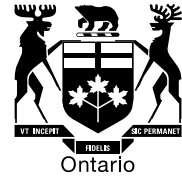


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BY E-MAIL

November 13, 2017

John Pickernell
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mr. Pickernell:

**Re: Kitchener-Wilmot Hydro Inc.
2018 IRM Distribution Rate Application
OEB Staff Interrogatories
OEB File No. EB-2017-0056**

In accordance with Procedural Order No.1, please find attached OEB staff interrogatories in the above proceeding. The applicant and intervenors have been copied on this filing.

Kitchener-Wilmot Hydro Inc.'s responses to interrogatories are due by November 27, 2017.

Yours truly,

Original Signed By

Georgette Vlahos
Advisor, Incentive Rate-Setting & Accounting

Encl.

**Kitchener-Wilmot Hydro Inc.
EB-2017-0056
OEB Staff Interrogatories**

Staff-1

Ref: Rate Generator Model - Tab 1 Information Sheet

Tab 1 of the Rate Generator Model indicates that the rate year in which Group 1 Accounts were last cleared was 2013. OEB staff notes that Kitchener-Wilmot Hydro was approved for disposition in EB-2014-0089 (i.e. the 2015 rate year).

Please confirm if Kitchener-Wilmot Hydro agrees and make the necessary correction to the model.

Staff-2

Ref: Rate Generator Model - Tab 3 Continuity Schedule

Kitchener-Wilmot Hydro has entered amounts of \$508,740 and -\$156,003 for principal and interest respectively under the 2012 OEB-approved disposition columns (i.e. columns Q and V) in Account 1595 (2012).

OEB staff notes that Kitchener-Wilmot Hydro did not dispose of its Deferral and Variance Accounts in its 2012 rates proceeding (EB-2011-0179).

Please provide an explanation for these entries.

Staff-3

Ref: Rate Generator Model – Tab 3 Continuity Schedule

Kitchener-Wilmot Hydro has not shown the amount approved and transferred into the sub-accounts of 1595 for 2014 and 2015 for the respective years as was done in 2011.

Please update the continuity schedule accordingly.

Staff-4

Ref: Rate Generator Model – Tab 3 Continuity Schedule

Kitchener-Wilmot Hydro is requesting disposition of the residual amount in Account 1595 (2014). OEB staff notes that the principal balance remaining (i.e. a debit of \$756,456) is high. The total claim, with interest, is \$801,123.

- (a) Please explain why the remaining balance being requested for disposition is as high as it is, given that residual balances are not expected to be this magnitude.

- (b) Please review the answer to Q6 in the Accounting Procedures Handbook Frequently Asked Questions issued in October 2009 http://www.ontarioenergyboard.ca/oeb/Documents/Regulatory/APH_FAQs_October2009.pdf and identify whether or not Kitchener-Wilmot Hydro has been following the instruction in allocating the balances collected in Account 1595.
- (c) If the answer to (b) is no, please indicate how Kitchener-Wilmot Hydro applied the recovery of the account balances collected to the new sub-accounts of Account 1595.

Staff-5

Ref: 2014 Cost of Service Application (EB-2013-0147) – PILs Model
Ref: Rate Generator Model - Tab 8 STS Tax Change

In Kitchener-Wilmot Hydro's application, it states that "Since the difference in the corporate tax rate was due to the incorporation of tax credits in its 2014 revenue requirement and also, since corporate tax rates have not changed since it last rebased, KWHI submits that no tax change balance has or will occur in 2018, the result of this worksheet in the model (8. STS - Tax Change) should be zero."

Kitchener-Wilmot Hydro's 2014 PILS model shows the 24.45% as the effective tax rate before the tax credit is applied. In the 2014 PILS model, Kitchener-Wilmot Hydro had a reduced rate of 24.45% because it was eligible for the Small Business Deduction. In 2018, Kitchener-Wilmot Hydro is no longer eligible for the Small Business Deduction as the eligibility rules have changed.

Chapter 3 filing requirements says tax sharing "prescribes a 50/50 sharing of impacts of legislated tax changes from distributors' tax rates embedded in its OEB approved base rate known at the time of application". Therefore, the comparison between 24.45% and 26.5%, before taking into account any tax credits is correct in the 2018 IRM Rate Generator.

This being said, populating Tab 8 of the Rate Generator model appropriately produces a tax sharing amount of \$61,470.

Kitchen-Wilmot Hydro has proposed that the tax sharing amount be \$0. If Kitchener-Wilmot is still proposing to forego collecting the tax sharing amount, please remove the data populated on this tab so as not to create an amount showing.

GA Analysis Workform

Staff-6

Ref: GA Analysis Workform

OEB staff notes that it appears that Kitchener-Wilmot Hydro has utilized an old version of the GA Analysis Workform as posted on the OEB's website.

Please provide an updated version of the GA Analysis Workform (i.e. version 1.4) as updated on the OEB's website on July 24, 2017.

Staff-7

Ref: GA Analysis Workform

- 1) In booking expense journal entries for Charge Type 1142 (formerly 142), and Charge Type 148 from the IESO invoice, please confirm which of the following approaches is used:
 - a) Charge Type 1142 is booked into Account 1588. Charge Type 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589, respectively
 - b) Charge Type 148 is booked into Account 1589. The portion of Charge Type 1142 equalling RPP-HOEP for RPP consumption is booked into Account 1588. The portion of Charge Type 1142 equalling GA RPP is credited into Account 1589.
 - c) Another approach. Please explain this approach in detail.

- 2) With regards to the Dec. 31, 2016 balance in Account 1589, all components that flow into Account 1589 (i to iv in table below) should all be based on actuals at year end.
 - a) Please complete the following table to 1) indicate whether the component is based on estimates or actuals at year end and 2) quantify the adjustment pertaining to each component that is trued up from estimate to actual

	Component	1) Estimate or Actual	Notes/Comments	2) Quantify True Up Adjustment
i	Revenues (i.e. is unbilled revenues trued up by year end)			
ii	Expenses - GA non-RPP: Charge Type 148 with			

	respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iii	Expenses - GA non-RPP: Charge Type 148 with respect and RPP/non-RPP pro-ration percentages			
iv	Credit of GA RPP: Charge Type 142 if the approach under IR 1b is used			

- b) In the 2016 GA Analysis Workform, reconciling item 1b is a credit of \$1.8M to Account 1589. In the DVA Continuity Schedule, adjustments of debit \$1.8M and credit of \$1.8M is made to Accounts 1588 and 1589 in 2016, respectively.
- i. Please explain whether the adjustment to Account 1589 is a debit or a credit and revise the evidence as needed.
 - ii. Please confirm that the \$1.8 adjustment pertains to the true up of the RPP/non-RPP pro-ration of charge type 148. If not, please explain which charge type is being trued up and why it is an equal and offsetting amount between Accounts 1589 and 1588.
- c) If any of the components in the table in part a is based on estimates, please include the true up adjustment as an adjustment in the DVA Continuity Schedule, if the net impact to the account is material.
- 3) With regards to the Dec. 31, 2016 balance in Account 1588, all components that flow into Account 1588 (i to iv in table below) should be all based on actuals at year end.
- a) Please complete the following table to 1) indicate whether the component is based on estimates or actuals at year end and 2) quantify the adjustment pertaining to each component that is trued up from estimate to actual

	Component	1) Estimate or Actual	Notes/Comments	2) Quantify True Up Adjustment
i	Revenues (i.e. is unbilled revenues trued up by year end)			
ii	Expenses – Commodity: Charge Type 101 (i.e. is expense based on IESO invoice at year end)			
ijj	Expenses - GA RPP: Charge Type 148 with respect to the quantum dollar amount (i.e. is expense based on IESO invoice at year end)			
iv	Expenses - GA RPP: Charge Type 148 with respect and RPP/non-RPP pro-ratio percentages			
v	RPP Settlement: Charge Type 142 including any data used for determining the RPP/HOEP/RPP GA components of the charge type			

b) If any of the components in the table in part a is based on estimates, please include the true up adjustment as an adjustment in the DVA Continuity Schedule, if the net impact to the account is material.

Staff-8

Ref: GA Analysis Workform, Tabs GA Analysis 2014 – GA Analysis 2016

OEB staff notes that Kitchener-Wilmot Hydro has not provided a complete description in the GA Billing Rate Description text box. The “Instructions” tab notes:

In the GA Billing Rate Description textbox, provide a description of the GA billing rate that is used, i.e. first estimate, second estimate, or actual. Explain how the GA billing rate is determined for billing cycles that span more than one load month. Confirm that the GA rate that is used is applied consistently for all billing and unbilled revenue transactions for non-RPP Class B customers in each customer class.* In addition, where the same GA rate is not used for non-RPP Class B customers in all customer classes, explain what GA rate is applied to each customer class.

Where a distributor does not apply the same GA rate to all non-RPP Class B customers, the distributor must adapt the GA Analysis for this and breakdown the monthly non-RPP Class B volumes for each GA rate that was applied.

- (a) In Kitchener-Wilmot Hydro’s updated GA Analysis Workform related to Staff-6, please provide the missing information in accordance with the instructions noted above.
- (b) Please also populate column C for all years for the reconciling items. If the items do not apply or are immaterial, please indicate this in the table.

Staff-9

Ref: EB-2017-0056 Application, Page 11

Kitchener-Wilmot Hydro indicates that the OEB’s Audit and Performance Assessment team indicated three errors which results in adjustments to deferral and variance account balances. The table below shows the impact of each of the three errors.

	Input Error for IESO Amount (Disclosed in 2016 IRM (EB-2015-0080))	Unbilled Revenue Misallocation	Final Settlement True-Up vs. Power Bill
Impact	\$3,447,135	\$5,642,318	Not material: \$79

With respect to the first “manual adjustment error” which was the result of placing a “wrong number in a cell of a worksheet”:

- (a) Please further describe the nature of this error (i.e. what worksheet was populated incorrectly and what incorrect data was populated in the referenced cell).
- (b) Please detail the general ledger correcting journal entry that Kitchener-Wilmot Hydro made including the period when such entry/(entries) were posted, describe any RRR 2.1.7 trial balance corrections, and any other impacts due to this error.
- (c) Please explain what measures are now in place to ensure correct balances are recorded in Kitchener-Wilmot Hydro’s deferral and variance accounts going forward to ensure errors of this nature do not occur in the future.

Staff-10

Ref 1: EB-2017-0056 Application, Page 12, Table 3

Ref 2: Rate Generator Model - Tab 3 Continuity Schedule

Reference 1 is reproduced below:

Table 3

	2013 Final Disposed Balances per 2015 IRM (EB- 2014-0089)	Input Error Disclosed in 2016 IRM (EB-2015- 0088)	Misallocation of Unbilled Revenues as at December 31, 2013	Final Settlement vs. Power Bill	Net Impact	2013 Correct Balances
Account 1588 - Principal	(1,833,280)	(3,443,918)	5,637,187	(83)	2,193,186	359,906
Account 1588 - Interest	(64,608)	(3,217)	5,131	4	1,918	(62,690)
	(1,897,888)	(3,447,135)	5,642,318	(79)	2,195,104	297,216
Account 1589 - Principal	467,515	3,443,918	(5,637,187)	83	(2,193,186)	(1,725,671)
Account 1589 - Interest	54,179	3,217	(5,131)	(4)	(1,918)	52,261
	521,694	3,447,135	(5,642,318)	79	(2,195,104)	(1,673,410)

OEB staff notes that the input error disclosed in Kitchener-Wilmot Hydro's 2016 IRM mentioned above (i.e. \$3,443,918) has been included as an adjustment to the continuity schedule in the 2015 columns.

- (a) Please confirm whether or not the other two adjustments (i.e. misallocation of unbilled revenue and the final settlement vs. power bill) are built into the 2015 closing balances in the DVA Continuity Schedule and that the relevant RRR data has been corrected.
- (b) For the misallocation of unbilled revenues, please explain the nature of the error and which years it pertained to, detail the original incorrect general ledger journal entry recorded, and all the correcting adjustments that were recorded including any reversal entries and the year the entries were recorded in.
- (c) For the misallocation of unbilled revenues, please explain how Kitchener-Wilmot has ensured that the correct amounts are requested for disposition so as to keep customers whole even though the 2013 balances have already been approved for disposition.

Staff-11

As part of Kitchener-Wilmot Hydro's annual external financial audit process:

- (a) Are the balances of deferral and variance accounts audited?
- (b) If so, why were the errors not detected during that process?
- (c) Please confirm that the areas of concern identified by the OEB's Audit and Performance Assessment has been addressed and reflected in the 2016 deferral and variance account balances.

- (d) Please explain whether Kitchener-Wilmot Hydro’s external auditors have been informed of the results from the OEB’s Audit and Performance Assessment audit and explain how it has impacted the external audit of 2016 deferral and variance account balances.

Staff-12

Ref: EB-2017-0035 Application, Page 14, Table 5

Table 5 is reproduced below:

	Global Adjustment Rate Rider (over collected)	DVA Rate Rider (under Collected)	Total Under (Over) Collected
Residential	(65,671)	787,696	722,025
GS<	(104,879)	294,490	189,611
GS>	(1,836,621)	905,328	(931,292)
GS> Class A		25,271	25,271
SL	(44,353)	20,033	(24,320)
USL		4,890	4,890
LU		43,546	43,546
	(2,051,524)	2,081,255	

Kitchener-Wilmot Hydro states that “despite the fact that KWHI over or under-collected in 2015 for 2013 balances, the amount of over or under collection will be similar in 2018 if disposition is approved for 2014-2016 balances”.

- (a) Please confirm that this statement only holds true if consumption patterns are substantially the same year over year.
- (b) Please provide evidence that this is the case.
- (c) Please confirm OEB staff’s understanding that Kitchener-Wilmot Hydro proposes to correct the balances in Accounts 1588 and 1589 and not make any adjustments to the amounts in Account 1595 (2015) pertaining to quantities already collected/refunded.

Staff-13

Ref: EB-2017-0056 Application, Adjustment to Deferral and Variance Accounts

Please provide a table of the bill impacts for all rate classes if the OEB were to deny to the retroactive adjustment to Kitchener-Wilmot Hydro’s deferral and variance accounts.

Staff-14

Ref: EB-2017-0056 Application, Adjustment to Deferral and Variance Accounts

Please provide a discussion of Kitchener-Wilmot Hydro’s views on the following question:

Should the OEB consider an adjustment to the 2013 DVA balances which were disposed of on a final basis as part of Kitchener-Wilmot Hydro's 2015 IRM proceeding (EB-2014-0089)? Would any such adjustment violate the legal requirements concerning retroactive ratemaking?