ONTARIO POWER AUTHORITY

Memo:

To:	File
From:	Linda Prince (Manager of Finance – Contract)
Date:	February 23, 2009
Updated:	January 4, 2012 (Angela Schieda)
Re:	Retailer Settlement Account Amortization and Recovery

Background:

Retailer Contract Settlement Deferral Accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between the HOEP and the contract price for each contract achieve these provisions. When HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability. When HOEP is less than the contract price, the OPA pays the retailer and records a regulatory asset. The OPA tracks these variances in the Retail Contract Settlement Deferral accounts.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

As the contracts to which the retailer settlement accounts relate have now largely expired, it is appropriate to begin disposing of the balances in these accounts. In order to mitigate ratepayer impact, the OPA will recover the accumulated balance of total retailer settlements over a three-year period from 2009 to 2011. This balance will be recovered through an addition to the usage fee.

Accounting Treatment for Retailer Settlement Accounts:

The retailer settlement loan principle and the retailer settlement loan interest for 2005 to 2011 will be recovered over a three-year period from 2009 to 2011. The calculation is in file J/Audit/2011/External/S/Retailer Settlement Contract deferral account amortization schedule.
The revenue requirement submission reported/estimated for 2011 was $15,622,000
For 2011, GL 585100 in SAP is used for amortization of retailer settlements.

The monthly journal entry to amortize the principle loan amount and interest amounts for 2011 is as follows (recurring monthly entry):

251000	Retailer Settlement Loan 2005	992,887.72	
251010	Retailer Settlement Loan Interest 2005	142,720.06	
251020	Retailer Settlement Loan 2006		1,336,424.71
251030	Retailer Settlement Loan Interest 2006		163,934.12
251040	Retailer Settlement Loan 2007		953,338.88
251050	Retailer Settlement Loan Interest 2007		80,058.75
252000	Retailer Discounts	131,675.78	
252010	Retailer Discount Interest	8,620.10	
251060	Retailer Settlement Loan 2008		3,652.63
251070	Retailer Settlement Loan Interest 2008		95.01
251080	Retailer Settlement Loan 2009		14,078.81
251090	Retailer Settlement Loan Interest 2009	98.38	
251091	Retailer Settlement Loan 2010		26,215.08
251092	Retailer Settlement Loan Interest 2010		37.38
585100	Retailer Settlement Amortization	1,301,833.33	

The revenue requirement submission estimated for 2011 will differ from the actual. Management tracks this difference on a monthly basis and when the revenue requirement submission is prepared for 2012 the calculation will reflect this difference.

Please note that the amortization of P&I is based on the Revenue Requirement Submission amount for 2010 according to the matching principle.

Month-end reconciliation

There are separate schedules for each retailer settlement accounts to capture the actual interest charges (per interest allocation calculation spreadsheet). Therefore, the P+I balance will be different from the Revenue Requirement Submission (due to the interest rate assumption).

Staff responsibilities:

Angela Schieda will prepare the above journal entries.