

# **Draft Guidelines for Reviewing Variance and Deferral Accounts**

**(Issued for Comment by the Ontario Energy Board on August 8, 2005;  
responses are due on or before August 22, 2005)**

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## **Legislative Requirement to Make an Order**

Bill 23 legislative requirements for deferral and variance accounts came into effect on January 1, 2005 with respect to electricity. Pursuant to this legislation under section 78 of the *Ontario Energy Board Act* requires the Ontario Energy Board (“the OEB” or “Board”) to issue an order at least once every three months for electricity commodity-related variance and deferral accounts to determine whether and how amounts recorded in such accounts shall be reflected in rates. The same requirement exists for non-commodity-related variance and deferral accounts except that the Board must issue an order at least once every twelve months.

A Board order is necessary whether or not dispositions of the balances in these accounts are required. Account dispositions may result in recoveries or refunds through adjustments made to customers’ rates. The applicable legislation under the OEB Act is shown in **Appendix A**.

## **Purpose of Guidelines**

The purpose of these Guidelines is to explain the Board’s process for its review of deferral and variance accounts and to outline the procedures electricity local distribution companies (“LDC” or “distributor”) are required to follow to enable the Board to make an order.

## **Overview of the Accounts Review Framework**

The Board has established a regulatory review process for deferral and variance account balances of all electricity LDCs. It will consist of quarterly reviews for commodity accounts and annual reviews for non-commodity accounts. The Board may also decide to have reviews at shorter time intervals if necessary.

On a quarterly basis, the Board will review the electricity commodity account balances using the accounts information of all LDCs filed under the Reporting and Record-keeping Requirements (RRR). A notice of the Board on its own motion will be issued to commence a proceeding where the Board is of the view that a more detailed review of an LDC’s quarterly commodity accounts is warranted. In these cases, intervenors will be notified and the Board will conduct a written proceeding.

Before such notice is issued, the LDC will be required to file additional information to assist the Board with its review of the account balances.

The Board will issue orders to all LDCs on completion of its quarterly reviews. There are two types of orders depending on the nature of the review. One, where the Board's review does not require a disposition of commodity account balance in rates, and second, where the review results in the disposition of an LDC's commodity account balance or a portion thereof in rates, and new rates schedules are issued.

Annually, non-commodity account balances as of December 31 will be reviewed. As this period end represents the fourth quarter of a particular year for commodity accounts also, these accounts also will be reviewed in conjunction with the non-commodity accounts. Where a notice is issued to an LDC in the annual review process, it will include the review of all accounts.

## **Review and Procedural Processes**

The discussion that follows outlines specific details of the procedures of the accounts' review process.

### *Filing of RRR and Reliability of Information Requirements*

Commodity and non-commodity deferral and variance accounts information is reported quarterly by LDCs under the RRR. Section 2.1.1 of the RRR requires that this information be submitted to the Board one month after each quarter end with the distributor quarterly filing (DQF). This information will be used as the basis for the Board's review of these account balances and to determine the LDCs whose account balances require a more detailed review.

The Board is placing increasing reliance on the use of information filed under the RRR for several regulatory purposes. Consequently, the Board expects LDCs to fully understand and comply with the accounting policies and procedures in the Accounting Procedures Handbook (APH) to ensure the accurate recording and reporting in the Uniform System of Accounts (USoA).

The quality and timeliness of the USoA accounts information filed under the RRR is of critical importance to ensure reviews preformed and orders issued are in accordance with the legislative requirements.

### *Classification of Commodity and Non-commodity Variance and Deferral Accounts*

Deferral and variance accounts are classified in commodity and non-commodity classifications as specified in **Appendix B**. Currently, account 1588, RSVA power and 1588 Sub-account Global Adjustments are classified as commodity accounts and therefore are the only accounts subject to quarterly reviews.

### Timing of Reviews

The Board's first quarterly review of the commodity account balances (including authorized carrying charges) will cover the quarters starting from January 1, 2005 to March 31, 2005 and from April 1 to June 30, 2005. This review will start in early August 2005 after the filing of LDCs June 30, 2005 quarter ended account balances.

The expected timelines for this review are provided in **Appendix C**. Specific dates are specified for an LDC and intervenors to submit information where a notice has been issued. Subsequent quarterly reviews will follow a similar schedule.

Balances accumulated in commodity and non-commodity deferral and variance accounts prior to January 1, 2005 are not subject to these review requirements. For most LDCs, the approval and disposition of these account balances up to the period ended December 31, 2004 are dealt with separately in the Board's Review and Recovery of Regulatory Assets - Phase 2 process which has been incorporated as part of the 2006 electricity distribution rate (EDR) application.

### Commencing a Review

Once the Board determines which distributors have accounts that may need to be fully or partially disposed of, the Board will commence a proceeding on its own motion (under section 19(4) of the OEB Act) to set new rates for those distributors. The Board will first notify a distributor that it intends to issue an order that may fully or partially dispose of amounts recorded in the accounts and require the distributor to file additional information, including customer rate impact information. Once this information is received, the Board will issue a notice of the proceeding, indicating that the proceeding will be determined through a written hearing unless a party persuades the Board that the Board should hold an oral hearing. The notice will prescribe a time by which requests for an oral hearing are to be made, and the time by which intervenors and the distributor must make their submissions on the proposed rate change.

For those distributors where no rate change is required (i.e. no need for disposition of the account balances) the Board will consider whether to make the finding under section 21(4)(b) that no person will be adversely affected in a material way by the outcome of the proceeding. If the requirements of section 21(4)(b) are met, the Board will not issue a notice or hold a hearing, and will issue an order for a group of distributors that makes no change to the rates.

### Filing of Additional Information

An LDC required to file additional information with the Board will be requested to complete a customer rate impact analysis (CRIA) and provide other information as necessary. The request will be sent directly to the LDC and require submissions be made within 10 business days of the issuance of the request.

A Board-designed and standardized CRIA will be used to simplify and streamline the filing and review processes. Accordingly, the CRIA will be based on the relevant elements of the current annual rate adjustment mechanism (RAM) model simplified to accommodate filings and produce rate riders. The CRIA will be adoptable for use in both quarterly and annual reviews.

### Intervenors and submissions

Intervenors will not be funded or granted cost awards for their participation in these reviews due to their mechanistic nature and limited scope.

Submission of intervenors will be permitted within 7 business days after the Board issues a notice to an LDC.

### Rate Class Allocation of Account Balance on Disposition

The RSVApower account 1588 is designed to capture variances due to billing timing differences (i.e. electricity charged by IESO to LDCs vs. electricity billed by LDCs to their customers), price and quantity differences sold (i.e. arising from final vs. preliminary IESO settlement invoices), and line losses differences (i.e. actual vs. estimated lines loss factors). This account is not designed to capture any price differences between the regulated price plan (RPP) and spot prices applicable to RPP customers. This is the function of the Ontario Power Authority (OPA) RPP variance account which is trued-up in accordance with the terms established by the Board for the RPP.

Accordingly, since the RSVApower account is generic to all customers of LDCs, dispositions of its account balances in rates are attributable to all their customers.

The 1588 Sub-account Global Adjustments is designed for the global adjustments applicable to non-RPP customers. Hence, the disposition of its account balance should be attributable to these customers.

With respect to non-commodity account balance dispositions, generally these should be attributable to all customers unless warranted by special circumstances.

### Issuance of Orders

In conformance with legislation, the Board will issue orders whether or not dispositions of account balances are required. On a quarterly basis, orders and new rate schedules will be issued for the LDC-specific reviews that result in the disposition of the commodity account balances in rates. Rate changes will be implemented through customer class rate riders since these changes are temporary in nature.

In the case where the review results in no account balance that requires disposition, the Board will issue a generic order to these LDCs specifying no changes are required to the rates previously approved by the Board.

These types of orders also will be issued for the annual reviews which will include both commodity and non-commodity accounts.

### Implementation of Rate Changes

The Board expects LDCs to have the ability to implement rate changes through rate riders on an expeditious basis, as the potential for rate changes due to these requirements will be ongoing. The recovery period is not anticipated to be longer than three months so as to not conflict with the potential recovery/refund of the subsequent quarter's balances. However, bill impacts on customers will be a key consideration in deciding the relevant recovery period, as required by section 78(6.5).

All rate riders will be included in customers' bills in the "Delivery" charge line. Recoveries will be recorded as credits in the specific account related to the rate riders. Refunds will be recorded as debits in the specific accounts related to the rate riders. These accounting treatments will have the effect of drawing down on the account balance(s) approved for disposition and establishing any residual balance(s) after the approved collection period.

### Audits by the Chief Regulatory Auditor

The Board may direct the Chief Regulatory Auditor to perform audits or reviews of LDCs' books of accounts that support their APH/USoA accounts that are reported under the RRR and other issues that many arise from these reviews and provide a report to the Board. Also, the Chief Regulatory Auditor may independently perform audits or reviews and provide a report to the Board.

## APPENDIX A

### Orders under Section 78 of OEB Act re Electricity Deferral or Variance Accounts

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).

## APPENDIX B

### Classification of Commodity and Non-commodity Variance and Deferral Accounts

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 electricity power (commodity) amount charged to a distributor by the Independent Electricity System Operator (IESO), host distributor or embedded generator based on the settlement invoice for the electricity cost.

All other variance and deferral accounts not meeting this general description are classified as non-commodity.

The account classifications for commodity and non-commodity are outlined below.

- **Commodity accounts are classified as follows:**
  - 1588 Retail Settlement Variance Account - Power
  - 1588 RSVA Power, Sub-account Global Adjustments
- **Non-commodity accounts are classified in two categories as follows:**

#### Wholesale and Retail Market Variance Accounts

- 1518 Retail Cost Variance Account - Retail
- 1548 Retail Cost Variance Account - STR
- 1580 Retail Settlement Variance Account - Wholesale Market Service Charges
- 1582 Retail Settlement Variance Account - One-time Wholesale Market Service
- 1584 Retail Settlement Variance Account - Retail Transmission Network Charges
- 1586 Retail Settlement Variance Account - Retail Transmission Connection Charges

#### Utility Deferral Accounts

- 1508 Other Regulatory Assets
- 1508 Other Regulatory Assets - Sub-account OEB Cost Assessments
- 1508 Other Regulatory Assets - Sub-account Pension Contributions
- 1525 Miscellaneous Deferred Debits
- 1562 Deferred Payments in Lieu of Taxes
- 1563 PILs contra account
- 1565 Conservation and Demand Management Expenditures and Recoveries
- 1572 Extraordinary Event Losses
- 1574 Deferred Rate Impact Amounts
- 2425 Other Deferred Credits

#### Closed Accounts not classified are as follows:

- 1570 Qualifying Transition Costs (closed December 31, 2002)
- 1571 Pre-Market Opening Energy Variances (closed April 30, 2002)



## APPENDIX C

### Expected Timelines for the Review of Quarter ended June 30, 2005

| No. | Date    | Procedures   |
|-----|---------|--|
| 1   | Aug 2   | Filing due date for submitting variance and deferral accounts for quarter ended June 30, 2005 by LDCs under RRR  |
| 2   | Aug 31  | Compilation of LDCs' accounts data and analysis completed by Board Staff   |
| 3   | Sep 15  | Board approval of Guidelines   |
| 4   | Sep 29  | Where supplementary information is required to complete the analysis, an LDC will be requested to provide the Board additional information within 10 business days, including: <ul style="list-style-type: none"> <li>• Customer rate impact analysis (CRIA)</li> <li>• Other Information</li> </ul> |
| 5   | Oct 3   | Submission of LDC additional information due   |
| 6   | Oct 11  | Notice issued to an LDC (i.e. for an LDC requiring a review)   |
| 7   | Oct 11  | Intervenors notified of proceeding   |
| 8   | Oct 19  | Submissions from Intevenors due (within 7 business days of Notice issuance)  |
| 9   | Nov     | Board orders are issued  |
| 10  | Nov/Dec | LDCs implement orders and rate riders  |

**Notes:**

- 1) The above *dates* are tentative but they provide an example of the expected timelines to be followed.
- 2) The above *procedures* are applicable to every quarter. In cases where a notice is not issued to an LDC, procedures 4 to 8 and 10 are not required.