between load transfer revenue for 2016 and billed revenue in 2017 relating to 2016 fiscal year:
    - ✓ 2016 accrued unbilled quantities - 2,500,000 kWhs
    - ✓ 2017 billed quantities for 2016 - 3,600,000 kWhs
    - IESO Global Adjustment weighted average 2016 Actual rate - \$0.1250/kWh
  - The accrued unbilled revenue amount related to geographic distributors was \$312,500 and the amount of GA billed to geographic distributors in 2017 related to 2016 was \$450,000. 2016 accrued revenue was \$137,500 lower than billed revenue in 2017 relating to 2016 fiscal year.
  - As the 2016 accrued unbilled revenue was lower than billed revenue a credit adjustment for \$137,500 would have been made to the 2016 GA Analysis WorkForm for this reconciling item.
  - In the 2017 GA Analysis WorkForm the \$137,500 would have to be reversed and shown as a debit adjustment of \$137,500.

# Walkthrough Example of Reconciling Item 3b

## Current Year Load Transfer Accrual Differences

- Information related to load transfer revenue differences for December 2017.
  - ✓ Geographic distributors volumes used to calculate the difference between load transfer revenue for 2017 and billed revenue in 2018 relating to 2017 fiscal year:
    - 2017 accrued quantities - 3,300,000 kWhs
    - 2018 billed quantities for 2017 - 2,100,000 kWhs
  - IESO Global Adjustment weighted average 2017 Actual rate - \$0.1165/kWh
- The accrued revenue amount related to geographic distributors was \$384,450 and the amount of GA billed to geographic distributors in 2018 related to 2017 was \$244,650. 2017 accrued revenue was \$139,800 higher than billed revenue in 2018 relating to 2017 fiscal year.
- As the 2017 accrual revenue was higher than billed revenue a debit adjustment for \$139,800 would have been made to the 2017 GA Analysis WorkForm for this reconciling item.
- In the 2018 GA Analysis WorkForm the \$139,800 would have to be reversed and shown as a credit adjustment of \$139,800.

# Walkthrough Example of Reconciling Item 4

## Elimination of GA Class A amounts in account 1589

- Global Adjustment is billed to Class A customers based on their customer specific peak demand factor.(PDF).
- Class A customers are billed on actuals and monthly unbilled revenue relating to these customers should be accrued based on the same estimated amount accrued for Charge Type 147 as part of their cost of power accrual for GA. Therefore there should be no variances related to Class A customers in account 1589.
- For those distributors that do not follow this accounting month-end practice they may have balances relating to Class A GA included as part of the balance of account 1589.
- Any balances relating to Class A customers must be eliminated. A distributor would need to do an analysis of all GA Class A transactions that would have been included in the balance of account 1589. A distributor would need to compute the adjustment amounts relating to Class A GA by taking the sum of the following:
  - ✓ GA billed to Class A customers,
  - ✓ GA unbilled revenue accruals recorded relating to Class A customers
  - ✓ GA unbilled revenue reversals recorded relating to Class A customers
  - ✓ GA paid to IESO for Charge Type 147
  - ✓ GA accrued as part of the cost of power accrual for Charge Type 147
- In this example a distributor summed up all transactions relating to Class A customers and erroneously had a credit balance of \$1,750,000. This amount should be eliminated from the GA Analysis WorkForm by recording a debit adjustment of \$1,750,000. This adjustment is a permanent adjustment and is not reversed.

# Walkthrough Example of Reconciling Item 5

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## Significant prior period billing adjustments

- Normal part of business for distributors to make billing corrections, bill cancellations, and re-billings. Can be small or quite large depending on nature and cause of the billing adjustment.
- Where billing adjustments relate to prior calendar years relating to non-RPP customers, there is an impact to account 1589.
- For example where a distributor made significant billing adjustments in the current year of say \$350,000 related to GA revenue for the prior two years:
  - ✓ The revenue would have been recorded in the current period G/L and current period billing statistics, but
  - ✓ The GA costs relating to such revenue would have been paid to the IESO at actual rates in prior periods, i.e.: would not have been recorded as a cost in the current period.
- In this example there is a mis-match of GA Revenue & Costs requiring a reconciling item to bring the expected GA balance in the GA Analysis WorkForm in line with the G/L GA balance
- In this case a debit adjustment would be needed for \$350,000 in the current period WorkForm to explain the difference. This is a one time permanent adjustment, a reversal would not be required in future periods.

# Walkthrough Example of Reconciling Item 6

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## Differences in GA Charged by the IESO relating to prior period(s):

- On occasion the IESO makes Global Adjustment corrections as the result of distributor corrections to prior fiscal years or adjustments initiated by the IESO for various reasons.
- Where the IESO bills distributors more/less than GA costs based on actual GA Rate. Distributors should be aware of such differences which should be identified through a distributors wholesale settlement processes and systems.
- Any amounts charged by the IESO for GA other than the distributors wholesale volumes would need to be identified and recorded as a reconciling item in the GA Analysis WorkForm.
- For example where the IESO made adjustments on a distributors monthly invoices during the year totaling say \$425,000 and these adjustments are outside of the base that the GA actual rates were calculated on; a distributor would need to record a reconciling item in the GA Analysis WorkForm.
  - ✓ The GA Costs would have been recorded in the current period G/L, but
  - ✓ The additional amount would not have been reflected in the calculation of the expected GA amount in the WorkForm. In this example there is a mis-match of GA Revenue & Costs requiring a reconciling item to bring the expected GA balance in the GA Analysis WorkForm in line with the G/L GA balance
- In this case a credit adjustment would be needed for \$425,000 in the current period WorkForm to explain the difference. This is a one time permanent adjustment, a reversal would not be required in future periods.

# Walkthrough Example of Reconciling Item 7

## Differences between actual system losses and Approved Total Loss Factors (TLF) billed to customers in the fiscal year

- Some distributors recorded reconciling items in 2018 applications related to differences from TLF's and actual system losses.
- Differences between actual system losses and TLF's are not usually significant. There may be situations causing such differences. Where significant system losses are identified, a reconciling item is required in the GA Analysis WorkForm and a distributor should be able to explain the operational reasons for the large differences.
- For example where a distributor calculates the actual system losses to be significantly greater than billed TLF to non-RPP customers the following data is applicable in this example:
  - ✓ Total volumes billed & unbilled to non-RPP customers was 290,000,000 kWhs
  - ✓ Actual System Losses relating to non-RPP customers is 5.50%
  - ✓ Billed TLF relating to non-RPP customers was 4.50%
  - ✓ The weighted average actual GA rate for the year \$0.1035/kWh
- In this case the difference between the billed TLF and the actual system losses relating to non-RPP customers is \$300,150.
- As G/L account 1589 would reflect the actual costs related to the actual system losses, the expected GA costs calculated in the GA Analysis WorkForm would be lower and a credit reconciling adjustment of \$300,150 would need to be recorded. This is a one time permanent adjustment, a reversal would not be required in future periods.



# Other Reconciling Items

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## Other types of Reconciling items:

- Depending on a distributor's circumstances, a distributor may have other types of reconciling items.
- Distributor would have to provide a detailed explanation of the cause of the reconciling item and provide calculations for any additional items included in the GA Analysis Workform.

# Questions

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