**Ontario Energy Board's Staff Webinar of September 28, 2009 on Retail Settlement Variance Account (RSVA) 1588 Questions & Answers**

**Q.1 If there is an interest expense one month and an interest revenue the next month for the same regulatory balance sheet account, are we suppose to post the interest expense to account 6035 and the interest revenue to account 4405?**

A.1 Yes. In relation to the monthly interest carrying charges recorded in a Board-approved deferral or variance account, the offsetting credit interest amount is recorded in account 4405, Interest and Dividend Income, and debit interest amount is recorded in account 6035, Other Interest Expense.

**Q.2 You spoke a great deal about "billed" versus "accrual" method for monthly accounting for RSVA's. We have been using the accrual method, accruing the Power bill & GA monthly but comparing them to the billed amounts for that month, and calculating RSVA's based on these numbers. Is the utility required to estimate an unbilled revenue number monthly to be included in these calculations? If so, what methodology is to be used to arrive at this monthly estimated unbilled revenue number?**

A.2 Under the accrual method, the distributor is required to estimate monthly unbilled revenue. The APH in Article 330 under Accounting Issues entitled "Unbilled Power/ Services Revenue" (pages 4 to 6) provides guidance on three methods that may be used for unbilled revenue accruals. These methods cited for year-end accruals can also be applied on a monthly basis.

**Q.3 Do any of the observed inconsistencies in LDC accounting methods result in any material effect on that LDC's customers? I think you may have alluded to the potential for consumers to be impacted, but I was just wondering if you have any more information on this?**

A.3 The potential impact on consumers would be in the situation where due to incorrect accounting procedures, the balance in the Global Adjustment sub-account either is under or overstated. This could adversely impact consumers since the global adjustment balance is attributable to only non-RPP customers. Hence, the disposition of an incorrect balance may lead to an incorrect allocation of costs/credits to these customers in future rates. However, to date, the disposition of distributors' global adjustment balances has been very limited.

**Q.4 How is the OEB suggesting that the LDC's determine the RPP and non-RPP portions of Line 146?**

A.4 The IESO charge types are governed by market rules. The determination of the RPP and non-RPP "portions" of the charge type 146 for the global adjustment should be in accordance with the requirements of IESO forms such as former Form 1598 and successor forms. Therefore, the charge type 146 portions relate to the information the distributor submits to the IESO, which is used as the basis of the accounting entries for the RPP portion posted to the power purchased account 4705 and the non-RPP portion posted to the global adjustment sub-account 4705.

**Q.5 With regards to entering the interest as either a revenue or an expense depending on the balance in the Regulatory Asset are we to net them out at year end.**

1. **For example, if RSVA Network had an interest revenue amount of $500 at year-end and $2000 balance in the interest expense, would you net them out and show a $1500 expense?**
2. **Does the RSVA Power and RSVA GA interest get entered as a net or do they need to get entered separately?**
3. **What is the accounting when a Regulatory Asset account gets cleared?**

A.5 Answers are as follows:

1. The interest balance of a deferral and variance account including the RSVA is the cumulative (debit and credit) interest carrying charges in the account to the end of the reporting period. The cumulative interest carrying charges may cover several years depending on when last the approval and disposition of the account balance in rates occurred.
2. For reporting purposes in the RRR, the RSVA power (control) account balance includes both the cumulative interest carrying charges of the RSVA power account and RSVA power, Global Adjustment sub-account. The balances reported for the Global Adjustment sub-account relate only to global adjustment.
3. Accounting guidance on Regulatory Asset accounts clearance is provided in the August 2008 APH-FAQs posted in the OEB's web (www.oeb.gov.on.ca). Please refer to Q and A's 1 to 5.

**Q.6 I want to ensure I understand a point from this morning: are we to split out the IESO charge type 146 Global Adjustment to RPP and NON- RPP classes? And post NON-RPP to a sub acct and variance to 1588 sub and the RPP GA amount to 4705?**

A.6 Yes to both questions. Please refer to Q and A. 4 above.

**Q.7 In relation to your example # 4 [for observation 4). If on Form 1598 the LDC submits the amount plus or minus related to GA and WAP (weighted average power) adjustments required for the customers on RPP, and the LDC does an unbilled calculation related to the current month for all customers both RPP and Non RPP, would not the cost of power account 4705 be equal to the Energy sales accounts 4006-4055 as the LDC would expect to bill all KWH consumed?**

A.7 Billed and charge amounts are unlikely to equal at reporting periods because there are likely to be differences in timing, energy prices and energy quantities. Essentially, the distributor and the IESO would be on different billing cycles, which will give rise to timing differences. In addition, variances for power losses are reflected in the RSVA balances (i.e., the difference between approved estimates and actual line losses).

**Q.8 Regarding Observation # 1, it should be noted that Q4 2.1.1 and 2.1.7 may differ. Both reporting periods can be recorded under the accrual basis, however, Q4 2.1.1 may be filed on preliminary unbilled revenue figures and 2.1.7 may be filed on the audited year-end figures. The filing deadline of January 31st for Q4 2.1.1 (recognizing that the Board currently has proposed to extend this to February 28th) has made it such that unbilled revenue is typically not finalized at this time and a preliminary estimate is used.**

A.8. The Board recognizes that the Q4 2.1.1 filings may be superseded by information filed several months later in 2.1.7 in relation to deferral and variance accounts. Ultimately, however, the two filings should represent the same information filed with the Board. At the time the distributor files 2.1.7 (on or before April 30) the distributor should amend its 2.1.1 filing in the RRR (via the OEB e-filing services).

**Q.9 Regarding Observation # 6 (example), it should be noted that the IESO invoice is not split for the LDCs between the amounts for RPP & Non-RPP customers, the GA is charged on the total consumption of the LDC and it is up to the LDC to determine the splits. This is a process, which requires considerable effort by the distributors to estimate, reconcile and true-up the amounts when recorded on the accrual basis.**

A.9 As indicated in Q and A. 4 above, the RPP and non-RPP portions are based on the information submitted to the IESO, which will lead to true-ups or adjustments to charge types in the IESO settlement invoices.

**Q.10 Regarding Observation # 4 & 6 (examples), we would suggest that an additional journal entry should be added to reflect the fact that distributors recover the amounts that they have paid on their IESO invoice for GA for the RPP customers. Distributors apply for the recovery of this amount through their IESO 1598 filing, thus, the RPP Portion of GA would be cleared to $0.**

A.10 Yes, an additional journal entry is posted to the power purchased account 4705 for the next step, which was not illustrated to simplify the examples. The charge type 142 includes adjustments for both the power purchased attributable to RPP customers included in charge type 101 and the global adjustment attributable to RPP customers included in charge type 146.

For example, distributors will recover the amounts that they paid on their IESO invoices for the global adjustment attributable to the RPP customers through charge type 142. Upon completion of the true up via (former) Form 1598, a journal entry for the charge type 142 amount would be posted to account 4705. As a result, the global adjustment "portion" of charge type 142 attributable to the RPP customers posted in account 4705 would have an offsetting effect on the global adjustment (attributable to the RPP customers) amount that was included and paid under charge type 146 also posted to account 4705.

**Q.11 Re: RRR filings. We have been reporting only the Power RSVA portion of 1588 in the main body of the RRR - 1588 RSVA Power boxes. The GA variance has its own GL accounts and has been tracked separately and recorded only in the 'Additional Information" 1588 Sub account GA box below. Do we need to retroactively correct this in the RRR's - to add the GA variance to the amounts reported in the Power variance boxes? Is a net correction in the next quarter RRR "other adjustments for this period" on both lines an adequate correction for historical RRR's?**

A.11 Yes, you will need to amend your RRR filings with the correct account balances for all quarters requiring corrections. A net correction is not appropriate. For quarters prior to April 30, 2006 (e.g., quarter ended March 31, 2006) please submit a spreadsheet with the corrections that are needed in an email addressed to kelli.dobson@oeb.gov.on.ca because there is no longer access to the former electronic filing system.

It is important to note for adjustments to account balances that already have been Board-approved and included in rates, the Board's policy does not allow subsequent adjustments to these accounts to be included in future rates. For example, for most distributors their 2004 account balances were approved for recovery/refund in rates (via the 2006 EDR application process) and were transferred to account 1590. Amendments to such approved account balances in the RRR would not be appropriate.

**Q.12 Re: Cash vs. Accrual. We calculate unbilled revenue only at year-end. Unbilled AR balances are adjusted at year-end to reflect the true calculated unbilled balance at year-end. The unbilled amounts are not reversed in the first month of the next year, in effect rolling the estimated unbilled amount through each month of the new year until the balances are again made accurate at year-end. In effect, each month does have a "built in" estimated unbilled revenue in it, as the unbilled amount from December is not reversed in January of the new year. I also do accrue each month's IESO invoice, (ie; IESO invoice for Sept power purchase received in October will be posted back into Sept). I believe that monthly both revenues and expenses are on the accrual basis, with only an adjustment made at year-end to correct the unbilled balances to true unbilled at Dec 31 each year. I don't see that a quarterly unbilled calculation is a possibility, as we would not bill all consumption until well into the 2$^{nd}$ month, after the quarterly RRR is due. What is our alternative going forward?**

A.12 The specified accounting procedures for the accrual method in the APH (Article 490 at page 10) requires accruals to be recorded monthly for unbilled revenue and for unbilled charges to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator. The difference between the respective revenues and expenses after recording the accruals are recorded into the various RSVA accounts.

The APH in Article 330 under Accounting Issue entitled "Unbilled Power/ Services Revenue" (pages 4 to 6) provides guidance on three methods that may be used for unbilled revenue accruals, which can also be applied on a monthly basis.

**Q.13 Can you please clarify whether the quarterly reports are required to be on an accrual basis or are they required to be on a cash basis? I understand that the basis must be consistent, but I am not clear on whether the cash basis is acceptable or whether it must be on the accrual basis. The point on slide 16 that Q4 RRR 2.1.1 must agree to RRR 2.1.7 suggests that the quarterly filings should be on an accrual basis. If the cash basis is consistently used on the quarterly filings, then Q4 2.1.1 will never agree to 2.1.7 as the 2.1.7 information is the trial balance supporting the audited financial statements, which is on the accrual basis.**

**Please clarify. Maybe I am reading something wrong, but in order for Q4 2.1.1 to agree to annual 2.1.7 then I would think that the quarterly reports must be on the accrual basis.**

A.13 The APH in Article 490 (pages 10 and 11) states that the method (billed or accrual) chosen by the distributor shall be consistently applied on an ongoing basis to all RSVAs. Consequently, all quarterly (2.1.1) and annual reporting (2.1.7) are required to be reported under the same method. For example, if a distributor uses the cash basis for the Q4 2.1.1 reporting, the distributor should also use the cash basis for the 2.1.7 trial balance.

It is important to note that on the inception of the RSVAs, the regulatory accounting for the RSVAs was the cash basis, which is still permitted. To clarify the basis of this accounting, Article 490 specifically states: "The reader should note that while there may be alternative approaches to accounting and reporting of the material contained herein for external financial reporting purposes, this Article is primarily concerned with regulatory reporting requirements. As stated on page 8 of Article 100 of the APH (…the APHandbook does not prescribe how the accounts contained in the USoA are to be rolled up for financial statement reporting purposes. Accordingly, electric utilities should follow the general standards of financial statement presentation contained in the CICA Handbook). In addition, page 7, item h) of Article 100 emphasizes that the APH provides a sufficient degree of flexibility for the utility to account for its activities in the manner most appropriate to its specific circumstances with the understanding that utilities are to report information to the Board in the format prescribed in the APH."

If the audited financial statements are presented under the accrual method because the distributor interprets that "GAAP financial statements do not allow the billed method," reconciliation will be required for differences in the financial statements and the 2.1.7 trial balance (reported on a cash basis).

**Q.14 While the examples were helpful, it did not appear that any piece of the presentation or examples, addressed the accounting journal entry impacts of the monthly claims to the IESO (formerly called 1598 filings) as they relate to the settling of the GA portion of the claim (ie. RPP - (HOEP + GA)) for RPP customers. Because this settlement includes the GA portion for RPP customers, it should then be reflected in the same account that the RRP portion of the GA charge on the monthly IESO is posted (currently identified as Cost of Power (COP)). We have a concern that the example shown and information provided does not capture this and thus does not bring the example full circle.**

A.14 As discussed in A.10 above, an additional journal entry is posted to the power purchased account 4705 for the charge type 142 (true-up) as the next step in the overall accounting procedures. This entry was not illustrated in the example(s) because the key point of the audit review observations was that the RPP portion of the Global Adjustment was not being included by some distributors in the comparison to determine the monthly variance to be recorded in the RSVA power account.

**Q.15 We have noted that the RSVA power, GA sub-account balance has been growing especially since earlier in 2009. There is some concern that the concept that GA should be self-clearing (as rates are continually reset each month) is not holding true. As the RSVA power, GA sub-account balances have grown, there is clearly an impact on LDC cash flow but in addition, it suggests that the GA rate differences (between what is billed to the LDC and what is charged to the LDC customers) are disconnected and that consequently inaccurate price signals are going to LDC customers who are not aware of the growing RSVA balances. At this time, we simply wanted to raise this concern so that perhaps the current process can be reviewed further.**

A.15 The overall RSVA power, GA sub-account balances, appears to have been partially volatile since 2005. This could be attributable in part to the differences in GA fixed monthly prices, which are preliminary estimates billed to customers, and the actual GA charges to distributors. The greater the differences between the preliminary and the actual GA, the more likely there would be greater impact on the variances recorded in the sub-account.

The regulations for the global adjustment contemplate a preliminary daily adjustment rate, which could have had the effect of mitigating the build up of significant global adjustment variances in the sub-account. However, it appears that many distributors billing systems were unable to incorporate daily adjustment rates into their billing cycles and thus these daily rates were not implemented. Looking ahead, the smart meters implementation may have the effect of reducing the overall RSVA variances and balances in the future. This implementation may also result in making the application of global adjustment preliminary daily rates feasible.

**Q.16 Regarding Observation 3, Board staff states "Accounting treatment does not follow Board guidance and any required corrections are not made on a timely basis." What does Board staff consider to be a timely basis? As well, is the timeliness in relation to how long the discrepancy has existed or how quickly it is corrected once the discrepancy is found?**

A.16 If incorrect account balances are not corrected and updated on a timely basis in the RRR, this may lead to the Board approving a reported balance that is incorrect when disposition of the account balance is requested in a rate application. The Board's policy is to not allow adjustments to account balances already approved and included or recovered in rates. The timeliness of corrections is increasingly important given that the more accounts will be reviewed and approved in future rate applications as indicated in Board policy statements in the "Report of the Board, on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)" issued on July 31, 2009.

**Q.17 Requirement from webinar regarding account 1588: "A consistent method of either the billed or accrual basis is to be used throughout the life of Account 1588."**

**If we file Q4 on the accrual basis (due date of January 31), it is likely that these amounts will not agree to the audited trial balance as the unbilled revenue calculation is not performed until later in February (the January filing would have to be an estimate).**

1. **Is it acceptable to re-file Q4 each year after the audit is complete so that the two filings agree?**
2. **Can the due date for the Q4 filing be moved back to say March? If the Q4 numbers are prepared on the billed method can we provide reconciliation to the trial balance?**

A.17 Answers are as follows:

1. Yes. The distributor should re-file the Q4 2.1.1 information as indicated in A.8 above.
2. A current RRR proposed amendment would extend the 2.1.1 filing due date from one month to two months after quarter end. If this proposal is approved, the Q4 2.1.1 filing due date will move from January 31 to February 28. This potential change may assist to reduce the re-filing of 2.1.1, but that would also depend on the length of the distributor's billing cycles. Regarding reconciliation, this is not permitted as all quarterly (2.1.1) and annual reporting (2.1.7) are required to be reported under the same method. Please refer to A.13 above.

**Q.18 Requirement from webinar re account 1588: "Q4 RRR 2.1.1 and RRR 2.1.7 filings need to agree as they are from the same data source."**

1. **Q4 RRR 2.1.1 is due January 31. The RRR 2.1.7 filing is due April 30 and consists of the audited trial balance. The audited trial balance is prepared on the accrual basis (GAAP f/s do not allow the billed method). Therefore, if we use the billed method for Q4, these two filings will never agree. Are you then implying that the billed method is no longer an acceptable method?**
2. **Would it be sufficient to provide a reconciliation of Q4 (based on the billed method) to the final trial balance? If so, how would this reconciliation be filed with the OEB?**

A.18 Answers are as follows:

1. No. All quarterly (2.1.1) and annual reporting (2.1.7) are required to be reported under the same method. Therefore, if the cash basis is used for the Q4 2.1.1 reporting, the cash basis is required for the 2.1.7 trial balance. Please refer to A.13 above.

2. No. As indicated in the above answer, if the cash basis is used for the Q4 2.1.1 reporting, the cash basis will be used for the 2.1.7 trial balance. However, if the audited financial statements is presented under the accrual method because the distributor interprets that "GAAP f/s do not allow the billed method," a reconciliation will be required for differences in the financial statements and the 2.1.7 trial balance (reported on a cash basis).

**Q.19 As a result of the OEB's staff webinar on account 1588, our distributor will be required to make accounting adjustments to the RSVAs. However, since our IRM rate application is due on October 21, 2009, this will not permit us sufficient time to incorporate the accounting adjustments in the 2010 rate application filing. Are there any suggestions on how to approach this situation?**

A.19 The distributor will need to properly assess the nature and extent of the accounting adjustments to ensure that the RSVA balances are correctly stated for disposition in rates. In the situation where the distributor is unable to provide the correct account balances in the rate application by the filing due date, the distributor should still ensure the application is filed on time. An approach that the distributor could use in this situation would be to file the RSVA balances as they are currently stated as of December 31, 2008, but make a clear statement in the manager's summary of the rate application that the distributor intends to re-file revised RSVA balances by a specified date.

The Board expects that the distributor would re-file the revised accounts information as soon as practicable to ensure that the distributor new rates are not delayed from becoming effective on May 1, 2010.

**Q.20 Is the variance for power, and the variance for Global Adjustment for RPP customers to be summed and filed as one number per block when filing the "Regulated Price Plan vs. Market Price - Variance for Conventional Meters" monthly filing?**

A.20 Yes. The variance reported for RPP includes the impact of both Global Adjustment and the Cost of Power (HOEP). The simplified formula for the variance is:

RPP Variance = (RPP – (HOEP +GA)) * RPP KWH

In actuality, the RPP variance submission is a combination of the best estimate for the month for which the submission is being made and any required true up for previous months for which the actual Global Adjustment and cost of power values are known.

**Q.21 After listening to the 1588 Webinar this morning, I have a question based on something that the IESO mentioned regarding 1598 submissions. We are an Embedded Distributor therefore submit our Form 1598 to Hydro One. In Box 6, we have always reported our Low-Volume, Designated and MUSH customers (both SSS and Retailer customers). After listening to the IESO presentation, I'm understanding that in Box 6 we should only be reporting the number of customers that pay RPP…is that correct? Therefore, we've been overstating the number of customers, as we've included the customers that are paying contract with a retailer. Our financial submissions are OK as we only include customer volumes that pay RPP.**

A.21 Yes. The value reported on the Regulated Price Plan vs. Market Price - Variance for Conventional Meters on-line form for the "Number of Regulated Consumers" should be the number of RPP customers for the month for which the submission is being made.

**Q.22 It was mentioned yesterday during the Webinar that effective November 1, 2009 MUSH and *farm* customers will be moving from the RPP Plan. It was my understanding that with the proper documentation farms, would be remaining with the plan. I'm referring to Ontario Regulation 95/05 Appendix A. Have I missed something?**

A.22 Yes. Regulation 9/05 does allow for farming consumers to continue to be eligible for the RPP rates.

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