



Ontario Energy Board
Commission de l'énergie de l'Ontario

Account 1588

RSVA Power

Regulatory Audit & Accounting
Board Staff Webinar
September 28, 2009

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Agenda

1. Board Staff – Regulatory Audit & Accounting
 - Presentation – Account 1588 RSVA Power (60 minutes)
 - Fiona O’Connell & Tina Li

2. IESO Staff
 - Presentation – LDC Settlement of RPP and Global Adjustment (30 minutes)
 - Brad Misner



Questions

- Questions resulting from Board Staff and the IESO's presentations may be sent:
 - Via e-mail, not later than 4:45 p.m. on October 2, 2009, to:
RegAudit.Webinar@oeb.gov.on.ca.
 - Or through Microsoft Live Meeting's Q&A feature.



Questions

- Answers to common questions will be posted on the Board's website, under "Regulatory Audit & Accounting Webinars":
 - <http://www.oeb.gov.on.ca/OEB/Industry+Relations/Regulatory+Audit+and+Accounting/Regulatory+Audit+and+Accounting+Webinars>



Outline of Presentation

- Objective of the Webinar
- Reasons for the Webinar
- Observations:
 - General
 - Account 1588 Sub-account Global Adjustment
 - Carrying Charges
- Summary of All Requirements
- Conclusion
- Next Steps



Objective of the Webinar

- To assist electricity distributors and other parties with the regulatory accounting and reporting of:
 - Account 1588 RSVA Power.
 - Account 1588 Sub-Account Global Adjustment.



Reasons for the Webinar

- Applicable Legislation – Section 78(6.1) of the *Ontario Energy Board Act, 1998*:
 - “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).”



Reasons for the Webinar (continued)

- Good record keeping of Account 1588 RSVA Power is important
 - The Board is required under section 78 of the *Ontario Energy Board Act, 1998* to periodically review the electricity distributor's variance and deferral accounts.
 - Specifically, the Act requires that the Board makes an order determining whether and how amounts recorded in these accounts should be reflected in rates.
 - Account 1588 RSVA Power is to be reviewed quarterly and the remaining accounts are to be reviewed annually.



Reasons for the Webinar (continued)

- Good record keeping of Account 1588 RSVA Power is important (continued)
 - Electricity Distributors’ Deferral and Variance Account Review (EDDVAR) Initiative Report of the Board (page 15):
 - “The Board is of the view that the annual review and automatic disposition of Account 1588 at the time of rebasing and the annual review during the IRM plan term subject to a lower disposition threshold should mitigate the need to dispose of this Account on a quarterly basis.”



Reasons for the Webinar (continued)

- Common observations have been identified by Regulatory Audit & Accounting Board Staff from conducting several reviews of electricity distributors' Account 1588 RSVA Power.



Reasons for the Webinar (continued)

- Board staff is communicating several observations to:
 - Help reduce the risk of an incorrect balance of Account 1588 RSVA Power being disposed.
 - Provide assistance to electricity distributors with respect to the regulatory accounting treatment of Account 1588 RSVA Power.
 - Help improve distributors' conformity to the Reporting and Record Keeping Requirements (RRR), Accounting Procedures Handbook (APH) and other Board guidance.



Note

- This presentation details Board Staff's observations. The presentation does not represent the Board's view and is not binding on the Board.





Observation #1 – Either Accrual or Billed Approach Not Consistently Used over Life of Account 1588 RSVA Power

- Observation:
 - Either the accrual or billed approach is not consistently used for both the recording of Account 1588 RSVA Power and carrying charges. Q4 RRR 2.1.1 filing (deferral and variance account balances) does not agree with RRR 2.1.7 filing (trial balance).
- Requirement:
 - Q4 RRR 2.1.1 filing and RRR 2.1.7 filing need to agree as they are from the same data source.
 - A consistent method is to be used throughout the life of the account.



Observation #1 – Either Accrual or Billed Approach Not Consistently Used over Life of Account 1588 RSVA Power

- **Impact:**
 - If a consistent method is not used on a consistent basis (e.g. using billed method on a monthly basis and accrual method at year end), this may adversely impact an amount that may be disposed.



Observation #1 – Either Accrual or Billed Approach Not Consistently Used over Life of Account 1588 RSVA Power

- Impact (continued):
 - The Board is required to make an order at least every three months that determines whether and how the amounts recorded in the commodity variance account (Account 1588) of all electricity distributors should be reflected in rates.



Observation #1 – Either Accrual or Billed Approach Not Consistently Used over Life of Account 1588 RSVA Power

- Impact (continued):
 - If the Q4 RRR 2.1.1 balance is reported using the accrual basis and the other quarters are reported using the billed basis, then balances across quarters will not be comparable. This will impact the RRR 2.1.1 balances that are used for the quarterly review process.
 - Quarterly balances in RRR 2.1.1 filing and annual balances in RRR 2.1.7 filing may be misstated.



Observation #1 – Either Accrual or Billed Approach Not Consistently Used over Life of Account 1588 RSVA Power

- Legislation or Board Decisions or Guidelines:
 - APH Article 490 – pages 10, 11 & 12
 - Section 78(6.1) of the *Ontario Energy Board Act, 1998*
- Example



Observation #2 – Period-End Entries do not Reduce the Higher of Revenue or Expense Account

- Observation:
 - Regarding Alternative A of recording the RSVA Accounts:
 - At period-end, the energy sales accounts are compared to the cost of power expense accounts and a journal entry is processed, with an offsetting entry to Account 1588, either by:
 - a) debiting or crediting energy sales, or
 - b) debiting or crediting cost of power expense.



Observation #2 – Period-End Entries do not Reduce the Higher of Revenue or Expense Account

- Requirement:
 - Regarding Alternative A of recording the RSVA Accounts:
 - The higher of the revenue or expense account is to be reduced, with an offsetting entry to Account 1588.
 - i.e. if revenue account is higher, then revenue is to be debited or if expense account is higher, then expense is to be credited.



Observation #2 – Period-End Entries do not Reduce the Higher of Revenue or Expense Account

- Impact:
 - Energy sales or cost of power expense reported on RRR 2.1.7 filing may be misstated.
- Legislation or Board Decisions or Guidelines:
 - APH Article 490, page 11



Observation #3 – Importance of Maintaining Good Record Keeping

- **Observation:**
 - Accounting treatment does not follow Board guidance and any required corrections are not made on a timely basis.
- **Requirement:**
 - Accounting treatment is to follow Board guidance and any corrections are to be made on a timely basis.
- **Impact:**
 - Accounting misstatements may occur which also may be out of period.



Observation #3 – Importance of Maintaining Good Accounting Records

- Legislation or Board Decisions or Guidelines:
 - EB-2008-0238, 2009 EDR Decision (page 31):
 - “The Board agrees with Board staff and intervenors in that the claimed amount for account 1571* is out of period. The amount is a result of an error on the part of [the distributor], and the Board agrees that allowing disposition at such a late stage would constitute retroactive ratemaking. This amount is disallowed.”

* Note Account 1571 is the Pre-market Opening Energy Variance account



Observation #4 – RPP portion of Global Adjustment Expense Excluded from Variance in Account 1588

- Observation:
 - The RPP portion of the global adjustment expense (part of IESO Charge Type 146):
 - Is included in account 4705, Power Purchased expense.
 - But, it is not included in the variance reported in Account 1588 RSVA Power at period-end.



Observation #4 – RPP portion of Global Adjustment Expense Excluded from Variance in Account 1588

- Requirement:
 - The RPP portion of the global adjustment expense (part of IESO Charge Type 146) is to be included in:
 - Account 4705, Power Purchased expense, and
 - The variance reported in Account 1588 RSVA Power at period-end.



Observation #4 – RPP portion of Global Adjustment Expense Excluded from Variance in Account 1588

- Requirement (continued):
 - Account 1588 RSVA Power is to be used to record the net difference between:
 - i) the energy amount billed to customers, and
 - ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator.



Observation #4 – RPP portion of Global Adjustment Expense Excluded from Variance in Account 1588

- Impact:
 - Cost of Power expense may be overstated; net income and Account 1588 RSVA Power may be understated.
 - Quarterly balances in RRR 2.1.1 filing and annual balances in RRR 2.1.7 filing may be misstated.



Observation #4 – RPP portion of Global Adjustment Expense Excluded from Variance in Account 1588

- Legislation or Board Decisions or Guidelines:
 - EB-2007-0761, 2008 EDR Decision (page 28):
 - “The Board notes that the intention of the RSVA accounts is to keep the distributor and its customers whole in respect of commodity and associated commodity costs.”
 - APH Article 490 – pages 20 & 21
- Example





Account 1588

Sub-account Global Adjustment



Observation #5 – Sub-Account for Global Adjustment Not Used

- Observation:
 - The global adjustment attributable to non-RPP consumers is not recorded separately from the (control) account in Account 1588 RSVA Power.
- Requirement:
 - The global adjustment attributable to non-RPP consumers is to be separately accounted for in Account 1588 RSVA Power Sub-account Global Adjustment.



Observation #5 – Sub-Account for Global Adjustment Not Used

- Impact:
 - Quarterly balances filed under RRR 2.1.1 filing for Account 1588 Sub-account Global Adjustment may not be accurately stated.
 - A balance may be charged or refunded to a class of customer.



Observation #5 – Sub-Account for Global Adjustment Not Used

- Legislation or Board Decisions or Guidelines:
 - February 15, 2005 Letter from the Board to electricity distributors
 - APH, Article 490, page 22
 - Frequently Asked Questions – Dec 2005 #15



Observation #6 – Reflection of Both RPP & Non-RPP Portion of IESO Charge Type 146 in Account 1588 Sub-Account Global Adjustment

- **Observation:**
 - Both the RPP and Non-RPP portions of IESO Charge Type 146 are reflected in the variance recorded in Account 1588 RSVA Power Sub-account Global Adjustment. The RPP portion is incorporated in the variance.
- **Requirement:**
 - Only the non-RPP portion of IESO Charge Type 146 is to be reflected in the variance recorded in Account 1588 RSVA Power Sub-account Global Adjustment.



Observation #6 – Reflection of Both RPP & Non-RPP Portion of IESO Charge Type 146 in Account 1588 Sub-Account Global Adjustment

- **Impact:**
 - Quarterly balances filed under RRR 2.1.1 filing for Account 1588 Sub-account Global Adjustment may not be accurately stated.
 - A balance may be charged or refunded to a class of customer.



Observation #6 – Reflection of Both RPP & Non-RPP Portion of IESO Charge Type 146 in Account 1588 Sub-Account Global Adjustment

- Legislation or Board Decisions or Guidelines:
 - APH, Article 490, page 21
 - Frequently Asked Questions – Dec 2005 #15
- Example



Observation #7 – Global Adjustment Sub-account Incorrectly Reported under RRR 2.1.1 Filing

- Observation:
 - For reporting purposes under RRR 2.1.1 filing, the Global Adjustment Sub-account is not rolled-up and reported under Account 1588.
- Requirement:
 - For RRR 2.1.1 filing, the balance reported in the control Account 1588 RSVA Power is to include the balance reported in Account 1588 RSVA Power Sub-account Global Adjustment.



Observation #7 – Global Adjustment Sub-account Incorrectly Reported under RRR 2.1.1 Filing

- Impact:
 - Quarterly balances in RRR 2.1.1 filing may be misstated.
 - A balance may be charged or refunded to a class of customer.
- Legislation or Board Decisions or Guidelines:
 - Sept 11, 2007 Regulatory Audit Bulletin
 - Feb 15, 2005 Letter from the Board to electricity distributors



Observation #8 – Entries to Account 1588 Sub-Account Global Adjustment Not Posted on a Monthly Basis

- Observation:
 - An entry is posted once a year to Account 1588 Sub-account Global Adjustment, with the global adjustment balance included in (control) account 1588 on a monthly basis.
- Requirement:
 - Entries to Account 1588 Sub-account Global Adjustment are to be posted on a monthly basis to this sub-account.



Observation #8 – Entries to Account 1588 Sub-Account Global Adjustment Not Posted on a Monthly Basis

- **Impact:**
 - Quarterly balances filed under RRR 2.1.1 filing for Account 1588 Sub-Account Global Adjustment may not be accurately stated.
 - A balance may be charged or refunded to a class of customer.
- **Legislation or Board Decisions or Guidelines:**
 - APH Article 490 – page 21





Carrying Charges



Observation #9 – Carrying Charges Not Calculated on Monthly Opening Accumulated Balance in Account 1588

- **Observation:**
 - Carrying charges are calculated on the previous month's or current month's variance in Account 1588 RSVA Power.
- **Requirement:**
 - Carrying charges are to be calculated on the monthly opening principal balance (accumulated) in Account 1588 RSVA Power.



Observation #9 – Carrying Charges Not Calculated on Monthly Opening Accumulated Balance in Account 1588

- Impact:
 - Carrying charges impacting interest revenue (Account 4405), interest expense (Account 6035), and Account 1588 RSVA Power balances may be misstated.
 - Quarterly balances in RRR 2.1.1 filing and annual balances in RRR 2.1.7 filing may be misstated.
- Legislation or Board Decisions or Guidelines:
 - APH, Article 490, page 13
- Example



Observation #10 – Interest Revenue Not Recorded Separately From Interest Expense

- Observation:
 - Carrying charges (whether debit or credit) are recorded as either interest revenue (Account 4405) or interest expense (Account 6035).
- Requirement:
 - Interest revenue is to be recorded separately (in Account 4405) from interest expense (in Account 6035).



Observation #10 – Interest Revenue Not Recorded Separately From Interest Expense

- **Impact:**
 - Both interest revenue and interest expense may be misstated in RRR 2.1.7 filing.
- **Legislation or Board Decisions or Guidelines:**
 - APH, Article 210, Uniform System of Accounts



Observation #11 – Account 1588 does not have Sub-accounts for Carrying Charges

- Observation:
 - Account 1588 RSVA Power does not have sub-accounts for carrying charges.
- Requirement:
 - Carrying charges are to be recorded in sub-accounts of Account 1588 RSVA Power.



Observation #11 – Account 1588 does not have Sub-accounts for Carrying Charges

- Impact:
 - Carrying charges may not be reported correctly and RRR 2.1.1 and RRR 2.1.7 filings may be misstated.
- Legislation or Board Decisions or Guidelines:
 - APH, Article 490, Page 12





Summary of All Requirements

1. A consistent method of either the billed or accrual basis is to be used throughout the life of Account 1588. Q4 RRR 2.1.1 and RRR 2.1.7 filings need to agree as they are from the same data source.



Summary of All Requirements

2. Regarding Alternative A of recording the RSVA Accounts: At period-end, the energy sales accounts are compared to the cost of power expense accounts and a journal entry is processed. The higher of the revenue or expense account is to be reduced, with an offsetting entry to Account 1588.
 - i.e. if revenue account is higher, then revenue is to be debited or if expense account is higher, then expense is to be credited.



Summary of All Requirements

3. Accounting treatment is to follow Board guidance and any corrections are to be made on a timely basis.



Summary of All Requirements

4. The RPP portion of the global adjustment expense (part of IESO Charge Type 146) is to be included in:
 - Account 4705, Power Purchased expense, and
 - The variance reported in Account 1588 RSVA Power at period-end.



Summary of All Requirements

5. The global adjustment attributable to non-RPP consumers is to be separately accounted for in Account 1588 RSVA Power Sub-account Global Adjustment.



Summary of All Requirements

6. Only the non-RPP portion of IESO Charge Type 146 is to be reflected in the variance recorded in Account 1588 RSVA Power Sub-account Global Adjustment.



Summary of All Requirements

7. For RRR 2.1.1 filing, the balance reported in the control Account 1588 RSVA Power is to include the balance reported in Account 1588 RSVA Power Sub-account Global Adjustment.



Summary of All Requirements

8. Entries to Account 1588 Sub-account Global Adjustment are to be posted on a monthly basis to this sub-account.



Summary of All Requirements

9. Carrying charges are to be calculated on the monthly opening principal balance (accumulated) in Account 1588 RSVA Power.



Summary of All Requirements

10. Interest revenue is to be recorded separately (in Account 4405) from interest expense (in Account 6035).



Summary of All Requirements

11. Carrying charges are to be recorded in sub-accounts of Account 1588 RSVA Power.





Conclusion & Next Steps



Conclusion

- We hope that the presentations today will:
 - Help improve distributors' conformity to the RRR, APH and other Board guidance.
 - Assist in improving record keeping, if needed.
 - Help reduce the risk of an incorrect balance of Account 1588 RSVA Power being disposed.
 - Help improve the quality of information for EDDVAR implementation.



Next Steps

- Board staff will publish on the Board’s website, under “Regulatory Audit & Accounting Webinars”:
 - <http://www.oeb.gov.on.ca/OEB/Industry+Relations/Regulatory+Audit+and+Accounting/Regulatory+Audit+and+Accounting+Webinars>
 - Presentations from today’s webinar.
 - A Regulatory Audit & Accounting Bulletin summarizing this presentation.
 - Answers to common questions arising from today’s presentations.





Thank You





Concluding Remarks



- Questions and inquiries regarding this Webinar may be sent via e-mail, not later than 4:45 p.m. on October 2, 2009, to: RegAudit.Webinar@oeb.gov.on.ca.



- Answers to common questions will be posted on the Board’s website, under “Regulatory Audit & Accounting Webinars”:
 - <http://www.oeb.gov.on.ca/OEB/Industry+Relations/Regulatory+Audit+and+Accounting/Regulatory+Audit+and+Accounting+Webinars>

Thank you

- Thank you for your interest and participation.
- This concludes our Webinar today.

