

Deferral & Variance Accounts & Supporting Models (GA & 1595 Workforms)

Webinar
July 18, 2019

Agenda

GA Analysis Workform

1. Background
2. GA Analysis Workform
3. Updates to the GA Analysis Workform
4. Reconciling Items and Examples
5. Corresponding DVA Continuity Schedule Adjustments
6. Lessons Learned from Prior Applications

1595 Workform

1. Background
2. Example
3. Lessons Learned from Prior Applications

Questions

Background

- In 2017 to 2019 rate applications, some Account 1588 and 1589 balances were questionable. The OEB denied disposition of account balances in some cases and required Special Purpose Audits, OEB Audits, or required distributors to perform internal reviews of RPP settlement processes.
- OEB Audits of distributor's RPP settlement processes also identified issues with account balance accuracy. Commodity pass-through accounts were identified as high risk.
- Accounts 1588 and 1589 relate to different subsets of customers, inaccuracies in Account 1589 may impact the accuracy of account 1588.
 - Where one account is overstated, and another is understated, RPP customers may not pay/recover their fair share, and the converse is true for non-RPP customers.
- Issues with corrections to previously approved account balances on a final basis, has caused some rate retroactivity issues for distributors.

Background - RPP Settlement True-Up Adjustments

- OEB letter dated May 23, 2017
 - Requirement to complete RPP settlement true-up claims and to reflect those true up claims in the correct calendar year in balances requested for disposition. This is consistent with the new Accounting Guidance.
 - Settlement true-ups required at least on a quarterly basis.

- RPP settlement true-ups impact Account 1588 and are to be incorporated in the DVA Continuity Schedule.
 - Distributors must ensure that all of the consumption for the calendar year is trued-up and included in the amounts proposed for disposition.
 - If more than one month of true-up adjustments are made after year-end, each month trued-up must be reflected in the year it relates to.

Background - Reasons for the Workform

- OEB is accountable to protect customer interests as well as the financial viability of the electricity sector.
- OEB must ensure customers are not cross-subsidizing costs between customer groups, so they are billed just and reasonable rates.
- From a Financial Statement audit perspective, external auditors group DVA accounts together and use a high level of materiality. Such audits typically do not uncover issues with the RSVA account balances.
- Ministry of Finance used to audit distributors' RPP Settlements, but ceased to do this several years ago.
- Effective 2018, the IESO ceased to require distributors to self-certify their RPP Settlement processes.

Background - Development of Workform

- OEB instituted the GA Analysis Workform starting in all 2018 rate application filers due to concerns over the accuracy account balances.
- The Workform was developed as a reasonability tool to assess the accuracy of the balance in Account 1589 GA. It helped distributors assess the accuracy of the balance in this account before making requests for disposition.
- Account 1588 – Power is closely interrelated with Account 1589. The Workform helps assess accuracy of Account 1588 as well.
- OEB has received positive feedback from distributors about the Workform – It has helped them understand the balances of Account 1589 better and some have incorporated it in their month-end/year-end processes.

Background - New Accounting Guidance

- In 2019 rate applications, Group 1 accounts were only approved on an interim basis if approved for disposition. Final disposition would be pending on an initiative to standardize accounting processes and procedures relating to RPP settlements.
- The OEB issued *Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* and associated Illustrative Model, on February 21, 2019.
 - Accounting Guidance Training slides Q&A's available on website
- The accounting guidance is effective January 1, 2019 and is to be implemented by August 31, 2019.
- Distributors are expected to consider the accounting guidance in the context of historical balances that have yet to be disposed on a final basis, including the 2018 balances that may be requested for disposition in this rate application.
- Refer to the Filing Requirements Addendum on final disposition requests for historical and the 2018 balance.

GA Analysis Workform

- The Workform is a stand-alone spreadsheet available on the OEB's website.
- There are also detailed instructions as a separate document.
- Utilities must complete and file Appendix A at the end of the Instructions document.
- The Workform is to be completed for each year not disposed to date.

GA Analysis Workform - Methodology

- The Workform calculates an amount that can be reasonably expected in Account 1589 and is reconciled to the G/L balance.
- The Workform is an annual reconciliation analysis based on calendar month kWh volumes for revenues and expenses.
 - Assumes kWh volumes sold adjusted for losses are equal to purchased kWh volumes based on formula:
*Billed kWhs **minus** prior month kWhs billed in current month **plus** current month kWhs billed in subsequent months*
- Expected account balance is the difference between monthly revenues at the GA rate billed (1st estimate, 2nd estimate or actual) and monthly expense at the IESO actual GA rate.
- All reconciling items in the Workform are to be addressed.

GA Analysis Workform - Methodology (cont'd)

- The same GA rate is to be used for all non-RPP Class B customers within a customer class (per O.Reg. 429/04, Section 16(3)).
 - Multiple GA rates are not permissible within a single customer class, in this event a distributor would need to establish unique rate riders due to cost causality.
 - Where a distributor uses multiple GA rates, but no more than one GA rate within a customer class to bill non-RPP Class B customers, the Workform would have to be adapted for this.

- Distributors who have more precisely allocated monthly kWh volume data available may propose to use this data in the Workform.

- Any other methodology that differs from the one in the Workform must be disclosed and explained.

GA Analysis Workform - Methodology (cont'd)

Materiality Threshold:

- Materiality is assessed on an annual basis based on a threshold of +/- 1% of the annual IESO GA charges.
- Any unexplained discrepancy greater than materiality could prompt further analysis before disposition is approved.

Updates to the GA Analysis Workform

Workform

- New columns added beside each reconciling item to indicate whether it is also an principal adjustment to the DVA Continuity Schedule.

Appendix A

- New table to show breakdown of principal adjustments on the DVA Continuity Schedule for Account 1588

Reconciling Items

1a	True-up of GA Charges based on Actual Non-RPP Volumes – prior year
1b	True-up of GA Charges based on Actual Non-RPP Volumes – current year
2a	Remove prior year end unbilled to actual revenue differences
2b	Add current year end unbilled to actual revenue differences
3a	Remove difference between prior year accrual/forecast to actual from long term load transfers
3b	Add difference between current year accrual/forecast to actual from long term load transfers
4	Remove GA balances pertaining to Class A customers
5	Significant prior period billing adjustments recorded in current year
6	Differences in GA IESO posted rate and rate charged on IESO invoice
7	Differences in actual system losses and billed TLFs
8	Others as justified by distributor

- Reconciling items reconcile the difference between the expected balance in the Workform and the GL balance. The appropriate disposition amount is determined through the principal adjustments.
- Refer to GA Workform Instructions document for numerical examples of reconciling items

Example of Reconciling Item 1a and 1b

True-up of GA Charges based on Actual Non-RPP Volumes

Assume:

- Year end cost of power accrual based on IESO power bill for December 2018 was booked in the December 2018 GL
 - Estimated Class B non-RPP volumes was lower than actual volumes. Therefore, estimated GA costs were lower than and actual GA costs.
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- If the true-up of GA costs was not reflected in the 2018 GL, a debit adjustment would needed as a reconciling item in the 2018 GA Analysis Workform.
 - The debit adjustment in the 2018 Workform would have to be reversed and shown as a credit in the 2019 Workform.
 - The same rationale and adjustments applies for each year end/beginning of the year.

Example of Reconciling Item 2a and 2b

Unbilled Revenue Differences

Assume:

- Unbilled GA revenue for Class B non-RPP customers at the end of 2018 was higher than actual billed revenue billed in 2019, pertaining to 2018 fiscal year.

- As the 2018 unbilled revenue was higher than 2019 billed revenue, a debit adjustment would be needed as a reconciling item in the 2018 Workform.

- The debit adjustment in the 2018 Workform would have to be reversed and shown as a credit in the 2019 Workform.

- The same rationale and adjustments applies for each year end/beginning of the year.

Example of Reconciling Item 3a and 3b

Load Transfer Accrual Differences

Assume:

- The accrued revenue amount related to geographic distributors was higher than billed revenue in 2018 relating to 2017 fiscal year.

- As the 2017 accrual revenue was higher than 2018 billed revenue, a debit adjustment would be needed in the 2017 Workform as a reconciling item.
- The debit adjustment in the 2017 Workform would have to be reversed and shown as a credit in the 2018 Workform.
- The same rationale and adjustments applies for each year end/beginning of the year.

Example of Reconciling Item 4

Elimination of GA Class A amounts

- No variance in Account 1589 related to Class A customers as unbilled revenue should be accrued based on the same estimated accrual for Charge Type 147.
- Any balance relating to Class A customers must be eliminated. Class A amounts in Account 1589 equals the sum of the following relating to Class A:
 - i) GA billed, ii) GA ending unbilled revenue accruals, iii) GA opening unbilled revenue reversals
 - iv) GA paid to IESO for Charge Type 147, iv) GA accrued as part of the cost of power accrual for Charge Type 147

Assume:

- The sum of all transactions relating to Class A customers was a credit adjustment.
- This is a difference between the Workform and GL and should be eliminated by recording a debit adjustment as a reconciling item. This is a one-time adjustment and is not reversed.
- If this is a reconciling item in the Workform that adjusts the GL balance, then this would also be a principal adjustment in the DVA Continuity Schedule.

Example of Reconciling Item 5

Significant prior period billing adjustments

- Normal part of business for distributors to make billing corrections, bill cancellations, and re-billings. Where billing adjustments relate to prior calendar years relating to non-RPP customers, there is an impact to Account 1589.

Assume:

- A distributor made significant billing adjustments in the current year related to GA revenue for the prior two years.
 - The revenue was recorded in the current year G/L and current year billing statistics.
 - The costs relating to such revenue would have been paid to the IESO at actual rates in prior periods (i.e. would not have been recorded as a cost in the current year).
- There is a mismatch of GA Revenue & Costs. A debit adjustment would be needed in the Workform to explain the difference between the Workform and G/L.

Example of Reconciling Item 6

Differences in GA Charged by the IESO relating to prior period(s):

- The IESO may adjust GA for various reasons or makes corrections due to distributor corrections to prior fiscal years. This may cause the actual GA cost billed by the IESO to be different than the posted GA rate.
- To determine the reconciling amount, calculate the difference between the GA cost based on the posted rate and the actual GA cost based on CT 148 from the IESO invoice. Apply the percentage of non-RPP to total Class B consumption to the difference to determine the reconciling amount applicable to Account 1589.

Assume:

- The IESO made adjustments on a distributors monthly invoices during the year, where the actual billed GA cost was higher than the base that the GA actual posted rates were calculated on.
- The Workform would reflect GA actual posted rates and not the actual GA rate billed by the IESO.
- A credit adjustment is to explain the difference between the Workform and the G/L.

Example of Reconciling Item 7

Differences between actual system losses and approved Total Loss Factors (TLF) billed to customers .

- Differences between actual system losses and TLF's are not usually significant. Where significant system losses are identified, a reconciling item is required in the GA Analysis Workform and a distributor should be able to explain the operational reasons for the large differences.

Assume:

- A distributor calculates the actual system losses to be significantly greater than billed TLF to non-RPP customers
- As Account 1589 in the G/L would reflect the actual costs related to the actual system losses, the expected GA costs calculated in the GA Analysis WorkForm would be lower and a credit reconciling adjustment would need to be recorded to explain the difference between the Workform and G/L.

Other Reconciling Items

- Depending on a distributor's circumstances, a distributor may have other types of reconciling items.
- Distributor would have to provide a detailed explanation of the cause of the reconciling item and provide calculations for any additional items included in the GA Analysis Workform.

Corresponding DVA Continuity Schedule Adjustments

- Principal adjustments adjust the GL balance in the DVA Continuity Schedule to a balance that would reflect the calendar year transactions in the account.
- The DVA Continuity Schedule will be impacted by some of the items identified as reconciling items.
- Principal adjustments on the DVA Continuity Schedule in one year may need to be reversed in the following year

Corresponding DVA Continuity Schedule Adjustments (con't)

Table 35: DVA Continuity Schedule adjustments at December 31, 2017

	Per Dec 31, 2017 G/L	If Books Open and IESO Bill Posted to Dec 31, 2017 G/L, no DVA Continuity Adjustment	Not Posted to Dec 31, 2017 G/L, DVA Continuity Adjustment needed	Not Posted to Dec 31, 2017 G/L, DVA Continuity Adjustment needed	Not Posted to Dec 31, 2017 G/L, DVA Continuity Adjustment needed	Not Posted to Dec 31, 2017 G/L, DVA Continuity Adjustment needed	Closing Principal Balance
Account	Pre IESO Bill balance	COP Accrual vs Actual GA - Per IESO Bill	RPP Settlement- 1st true-up	RPP Settlement - 2nd true-up	Unbilled vs Actual Difference	RPP vs non-RPP Allocation	Balance for Disposition
1588	\$ (0)	\$ 2,269,170	\$ (2,255,101)	\$ 537,393	\$ 404,016	\$ (1,010,799)	\$ (55,321)
1589	\$ (7,480,000)	\$ 2,668,476	\$ -	\$ -	\$ (1,286,685)	\$ 1,010,799	\$ (5,087,410)

Refer to the new Accounting Guidance and Rate Application Related tab in the associated Illustrative Model for further details.

Lessons Learned from Prior Applications

- Some utilities have identified GA for Class A in Account 1589 as a reconciling item (reconciling item 4), but did not make a corresponding adjustment in the DVA Continuity Schedule.
- The total of RPP settlement amount in a month can include the RPP settlement for the current month, true up of the RPP settlement in the prior month(s)
- Some utilities had significant differences due to significant differences between actual versus approved losses (reconciling item 7).
- Some utilities identified differences due to IESO billing adjustments (reconciling item 6) and applied the difference entirely to Account 1589 instead of pro-rating it between Accounts 1588 and 1589.

1595 Analysis Workform

Background:

- In recent applications, several distributors requested the recovery of large positive or negative residual balances, which they were unable to adequately justify
- In other cases, distributors had identified errors in the account balances that needed to be corrected
- Some of the reasons the OEB has identified for these large residual balances include:
 - Early disposition of account balances before rate rider ceased
 - Incorrectly calculated rate riders used to recover balances disposed
 - Incorrect application of rate riders to customers or customer classes who did not contribute to variances the account(s)
 - Discrepancies with RRR data submitted by distributors

1595 Analysis Workform (con't)

- New Workform started for 2019 rates for applicants that have residual balances in Account 1595 that are eligible for disposition
 - Eligibility: One full year has elapsed since the sunset date of the underlying rate riders for that 1595 sub-account and residual balances have been audited
 - All sub-accounts eligible for disposition are to have the Workform completed, regardless of whether the account is being requested for disposition
- 1595 Analysis Workform is a tool for distributors to provide explanations and document supporting evidence relating to material residual account balances and the reasons for why they exist
- Helps distributors explain large residual balances being requested for disposition after associated rate riders cease
- The Workform allows applicants to locate material discrepancies so they can focus explanations on causes, enabling them to make corrections before final disposition
- The full Workform will only need to be completed where an initial test, at the group account level, identifies that there is a material residual account balance exceeding 10% of the original amounts approved for disposition

1595 Analysis Workform - Example

Account 1595 Analysis Workform

Input cells
Drop down cells

Utility Name

Utility name must be selected

Please select "yes" for the 1595 Rate Years being Requested for Disposition

2012	No
2013	No
2014	No
2015	No
2016	No
2017	No

- Utilities will select their name from the dropdown menu as well as each 1595-subaccount year that is eligible for disposition. A tab will appear for each year selected

1595 Analysis Workform - Example

Step 1

Components of the 1595 Account Balances:	Principal Balance Approved for Disposition	Carrying Charges Balance Approved for Disposition	Total Balances Approved for Disposition	Rate Rider Amounts Collected/(Returned)	R Per anc Appr
Total Group 1 and Group 2 Balances excluding Account 1589 - Global Adjustment	\$100,000	\$20,000	\$120,000	\$85,000	
Account 1589 - Global Adjustment	-\$30,000	-\$5,000	-\$35,000	-\$27,500	
Total Group 1 and Group 2 Balances	\$70,000	\$15,000	\$85,000	\$57,500	

- Refer to the prior model when the OEB approved disposition of the particular 1595 sub-account
 - Enter the principal balances and carrying charges that were approved, separating the amounts by Global Adjustment (Account 1589) and the remainder of all other accounts
 - Enter the total amounts that have been collected from (or returned to) customers during the rate rider period, separating the GA rate rider amounts from all other rate riders

1595 Analysis Workform - Example

Total Balances Approved for Disposition	Rate Rider Amounts Collected/(Returned)	Residual Balances Pertaining to Principal and Carrying Charges Approved for Disposition	Carrying Charges Recorded on Net Principal Account Balances	Total Residual Balances	Collections/Returns Variance (%)
\$120,000	\$85,000	\$35,000	\$2,000	\$37,000	29.2%
-\$35,000	-\$27,500	-\$7,500	-\$500	-\$8,000	21.4%
\$85,000	\$57,500	\$27,500	\$1,500	\$29,000	32.4%
Total residual balance per continuity schedule:				\$29,000	
Difference (any variance should be explained):				\$0	

- Enter the carrying charges that have been recorded on the net principal account balances during the duration of the rate rider term
 - The difference between the amounts disposed and collected, in addition to the carrying charges applied over the rider term, should sum to the amount in the DVA continuity schedule (before forecasted interest)
 - Enter the total principal and carrying charge balances (before forecasted interest from the continuity schedule. Any variance between the continuity schedule and the total residual balances must be explained
- When one of the group account residual balances exceeds +/-10% of the amounts originally approved, further analysis is required

1595 Analysis Workform - Example

Step 2 **Select Rate Rider(s) Applicable for 1595 Recovery Period by indicating "Yes" in column G**

Rate Rider- Group 1 DVA Accounts (Excluding Global Adjustment)
 Rate Rider- Group 1 DVA Accounts (Excluding Global Adjustment) - Non-WMP
 Rate Rider - RSVA - Global Adjustment
 Rate Rider - RSVA - Group 2 Accounts (If a separate Group 2 rate rider was created)
 Other 1
 Other 2
 Other 3

No

- Step 2: When the 10% threshold is breached, select YES for all rate riders that apply to the 1595 sub-account being tested. For each rider that applies, a table will appear to calculate the rate rider amounts approved versus those collected for each class of customers

1595 Analysis Workform - Example

Step 3

RATE RIDER - GROUP 1 DVA ACCOUNTS (EXCLUDING GLOBAL ADJUSTMENT)
Rate Rider Recovery Period (Months)

Data used to calculate rate rider (Data to agree with Rate Generator Model and OEB Decision as applicable for the vintage year) versus actuals

Rate Class	Unit	Allocated Balance to Rate Class as Approved by OEB	Denominator Used in Rider Calculation as Approved by OEB (annualized)	Ca
RESIDENTIAL SERVICE CLASSIFICATION				
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION				
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION				
EMBEDDED DISTRIBUTOR SERVICE CLASSIFICATION				
microFIT SERVICE CLASSIFICATION				
SENTINEL LIGHTING SERVICE CLASSIFICATION				
STREET LIGHTING SERVICE CLASSIFICATION				
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION				
STANDBY POWER SERVICE CLASSIFICATION				
TOTAL		\$0		

- Step 3: Populate data for all of the individual rate riders
 - Input all the data, as approved by the OEB, for the calculation of the applicable rate rider, including:
 - Rate rider recover period in months
 - Billing determinant unit for each rate class
 - Balance allocated to each rate class
 - Forecast denominator (annual kwh, # customers, etc.) used in the calculation of the rider

1595 Analysis Workform - Example

RATE RIDER - GROUP 1 DVA ACCOUNTS (EXCLUDING GLOBAL ADJUSTMENT)
Rate Rider Recovery Period (Months)

12

Data used to calculate rate rider (Data to agree with Rate Generator Model and OEB Decision as applicable for the vintage year) versus actuals

Rate Class	Unit	Allocated Balance to Rate Class as Approved by OEB	Denominator Used in Rider Calculation as Approved by OEB (annualized)	Calculated Rate Rider as Approved by OEB	Projected Consumption over Recovery Period	Billed Consumption (kWh/kW) that the rider was applied against**	Forecasted versus billed Consumption Variance (kWh/kW)	Calculated Variance (\$)	Calculated Variance (%)
RESIDENTIAL SERVICE CLASSIFICATION	kWh	\$60,000	250,000	\$0.2400	250,000	96,280	153,720	\$36,893	61.5%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION	kWh	\$20,000	325,000	\$0.0615	325,000	400,000	-75,000	(\$4,613)	-23.1%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION	kW	\$20,000	200,000	\$0.1000	200,000	180,000	20,000	\$2,000	10.0%
EMBEDDED DISTRIBUTOR SERVICE CLASSIFICATION	kWh	\$4,000	150,000	\$0.0267	150,000	150,000	0	\$0	0.0%
microFIT SERVICE CLASSIFICATION	kWh	\$12,000	260,000	\$0.0462	260,000	245,000	15,000	\$693	5.8%
SENTINEL LIGHTING SERVICE CLASSIFICATION	kW	\$4,000	80,000	\$0.0500	80,000	79,500	500	\$25	0.6%
STREET LIGHTING SERVICE CLASSIFICATION									
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION									
STANDBY POWER SERVICE CLASSIFICATION									
TOTAL		\$120,000						\$34,998	29.2%

**Data for billed consumption should not be materially different from data submitted in RRR 2.1.5.4 filings. Please refer to RRR 2.1.5.4 filings to ensure billed consumption data is reasonably accurate. There may be differences due to unbilled revenue accruals, recovery period dates, or other factors. However, any substantial deviations between billed consumption that the rider was applied against and billed consumption reported in RRR can be an indicator of rider misallocations or errors in the data used in the workform.

- Step 3: Populate billed consumption that the rider was applied against
 - Using billing system data, input the total units that the rate rider was applied against during the recovery period
 - Note that this should approximate the data used in the RRR 2.1.5.4 filing (may be variances due to calendar RRR data versus non-calendar recovery periods). Use RRR 2.1.5.4 as a guide to ensure figures are reasonable
 - The model will compute a calculated variance, by rate class, for the specific rider. This information should guide the explanation for why a consumption/# of customers variance exists versus forecast used in establishing the rider

1595 Analysis Workform - Example

SUMMARY

Total Calculated Account Balance
Total Account Residual Balance per Step 1 above
Unreconciled Differences***

\$27,500
\$27,500
(\$0)

***Any unreconciled difference between amounts reported in the residual balances section in Step 1 and amounts calculated for the total of all applicable riders in Step 3 must be explained.

Additional Notes and Comments

- Final summary: The total calculated variance, by rate rider, by rate class, as determined in Step 3 of the model should be the same as the amount in Step 1 “Residual Balances Pertaining to Principal and Carrying Charges Approved for Disposition”. Minor rounding differences may exist
- Additional Notes and Comments: This text box allows a distributor to explain the underlying causes for the variance in individual classes and riders as determined in Step 3, or to explain any unreconciled amounts throughout the model

Account 1595 - Lessons Learned from Prior Applications

- Errors in GA rate riders; corrected balances were proportionately disposed to RPP & non-RPP customers for cost causality
- Residuals requested for disposition more than once
- Residuals not requested for disposition when eligible
- Errors in billing determinants for 1595 recovery proportions
- Best practice to monitor 1595 sub-accounts for reasonability throughout recovery period; identify and remedy errors on a more timely basis

Questions



Thank you