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## Q&A's for Accounting Guidance on Accounts 1588 and 1589

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Training sessions for *Accounting Guidance for Commodity Pass-Through Accounts 1588 & 1589* were held on April 1, 3, 15 and 17<sup>th</sup>, 2019. Below is a summary of the answers to questions that were asked during the training sessions. The questions and answers pertain to both the accounting guidance document as well as the illustrative model.

### Questions Pertaining to Source Data

#### **Q1. In the model, table 1 uses AQEW. Where can the AQEW be obtained?**

A1. The AQEW can be obtained from the daily preliminary and final settlement statements provided by the IESO. Utilities should be able to determine the source of this information with the assistance of their wholesale settlement providers. The IESO can also provide information on the identification of any volume data used for billing in the daily preliminary and final settlement statements.

#### **Q2. Why would the AQEW change from the initial cost of power estimate to the issuance of the IESO invoice?**

A2. The initial AQEW estimate should be composed of volume data for the days the preliminary settlement statements are available plus the volume data from the distributor's wholesale meters (including supply facility losses) for the days that preliminary settlement statements are not available. The AQEW could change for a number of reasons, including:

- Changes in volume data due to changes from the preliminary to final settlement statements.
- Meter data differences between the distributor's estimate of volume data and the volume data used by the IESO in its preliminary settlement statements for the days estimated by the distributor.
  - One of the reasons for such differences could be due to different Validating, Editing and Estimating (VEE) approaches for metering data volumes used by distributors and the IESO.
  - Another reason could be due to differences in estimated supply facility losses and actual supply facility losses billed by the IESO on preliminary settlement statements.

As a result, the AQEW volumes estimated by distributors may change when the IESO bills distributors. The differences between estimate and actual are typically very small since distributors have very accurate information from their wholesale meters for accrual purposes.

#### **Q3. How does AQEI for injected energy factor into the model?**

A3. The AQEI would be deducted from the embedded generation volume data.

**Q4. In the model, table 1 uses Class A volumes. Where can Class A volumes be obtained?**

Q4. Class A volumes should be the same as those reported to the IESO, based on the aggregate Class A kWh consumption adjusted for the loss factors. The new accounting guidance has not addressed the data source aspect. Utilities are expected to continue obtaining data in the same manner as before as per IESO market manual *5.5 Physical Markets Settlements (MDP\_PRO\_0033)*<sup>1</sup>.

[Questions Pertaining to the Illustrative Model](#)

**Q5. Is the first estimated cost of power accrual journal entry (JE #1) required or can utilities wait for the actual IESO invoice to record the cost of power accrual journal entry (JE #6) based on actuals at year end?**

A5. At year end, utilities should use the best data available for the cost of power accrual. For most utilities, the general ledger will remain open until the IESO invoice is received and the cost of power accrual journal entry will be based on actuals. However, the information used to estimate the cost of power on tab 1 of the illustrative model (i.e. corresponding to JE# 1) is important for RPP settlement purposes as it is used in the initial RPP settlement when the IESO invoice has yet to be received. Whether or not a utility records this estimated cost of power as a journal entry will be dependent on a utility's timing and practices. The key is that any estimated cost of power used in RPP settlements is ultimately trued up to the actual cost of power.

**Q6. A distributor bills all customers in their service territory on a calendar month basis and is able to invoice their customers before the general ledger is closed at year end. Is the unbilled revenue accrual journal entry (JE #2) based on estimates required or can such distributors wait until they invoice their customers and accrue unbilled revenue (JE #8) based on actual billings?**

A6. Distributors should use the best data available for recording unbilled revenues. Whether a distributor records unbilled revenue at year end based on estimates as a journal entry would depend on a utility's timing and practices. The key is that any estimated revenue is ultimately trued up to actuals.

**Q7. Should the same estimated RPP/non-RPP percentages for initial RPP settlement be used every month, or should the percentages be updated every month?**

A7: The best estimates of RPP/non-RPP percentages available should be used to minimize true up adjustments. More importantly, the RPP/non-RPP percentages should be trued up to actuals once all consumption for the calendar month has been billed to customers, and the RPP/non-RPP percentages are known.

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<sup>1</sup> <http://www.ieso.ca/Sector-Participants/Market-Operations/Market-Rules-And-Manuals-Library>

**Q8. How are estimated RPP and non-RPP power sales in Table 18 determined?**

A8. For the most part, utilities have hourly metered data (adjusted for losses) and hourly energy prices for non-RPP customers. This information would be used to calculate the estimated non-RPP power sales amount. Removing this amount from the estimated total commodity costs will derive the RPP power sales amount. This data would currently be used in calculating a utility's RPP settlement claims.

**Q9. A utility's billing system cannot provide the data required to determine estimated or actual RPP and non-RPP power sales in Table 9. As a proxy, consumption is currently prorated based on the number of days in the month. How should the RPP and non-RPP power sales be determined going forward?**

A9. Use the best data currently available. The expectation is to adopt the methodology in the accounting guidance, but not necessarily to change the way in how the data is currently being obtained.

**Q10. Why is the weighted average hourly spot price (WAHSP) for RPP power sales not used in Table 30 for RPP settlement purposes?**

A10. The methodology in the illustrative model calculates the cost of RPP power sales by taking the difference between the total wholesale commodity costs and the cost of non-RPP power sales derived from hourly volume and price data<sup>2</sup>. This methodology separates the wholesale cost of power amounts between RPP and non-RPP more accurately, and accounts for the full wholesale cost of power for RPP Settlement purposes.

**Q11. The RPP and non-RPP power sales in Table 30 (cell I86) do not sum to the payments to embedded distributor, charge types 101 and 1412 on the IESO invoice. Why is this the case?**

A11. The difference is due to unaccounted for energy loss. There will be a difference between payments to the IESO and billing to customers related to differences caused by unaccounted for energy (i.e. the difference between actual system losses and billed total losses).

**Q12. In the Final RSVA Balances tab of the model, there is no price variance for Account 1588. Is a price variance possible for non-RPP customers relating to those customers that are billed based on the weighted average hourly spot price (WAHSP)?**

A12. Yes, if any customers are billed based on WAHSP a small price variance may result. However, the majority of non-RPP customers would typically have interval meters or smart meters with hourly data, which would be used to derive billing information. These customers should have no price variance as the price billed to customers should be the same as the amount paid to the IESO relating to those customers. The model uses the total charges paid for power (i.e. charge type 101, actual payments to embedded generators, and settlements with the

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<sup>2</sup> Adjusted for unaccounted for energy differences

IESO related to embedded generators), and deducts actual non-RPP power revenues to determine the amount attributable to RPP customers. This amount is then settled with the IESO through the distributor's RPP settlement process. To the extent that the actual non-RPP power revenues are estimated for the customers billed on WAHSP, a small price variance may result.

**Q13. Can the model be modified to the needs of each utility? For example, can the formulas in Table 25 be changed so that volumes are the input and the percentages are calculated?**

A13: Yes, the model can be modified for this purpose. The model is an illustrative example of how the accounting guidance should be applied. Every tab in the model will not likely be applicable to each utility's circumstances in its current form as the model only isolates one month of transactions. However, certain tabs from the model can be used on a stand-alone basis for internal control purposes.

**Q14. If a utility currently has their own model, can they continue to use their own model or should the OEB's model be used?**

A14. There is no requirement to use the OEB's model. As mentioned above, the OEB model is not entirely applicable to each utility's circumstances as the illustrative model isolates a single month. However, the OEB expects that utilities are to use the same calculations as provided in the OEB's accounting guidance and illustrative model to obtain the same results, regardless of whether the utility uses their own model or the OEB's model.

#### [Questions Pertaining to Charge Type 2148](#)

**Q15. In the charge type 2148 Class B Global Adjustment Prior Period Correction Settlement Amount example presented, market participant D has a correction in their global adjustment cost. Is there a correction adjustment for the other three market participants as well?**

A15. Yes, global adjustment is a flow through to market participants. The credit adjustment to market participant D is reallocated as a debit adjustment to all market participants, including market participant D. This debit adjustment is incorporated in the actual posted GA price and charge type 148 Class B Global Adjustment Settlement Amount for all market participants.

**Q16. In the charge type 2148 example presented, would the global adjustment price for market participant D be provided or would it need to be calculated?**

A16. The global adjustment price for market participant D would need to be calculated. It would be the sum of charge types 2148 and 148, divided by their current month Class B load quantity. This would be the global adjustment price used in RPP settlement claims.

### [Questions Pertaining to Accounting](#)

**Q17. A utility currently uses another accounting approach that produces the same results as the OEB's accounting guidance. For example, the entire charge type 148 is recorded in Account 1589. Then the RPP minus HOEP portion of charge type 1142 is recorded in Account 1588 and the credit related to the RPP GA portion of charge type 1142 is recorded in Account 1589. Would this utility need to change its accounting process so that charge type 148 is split between Accounts 1588 and 1589, and the entire charge type 1142 is recorded in Account 1588?**

A17. The accounting approach in recording the charge types from the IESO invoice has not changed from previously issued accounting guidance. The new accounting guidance simply reiterates this. One of the purposes of the new accounting guidance is to establish a consistent approach for the industry. A consistent approach would also minimize any potential errors that may arise due to differences in methodologies. To achieve this consistency, utilities would need to follow the new accounting guidance.

**Q18. How should cancel and rebills be treated?**

A18. Billing adjustments tend to be small and offsetting. They should be treated as current period transactions unless doing so would have a material impact to the RPP settlement process and balances for Accounts 1588 or 1589. Distributors would have to assess appropriate treatment of material billing adjustments on a case by case basis.

**Q19. How are Class A line losses for global adjustment treated?**

A19. Class A customers are charged the global adjustment based on their peak demand factor. As the global adjustment is a flow through cost for utilities, the Class A unaccounted for energy would theoretically reside in the commodity accounts.

### [Questions Pertaining to RPP Settlements](#)

**Q20. Is the GA price used for RPP settlements the invoiced GA price?**

A20. Yes. In addition, the invoiced GA price should generally equal the posted price as well. One exception to this is where the utility has charge type 2148 Class B Global Adjustment Prior Period Correction Settlement Amount on their IESO invoice for prior period corrections to global adjustment. If a utility has charge type 2148 on their invoice, the utility would need to add charge type 148 and charge type 2148 together to calculate the total global adjustment unit cost for settlement. The RPP portion of this total global adjustment cost would then need to be settled with the IESO.

The global adjustment posted price may also not equal the invoice price if there are consumption changes between preliminary and final settlement statements due to meter data updates and/or IESO system issues. If this is the case, the IESO will provide a reconciliation for the difference.

**Q21. In the data used for the initial RPP settlement on day four after month end in the model, global adjustment billings are based on the GA first estimate but RPP settlements are based on the GA second estimate. Why is the GA first estimate not used for RPP settlements?**

A21. RPP settlements are ultimately settled using actual GA and power cost. As actual GA cost on the IESO invoice is not available on day four after month end, the distributor would use the best information at the time, which should be the GA second estimate. Therefore, the GA second estimate should be used for initial RPP settlement purposes.

**Q22. For RPP settlement calculations, are the volumes in Table 31 based on wholesale volumes? Are the volumes in Table 32 based on retail volumes?**

A22. The total volumes used in the RPP settlement process for both Tables 31 and 32 are based on wholesale volumes. The IESO invoice is based on wholesale volumes, therefore, the RPP settlement is also to be completed based on wholesale volumes. However, the proportions between the tiers and time of use periods are based on retail volumes.

#### Questions Pertaining to True Ups

**Q23. In the first true up in the model, why are retail volumes in Table 12 not adjusted to be equal to wholesale volumes in Table 10?**

A23. The first true up is to adjust the IESO RPP settlement claim for the wholesale volumes and the GA price. The estimated wholesale volumes are trued up to actuals as the IESO invoice is now issued. The GA price is trued up as the actual GA price is now available. Retail volumes are not trued up in the first true up because actuals are not yet known. The total volumes for the two tiers and time of use periods based on retail volumes are trued up in the second true up. Note that total volumes for RPP settlement purposes are trued up to total wholesale volumes and not total retail volumes. Only the proportions of the two tiers and time of use periods are trued up as part of the second true up based on retail volumes.

**Q24. What is the expected timing of the true ups? Can we combine the first and second true ups or continue doing quarterly true ups for the purpose of efficiency? Would an annual true up be required if monthly true ups are done?**

A24. True ups are expected to be performed when the required actual information is available. RPP settlement true ups can be significant and therefore, can have significant cash flow implications for the utility and the IESO. One of the purposes of the new accounting guidance is to establish a consistent approach for the industry. To achieve this consistency, utilities would need to follow the new accounting guidance. An annual true up may still be beneficial as a control to ensure that everything is trued up accordingly; there may be transactions that need to be trued up that occur after the monthly true up.

**Q25. A utility bills on a calendar month basis and is able to do a full price and volume true up based on actuals one month following the initial RPP settlement. Is there a simpler version of the OEB model that can be used for small utilities with calendar month billing cycles?**

A26. In such a situation, the utility would be able to do one true up for the price and volumes in the month following the initial RPP settlement. This would be combining the first and second true up in the model. The OEB considered providing another illustrative model for slightly different scenarios, but has determined that it will not do so as there could be a few variations of the model that are acceptable as discussed in this Q&A document. In addition, as discussed in question eight, utilities can modify the OEB model for their own circumstances. The current model provides the information needed for RPP settlement. If distributors need assistance determining how to use the methodology, an IRE should be submitted.

**Q26 If a utility settles with the IESO on a one month time-lag based on billed actuals, can this methodology continue provided that the proper true-ups are performed after the year end?**

A26. Utilities are expected to settle RPP based on total wholesale volumes, with the applicable retail proportions of tiers and time of use periods. The requirements set out by the IESO<sup>3</sup> require utilities to settle the current month RPP based on current month data no later than the fourth business day after month end. This is also the expectation set forth in the OEB's accounting guidance.

### Questions Pertaining to Adjustments

**Q27. Are the principal adjustments in the DVA Continuity Schedule to be included in RRR 2.1.7 for DVA?**

A27. No, principal adjustments included in the DVA Continuity Schedule are not to be included in the RRR 2.1.7 as the principal adjustments are made for DVA disposition purposes only. As a result, variances will be expected between RRR and the DVA Continuity Schedule equal to the principal adjustments.

**Q28. What is the expectation for requesting final disposition on DVA balances that were previously approved on an interim basis?**

A28. The accounting guidance is effective January 1, 2019 and is to be implemented by August 31, 2019. Utilities are expected to consider the accounting guidance in the context of historical balances before January 1, 2019 that have yet to be disposed on a final basis (including 2018 balances that may be requested for disposition).

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<sup>3</sup> IESO Market Manual 5.5: Physical Markets Settlement Statements, MM5.5: section 1.6.7.7 Regulated Price Plan – "Settlement data must be submitted to us monthly, as soon as possible after the last trading day of the month, and no later than the fourth business day after the last trading day of the month"

The expectations of final disposition requests of commodity pass-through account balances are as follows:

1. Approved interim disposition or no disposition requested for historical balances

Some utilities may have received approval for interim disposition of historical account balances or did not request disposition of account balances in their last rate application<sup>4</sup>. If these utilities have reviewed the historical balances (including the 2018 balance) in the context of the new accounting guidance and are confident that there are no systemic issues with their RPP settlement and related accounting processes, they may request final disposition of account balances in their next rate application. If these utilities identified errors or discrepancies that materially affect the ending account balances, utilities may be guided by the materiality threshold in the subsequent question in determining whether adjustments to the account balances are required. Utilities should adjust their account balances (if necessary) prior to requesting final disposition.

2. No disposition of historical balances and concerns noted

Utilities that did not receive approval for disposition of historical account balances due to concerns noted in the decision of their rate application should apply the accounting guidance to those balances as well as the 2018 balance and adjust the balances as necessary, prior to requesting final disposition.

**Q29. When considering the new accounting guidance in the context of historical account balances, what is considered a material adjustment that would require an adjustment to historical balances?**

A29. In general, the materiality threshold to be used in assessing total adjustments to historical balances of each commodity account is as follows:

- Account 1589 – 0.5% of annual GA costs (Account 4707 Charges – Global Adjustment) from the year pertaining to the balance requested for disposition
- Account 1588 – 0.5% of annual Cost of Power (Account 4705 Power Purchased) from the year pertaining to the balance requested for disposition

In the case where an adjustment affects both accounts, but only adjustments to one account is above the materiality threshold, the adjustment to both accounts must be made to ensure that the books are balanced upon making any adjustments. Adjustments should be fully explained in a rate application and treatment of these adjustments will be determined on a case-by-case basis.

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<sup>4</sup> Mainly due to the IRM threshold test for Group 1 DVAs

**Q30. In the past, a utility may not have trued-up estimated revenues to actual revenues or trued up RPP settlements at year end. Are utilities expected to revise commodity account balances to true-up estimated revenues and RPP settlements?**

A30. The "Rate Application Related" tab in the illustrative model details the determination of the adjustments required to account balances being requested for disposition. It is not necessary to update the account balances in a utility's RRR filings; but principal adjustments may be required in the DVA continuity schedules in rate applications.

Not truing up estimated revenues to actuals and not truing up RPP settlements would fall in the category of systemic issues. Distributors must assess whether these issues have resulted in material errors or discrepancies.

As an example, a distributor is proposing disposition of its December 2017 and 2018 balances in its 2020 rate application. At the time, this distributor did not true up its unbilled to actual billed revenues or RPP settlements at year end. The distributor must consider the true-up ramifications on the 2018 ending balance for:

- 1) unbilled revenue to actual billed revenue for 2017 and 2018
  - A principal adjustment for unbilled to actual billed revenue for 2017 would not be required as this would have already been included in the 2018 year end account balance when the actual billings were completed.
  - A principal adjustment for unbilled to actual billed revenue differences for 2018 should be included in the DVA continuity schedule, as the actual billings would not appear in a distributor's books of accounts until 2019. As per the Accounting Guidance, an adjustment is required for the 2018 unbilled to actual billed revenue differences.
- 2) RPP settlements for 2017 and 2018
  - For 2017 RPP settlements, distributors must first determine if the true-ups were completed and when. If the true-ups were completed in 2018, and were recorded in 2018, no adjustment is required for 2017 true-ups.
  - True-ups for 2018 must be included as part of principal adjustments in 2018 as per the Accounting Guidance.

In summary, commodity account balances prior to January 1, 2019 are expected to be revised for revenue true ups and RPP settlement true ups, if the trued ups are not reflected in the 2018 year-end balances proposed for disposition in 2020 applications. Utilities need to ensure that the balance requested for disposition at the end of the period is accurate.

Questions Pertaining to Embedded Generation

**Q31. Actual HOEP is available ten days after month end. For the December embedded generation settlement, actual HOEP is not available until January 10th. A utility may have been settling December embedded generation on February 4th. Is this lag in embedded generation settlement acceptable or should the December embedded generation settlement be done on January 4th based on known HOEP at the time of filing and trued up when actual HOEP becomes available?**

A31. A lag in embedded generation settlement with the IESO is not acceptable. Settlement claims are to be submitted to the IESO four business days after the preceding calendar month for that calendar month. Distributors should file settlement claims based on best information available. Once actual information is available, if different from the initial embedded generation settlement claim, a true up adjustment is required.

**Q32. Does the accounting methodology for embedded generation in the new accounting guidance apply to Hydroelectric Standard Offer Program (HESOP), which relates to charge type 1425 on the IESO invoice?**

A32. The HESOP began in 2013 for the continued development of hydroelectric capacity in Ontario. The program is now closed. However, for any existing contracts, the accounting methodology for embedded generation as laid out in the new accounting guidance would apply.

**Q33. Why is the Embedded Generation settlement form submitted to the IESO broken down into on peak and off peak?**

A33. The Embedded Generation settlement forms require data (dollars and KWh) be broken down into off peak and on peak to satisfy contract requirements. For example, as per HCI-Contract-Definitions "Peak Performance Factor means 1.35 for all On-Peak Hours and 0.90 for all Off-Peak Hours"<sup>5</sup>.

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<sup>5</sup> Hydroelectric Contract Initiative program documentation including HCI Standard Definitions (July 2015) - <http://www.ieso.ca/Sector-Participants/Energy-Procurement-Programs-and-Contracts/Hydroelectric-Contract-Initiative>