ONTARIO ENERGY BOARD

ACCOUNTING GUIDANCE TRAINING

Commodity Pass-through Variance Accounts
Account 1588 & Account 1589

April 2019

Ontario

Commodity Pass-through Accounts Accounting Guidance

Agenda

1. Background
2. Accounting Guidance – Outline
3. Illustrative Commodity Model
4. Detailed Accounting Guidance

Background - Reasons why is this Accounting Guidance needed

- In recent rate applications, there were many instances where account balances were counter-intuitive and could not be adequately explained for approval for final disposition.
- OEB audits of commodity variance accounts and distributor settlement processes found issues with accuracy of balances.
- Commodity pass-through accounts were determined to be high risk. The commodity pass-through accounts capture the largest transactions that are recorded by a distributor in its financial records, and accuracy is extremely important due to impact on customers.
- In some 2017, 2018 and 2019 Cost of Service and IRM cases, OEB did not allow disposition of account balances, and ordered Special Purpose Audits, OEB Audits, or required distributors to perform internal reviews of their RPP settlement processes to have more assurance that account balances were accurate.

Background – Actions Undertaken to Address the Issues

- Issued a letter on May 23rd, 2017, advising distributors that the RPP settlements must be trued up to actuals relating to balances proposed for disposition.
- Effective 2018 rate proceedings, implemented GA Analysis Workform as part of the annual Cost of Service and IRM Filing Requirements to test the reasonability of the GA amounts proposed for disposition.
- Held webinars to provide training on completing the GA Analysis Workform in July 2017 and July 2018.
- Issued a letter on July 20, 2018 advising distributors that the OEB is undertaking an initiative to standardize the accounting processes related to commodity pass-through costs.
- Currently OEB is not approving Group 1 rate riders on a final basis.
- Issued detailed accounting guidance on February 21, 2019 to standardize the accounting processes for commodity accounts. OEB expects that the standardization of processes would minimize the risk of inaccurate account balances being disposed.
- IESO has changed its process effective February 28, 2019 to eliminate the discrepancy between posted and invoiced GA prices. A new CT 2148 has been added which would appear only on the distributor's bill requesting the adjustment.

Background - Accounting Page on the OEB Website

- Guidance document as well as the Illustrative Commodity Model is posted on the OEB website.
- This is where you can access these documents:

  http://www.oeb.ca/industry/rules-codes-and-requirements/accounting-procedures-electricity#aphguidances://
- The above link is to the APH page also includes:
  - Accounting Guidance letters
  - FAQs

Effective Date for New Guidance

- Implementation date: August 31, 2019, effective January 1, 2019
- The OEB expects that distributors will consider the accounting guidance in the context of their historical balances for any pre-2019 balances, for account balances not previously disposed on a final basis.
- If any systemic issues that may give rise to material errors or discrepancies, or the OEB has identified issues with balances, those distributors should correct those balances before filing for disposition in an annual rate application.
- Distributors not adjusting balances prior to January 1, 2019 should confirm in their rate application that they have considered the accounting guidance and are of the view that no adjustments are required.

Accounting Guidance – Outline

Detailed Narrative – 4 Sections

- Section I
  - Recording Energy and GA revenue transactions in Accounts 4006 – 4055
  - Recording Energy and GA expenses in Accounts 4705 and 4707
  - Calculating RPP settlements and true-ups with the IESO
  - Recording variances in Accounts 1588 and 1589
- Section II
  - Principal Adjustments for Account 1588 on DVA Continuity Schedule
  - Principal Adjustments for Account 1589 on DVA Continuity Schedule
  - Reconciling Items for GA Analysis Workform

Accounting Guidance – Outline (contd.)

- Section III
  - Accounting for Embedded Generation energy transactions
    - FIT transactions
    - Renewable Energy Standard Offer Programs
    - Hydroelectric Contract Initiative Program
- Section IV
  - Guidance on submission of embedded generation data in the monthly reporting to the IESO impacting Account 1589

Accounting Guidance – Outline (contd.)

Illustrative Commodity Model

- Data for Settlement and 1st True-up
- RPP Settlement and 1st True-up Calculation Tables
- Data for 2nd True-up of CT 1142
- RPP Settlement and 2nd True-up Calculation Tables
- True-up of CT 148 – RPP/non-RPP Allocation Adjustment
- Rate Application filing:
  - DVA Continuity Schedule Adjustments
  - GA Analysis Workform Reconciling Items
- Validating Variances Recorded (Volume/Price Variance Analysis)
- Journal Entries
- T-Accounts

Illustrative Example:

- Please Note:
  - Only IESO Charge Types (CT) relevant to Power and GA will be illustrated in our example.
  - Month of consumption is December 2017.
  - Assumption: Billings for December consumption were completed by February 28, 2018.
  - For simplicity, the net of billed revenue less prior month's unbilled revenue, plus current month's unbilled revenue have been combined in the example.
  - The focus in this guidance is on the costs, billing entries are only provided for completeness for recording of variances.
  - We have isolated transactions related to one month's consumption in our example.
- The Accounting Guidance applies to embedded distributors too. Embedded distributors who are not wholesale market participants will not have the IESO CTs, but would have equivalent items on their invoice from their host distributor.

Illustrative Commodity Model

Tab 1: Data For Settlement and 1st True-up

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- This information is used by day 4 after month-end for:
  - Initial recording of estimated power and GA expenses
  - Unbilled power revenues based on estimated quantities and estimated proportions for RPP and non-RPP
  - Calculating CT 1142 based on estimated quantities and 2nd estimate GA price
  - Recording variances based on estimates

Right side of this tab

- Updated for actuals per IESO invoice & Settlement Statements:
  - Wholesale total volumes have changed based on Settlement Statements and IESO invoice
  - RPP and Non-RPP Proportions are still the same
  - GA and energy prices have changed to actuals
  - Wholesale power price for RPP has changed
  - 1st true-up calculation based on actual invoice price for GA, energy, estimated volumes done based on updated information

Illustrative Commodity Model (contd.)

Tab 2: Initial RPP Settlement and 1st True-Up

- 3 Tables:
  - Initial RPP settlement – everything is estimated
  - 1st True-up calculation – Some elements are actual, e.g. actual power and GA expense in total, total kWh paid for, but split between RPP/Non-RPP is estimated, as is consumption at each RPP price
  - Difference between initial settlement and updated after invoice received is claimed from the IESO

Illustrative Commodity Model (contd.)

Journal Entries resulting from Tab 1 & Tab 2

1. Cost of Power Accrual re. CT 101, 147, 148, 1142, 1412 on December 31, 2017 (potentially CT 2148)
2. Accrue revenue estimate – billings minus previous month's unbilled plus current month's unbilled
3. Record commodity variances for December 2017
4. Reversal of #1 above in January
5. Reversal of #2 above in January
6. Record actual IESO invoice received on January 16th - 10th business day after month-end
7. Record RPP settlement 1st true-up
8. Record commodity variances for January 2018

Illustrative Commodity Model (contd.)

Tab 3: Data for 2nd True-Up

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- Left side of Tab 3 – Tables 10 to 18 – these are the exact same Tables that were on the right side of Tab 1.

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- Updated for actuals:
  - Actual retail volume data for RPP and non-RPP
  - Actual retail volumes for each RPP price
  - Actual consumption proportions for RPP and non-RPP
  - Updated energy price for RPP and non-RPP
  - Updated energy revenue for non-RPP
  - All actual data for true-up of CT 1142

Illustrative Commodity Model (contd.)

Tab 4: RPP 2nd True-Up

- 3 Tables:
  - 1st True-up calculation – Some elements are actual, e.g. actual power and GA expense in total, total kWh wholesale volumes, but split between RPP/Non-RPP is estimated, as is consumption at each RPP price
  - 2nd True-up – all elements are based on actuals
  - Difference between 1st True-up and 2nd True-up

Illustrative Commodity Model (contd.)

Journal Entries resulting from Tab 3 & Tab 4

1. Actual Billings entry
2. RPP 2nd Settlement True-up of CT 1142
3. True-up entry for CT 148 based on actual RPP and non-RPP proportions
4. Variance Account entry

Section II – Rate Applications Implications

- DVA Continuity Schedule tracks the regulatory accounts of a distributor. For regulatory purposes, the OEB now requires that true-up adjustments affecting Accounts 1588 and 1589 be reflected in the year to which they relate when requesting disposition.

- Distributors must first determine the elements of the commodity variance accounts that are not reflected in GL on an actual basis. 'Principal Adjustments' column should be used to make the true-up adjustments for all elements that need adjusting.

- Note: 'Principal Adjustment' made in one year must be reversed in the year that it was reflected in distributor's GL, generally the following year. Principal adjustments in a year would be the total of adjustments for that year +/- adjustments for the previous year.

Section II - Implications for DVA Continuity Schedule from Illustrative Commodity Model

Principal Adjustments for Account 1588

- Only the amounts that are **not** reflected in your GL would be included as "Principal Adjustments" for the purpose of rate filing
- For each type of adjustment, first determine, if the amount is already reflected in your "transactions" for the year

5 types of possible adjustments

- Accrued Cost of Power vs. Actual IESO invoice
- RPP settlement – 1st true-up
- RPP settlement – 2nd true-up
- Unbilled to Actual billed for 2017 consumption
- RPP/non-RPP allocation of CT 148

Section II - Implications for DVA Continuity Schedule from Illustrative Commodity Model (contd.)

Principal Adjustments for Account 1589

- Only the amounts that are **not** reflected in your GL would be included as “Principal Adjustments” for the purpose of rate filing
- For each type of adjustment, first determine, if the amount is already reflected in your “transactions” for the year

3 types of possible adjustments

- Accrued GA vs. Actual IESO invoice
- Unbilled to Actual billed for 2017 consumption
- RPP/non-RPP allocation of CT 148

Implications for GA Analysis Workform

Reconciling Items (Note 5 of the GA Analysis Workform)

- GA expense accrued vs. actual GA per IESO invoice
- Unbilled revenue to billed revenue differences
- Allocation of CT 148 based on actual RPP and non-RPP consumption

Reversals of Principal Adjustments in a prior proceeding

- Any Principal Adjustments that were included in a prior proceeding but were recorded in the current period for which disposition is requested must be reversed

New Note 5 Reconciling items

- Difference in GA IESO billed price and posted price due to CT 2148

Section III - Accounting Guidance on Embedded Generation Settlement with the IESO

Background

- Distributors pay specific types of embedded generators (EG) at the price set out in the generator's contract with the IESO.

- Types of programs
  - Feed-In Tariff Program (FIT)
  - Renewable Energy Standard Offer Program (RESOP)
  - Hydroelectric Contract Initiative Program (HCI)

Background – Feed-In Tariff (FIT)

- Distributor pays a generator under a contract for the electricity it receives at the price set out in the generator's FIT or microFIT contract with the IESO.
- Distributor calculates the difference between the contracted payments to FIT and microFIT program participants, and the wholesale market price for the same amount of electricity and settle it with the IESO.
- This settlement amount appears as Charge Type 1412 on the IESO invoice.

Background – Feed-In Tariff (FIT)

- The IESO claim form to capture the difference between the contract payments made to the EGs regarding FIT and microFIT and the wholesale market cost of energy.

	Payments from IESO		Payments to IESO		No of Installations
	kWh	$	kWh	$	#
Off Peak					
On Peak					

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Background – Feed-In Tariff (FIT)

- The amounts paid to EGs at the contract price should be recorded in Account 4705, Power Purchased. The settlement amount on the IESO invoice under CT 1412 is also to be recorded in Account 4705, Power Purchased.
- After recording both of the entries, the distributor's Account 4705 would show power purchased at the wholesale market price for quantities received under FIT or microFIT contracts.
- Ultimately, the net result of the amount paid by the distributor for the kWh volume of electricity it receives from an EG under FIT and microFIT programs should be based on the wholesale market prices after settlement with the IESO.
- Global Adjustment is not included in the EG settlement calculation.

Illustrative Example: Case Facts

- Distributor has three EG customers who have signed microFIT program contracts with the IESO to supply generated electricity to the grid. The signed contracts have the following agreed-upon rates to be paid by the distributor to each microFIT customer:
  - microFIT EG customer 1 – $0.80/kWh
  - microFIT EG customer 2 – $0.50/kWh
  - microFIT EG customer 3 – $0.30/kWh

- In order to calculate the embedded generation settlement data, the distributor needs the following information:
  - HOEP for each hour of each day of the month
  - The volume of electricity generated by each microFIT EG customer for each hour of each day of the month
  - The contract rate for each microFIT customer

Illustrative Example: Table 1 One Day Settlement Calculation

Date	Hour	HOEP ($/kWh) A	Generated kWh (*Assumption*) B	Generated kWh at HOEP ($) C = A x B	Contract price ($/kWh) (*Assumption*) D	Generated kWh at contract price ($) E = D x B	Difference between contract price and HOEP for generated kWh ($) F = E - C
1-Jun-18	1	0.00714	0	0	0.80	0	0
1-Jun-18	2	0.00904	0	0	0.80	0	0
1-Jun-18	3	0.01334	0	0	0.80	0	0
1-Jun-18	4	0.01333	0	0	0.80	0	0
1-Jun-18	5	0.00473	0	0	0.80	0	0
1-Jun-18	6	0.00331	0	0	0.80	0	0
1-Jun-18	7	0.01598	0	0	0.80	0	0
1-Jun-18	8	0.03538	0	0	0.80	0	0
1-Jun-18	9	0.03649	0.5000	0.02	0.80	0.40	0.38
1-Jun-18	10	0.04112	4.5000	0.19	0.80	3.60	3.41
1-Jun-18	11	0.03739	7.5000	0.28	0.80	6.00	5.72
1-Jun-18	12	0.03754	11.0000	0.41	0.80	8.80	8.39
1-Jun-18	13	0.03793	12.0000	0.46	0.80	9.60	9.14
1-Jun-18	14	0.03824	8.0000	0.31	0.80	6.40	6.09
1-Jun-18	15	0.04224	4.5000	0.19	0.80	3.60	3.41
1-Jun-18	16	0.05067	2.0000	0.10	0.80	1.60	1.50
1-Jun-18	17	0.03994	0	0	0.80	0	0
1-Jun-18	18	0.03602	0	0	0.80	0	0
1-Jun-18	19	0.03444	0	0	0.80	0	0
1-Jun-18	20	0.02195	0	0	0.80	0	0
1-Jun-18	21	0.00531	0	0	0.80	0	0
1-Jun-18	22	0.00841	0	0	0.80	0	0
1-Jun-18	23	0.00144	0	0	0.80	0	0
1-Jun-18	24	0.00087	0	0	0.80	0	0
Total for day for microFIT customer 1:		Off-peak	5.0000	$ 0.20		$ 4.00	$ 3.80
		On-peak	45.0000	$ 1.75		$ 36.00	$ 34.25
		Total	50.0000	$ 1.95		$ 40.00	$ 38.05

Note that On-peak represents electricity generated on business days between 11am and 7pm.

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Illustrative Example: Table 2 Full Month Settlement Calculation

Date	Hour	HOEP ($/kWh)	Generated kWh (*Assumption*)	Generated kWh at HOEP ($)	Contract price ($/kWh) (*Assumption*)	Generated kWh at contract price ($)
		A	B	C = A x B	D	E = D x B
1-Jun-18	1	0.00714	0	**0**	0.80	**0**
1-Jun-18	2	0.00904	0	**0**	0.80	**0**
:	:	:	:	:	:	:
30-Jun-18	23	0.02174	0	**0**	0.80	**0**
30-Jun-18	24	0.01226	0	**0**	0.80	**0**
Total for month		**Off-peak**	**200.0000**	**$ 10.00**		**$ 160.00**
for microFIT		**On-peak**	**1,800.0000**	**$ 70.00**		**$ 1,440.00**
customer 1:		**Total**	**2,000.0000**	**$ 80.00**		**$ 1,600.00**
1-Jun-18	1	0.00714	0	**0**	0.50	**0**
1-Jun-18	2	0.00904	0	**0**	0.50	**0**
:	:	:	:	:	:	:
30-Jun-18	23	0.02174	0	**0**	0.50	**0**
30-Jun-18	24	0.01226	0	**0**	0.50	**0**
Total for month		**Off-peak**	**300.0000**	**$ 20.00**		**$ 150.00**
for microFIT		**On-peak**	**3,700.0000**	**$ 80.00**		**$ 1,850.00**
customer 2:		**Total**	**4,000.0000**	**$ 100.00**		**$ 2,000.00**
1-Jun-18	1	0.00714	0	**0**	0.30	**0**
1-Jun-18	2	0.00904	0	**0**	0.30	**0**
:	:	:	:	:	:	:
30-Jun-18	23	0.02174	0	**0**	0.30	**0**
30-Jun-18	24	0.01226	0	**0**	0.30	**0**
Total for month		**Off-peak**	**500.0000**	**$ 50.00**		**$ 150.00**
for microFIT		**On-peak**	**6,500.0000**	**$ 150.00**		**$ 1,950.00**
customer 3:		**Total**	**7,000.0000**	**$ 200.00**		**$ 2,100.00**

Illustrative Example: Table 3 Summary and Settlement Form

		Generated kWh	Generated kWh at HOEP ($)	Generated kWh at contract price ($)	Difference between contract price and HOEP for generated kWh ($)
Total for month (for all microFIT customers):	Off-peak	1,000.0000	$ 80.00	$ 460.00	$ 380.00
	On-peak	12,000.0000	$ 300.00	$ 5,240.00	$ 4,940.00
	Total	13,000.0000	$ 380.00	$ 5,700.00	$ 5,320.00

- IESO settlement form completed from the summary data

	Payments from IESO		Payments to IESO		No of Installations
	kWh	$	kWh	$	#
Off Peak	1000	380			
On Peak	12,000	4,940			To Top

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Illustrative Example: Journal Entries

- Record payments made to microFIT EG customers at contract prices for electricity generated in the month:

Dr. Account 4705, Power Purchased	$5,700	
Cr. Account 2205 – Account Payable to EG customers		$5,700

- Record EG settlement credit CT1412 as a reduction of the overall charge:

Dr. Account 2256 – IESO Account payable reduction	$5,320	
Cr. Account 4705, Power Purchased		$5,320

Illustrative Example: Summary

- Summary of amounts recorded in Account 4705 and ultimately reflected in account 1588 in relation to embedded generation settlements:

Account 4705, Power Purchased	
Debit	**Credit**
(i) 5,700	(ii)5,320
Net result: $380, i.e. Electricity purchased from embedded generator at HOEP	

Incorrect Inclusion of GA in EG Settlement

- When utilities incorrectly include GA in the EG settlement
  - The amount reimbursed by the IESO through CT 1412 would be lower by the incorrectly included GA amount
  - The net debit balance in Account 4705 would be higher by the incorrectly included GA amount
  - If Account 1588 balance was approved for disposition, rate payers would be impacted by the error by paying more
- The portion of the Debit balance in Account 1588 related to FIT was brought down by 84% to 86% upon correction of this error for some utilities.

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Renewable Energy Standard Offer Program (RESOP) and Hydroelectric Contract Initiative Program (HCIP)

- The RESOP and HCIP settlements follow the same methodology as FIT.
- RESOP settlement amount appears as Charge Type 1410 on the IESO invoice
- HCIP settlement amount appears as Charge Type 1414 on the IESO invoice

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Summary – Embedded Generation

- The amounts paid to EGs at the contract price should be recorded in Account 4705, Power Purchased. The settlement amounts under CT 1410, 1412, 1414 are also to be recorded in Account 4705, Power Purchased.
- Global adjustment is not included in the EG settlement calculation.
- After recording both of the entries, the distributor's Account 4705 would show power purchased at the wholesale market price (or spot price) for quantities received under EG contracts.
- Ultimately, the net result of the amount paid by the distributor for the kWh volume of electricity it receives from an EG should be based on the wholesale market prices after settlement with the IESO for the electricity it receives from an EG.

Section IV – Embedded Generation Reporting to the IESO

- Accurate submission to IESO of EG and Class A volumes are very important, as the IESO takes these volumes into account in the determination of CT 148 Class B – GA settlement amounts
- The IESO bills CT 148 by aggregating the reported EG volume and total power withdrawn from the IESO grid, excluding the volume for Class A customers
- A separate CT 147 is used to bill Class A GA

Accounting Guidance on Accounts 1588 & 1589

Questions?

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Thank You

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