

Updates to Chapter 3 Filing Requirements and Accounting Webinar

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June 21, 2023

Welcome to the IRM Webinar for the 2024 Rate Year

- Please mute yourself when entering the meeting
- Participants will be able to unmute themselves if they wish to speak
- To ask questions or provide comments, please use the chat feature. Address questions to “Everyone”
- When the moderator calls your name, ask your question via audio by unmuting yourself
- If you dial in with your phone, you may have technical difficulties in unmuting. If this is the case, indicate this in the chat
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Agenda

- Welcome
- Land acknowledgment
- 2024 IRM Applications - Tranche Assignment Overview
- Chapter 3 Changes:
 - ✓ General Updates
 - ✓ Accounting Changes
 - ✓ Low Voltage Service Rate Update
 - ✓ CDM and Lost Revenue Adjustment Mechanism (LRAM) Changes
- Accounting
 - ✓ Common Accounting Issues from 2023 IRM Applications
 - ✓ Updates to Accounting Guidance related to the Ultra-Low Overnight Option
- Closing comments
- Q&A

2024 Expected IRM Applications

44 Expected IRM Applications

56 Rate Zones

- Tranches are assigned based on IRM survey results, received on May 12, 2023
- 12 Distributors will participate in phase 2 of the IRM Online project

Delegated vs. Panel Authority -Two Streams of IRM Applications

Delegated Authority*	Panel Authority
Group 1 DVA Dispositions	Incremental Capital Module (ICM)
Retail Transmission Service Rates (RTSRs)	Corrections to previously disposed DVA balances
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	Renewable Generation Funding
Advance Capital Module (ACM)	Z-factor claims
Implementation of previously approved revenue-to-cost ratios	Earning > 300 bps while requesting an increase
Fixed rate design mitigation, if continuing with an approved plan	Requests to dispose of Group 2 DVAs
Low Voltage Service Rate Update	Commodity flow through variance accounts that don't appear reasonable
	Rate Year Alignment
	Other Non-mechanistic proposals (e.g., addition of new rate class)

*<https://www.oeb.ca/sites/default/files/delegated-powers-and-duties-1-Rates.pdf>

Tranche Assignments

20

Tranche 1

- Rates effective January 1, 2024
- Expected filing date is August 17, 2023

10

Tranche 2

- Rates effective May 1, 2024
- Expected filing date is October 11, 2023

7

Tranche 3

- Expected filing date is November 1, 2023

7

Tranche 4

- Expected filing date is November 22, 2023

Proposed Changes for Chapter 3

S. 3.2.8
S.3.2.2.5
Tax Changes

- ✔ Small business deduction phase-out rule change
- ✔ ICM Materiality Criteria - Accelerated CCA Impact

S. 3.2.5
Disposition of Group 1
DVA Balances

- ✔ Separate DVA instructions

S. 3.2.5
Low Voltage Rate

- ✔ Option to update LV service rates during an IRM application

S. 3.2.7.1
Disposition of LRAMVA

- ✔ No changes to requirements for new LRAMVA claims
- ✔ Treatment of prospective LRAM amounts approved in 2023 applications

Accounting Changes

Accounting Changes to Chapter 3 Filing Requirements

Tax Changes

- ✔ Small business deduction phase-out rule change for 2022 and 2023 to be recorded in Account 1592, as applicable
- ✔ Provide ICM revenue requirement reflecting accelerated CCA to assess significant influence criteria

Disposition of Group 1 DVA Balances

- ✔ Moved DVA background information, instructions to separate document, similar to Chapter 2 FR approach

DVA Continuity Schedule

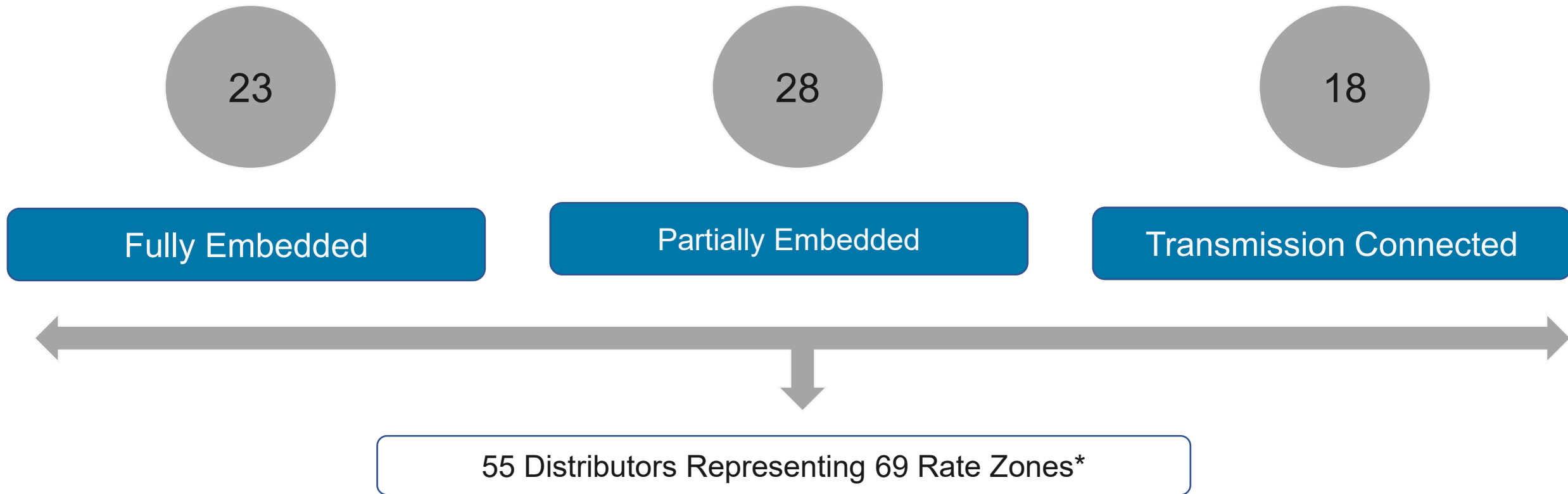
- ✔ Added Account 1509 – Impacts Arising from the COVID-19 Emergency, Sub-account Forgone Revenues from Postponing Rate Implementation

GA Analysis Workform

- ✔ Charge type 2148 is not expected for periods starting from May 1, 2023, but any post-final adjustments will be included as a part of charge type 148. In the GA Analysis Workform, for prior periods GA adjustments should still be shown separately as a reconciling item.

Section Low Voltage Service Charge

Embedded Distributor Overview

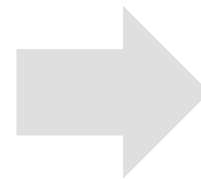


* Excluding the three First Nation Distributors

LV Service Charge – Regulatory Lag

Issue

- Host Distributor rates are subject to annual increases causing LV expense to embedded distributors to increase year over year
- LV service rates could only be updated during a rebasing application
- This caused an increase in the annual variance that is tracked in Account 1550 – LV Variance
- While Account 1550 is part of Group 1 accounts and is eligible for disposition every year, embedded distributors noted that the recovery lag causes cash constraints on the distributor as well as potential intergenerational inequities



Solution

Annual updates to LV service rates to match LV revenues to the most recent actual LV expenses as part of an IRM application

LV Service Rate - Methodology

Step 1 LV Costs

The calculation of an embedded distributor's LV costs is determined by its system configuration. Based on that, a host distributor's approved distribution rates are multiplied by the LDC's historical demand data.

Step 2 Cost Allocation

LV costs are then allocated to the LDC's customer classes on the same basis as the RTSRs, which are based on the distributor's transmission connection costs.

Step 3 LV Service Rates

Historic consumption/demand data (RRR) is to be used to calculate the LV service rate for each customer class.

The IRM Rate Generator model will require the following inputs:

1. Historic demand data and OEB-approved hosts distributor's rates to determine the LV costs to the distributor
2. Select whether to use metered or loss-adjusted demand data will be used

LV Service Rate - Filing Requirements S 3.2.5

Chapter 3 requires a distributor to file the following information in its Manager's Summary:

- ✔ Most recent LV costs charged by the Host Distributor
- ✔ Historic LV cost over five years
- ✔ Explanation of year-over-year variance
- ✔ Support for updated LV cost including a description of the distributor's system and connection points
- ✔ Allocation of LV costs
- ✔ Table with updated LV service rate rider

LV Service Rate – Rate Generator Tabs 17.1 & 17.2

Tab 17.1



Step 1

Pick loss adjusted vs. total metered load data



Step 2

Provide descriptions of LV host charges

Step 3

Provide service connection points

Step 4

Complete monthly inputs

Step 5

Total LV costs calculated

Tab 17.2*



Step 1

Allocation of total LV costs to rate classes (same as allocation of RTSRs)



Step 2

Calculation of LV service rates

Lost Revenue Adjustment Mechanism

LRAMVA Disposition

2023 IRM

Requested distributors to seek disposition of LRAMVA balance (if possible)

Established a procedure for distributors to seek prospective approval of LRAM-eligible amounts for future years until their next rebasing

44 distributors disposed of their LRAMVA balance in 2023 applications and now have a zero balance in the LRAMVA.

2024 IRM
onwards

LRAM-eligible amounts approved prospectively will be adjusted mechanistically by the approved inflation minus X-factor and recovered through a rate rider in the corresponding rate years.

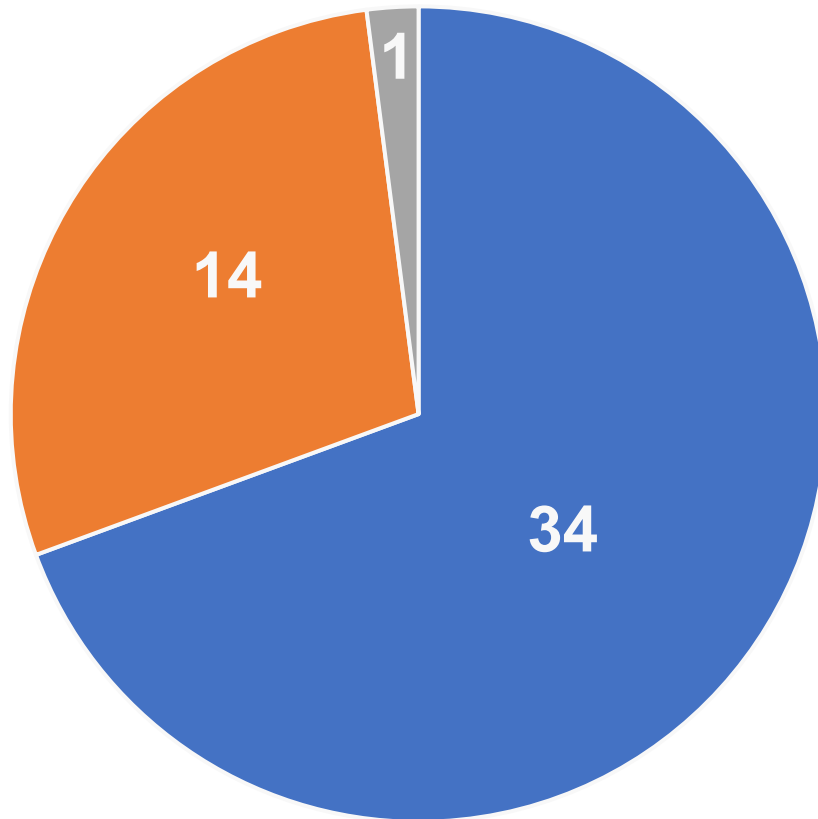
LRAM Filing Requirements and Prospective Rate Riders

Circumstances for 2024 IRM	Filing Requirements
1a. Zero balance in LRAMVA, no prospective approval	None
1b. Zero balance in LRAMVA, seeking rate rider for LRAM-eligible amount (base amount approved prospectively in 2023 proceeding)	Reference to previous approval, calculation of 2024 rate rider for LRAM-eligible amount
2a. Non-zero balance in LRAMVA, seeking disposition of balance (no request for prospective approval)	LRAMVA Workform, supporting documentation on eligible conservation savings
2b. Non-zero balance in LRAMVA, seeking disposition of balance and prospective approval of LRAM-eligible amounts	LRAMVA Workform, supporting documentation on eligible conservation savings, calculation of 2024 rate rider for LRAM-eligible amount
3. Non-zero balance (or potential for non-zero balance) in LRAMVA, not seeking disposition	Rationale for why distributor is not seeking disposition of LRAMVA balance



At a Glance: 2023 IRM Applications

Statistics of the 2023 IRM Applications



■ Delegated ■ Panel ■ Z Factor

49 IRM applications*:

- 34 Delegated Authority
- 14 Panel
- 1 stand-alone Z-factor

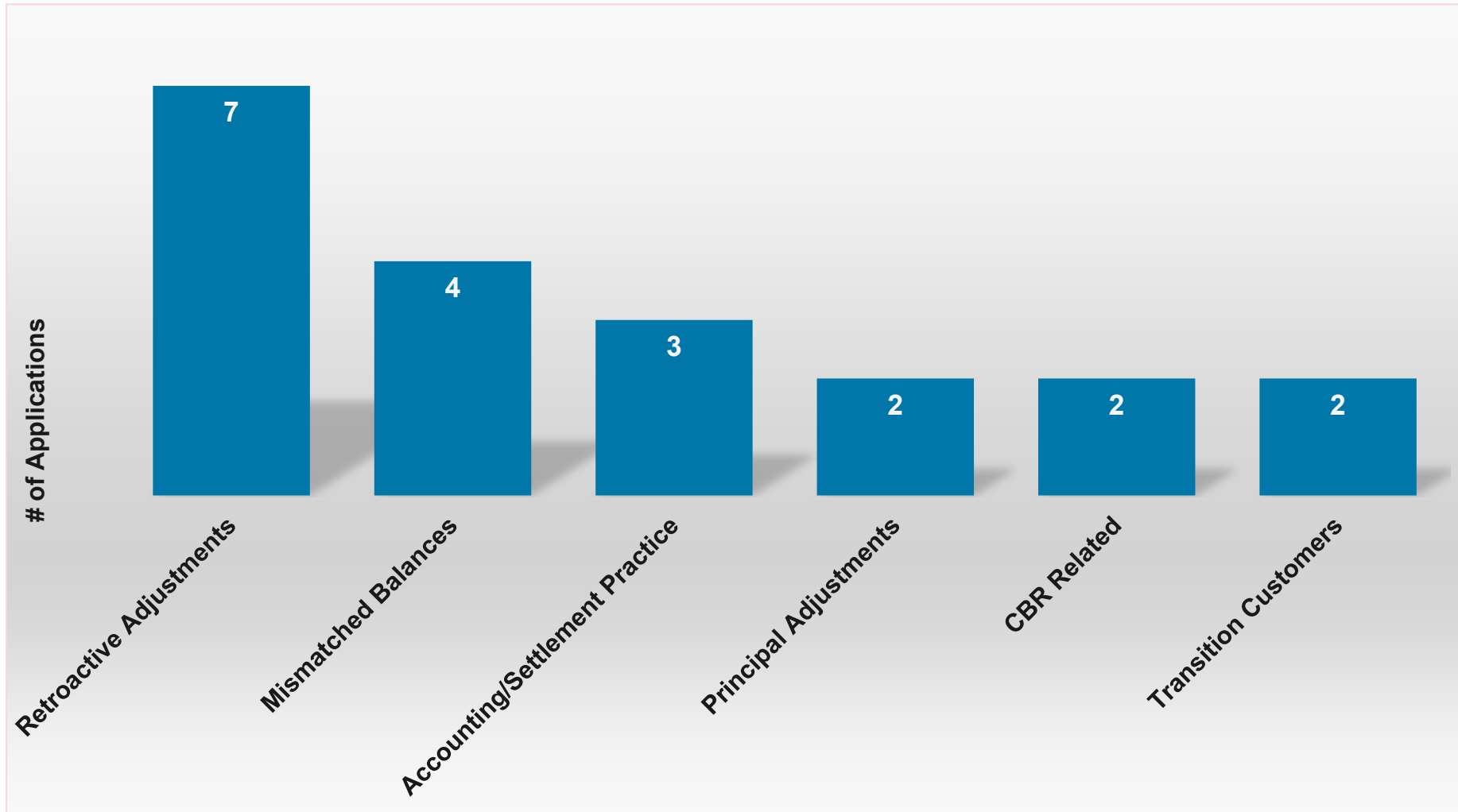
*4 IRM applications were bifurcated due to various issues.

Common Accounting Issues from 2023 IRM Applications

We want to help you improve your 2024 IRM application

- A number of accounting issues were noted in 2023 IRM applications
- OEB staff will share those with you and provide a refresher on deferral and variance accounts
- Our goal is to reduce common accounting errors in 2024 IRM applications

Common Accounting Issues in 2023 IRM Applications

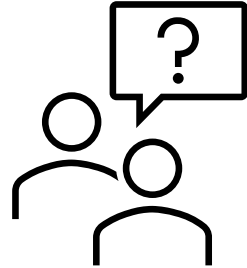


Common Accounting Issues

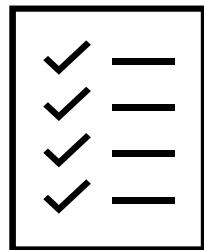
Issue #1

Retroactive Adjustments

Issue #1 – Retroactive Adjustments



A retroactive adjustment is a change made to accounts for an accounting, or other error, discovered after the balances in one of the deferral and variance accounts have been disposed of on a final basis by a decision and order of the OEB.



Failure to identify the retroactive adjustments in the pre-filed application and evidence. Rather, these adjustments are identified during the application process.

Issue #1 - Retroactive Adjustments - Continued

OEB Guidance

Oct 31, 2019 letter - *Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition*

- Pass-through variance accounts refer to the Group 1 DVAs (Accounts 1550, 1551, 1580, 1584, 1586, 1588, 1589, and 1595)
- “...the OEB will determine on a case-by-case basis whether to allow for the retroactive adjustment.”
- Four factors for the OEB to consider - **CFGO**
 1. Control
 2. Frequency
 3. Guidance
 4. Others
- OEB expects the distributors to disclose the error and bring the error as part of the distributor’s next rate application

Issue #1 - Retroactive Adjustments - Continued

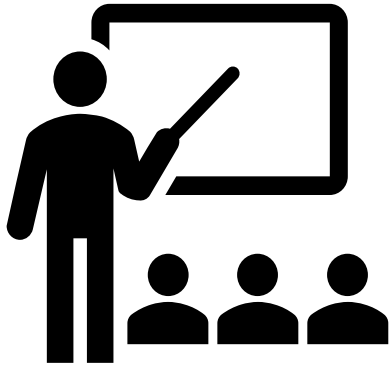


Potential
Impacts



- No initial impact on the distributor because of the nature of the pass-through costs
- However, different customer groups may be impacted. For example, ratepayers might be required to make an additional one-time payment to account for retroactive adjustment
- Potential intergenerational inequity
- OEB may approve asymmetrical correction
- Possible change from DA to Panel

Issue #1 - Retroactive Adjustments - Continued



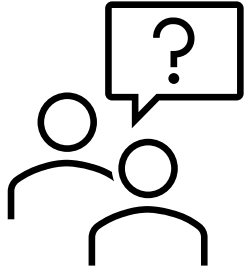
- **Review** the Accounting Guidance to the Commodity Accounts 1588 and 1589 issued in February 2019. (updated in May 2023) and ensure that the accounting procedures in the guidance are being followed
- **Disclose** the retroactive adjustments in the pre-filed evidence and provide the details for the adjustments
- If the retroactive adjustments are identified, address the OEB's letter issued on October 31, 2019, specifically the CFGO factors in the pre-filed evidence

Common Accounting Issues

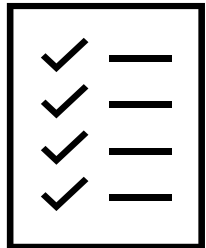
Issue #2

Mismatched Balances

Issue # 2- Mismatched Balances



A mismatched balance occurs when the opening balances cannot be reconciled with previously approved closing balances or when there are inconsistencies between the DVA Continuity Schedule and GA Workform



- Variances resolved in the prior application were incorrectly included in the 2023 DVA Continuity Schedule
- Unresolved discrepancies between the DVA Continuity Schedule and the RRR balances from prior years because the associated adjustment to correct errors was not made in the General Ledger

Issue # 2- Mismatch Balances - Continued

OEB Guidance

Chapter 3 Filing Requirements:

- The opening principal amounts and the opening interest amounts for Group 1 balances must reconcile with the last applicable, approved closing balances
- An explanation must be provided when there is a discrepancy in the balances between the DVA Continuity Schedule and the RRR

GA Analysis Workform Instructions:

- The Net Change in Principal Balance in General Ledger should agree to the “Transactions” column shown in the DVA Continuity Schedule
- Principal adjustments should equal the “Principal Adjustments” column in DVA Continuity Schedule

Issue #2- Mismatched Balances - Continued



- Risk of incorrect balances being disposed
- Risk of retroactive adjustments in the following applications
- Risk of delaying the processing of the application



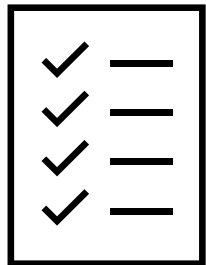
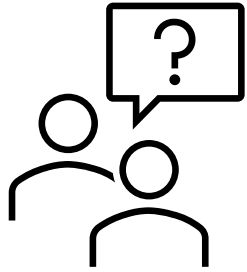
- Review the continuity schedules and models thoroughly prior to the filing of the application and evidence

Common Accounting Issues

Issue #3

Accounting/ Settlement Practice

Issue #3 – Accounting/ Settlement Practice



- Accounting practice refers to how LDC maintains its regulatory accounts and files the regulatory balances with the OEB
- Settlement practice refers to how LDC manages/submits the settlements with the IESO including settlement adjustments
- Correction of the RPP Settlement with IESO was pending the outcome of the IRM application with the OEB
- Correction of LDC's trial balances was pending OEB's instruction.

Issue #3- Accounting/ Settlement Practice - Continued

OEB Guidance

EB-2022-0019 Decision and Rate Order for Canadian Niagara Power Inc., December 8, 2022

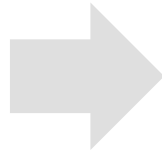
“...Correcting settlement errors with the IESO should not wait for the OEB to provide direction. It is a separate matter for the OEB to consider the appropriate disposition of amounts recorded in deferral and variance accounts...The OEB expects the settlement error to be corrected at the first opportunity to do so.”

Chapter 3 Filing Requirements:

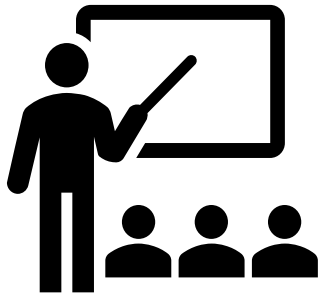
- Distributors are required to confirm the accuracy of the data (e.g., Group 1 balances, as reported through RRR)

Issue #3- Accounting/ Settlement Practice - Continued

Potential Impacts



- Risk of noncompliance with the IESO's market settlement rules
- Risk of impacting the utility's cash flows
- Risk of retroactive adjustments in the following applications



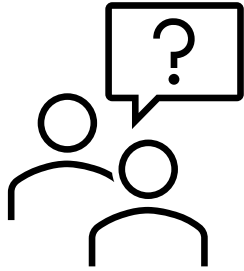
- Correct/ resolve any settlement issues as applicable
- Correct/ resolve any errors in Trial Balances before filing of the IRM application

Common Accounting Issues

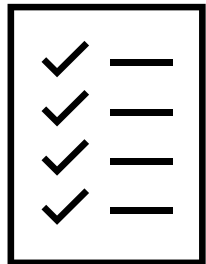
Issue #4

Principal Adjustments

Issue #4 - Principal Adjustments



Principal adjustment is an adjustment necessary to reconcile the balances reported in the distributor's general ledger to the principal balances requested for disposition, as reflected in the Deferral and Variance Account Continuity Schedule



- Incorrect treatment of reconciling items and principal adjustments. Reversals for principal adjustment are not always applicable, depending on the nature of principal adjustment and what is recorded in the General Ledger
- The reversals of the principal adjustments were included in the beginning balances rather than as part of the Principal Adjustments cells in the DVA Continuity Schedule

Issue #4 - Principal Adjustments - Continued

GA Analysis Workform Instructions Appendix A Examples of Reconciling Items and Principal Adjustments

	General Ledger		DVA Continuity Schedule ³	
2021				
	Annual Transactions from GL	1,000,000	Annual Transactions from GL	1,000,000
			Principal Adjustment for CT 148 True-Up	50,000
	Year End Balance	1,000,000	Balance Requested for Disposition	1,050,000
2022				
	Annual Transactions from GL ¹	1,250,000	Principal Adjustment for Reversal of Prior Year CT 148 True-Up ²	(50,000)
			Annual Transactions from GL	1,250,000
	Year End Balance	1,250,000	Balance Requested for Disposition	1,200,000
	Cumulative Balance	2,250,000	Total Requested for Disposition³	2,250,000

Issue #4 - Principal Adjustments - Continued

OEB Guidance

GA Analysis Workform Instructions

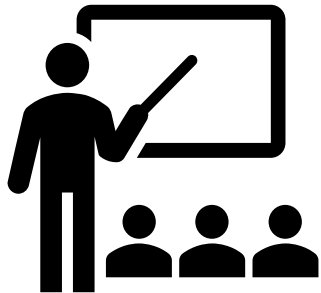
- Note 5 - Reconciling items may or may not be principal adjustments depending on the nature of the item
- Note 9 - Any principal adjustments to adjust the transactions in the general ledger to the proposed disposition amount should be shown separately in the "Principal Adjustments" column of the DVA Continuity Schedule
- Appendix A – Examples of reconciling items and principal adjustments

Issue #4 - Principal Adjustments - Continued

Potential Impacts



- Risk of incorrect balances being disposed
- Risk of retroactive adjustments in the following applications
- Review the Accounting Guidance to the Commodity Accounts 1588 and 1589 issued in February 2019 and ensure that the guidance pertaining to principal adjustments is followed
- Ensure the preparation of the GA Analysis Workform aligns with the instructions regarding reconciling items and principal adjustments

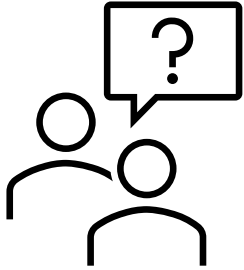


Common Accounting Issues

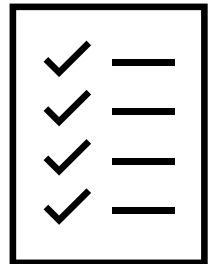
Issue #5

Capacity Based Recovery (CBR) Related Issues

Issue #5 – Capacity Based Recovery (CBR) Related Issues



Account 1580, Sub-Account CBR Class B is a sub-account established, in OEB's letter to all electricity distributors dated March 29, 2016, under Account 1580 – RSVA WMSC



- Misallocation error between Account 1580 – RSVA WMSC and Account 1580, Sub- account CBR Class B
- Same amounts were inputted for Account 1580 RSVA – WMSC and Account 1580 Variance WMS Sub-account CBR Class B

Issue #5 - CBR Related Issues - Continued

OEB Guidance

IRM Rate Generator – DVA Tab Instructions:

- If there is any Class A customer (Tab 1) during the period where 1580-CBR Class B balance accumulated, a separate rate rider will be calculated in Tab 6.2
- Sub-account CBR Class B balance will be added to the Account 1580 WMS control account if the allocated amount results in a volumetric rate rider rounds to zero in at least one rate class
- If there is no Class A customers during the period, the sub-account balance will be transferred to the Account 1580 WMS control account in the Rate Generator model

IRM Rate Generator – Tab 3:

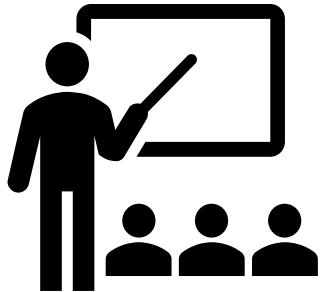
- If the RRR variance for 1580 WMS differs from the CBR amount, an error message will pop up to remind LDCs of the variance

Issue #5- CBR Related - Continued

Potential
Impacts



Incorrect balances for Account 1580 WMS and Account 1580, Sub-account CBR Class B being disposed



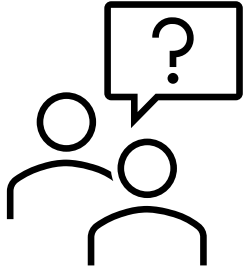
Applicants should be mindful of the reporting of the CBR for the IRM application, recognizing that it differs from how it is reported in RRR

Common Accounting Issues

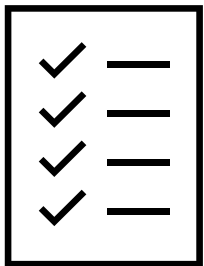
Issue #5

Recovery from Transition Customers

Issue #6 - Recovery from Transition Customers



Recovery from transition customers refers to collection or refund amounts from Class A/B transition customers after dispositions of Account 1589 and Account 1580, sub-account CBR Class B have been approved



Collection/refund amounts from Class A/B transition customers were incorrectly recorded in Accounts 1589 and 1580 instead of Account 1595

Issue #6 - Recovery from Transition Customers

OEB Guidance

APH provides guidance on recording the disposition and recoveries of DVA balances

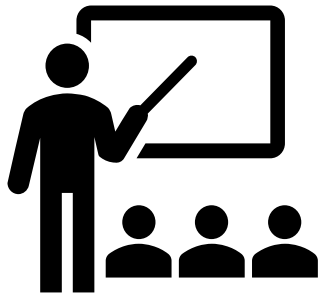
- Article 220: defines Account 1595, Disposition and Recovery/Refund of Regulatory Balances Control Account and Sub-accounts
- The disposition and recoveries of approved DVA disposition balances shall be recorded in the control account as part of the regulatory process

Issue #6 - Recovery from Transition Customers - Continued

Potential Impacts



- Incorrect balances for Account 1595, Account 1589 and Account 1580, Sub-account CBR Class B
- Potential overcharges/refunds to the transition customers



- Review the APH guidance on the treatment of disposition and recovery/ refund of regulatory balances and ensure the accounting treatment of the disposition meets the requirements

Additional Considerations

- Accounts 1588 & 1589

Additional Considerations – Accounts 1588 & 1589

Reasonability Test

- Reasonability test in the GA Workform is developed as a tool to assess the accuracy of the balance
- The test does not ensure the accuracy of the account balances

Account Accuracy

- Ensure that you are following the APH and accounting guidance for regulatory accounting for DVA accounts

Additional Consideration - IESO Charge Type Update

IESO: Break-out of non-dispatchable energy settlement into separate components

- ✔ Existing Charge Type 101 to be replaced by 2 charges, including:
- ✔ Charge Type 1114 (non-dispatchable generators)
- ✔ Charge Type 1115 (non-dispatchable loads)

Impact on the Accounting:

- ✔ No changes to the accounting for the charge type
- ✔ Continue to be recorded in USoA 4705 Power Purchased and reflected in the commodity variance Account 1588 as per APH Article 490, Illustrative Example



OEB Accounting Related to the Ultra-low Overnight Option

Key Points Addressed – OEB Accounting Related to the ULO

The following slides provide an overview of:

- ✔ The Accounting Guidance Update issued on May 23, 2023 to the OEB's Accounting Guidance (previously issued on February 21, 2019)¹
 - ✔ Updates were made to address the implementation of a new optional ultra-low overnight (ULO) price plan for electricity consumers on the Regulated Price Plan (RPP).
- ✔ The accounting order issued by the OEB on March 2, 2023 (related to the ULO)

¹ Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

Accounting Guidance Update

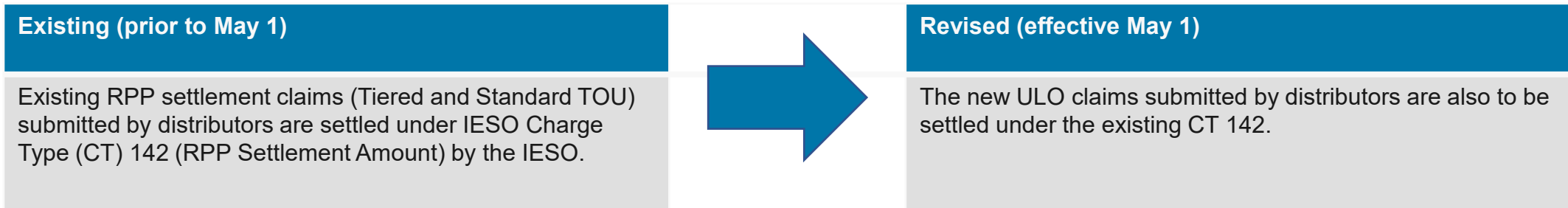
Key Accounting Guidance Revisions

The following billings groupings to be maintained / established:

1. Tier 1
2. Tier 2
3. **Standard** TOU Off-peak
4. **Standard** TOU Mid-peak
5. **Standard** TOU On-peak
6. ULO Weekend Off-peak (**New**)
7. ULO Mid-peak (**New**)
8. ULO On-peak (**New**)
9. ULO Ultra-Low Overnight (**New**)

- No changes made to the Tier 1 and Tier 2 groupings
- All existing references to TOU updated to reference Standard TOU
- The new ULO groupings generally be treated no differently than the other groupings

IESO Settlement Process



Accounting Guidance Update (continued)

Updated Documents Issued May 23, 2023

- The updated documents consisted of:
 - ✔ Cover letter PDF
 - ✔ Accounting Guidance Update PDF (both clean and tracked changes versions)
 - ✔ Updated Illustrative Commodity Model Excel
- The Accounting Guidance Update is effective May 1, 2023, but will only be applicable to distributors once the ULO price plan option has been implemented, no later than November 1, 2023.
- Changes made to the Updated Illustrative Commodity Model Excel include:
 - ✔ Different colour coding showing the types of changes made
 - ✔ ULO prices effective May 1, 2023 for each ULO grouping
 - ✔ Revised assumptions related to volumes for RPP customers
 - ✔ Updated dates assuming that the example data is for the month of December 2023

New Deferral Account Established– Accounting Order

- The OEB issued an accounting order on March 2, 2023 related to the establishment of a deferral account to record impacts arising from implementing the ULO option.
- Distributors may record revenue requirement impacts directly attributable to their material costs of implementing the ULO option.
- The OEB expects these costs to be one-time implementation costs, as opposed to on-going costs.
- Carrying charges will apply at the OEB's prescribed rates.
- The deferral account has an effective date of October 18, 2022.

