

Observation #1 (Either the Accrual or billed approach is not consistently used for both the recording of Account 1588 RSVA power and carrying charges)

The following example is based on a fictitious electricity distributor and does not consider carrying charges

Take Away: If a consistent method (either billed or accrual method) is not used on an ongoing basis, then this inconsistency may adversely impact an amount that may be disposed.

Fiscal Year 2008

Q1 Q2 Q3 Q4
 Cash basis —————> Accrual basis

- Assumptions: 1. the carrying charges and the global adjustment are not considered
 2. Assume that the energy sales and cost of power numbers in the entries represent the accumulated year to date numbers as at end of the quarter
 3. monthly reversal entries are not considered

Q3 (Billed method)

September 2008

Entries

1 To record billing based on billing register for the period Aug 15 - Sept 15			
Dr. AR 1100	100,000		
Cr. Energy sales 4006 - 4055		100,000	
2 To record August IESO invoice when received			
Dr. Cost of Power 4705	75,000		
Cr. AP - IESO 2205		75,000	
3 To record 1588 RSVA Power by reducing the higher of billed and charged amounts			
Dr. Energy sales 4006 - 4055	25,000		
Cr. 1588 RSVA Power		25,000	
RSVA Balance - cash basis			-25,000

Q4 (Accrual Method)

December 2008

Entries

1 To record billing based on billing register for the period Nov 15 - Dec 15			
Dr. AR 1100	100,000		
Cr. Energy sales 4006 - 4055		100,000	
2 To record November IESO invoice when received			
Dr. Cost of Power 4705	75,000		
Cr. AP - IESO 2205		75,000	
3 To accrue Dec unbilled revenue for the period Dec 16 - Dec 31			
Dr. AR 1100	50,000		
Cr. Energy Sales 4006 - 4055		50,000	
4 To accrue IESO December invoice			
Dr. Cost of Power 4705	70,000		
Cr. AP - IESO 2205		70,000	
5 To record Dec RSVA Power by reducing "the higher of "			
Dr. Energy sales 4006 - 4055	5,000		
Cr. 1588 RSVA Power		5,000	Note 1
RSVA balance - accrual basis			-5,000

Note 1: 5,000 = Total energy sales (100,000+50,000) - Total cost of power (75,000+70,000)

Note: Vice versa, if the Utility uses the accrual method during the year and the billed method at year end, the quarterly RSVA balances will not be comparable as well,

Observation #4 (RPP portion of global adjustment is included in Power purchased 4705, but not included in Account 1588 Power at period-end)

The following example is based on a fictitious electricity distributor using the billed method.

Take Away:

If the utility does not include the RPP portion of GA into the net comparison when recording the RSVA power account, Net Income may be misstated. The RSVA account may be misstated, which could result in an over-refund or under-collection to/from the customers.

Assumption: Fiscal year 2008 permanent entries; Carrying charges are not considered in this example

Incorrect entries

1588 RSVA Power		Energy sales 4006 -4055		Cost of Power 4705	
	OB	100,000		OB	-
	1)	500,000	1) 500,000	Monthly Power billings	5,000,000
	EB:	600,000	EB:	4,500,000	
		A			
1588 RSVA, sub-acct GA		Energy sales 4006 -4055, sub acct - GA		Cost of Power 4705, sub acct - GA	
	OB	5,000		OB	-
	2)	10,000	GA Billings (provincial benefit)	130,000	
	EB:	15,000	EB:	130,000	
		B			
Total RSVA including GA: - 585,000		Total energy sales	4,630,000	Total cost of power	4,750,000
				NI Impact -	120,000

Correct entries

1588 RSVA Power		Energy sales 4006 - 4055		Cost of Power 4705	
	OB	100,000		OB	-
	1)	380,000	1) 380,000	Monthly Power billings	5,000,000
	EB:	480,000	EB:	4,620,000	
		C			
1588 RSVA, sub-acct GA		Energy sales 4006 - 4055, sub acct - GA		Cost of Power 4705, sub acct - GA	
	OB	5,000		OB	-
	2)	10,000	GA Billings (provincial benefit)	130,000	
	EB:	15,000	EB:	130,000	
		D			
Total RSVA including GA: - 465,000		Total energy sales	4,750,000	Total cost of power	4,750,000
				NI Impact	0

Net difference due to the misstatement - 120,000

Observation #6 (Recording of both RPP & Non-RPP portion of IESO charge type 146 in Account 1588 sub-account Global Adjustment)
 The following example is based on a fictitious electricity distributor.

Take Away:

If the Utility records both the RPP and non-RPP portions of IESO charge type 146 (Global Adjustments) in 1588 sub-account Global Adjustment, an incorrect balance may be charged or refunded to customers. The Utility should record only the Non-RPP portion of Global adjustment in this sub-account.

Assumptions and Facts:

1. IESO GA charges
February 2008

**Independent Electricity System Operator
PHYSICAL INVOICE**

0146	Global Adjustment Settlement Amount	\$	460,000
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2. GA charged to the Utility can be broken into:

GA related to RPP class of customers	\$ 280,000
GA related to Non-RPP class of customers	\$ 180,000
	\$ 460,000

3. GA billed to Non-RPP customers (also called "Provincial Benefit")	\$ 220,000
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Incorrect entries

1) To record global adjustments charged to the Utility			
Dr. Cost of Power 4705, sub-account GA	460,000		
Cr. AP - IESO 2205		460,000	
2) To record global adjustments billed to Non-RPP customers			
Dr. AR 1100	220,000		
Cr. Energy Sales 4006 - 4055, sub-account GA		220,000	
3) To record the variance in account 1588, Sub-account Global Adjustment			
Dr. 1588, sub-account GA	240,000	Note 1	
Cr. Cost of Power 4705, sub-account GA		240,000	
Note 1: 240,000 = Total GA (460,000) - GA billed to Non-RPP customers (220,000)			

Correct entries

1) To record global adjustment charged to the Utility related to RPP class of customers			
Dr. Cost of Power 4705	280,000		
Cr. AP - IESO 2205		280,000	
2) To record global adjustments charged to the Utility related to Non-RPP class of customers			
Dr. Cost of Power 4705, sub-account GA	180,000		
Cr. AP - IESO 2205		180,000	
3) To record global adjustments billed to Non-RPP customers			
Dr. AR 1100	220,000		
Cr. Energy Sales 4006 -4055, sub-account GA		220,000	
4) To record variance in account 1588, sub-account Global Adjustment			
Dr. Energy sales 4006 - 4055, sub-account GA	40,000		
Cr. 1588, sub-account GA		40,000	Note 2
Note 2: 40,000 = GA billed to Non-RPP customers (220,000) - GA charged by IESO related to Non-RPP customers (180,000)			

460,000

Net difference in 1588, sub-acct due to the misstatement	280,000
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Observation #9 (Carrying Charges not calculated on monthly opening balance (Accumulated) in Account 1588)

The following example is based on a fictitious electricity distributor.

Take Away: There is a difference between the carrying charge amounts calculated at net monthly variance and the opening monthly principle balance (accumulated) of RSVA account. The misstatement of the carrying charges may cause the undercollect/overcollect from the customers.

Year: 2008

Retail Settlement Variances - Commodity

Assume interest rate of 5.14%

Month	<u>4705 Charges/Expenses M/End Balance</u> C	<u>4006-4055 Billed/Revenues M/End Balance</u> F	<u>Current month Variance</u> H = C - F	<u>1588 RSVA Variance (YTD)</u> J	INCORRECT Carrying Charge based on H Note 1	CORRECT Carrying Charge Based on J Note 2
Opening Balance				330,000		
Jan	540,000	440,000	100,000	430,000	428	1,414
Feb	580,000	495,000	85,000	515,000	364	1,842
March	500,000	515,000	-15,000	500,000	-64	2,206
April	485,000	525,000	-40,000	460,000	-171	2,142
Total	2,105,000	1,975,000	130,000	Total	557	7,603

Note 1: the calculation of carrying charges represents the current month's variance X 5.14% /12

Note 2: the calculation of carrying charges represents the opening balance of RSVA X 5.14%/12

**Net difference
due to the
misstatement** **-7,046**