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November 29, 2017

BY COURIER & RESS

Ms. Kirsten Walli, Board Secretary
ONTARIO ENERGY BOARD
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

**Re: Board File No. EB-2017-0056
Kitchener-Wilmot Hydro Inc. - Licence No. ED-2002-0573
Responses to Interrogatories re: 2018 IRM Rate Application**

Dear Ms. Walli:

On August 14, 2017, Kitchener-Wilmot Hydro Inc. ("KWHI") submitted its IRM Application to the Ontario Energy Board ("the Board") for rates effective January 1, 2018. Subsequently, the Board issued a Letter of Direction and Notice of Application and Hearing on October 12, 2017. As a result of the Notice of Application and Hearing, intervention requests were received from Board staff, School Energy Coalition and the Vulnerable Energy Consumers Coalition. KWHI now submits its responses to those interrogatories

Contact the undersigned should you require any further information.

Respectfully submitted,

Original Signed By:

Margaret Nanninga, MBA, CPA, CGA
Vice President Finance & CFO

kb/attachments

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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.

KWHI confirms the balances were last cleared in 2013 in the 2015 rate year. KWHI has updated Tab 1 Information Sheet of the rate generator model for the information.

Since the date of the original IRM application KWHI has lost its one transition customer. KWHI had a customer that was a Class A customer and transitioned to a Class B customer in July of 2014. This customer was allocated only a portion of the Class B GA variance as it did not contribute to the GA variance for 6 months in 2014 when the customer was Class A. As of September 2017, this customer no longer has an account with KWHI, so the information was removed from Tab 6. Class A Consumption Data.

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.

As per the Decision EB-2011-0179 dated April 4, 2012, KWHI did not meet the preset disposition threshold for Group 1 accounts and therefore did not seek to dispose of its Group 1 accounts. However, KWHI applied for disposition of the Special Purpose Charge variance account (1521) and the Deferred Payments in Lieu of Taxes amount (1562).

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In accordance with Section 8 of the SPC regulation, distributors were required to request disposition of residual balances in sub-account SPC Assessment Variance no later than April 15, 2012. The Filing Requirements stated the Board's expectation that requests for disposition would be heard as part of the proceedings in the 2012 rate year.

		Principal	Interest	Total
Special Purpose Charge	1521	12,534.13	4,442.15	16,976.28
PILs	1562	(521,273.79)	151,591.18	(369,682.61)
	Total	(508,739.66)	156,033.33	

For the Special Purpose charge, on page 7 the decision (EB-2011-0179) states

“The Board approves the disposition on a final basis, of a debit balance in Account 1521 of \$16,967.28, representing principal and interest to April 30, 2012, over a one year period, May 1, 2012 to April 30, 2013. The Board directs Kitchener-Wilmot to close Account 1521 effective May 1, 2012.

For accounting and reporting purposes, the balance of Account 1521 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Ontario Energy Board Descriptions, of the Accounting Procedures Handbook for Electricity Distributors. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances are effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported.”

In 2001, the Board approved a regulatory payments in lieu of taxes proxy approach for rate applications coupled with a true-up mechanism filed under the RRR to account for changes in tax legislation and rules and to true-up between certain proxy amounts used to set rates and the actual amount of taxes paid. The variances resulting from the true-up were tracked in Account 1562 for the period 2001 through April 30, 2006.

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On November 28, 2008 the Board commenced a Combined Proceeding (EB-2008-0381) on its own motion to determine the accuracy of the final account balances for certain distributors that filed 2008 and 2009 rate applications. The notice in the Combined Proceeding included a statement of the Board's expectation that the decision would be used to determine final account balances with respect to the remaining distributors. KWHI applied to dispose of the credit balance in the 2012 rate year.

For the Deferred Payments in Lieu of Taxes account, on page 12 the decision (EB-2011-0179) states:

"...The Board approves a one-year disposition period, May 1, 2012 to April 30, 2013.

For accounting and reporting purposes, the balance of Account 1562 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the Accounting Procedures Handbook for Electricity Distributors. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances is effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported."

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.

Corrected model submitted.

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.

The remaining balance is high because the Global Adjustment Rate Rider was calculated incorrectly in EB-2013-0147. For the Residential and GS<50 customer, the rate rider was calculated using the entire load for the class instead of the load for the non RPP customer only. In addition, for the GS>50 rate class forecasted loads were not met.

The table below shows the difference between what was to be collected (refunded) to each class as calculated by the Draft Rate Order comments in EB-2013-0147 filed April 17, 2014, and what was actually collected. It also shows the difference between the kWh or kW used to calculate the rate rider versus what was actually collected.

	Calculated amount to collect (Refund)	Actual Amount Collected (Refunded)	Difference	Actual kWh/kW consumption /Demand	kWh/kW used to calculate the Rate Rider
Residential	143,694	4,964	138,730	15,649,015	434,485,437
GS<50	123,160	20,082	103,078	22,906,279	161,122,137
GS>50	3,230,136	2,647,497	582,639	1,399,705	1,490,981
GS>50 Excluding Class A	(527,814)	(385,750)	(142,064)	1,058,298	1,448,119
Large User	(78,963)	(154,567)	75,604	82,217	42,001
Street Lighting	58,203	57,445	758	29,704	30,097
	<u>2,948,416</u>	<u>2,189,671</u>	<u>758,745</u>		

- (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_Oc

[tober2009.pdf](#) and identify whether or not Kitchener-Wilmot Hydro has been following the instruction in allocating the balances collected in Account 1595.

[KWHI confirms that it follows the direction above.](#)

- (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.

KWHI has retained the information on Tab 8. At the time of the 2014 CoS application KWHI was eligible for the Small Business Deduction. Therefore, a 50/50 sharing of the impacts of legislated tax changes from distributors tax rates embedded in its OEB approved base rate known at the time of the application is appropriate.

KWHI proposes to move the sharing amount into Account 1595 for disposition at a later date.

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.

KWHI has submitted an updated version of the GA Workform.

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.

KWHI effectively follows approach a). Currently the power expense is charged to 4705 which then flows into account 1588. Charge type 148 is booked to 4707 and the amounts related to RPP/non-RPP consumption is then booked to account 1588 and 1589.

- 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)	Estimate	Unbilled revenue is estimated at year end – It is reversed at the beginning of the next month to allow actual amounts to be recorded as revenue	N/A
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)	Actual	The amount recorded as the expense is the actual amount charged by the IESO	N/A
iii	Expenses - GA non-RPP: Charge Type 148 with respect and RPP/non-RPP pro-ratio percentages	Actual	As of the date of these interrogatories, all true ups have been finalized and the actual amount is known	\$1,801,767
iv	Credit of GA RPP: Charge Type 142 if the approach under IR 1b is used	N/A	N/A	N/A

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.

The reconciling item in the GA Workform is a debit. The DVA continuity schedule also shows a Debit so no adjustment required. Column BF includes a debit to the GA Variance

account.

- 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.

Confirmed.

- 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.

As of the date of these interrogatories there is no amount based on an estimate. The balance has been adjusted (\$77.47) for the final true-up for 2016 that occurred after the application was submitted.

- 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)	Estimate	Unbilled Revenue is reversed at the beginning of the next period to allow actual revenue to be recorded	N/A
ii	Expenses – Commodity: Charge Type 101 (i.e. is expense based on IESO invoice at year end)	Actual	All expenses are recorded at year end	N/A
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)	Actual	All expenses are recorded at year end	N/A
iv	Expenses - GA RPP: Charge Type 148 with respect and RPP/non-RPP pro-ratio percentages	Actual	As of the date of these interrogatories, all true ups are complete	\$1,801,767
v	RPP Settlement: Charge Type 142 including any data used for determining the RPP/HOEP/RPP GA components of the charge type	N/A	N/A	N/A

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.

As of the date of these interrogatories there are no amounts based on an estimate.

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.

All Non-RPP are billed on the first estimate.

The GA rate billed is the first estimate, even if the billing cycles spans a load month.

It is confirmed that the GA rate that is used is the same for unbilled and billed revenue transactions for non-RPP Class B customers in each customer class.

- (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.

Updated.

- (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.

Updated.

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).

KWHI maintains a “GA Variance” spreadsheet that calculates that GA variance amount. In November and December 2013, KWHI experienced several contributing factors to not finding the error – changes in management, manual processes due to system limitations, and oral hearing pressures.

In 2015, as part of the IRM process, OEB staff questioned the large balance of the Global Adjustment account. The General Ledger account balance for Global Adjustment was hard to reconcile due to not matching the spreadsheet on a monthly basis, and the wild swings between final Global Adjustment charges from the IESO and the first estimate that is billed by KWHI, as can be seen in the table below:

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1st Estimate (\$/MWh)	37.71	57.28	43.74	56.43	51.31	64.11	73.76	40.13	87.18	58.12	62.28	76.07
GA (\$/MWh)	49.99	48.14	49.26	58.59	67.59	70.43	50.89	62.45	66.55	63.12	78.55	50.68

In reviewing the spreadsheet, it was discovered that a manual recording

error occurred in November 2013. In this case an amount of \$8 million was entered as the GA expense from the IESO but it should have been \$12 million. The \$8 million appeared to be reasonable as it was similar to the previous months' number. The \$8 million amount was from final settlement, and amount that was not recorded on the General Ledger.

- (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.

For the manual recording error, only one entry was made in fourth quarter of 2015.

DR	1589 Global Adjustment	3,443,918.32
CR	1588 Power	3,443,918.32
DR	1589 Global Adjustment Interest	50,625.62
CR	1588 Power Interest	50,625.62

No 2.1.7 adjustments were made. The entries made were reflected in the 2.1.7 balances reported at year end 2015. In aggregate, the balances of the RSVA Power and Global Adjustment accounts did not change.

- (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.

As soon as the error was discovered, steps were taken to improve the Power / GA variance process. The balance of the Global Adjustment variance account is calculated two ways, and balanced to the General Ledger monthly. Additional General Ledger accounts were opened to further separate Global Adjustment expenses from Power expenses. The IESO Power bill is used as the source of information for the GA charges, and the Global Adjustment variance account is now reconciled monthly to the General Ledger.

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.

Confirmed. The unbilled revenue adjustment was corrected in 2014 and is built into the 2014 and 2015 closing balances. The final settlement versus the power bill adjustment was built into the 2015 closing balance. The RRR balances agree to the DVA continuity schedule. No reported RRR balances were changed.

- (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.

Prior to the issuance of the Accounting Procedures Handbook effective January 1st, 2012, the GA and Power revenues were recorded in the same account. This is about the time that the OEB announced the separation of RSVA GA and Power in Account 1588 and 1589 and a revenue account for the GA. KWHI has a 30 year old home-grown CIS system, and the change to separate the GA from the power revenues took some additional programming which was not completed until October 2013. Prior to October 2013, an accrual was done for GA and Power revenue, but it was not separated in each relevant account. In October 2013 a separate accrual was made for Global Adjustment revenue, however, it remained part of the Power variance. In December 2014, the GA accrual amount was moved to the GA variance.

- (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.

The entire amount of the unbilled adjustment was split between the Power and GA Variance accounts in December 2014. The 2013 identified error was split for the audit. The audit performed by the Audit and Performance Assessment team determined that the error corrections made by KWHI staff were correct and that the balance of account 1589 at the end of 2015 is correct as stated.

Staff-11

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

- (a) Are the balances of deferral and variance accounts audited?

Yes

- (b) If so, why were the errors not detected during that process?

The balance of all DVAs (RSVAs) equaled – revenues and COP expenses equaled each other. The correct RSVA amounts in aggregate were

recorded. It was the allocation amongst the accounts that was in error. The Regulatory assets and liabilities were audited for correctness from a financial statement point a view but not necessarily each individual detail

- (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.

The OEB’s Audit and Performance Assessment audit was completed in April of 2017. The areas of concern have been addressed by KWHI in 2017.

- (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.

The OEB’s Audit and Performance Assessment audit was completed in April of 2017. The external auditors have been made aware of the results. Since the audit was completed in 2017, it is unlikely the results impacted the audit of the 2016 balances but will likely impact the audit of the 2017 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.

Confirmed. This statement holds true with the retrospective basis of collecting/refunding all regulatory assets and liabilities.

(b) Please provide evidence that this is the case.

The table below shows the original balance for Power and Global Adjustment and the rate riders that were calculated

OEB Account	Disposition Balance Requested	Residential	GS < 50	GS > 50	GS > 50 WMP	GS > 50 class A	Large User - class A	Unmetered Scattered Load	Street Lighting	Embedded Distributor	Total
Smart Meter Entity Charge	\$ 53,617	39,113	14,504								53,617
RSVA - Wholesale Market Service Charge	\$ (1,336,116)	(491,996)	(182,449)	(604,327)	-	(18,584)	(24,005)	(2,580)	(12,176)	-	(1,336,116)
RSVA - Retail Transmission Network Charge	\$ 186,774	67,238	24,934	82,590	2,078	2,540	3,281	353	1,664	2,097	186,774
RSVA - Retail Transmission Connection Charge	\$ (87,767)	(31,596)	(11,717)	(38,810)	(977)	(1,193)	(1,542)	(166)	(782)	(986)	(87,767)
RSVA - Power	\$ (1,897,888)	(698,856)	(259,160)	(858,417)	-	(26,398)	(34,098)	(3,664)	(17,295)	-	(1,897,888)
Recovery of Regulatory Asset Balances (2011)	\$ 99,135	36,093	13,385	44,334	1,116	1,363	1,761	189	893	-	99,135
Recovery of Regulatory Asset Balances (2012)	\$ (686)	(250)	(93)	(307)	(8)	(9)	(12)	(1)	(6)	-	(686)
Subtotal - Group 1	\$ (2,982,931)	(1,080,253)	(400,595)	(1,374,936)	2,209	(42,282)	(54,616)	(5,869)	(27,701)	1,112	(2,982,931)
RSVA - Global Adjustment	\$ 521,694	26,110	22,092	462,910	-	-	-	-	10,582	-	521,694
	\$ (2,461,236)	(1,054,143)	(378,503)	(912,026)	2,209	(42,282)	(54,616)	(5,869)	(17,119)	1,112	(2,461,236)

Balance to be collected or refunded, Variable	\$ (2,461,236)	(1,054,143)	(378,503)	(912,026)	2,209	(42,282)	(54,616)	(5,869)	(17,119)	1,112
Number of years for Variable	1									
Balance to be collected or refunded per year, Variable	\$ (2,461,236)	(1,054,143)	(378,503)	(912,026)	2,209	(42,282)	(54,616)	(5,869)	(17,119)	1,112
		43%	15%	37%	0%	2%	2%	0%	1%	0%

Class	Residential	GS < 50	GS > 50	GS > 50 WMP	GS > 50 class A	Large User - class A	Unmetered Scattered Load	Street Lighting	Embedded Distributor
Deferral and Variance Account Rate Rider, Variable	(0.0017)	(0.0017)	(0.6298)	0.0420	(0.6576)	(0.8669)	(0.0017)	(0.6136)	0.0249
Billing Determinants	kWh	kWh	kW	kW	kW	kW	kWh	kW	kW
Global Adjustment Rate Rider	0.0007	0.0007	0.2480			-		0.2344	-
Billing Determinants	kWh	kWh	kW	kW	kW	kW	kWh	kW	kW

The table below shows the rate riders that would have been collected in 2013 if the errors had not occurred. Note: in total the disposition amount remains the same – a credit of \$2,461,236

OEB Account	Disposition Balance Requested	Residential	GS < 50	GS > 50	GS > 50 WMP	GS > 50 class A	Large User - class A	Unmetered Scattered Load	Street Lighting	Embedded Distributor	Total
Smart Meter Entity Charge	\$ 53,617	39,113	14,504								53,617
RSVA - Wholesale Market Service Charge	\$ (1,336,116)	(491,996)	(182,449)	(604,327)	-	(18,584)	(24,005)	(2,580)	(12,176)	-	(1,336,116)
RSVA - Retail Transmission Network Charge	\$ 186,774	67,238	24,934	82,590	2,078	2,540	3,281	353	1,664	2,097	186,774
RSVA - Retail Transmission Connection Charge	\$ (87,767)	(31,596)	(11,717)	(38,810)	(977)	(1,193)	(1,542)	(166)	(782)	(986)	(87,767)
RSVA - Power	\$ 297,216	109,443	40,585	134,431	-	4,134	5,340	574	2,708	-	297,216
Recovery of Regulatory Asset Balances (2011)	\$ 99,135	36,093	13,385	44,334	1,116	1,363	1,761	189	893	-	99,135
Recovery of Regulatory Asset Balances (2012)	\$ (686)	(250)	(93)	(307)	(8)	(9)	(12)	(1)	(6)	-	(686)
Subtotal - Group 1	\$ (2,982,931)	(271,954)	(100,850)	(382,088)	2,209	(11,750)	(15,177)	(1,631)	(7,698)	1,112	(787,827)
RSVA - Global Adjustment	\$ (1,673,410)	(83,750)	(70,865)	(1,484,852)	-	-	-	-	(33,943)	-	(1,673,410)
	\$ (2,461,236)	(355,704)	(171,714)	(1,866,940)	2,209	(11,750)	(15,177)	(1,631)	(41,641)	1,112	(2,461,236)

Balance to be collected or refunded, Variable	\$ (2,461,236)	(355,704)	(171,714)	(1,866,940)	2,209	(11,750)	(15,177)	(1,631)	(41,641)	1,112	
Number of years for Variable	1										
Balance to be collected or refunded per year, Variable	\$ (2,461,236)	(355,704)	(171,714)	(1,866,940)	2,209	(11,750)	(15,177)	(1,631)	(41,641)	1,112	

RECALCULATED

Class	Residential	GS < 50	GS > 50	GS > 50 WMP	GS > 50 class A	Large User - class A	Unmetered Scattered Load	Street Lighting	Embedded Distributor
Deferral and Variance Account Rate Rider, Variable	(0.0004)	(0.0004)	(0.1750)	0.0420	(0.1828)	(0.2409)	(0.0005)	(0.1705)	0.0249
Billing Determinants	kWh	kWh	kW	kW	kW	kW	kWh	kW	kW
Global Adjustment Rate Rider	(0.0021)	(0.0021)	(0.7954)			-		(0.7519)	-
Billing Determinants	kWh	kWh	kW	kW	kW	kW	kWh	kW	kW

In aggregate, the amount to be collected/refunded remains the same.

(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.

Confirmed. KWHI will not make any changes to Account 1595 (2015).

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.

If the OEB allows the disposition adjusted account balances, the bill impacts would be as follows

Submitted: November 29, 2017

Page 19

Rate Class	Consumption/ Demand	Billing Determinant	Proposed		If Denied 2013 Error	
			Increase / (Decrease) (\$)	Increase / (Decrease) (%)	Increase / (Decrease) (\$)	Increase / (Decrease) (%)
Residential TOU	280	kWh	\$ 0.84	1.7%	\$ 1.22	2.5%
Residential TOU	750	kWh	\$ (3.21)	-3.2%	\$ (2.18)	-2.1%
General Service < 50 kW	2000	kWh	\$ (7.08)	-2.6%	\$ 0.01	-1.7%
General Service > 50 kW	60	kW	\$ (68.79)	-8.9%	\$ (35.83)	-4.8%
Large Use	5250	kW	\$ (13,376.34)	-47.6%	\$ (9,877.35)	-35.5%
Streetlighting	37	kW	\$ (39.68)	-9.8%	\$ (22.92)	-5.7%
Unmetered Scattered Load	2000	kWh	\$ (7.23)	-15.1%	\$ (4.29)	-9.0%

As can be seen by the table, each rate class will benefit from disposing of the adjusted account balances. KWHI recognizes that all its customers will benefit from the adjustment and knows it is the right thing for its customers.

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?

KWHI submits that the OEB should consider an adjustment to the 2013 DVA balances as part of this proceeding.

The OEB has recognized that the electricity commodity is a large cash item that distributors are expected to manage on a monthly basis. KWHI takes its responsibility in this regard very seriously. This is why it brought this matter to the attention of the OEB.

The OEB has previously approved adjustments to previous DVA balances that were disposed of on a final basis. See as examples EB-2009-0113, EB-2014-0043, EB-2016-0090 and most recently EB-2016-0066. In addition, following its Decision and

Order in EB-2015-0240, the OEB has initiated a review of the treatment of pass through charges that will consider options for how to minimize errors and how to address errors when they arise.

The error that KWHI made affected different classes and subsets of customers. For example, the GA variance amount does not affect the entire residential class, only the non-RPP customer. The amounts collected/refunded in total were correct; however, they were collected/refunded from the wrong class/subset of customer. KWHI seeks to rectify the collection/refunds to the correct class/subset of customer.

KWHI self-identified the error as it is the right thing to do for its customers. Without correction of the error, cross subsidization between rate classes would continue to occur, compounding the initial error. KWHI desires to make each class of customer whole without cross subsidization. To not allow the adjustment to the 2013 DVA balances would penalize the customer.

The RSVA is a “pass through” cost. Allowing the disposition of the RSVA will correct the cross subsidization that has occurred by collecting or refunding to the correct subset of customers and will ensure that no cross subsidization remains.

SEC-1

[p.11] Please file the evidentiary record of proceedings EB-2014-0089 and EB-2015-0084. [Note: It is sufficient for SEC’s purposes for the Applicant to agree to simply deem all materials filed in EB-2014-0089 and EB-2015-0084 as part of the record in this proceeding].

All materials filed in EB 2014-0089 and EB-2015-0084 can be considered as part of the record of this proceeding.

SEC-2

[p.11] Please provide a copy of the audit.

See Appendix A

SEC-3

[p.11-12] For each error, please provide a detailed explanation, including but not limited to, references individual spreadsheets, files, processes, staff members responsible (by position not name), dates the errors occurred etc.

Error #1

The balance of the Global Adjustment Variance account is calculated on a spreadsheet called “GA Variance.” Below is a sample of the file to help understand the error:

GA Variance Analysis							
GA Amount from IESO	kWh (RPP, Actual)	GA Rate (\$/MWh)	RPP Portion of GA	Non-RPP Portion of GA	GA for Non-RPP Customers	GA Variance	GA Variance to Date
\$ (13,751,494.95)	68,437,277	\$ (107.78)	\$ (7,376,169.76)	\$ (6,375,325.19)	\$ (4,126,885.70)	\$ 2,248,439.49	\$ 1,674,142.15
\$ (16,204,351.99)	69,693,843	\$ (123.07)	\$ (8,577,221.21)	\$ (7,627,130.78)	\$ (6,472,541.69)	\$ 1,154,589.09	\$ 2,828,731.24
\$ (16,843,552.21)	76,915,433	\$ (118.48)	\$ (9,112,940.54)	\$ (7,730,611.67)	\$ (7,814,898.44)	\$ (84,286.77)	\$ 2,744,444.47
\$ (16,888,804.27)	87,214,876	\$ (112.80)	\$ (9,837,837.96)	\$ (7,050,966.31)	\$ (6,583,493.66)	\$ 467,472.65	\$ 3,211,917.12
\$ (14,426,033.10)	86,718,652	\$ (101.09)	\$ (8,766,388.53)	\$ (5,659,644.57)	\$ (5,236,215.96)	\$ 423,428.61	\$ 3,635,345.73
\$ (12,104,089.46)	68,966,583	\$ (88.64)	\$ (6,113,197.96)	\$ (5,990,891.50)	\$ (8,786,881.75)	\$ (2,795,990.25)	\$ 839,355.48
\$ (14,432,522.83)	81,824,010	\$ (119.73)	\$ (9,796,788.68)	\$ (4,635,734.15)	\$ (4,551,124.36)	\$ 84,609.79	\$ 923,965.27
			€	€		€	€ 923,965.27

The yellow columns are manually input. The process is to input the amount of the Global Adjustment as per the final settlement, (updated in 2015 to the Power Bill), the actual RPP kWh, and the GA rate. The GA rate for each month is the actual rate except for the current month when the first estimate is used. Multiplying the GA rate by the kWh gives the RPP portion of the GA, and subtracting this number from the GA charge from the IESO gives the Non-RPP portion of the GA. The final entry is the charges to the Non-RPP customer. The difference between the calculated amounts

on Non-RPP GA to the charged amount of Non-RPP GA is placed into the variance account.

The error occurred in November of 2013. In this case an incorrect amount was keyed in the first column by the senior regulatory analyst. The incorrect amount was not noticed by the manager reviewing the file due to pressures that included preparation for an Oral Hearing. The erroneous amount appeared to be reasonable as the amount was similar to a previous months. The error was \$3,443,918.

Error #2 – Unbilled Revenue

Prior to October 2013, the Unbilled Revenue report did not separate the Non-RPP GA revenues. Prior to January 2012, the Power and GA variances (1588 and 1589) were not separated in KWHI's reporting system, as it was not required by the OEB. Due to limitations in KWHI's 30 year old home-grown CIS system, the programming changes were not completed until October 2013. The accrual of the GA revenue was included as part of the Power accrual revenue. In October 2013, the billing system was adjusted to split the unbilled revenue between Power and GA. However, the GA Variance spreadsheet was not updated to account for the split between Power and GA revenues until December 2014.

Error #3 – Final Settlement versus Power Bill

Prior to discovering the Error #1, KWHI used the Final settlement amount for the GA expense. The variance between the power bill GA charge and the Final Settlement amount is generally negligible or zero. As part of the overhaul of recording the GA Variance amount KWHI switched to using the Power Bill amount to calculate the GA Variance.

SEC-4

[p.11-12] For each of the errors, please explain what the Applicant has done to ensure similar error will not occur in the future.

Error #1

- Additional training.
- The GA Variance spreadsheet is now compared to the General Ledger calculation of the variance amount to ensure accuracy

- The Power Bill is used for the GA charge, to ensure the balance in the General Ledger matches the value in the spreadsheet and is balanced monthly
- Senior Accounting Clerk, Senior Regulatory Analyst and the Manager of Regulatory Affairs review the spreadsheet for accuracy

Error #2 – Unbilled Revenue

- The GA variance Spreadsheet was changed to capture the Unbilled Revenue amounts.
- The Unbilled Revenue amounts were given separate GL account numbers.

Error #3 – Final Settlement versus Power Bill

- Processes are defined to ensure that the Power Bill is entered and check performed by the Manager of Regulatory Affairs.

SEC-5

[p.11-14] Please provide the Applicant's actual or forecast ROE for each year between 2013 and 2018, both as a percentage and the amount.

	\$	%
2013 Actual	7,188,608	8.94%
2014 Actual	8,983,700	10.87%
2015 Actual	9,739,262	11.47%
2016 Actual	8,997,102	10.18%
2017 Forecast	7,800,910	8.62%
2018 Budget	6,727,477	7.10%

The error did not affect the calculation of KWHI's ROE. As all revenues and expenses were properly recorded.

SEC-6

[p.12-14, Table 3-5] Please confirm that in each of the tables, negative numbers represents credits (i.e. amounts that are owed/should have been owed from the Applicant to ratepayers).

Confirmed

SEC-7

[p.14, Table 5] If the adjustment amounts set out in Table 5 were collected/refunded by way of a separate rate rider, for each rate class, please provide the rate.

Current OEB policy states that the Global Adjustment is to be disposed utilizing kWh. Taking the kWh from Tab 4 in the 2018 rate generator, the rate rider for the disposition of the Global Adjustment would be:

Global Adjustment		Amount from Table 5 Original Application	kWh from Tab 4	Rate Rider / kWh
Residential	kWh	(65,671)	20,624,338	(0.0032)
GS<	kWh	(104,879)	37,202,346	(0.0028)
GS>	kW	(1,836,621)	668,919,431	(0.0027)
SL	kW	(44,353)	16,175,051	(0.0027)

For the Deferral and Variance amount, KWHI separated the Class A customer kW from the kW in the GS>50 class to calculate a rate rider the Class A customer in the GS>50 class. This amount is found on Tab 6 Class A Consumption data.

Deferral and variance		Amount from Table 5 Original Application	kWh from Tab 4	kW from Tab 4	Rate Rider / kWh	Rate Rider / kW
Residential	kWh	787,696	650,672,520	-	0.0012	
GS<	kWh	294,490	239,091,361	-	0.0012	
GS>	kW	905,328	805,493,414	2,119,412		0.4272
GS> Class A	kW	25,271	21,447,565	51,330		0.4923
SL	kW	20,033	16,260,857	45,218		0.4430
USL	kWh	4,890	3,917,912	-	0.0012	
LU	kW	43,546	28,906,567	62,932		0.6920
Embedded	kW	-	19,564,437	49,930		

Deferral and Variance Accounts

VECC-1

Ref: Application Page 10

Preamble: The evidence indicates that KWHI was not approved for disposition of any balances in its 2016 IRM application until an audit is conducted by the OEB' Audit and Performance unit. The audit was completed in April 2017.

a) Please provide a copy of the audit.

See Appendix A.

b) Please discuss if KWHI has had any previous deferral and variance account audits conducted by the OEB and provide details, and copies of any relevant audit reports.

There have been no previous OEB audits performed.

VECC-2

a) Please describe the process used by KWHI to monitor and verify deferral and variance account entries to ensure accuracy.

i) What oversight and checks and balances are in place?

See SEC - 4

li) What is the process to audit this function?

See SEC - 4

iii) Please provide any internal documents that details KWHI's internal monitoring processes.

The process of documenting procedures is ongoing and currently not complete.

iv) How long has an internal monitoring process been in place?

Internal monitoring has always been in place. Internal monitoring is an on-going process that continues to evolve as new issues/requirements occur.

- b) As part of KWHI's annual audit process, are the deferral and variance account balances audited? If so, why were the errors not detected during that process?

See Staff -11

- c) Please explain the process followed by KWHI in preparing its IRM applications and how it verifies the balances for disposition of deferral and variance accounts.

KWHI fill outs the required excel spreadsheets – i.e. the rate generators, and the GA Workform. The rate generator is pre-populated with consumption and demand numbers from the RRRs as filed and these are checked for accuracy. KWHI also verifies the accuracy of the DVA continuity schedule to the reported figures in its RRRs. KWHI then prepares the written documentation based on the results of the rate generator.

- d) Please explain in detail how the original manual adjustment error was discovered by KWHI.

During the IRM application process in 2015 for 2016 rates (EB-2015-0084), OEB staff questioned a large swing in the GA balance. As a result of that inquiry, KWHI did further research into the GA balance to determine that the GA variance account balance was, indeed, accurate and that was when KWHI found the manual recording error. KWHI immediately self-identified the error to the OEB to prevent further cross subsidization of the customer and to not compound the error any further.

Also see Staff 9 or SEC 3

- e) Please explain why KWHI did not discover error #2 described on Page 11 and error #3 on Page 12 (additional errors that were determined in the audit).

Error #2 was discovered by KWHI, in 2014 and the correction was made in 2014. When KWHI changed its processes in 2015, error #3 would not occur again. The change was to use the power bill for the GA expense. This means that error #3 cannot occur again.

VECC-3

Ref: Application Page 10

Submitted: November 29, 2017
Page 27

Preamble: KWHI indicates Column BF shows the adjustment as per the May 23, 2017 letter "Guidance on Disposition of Accounts 1588 and 1589".

Please explain the adjustment made with reference to the letter.

The guidance states on page 2 that the balances in the distributors RSVA Power(1588) and Global Adjustment (1589) variance accounts must reflect the RPP settlement amounts pertaining to the period that is being requested for disposition. KWHI's audited balances included estimates for unbilled revenues, and billed amounts at first estimate. The adjustment made in Column BF is to reflect the variance between billed amounts at first estimate and actuals at final GA rate. As per the guidance this settlement true-up claim for a given year is to be identified separately as an adjustment to the balance requested.

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April 7, 2017

Margaret Nanninga
Vice President, Finance & Chief Financial Officer
Kitchener-Wilmot Hydro Inc.
301 Victoria St. South, P.O. Box 9010
Kitchener, ON
N2G 4L2

Dear Ms. Nanninga:

Re: Audit of Power and Global Adjustment Deferral and Variance Accounts and Audit of Processes related to RPP Settlement

The Ontario Energy OEB (OEB) issued an engagement letter to Kitchener-Wilmot Hydro Inc. (KWHI) on September 28, 2016 advising that the OEB would be conducting an audit of KWHI's Account 1588 Power and Account 1589 Global Adjustment deferral and variance accounts (the DVA Audit) and an audit of its regulated price plan (RPP) variance settlement processes (the RPP Settlement Audit).

The DVA Audit was ordered by the OEB in its Decision and Order EB-2015-0084. The objective of the DVA Audit was to examine KWHI's Account 1588 and Account 1589 balances as at December 31, 2015 to determine whether accounting policies and procedures for these accounts were properly and consistently applied and reported to the OEB in accordance with Accounting Procedures Handbook (APH), Reporting and Record Keeping Requirements (RRR), and related guidelines. Staff examined entries in the deferral and variance accounts from January 1, 2013 to December 31, 2015.

The objective of the RPP Settlement Audit was to ensure that KWHI followed proper RPP settlement processes for the correct allocations of the RPP variances settled with the IESO, the Power and Global Adjustment variances as at December 31, 2015.

The OEB Staff has now completed the audits, the results of which are included in the attached audit report (Report). The Report contains the findings and observations of two audits. Staff expects KWHI's management to implement the applicable actions to address the findings and observations outlined in this Report. A follow-up audit may be conducted in order to ensure that the action plans in the Report are implemented by KWHI. Furthermore, Staff expects that KWHI will continue to apply these findings and observations going forward.

The findings in the Report represent the views of Staff and are not necessarily the views of the OEB as a whole. Staff provides no assurances that addressing the areas of non-conformity requiring action alone will resolve the issues identified in the Report.

We thank the staff of KWHI for the assistance and support provided to us during the audits.

Yours truly,



Barbara Robertson
Acting Manager, Audit & Performance Assessment
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Fax: (416) 440-7656
Email address: Barbara.Robertson@oeb.ca

Cc: Jim Phillips, Chair, Board of Directors, Kitchener-Wilmot Hydro Inc.
Jerry Van Ooteghem, President & CEO, Kitchener-Wilmot Hydro Inc.

ONTARIO ENERGY BOARD



Audit Report

Audits of Kitchener-Wilmot Hydro Inc.'s Selected Deferral and Variance Accounts and RPP Settlements

April 7, 2017

BACKGROUND

Ontario Energy Board staff (Staff) has completed an audit of Kitchener-Wilmot Hydro Inc.'s (KWHI)'s Account 1588 Power and Account 1589 Global Adjustment deferral and variance accounts (DVA Audit)¹ and an audit of its regulated price plan variance settlement processes (RPP Settlement Audit) in relation to the following objectives and scopes. These audits were conducted by Staff during the period of October 2016 to March 2017.

OBJECTIVE AND SCOPE

The main objective of the DVA Audit was to ensure the accuracy of the balances for Accounts 1588 and 1589 as at December 2015², and the conformity of KWHI's accounting procedures to the Accounting Procedures Handbook (APH). Due to the Ontario Energy Board's (OEB) concerns of prior period errors on final disposed balances as at December 31, 2013, Staff examined the transactions in the year of 2013 in order to obtain the impacts of the prior period adjustments on the final disposed balances for Accounts 1588 and 1589 as at December 31, 2013.

The main objective of the RPP Settlement Audit was to ensure KWHI follows proper RPP settlement processes with the IESO which result in correct allocations of the regulated price plan (RPP) variances that are settled with the IESO and Power and global adjustment (GA) variances as at December 31, 2015. A secondary objective was to ensure that proper processes are in place for embedded generation (EG) settlements and GA allocations between Class A and Class B customers.

PROCEDURES

For the DVA Audit, Staff gained an understanding of KWHI's process for conforming to the APH in relation to Accounts 1588 and 1589. Staff examined, on a test basis, evidence supporting KWHI's conformity with the APH, including tracing of the accounting records to third party invoices and customer bills.

For the RPP Settlement Audit, Staff gained an understanding of KWHI's processes and controls for complying with relevant regulations made under the *Ontario Energy Board Act, 1998*³ and the OEB's Retail Settlement Code. Staff examined, on a test basis, evidence supporting KWHI's compliance with the relevant regulations, including tracing

¹ In KWHI's 2016 IRM Decision and Order EB-2015-0084, the OEB authorized the audit of Accounts 1588 and 1589.

² The most recent year of RRR 2.1.7 balances filed with the OEB when the audits were initiated

³ Regulations include Ontario Regulations 430/04, 429/04, and 95/05.

of the settlement records to the underlying volumes and prices that are posted by the OEB or the IESO.

Furthermore, Staff also tested, on a sample basis, the effectiveness of KWHI's information technology (IT) reports⁴ on which some of KWHI's accounting and settlement processes heavily rely. However, detailed testing of these IT reports was beyond the scope of these audits and as such, Staff is unable to provide assurance on the accuracy and completeness of all of KWHI's IT reports.

DVA AUDIT RESULTS

A complete description of the finding and observations pertaining to the DVA Audit is detailed in **Appendix 1**. A brief summary is set out below:

Summary Conclusions

Staff has concluded that subject to the OEB's review of prior period adjustments made by KWHI to 2013 balances mentioned below, nothing came to Staff's attention that the account balances for Accounts 1588 and 1589 as at December 31, 2015 as filed in Reporting and Records Keeping Requirement (RRR) 2.1.7 are materially misstated.

Staff further concludes that KWHI's 2013 balances for Accounts 1588 and 1589 that were disposed on a final basis were not accurate, given multiple misallocation errors⁵. Staff noted that KWHI has made prior period adjustments in 2014 and 2015 for all misallocation errors on the 2013 final disposed balances. As a result, Staff expects KWHI to follow filing requirements to disclose these prior period adjustments to the OEB in its 2018 rate proceeding.

Summary Finding

1. Apart from the input error of \$3,447k in 2013 (disclosed in the 2016 IRM rate application), Staff noted other errors made by KWHI which impacted the final disposed 2013 balances for Accounts 1588 and 1589. The net impact of the errors made by KWHI caused a misallocation in the 2013 balances between 1588 (understated by \$2,195k) and 1589 (overstated by \$2,195k) which were disposed on a final basis. DVA and GA rate riders effective from January 1, 2015 to December 31, 2015 resulted in cross-subsidization between KWHI's rate classes.

⁴ Specifically, the IT reports developed from KWHI's 35 year-old in-house billing system are: billed revenue reports for the purpose of booking the revenues in RSVAs; unbilled revenue reports for the purpose of unbilled revenue estimates; the RPP variance report for the purpose of RPP variance settlements; and the embedded generation reports for the purpose of embedded generation settlements.

⁵ KWHI disclosed one misallocation error in its 2016 IRM rate proceeding.

Summary Observations

1. There was a mismatch of the revenues and expenses for Account 1589 in the GL and RRR reported prior to 2014. Prior to October 2013, KWHI used the billed method for GA revenues while using the accrual method for GA charges. Starting from October 2013, KWHI estimated unbilled GA revenues. However, the unbilled GA revenues were not recorded and reflected in Account 1589 until December 2014. There may not be a material impact from this observation.
2. KWHI maps both RPP and non-RPP portions of GA charges in its GL to Account 4707 in the Reporting and Record Keeping Requirement (RRR) 2.1.7. The APH requires distributors to record the non-RPP portion of the GA charges in Account 4707 and the RPP portion of the GA charges in Account 4705. Staff notes that there is no impact on the balances of Accounts 1588 and 1589. However, the RRR 2.1.7 balances for Accounts 4705 and 4707 are misstated for all reporting years.

RPP SETTLEMENT AUDIT RESULTS

A complete description of the findings and observations pertaining to the RPP Settlement Audit is detailed in **Appendix 2**. A brief summary is set out below:

Summary Conclusion

Except for the findings and observations noted below, nothing has come to Staff's attention that KWHI's processes does not appropriately capture the settlement processes with the IESO in accordance with the proper regulations and hence result in a proper allocation of the RPP, Power and GA variances as at December 31, 2015.

Summary Findings

1. Out of 40 EG samples tested, Staff notes that KWHI made payments to three EG customers in 2014 and 2015 that were not in accordance with the underlying EG contracts. As a result, KWHI may have settled incorrect EG amounts with the IESO and the customers during the respective contract periods.
2. While estimating the generation kWhs and dollar amounts that are settled with the IESO on a monthly basis for the RESOP contract, KWHI's process has resulted in an over-estimate for the off-peak generation kWhs and an under-estimate of the on-peak kWhs for a majority of the months within the audit scope.

Although the estimations are trued up to the actuals after two months, KWHI's process has resulted in inaccurate settlement amounts and on-peak performance incentives for the current month settlements with the IESO.

Summary Observations

1. Staff notes some instances of control weaknesses in the RPP settlement process.
2. Staff notes a number of weaknesses and inconsistencies in the EG settlement process.

Appendix 1
DVA Audit – Finding and Observations Detail

Detailed Finding

1.1.1 Finding 1

Apart from the input error of \$3,447k in 2013 (disclosed in the 2016 IRM rate application), Staff noted other errors made by KWHI which impacted the final disposed 2013 balances for Accounts 1588 and 1589. The net impact of the errors made by KWHI caused a misallocation in the 2013 balances between 1588 (understated by \$2,195k) and 1589 (overstated by \$2,195k) which were disposed on a final basis. DVA and GA rate riders effective from January 1, 2015 to December 31, 2015 resulted in cross-subsidization between KWHI's rate classes.

1.1.2 Basis of Finding

KWHI's DVA balances including Accounts 1588 and 1589 as at December 31, 2013 were disposed on a final basis in its 2015 IRM Decision and Order EB-2014-0089 dated December 19, 2014. In its 2016 IRM rate application EB-2015-0084, KWHI disclosed the input error of \$3,447k which impacted the 2013 balances for Accounts 1588 and 1589. The 2016 IRM Decision and Order EB-2015-0084 dated December 10, 2015, page 7, stated:

While I note that Kitchener-Wilmot Hydro has undertaken a comprehensive review of balances, errors of this nature put into question whether there are further amounts which have been incorrectly allocated. For these reasons, I will not approve disposition of any balances at this time until the OEB's Audit and Performance Assessment unit has conducted an audit of the balances in Kitchener-Wilmot Hydro's Accounts 1588 and 1589.

Staff looked into the transactions entered in 2013 to examine any further errors that may have impacted the 2013 balances for Accounts 1588 and 1589. Besides the input error that had been already disclosed, Staff noted the following errors that have caused a misallocation between Accounts 1588 and 1589 as at December 31, 2013:

- 1) KWHI mistakenly booked the unbilled revenues for GA in the revenue accounts for Account 1588 and reflected the unbilled revenues for GA in Account 1588 instead of Account 1589 as at December 31, 2013. The error materially impacted account balances for both Accounts 1588 and 1589 as at end of 2013 by approximately \$5,637k plus interest until the end of 2013 of \$5k.
- 2) Prior to 2015, KWHI mistakenly trued up the accrued GA charges to the actual charges on the IESO final settlement statements instead of the charges on the IESO power bills issued to KWHI. The impact of this error on 2013 final disposed balance was not material.

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In sum, the net impact of all errors has resulted in the following misallocation of 2013 final disposed balances for Accounts 1588 and 1589:

	2013 Final Disposed balances per 2015 IRM Decision and Order	Input Error disclosed in 2016 IRM	Misallocation of Unbilled revenues as at Dec 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
Total	- 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
Total	521,694	3,447,135	-5,642,318	79	-2,195,104	-1,673,410

Staff notes that all errors were adjusted by KWHI in 2014 and 2015 in its GL (and hence RRR balances) as follows:

- 1) The input error of \$3,447k was adjusted by KWHI in September 2015 by a journal entry in the GL.
- 2) The misallocation error of unbilled revenues as at December 2013 was corrected by booking the unbilled revenue entries for 1588 and 1589 separately as at end of December 2014.
- 3) The true-up mistake by KWHI was corrected in October 2015 by updating the GA continuity schedule and booking a reallocation entry.

1.1.3 Area of Non-Conformity Requiring Actions

KWHI made a number of misallocation errors. Correcting these errors has resulted in adjustments to DVA balances for Accounts 1588 and 1589 as at December 31, 2013 which were disposed on a final basis in IRM rate proceeding EB-2014-0089.

Staff notes that OEB Filing Requirements for Rate Applications states that the OEB expects no adjustments will be made to any DVA balances previously approved on a

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final basis. If adjustments are made, the distributor must make a statement, provide explanations for the nature and amounts and include supporting documentation in a section of its application titled “Adjustments to Deferral and Variance Accounts”. Staff expects that KWHI will follow these requirements in its next rate application.

1.1.4 Management Response

KWHI agrees with the finding as presented.

1.1.5 Management Action Plans

In KWHI’s next IRM application to be filed in August 2017, KWHI will include a section explaining the nature and amounts of the changes. The section will also include the impact to ratepayers of correcting the error.

Detailed Observations

2.1.1 Observation 1

There was a mismatch of the revenues and expenses for Account 1589 in the GL and RRR reported prior to 2014. Prior to October 2013, KWHI used the billed method for GA revenues while using the accrual method for GA charges. Starting from October 2013, KWHI estimated unbilled GA revenues. However, the unbilled GA revenues were not recorded and reflected in 1589 until December 2014. There may not be material impact from this observation.

2.1.2 Basis of Observation

The APH effective January 1, 2012, Article 490 stated:

The distributor must ensure a proper matching of the billed amounts recorded in the electricity sales accounts to those charges recorded in Account 4705.

Staff notes that the matching principle consistently applies to all retail settlement variance accounts.

APH effective January 1, 2012, Article 490 also indicated a switch from billed to accrual method effective January 1, 2012 prospectively and stated:

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Where billing cycles do not correspond with the 2011 year-end, the distributor will have to account for an additional unbilled revenue “stub” period related to customer billings from the day after the last billing cycle in 2011 through to December 31, 2011. These additional 2011 entries will allow for a prospective transition to comply with the requirements of the accrual basis of accounting, as all 2011 related charges and billings will have been recorded in 2011.

Prior to October 2013, KWHI used the billed method for the GA revenues while using the accrual method for the GA charges. KWHI started generating the unbilled revenue reports from its billing system in October 2013 for the purpose of estimating the unbilled GA revenues. However, the unbilled GA revenues were not booked into Account 1589 (refer to Finding 1) until December 2014. As a result, there was a mismatch of the GA revenues and charges prior to December 2014 in GL and RRR reported.

Staff notes that KWHI updated the GA variance spreadsheet (which serves as the continuity schedule) in October 2015 by incorporating the monthly unbilled GA revenues in the variance calculation. In addition, KWHI made the adjusting entry in the GL in October 2015 to correct the mismatch back to October 2013. However, as indicated by the APH above, the accrual basis of accounting may need to be caught up at the end of 2011.

Staff notes that the impact would not be material.

2.1.3 Area of Concerns

KWHI used mixed methods of accounting in Account 1589 prior to December 2014. In addition, the adjustment made was only back to October 2013 instead of from the end of 2011 in order to apply the accrual prospectively from 2012 and onward.

Moving forward, KWHI should ensure that a consistent accrual basis of accounting is applied to the regulatory accounting.

2.1.4 Management Response

KWHI began using accrual accounting for GA charges in October 2013, but these charges did not get booked into Account 1589 until December 2014. KWHI agrees with the observation as presented.

2.1.5 Management Action Plans

KWHI made the adjustment to accrual accounting for GA charges in October 2013. This change was also made to Account 1589 in December 2014. No further action is

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required in regards to these accounts. Moving forward KWHI will ensure that a consistent accrual basis of accounting is applied to its regulatory accounts.

2.2.1 Observation 2

KWHI maps both RPP and non-RPP portions of GA charges in its GL to Account 4707 in the RRR 2.1.7. The APH requires distributors to record the non-RPP portion of the GA charges in Account 4707 and the RPP portion of the GA charges in Account 4705. Staff notes that there is no impact on the balances of Accounts 1588 and 1589. However, the RRR 2.1.7 balances for Accounts 4705 and 4707 are misstated for all reporting years.

2.2.2 Basis of Observation

Article 220 of the APH version dated January 1, 2012 defines Account 4707 as follows:

4707 Charges - Global Adjustment

This account shall be used to record the Global Adjustment charges attributable to non-RPP customers, as a result of the settlement process with the Independent Electricity System Operator (“IESO”), host distributor or embedded generator. Note that the global adjustment charge for Regulated Price Plan consumers is not included in this account since the distributor settles this part of the global adjustment charge on its monthly settlement filings with the IESO.

Staff noted that prior to October 2015, KWHI did not separate the revenues and expenses for GA variance into the relevant revenue and expense accounts. Rather, it compared the total revenues and expenses for both Accounts 1588 and 1589, booked the journal entry for both Power and GA variances in Account 1588 first and then re-allocated the GA variance from Account 1588 to Account 1589. As a result, the GA expense account in both the GL and RRR 2.1.7 represented the total global adjustment charges.

After October 2015, KWHI followed the APH in recording the power and GA variances in Accounts 1588 and 1589 by separating the revenues and expenses for power and GA respectively. However, KWHI maps both the RPP portion and the non-RPP portion of the GA charges into Account 4707 in 2015 RRR 2.1.7.

As a result, Account 4707 balances reported in RRR 2.1.7 for all years represent the total GA charges instead of the non-RPP portion only of GA charges. This has caused

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an understatement of Account 4705 Power Purchased and an overstatement of Account 4707 Charges – Global Adjustment in RRR 2.1.7 reported below:

	RRR 2.1.7 reported balances which contained mistake	2015	2014	2013
4705	Power Purchased	43,383,085	67,431,715	50,943,510
4707	Charges - Global Adjustment	138,018,213	99,212,597	110,119,271

Staff notes that there is no impact to the balances of Accounts 1588 and 1589. Approximately 55% of the reported RRR 2.1.7 balances for Account 4707 should have been reallocated to Account 4705, given the approximate percentage for the RPP portion of the GA charge over the total in all years.

2.2.3 Area of Concerns

KWHI maps both RPP and non-RPP portions of the GA charges into Account 4707 Charges – Global Adjustment. This expense account should be used to record the non-RPP portion of GA charge only.

Moving forward (from 2016 RRR reporting), Staff expects KWHI to correctly map the RPP portion of the GA charges to Account 4705 Power Purchased and the non-RPP portion of the GA charges to Account 4707 Charges – Global Adjustment to ensure accurate reporting of both Accounts in RRR 2.1.7.

2.2.4 Management Response

KWHI agrees with the observation as presented.

2.2.5 Management Action Plans

KWHI has re-mapped the non-RPP portion of the GA charge to account 4707 and the RPP portion is mapped to 4705, as required by the APH. KWHI will properly report this in RRR 2.1.7 for 2016 and going forward.

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Detailed Findings

2.1.1 Finding 1

Out of 40 EG samples tested, Staff notes that KWHI made payments to three EG customers in 2014 and 2015 and one customer in 2016 that were not in accordance with the underlying EG contracts. As a result, KWHI may have settled incorrect EG amounts with the IESO and the customers during the respective contract periods.

2.1.2 Basis of Finding

Upon signing a contract with an EG customer, the IESO notifies KWHI confirming the commercial operation start date and eligibility of the generator, as well as the contract price for the purposes of settlement of the generator's contract. Staff notes that the commercial operation start date marks the start of the 20 year contract with EG customers, as stated in the IESO (former OPA) notification letter:

For purposes of settlement of the generator's FIT contract, the IESO deems that the above named generator has a Commercial Operation Start Date of [date]. This date shall mark the commencement of the 20 year payment term under the Contract.⁶

Retail Settlement Code, revised Oct 8, 2015, page 21, states:

Where an embedded retail generator has a contract with the Ontario Power Authority under which the Ontario Power Authority is purchasing output from the embedded generation facility, a distributor shall settle all applicable payments or charges associated with the contract, and shall do so in accordance with the pricing provisions of the contract and with such rules as may be determined by the Board⁷.

KWHI had 540 active EG contracts as of December 31, 2015. Staff sampled and tested 40 of these contracts to the supporting documents and noted the following mistakes:

- 1) For two sample EG contracts, KWHI started paying its customers for their generated kWhs at the contract rates prior to the generator's commercial operation start dates as confirmed by the IESO.

⁶ Copied from the IESO notification letter to the FIT contracts that were tested by Staff

⁷ The Ontario Power Authority referred in the Retail Settlement Code has been amalgamated into the IESO.

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- One EG customer's commercial operation start date was April 14, 2014. However, KWHI began paying this customer at its contract rate on April 2, 2014 (12 days prior to the commercial operation start date). As a result, KWHI has overpaid this customer \$8,558⁸.
- Another EG customer's commercial start date was February 8, 2016. However, KWHI began paying this customer at its contract rate on November 27, 2015 (more than 2 months prior). As a result, KWHI has overpaid this customer \$8,780⁹.

Prior to the commercial operation start date, KWHI should have only been paying its customers for their generated kWh at market rates. Therefore, KWHI has paid its customers and settled EG amounts greater than what the EG contracts stipulated.

KWHI cannot provide an explanation for these mistakes.

- 2) For one sample EG contract, KWHI paid its customer at a higher rate than the contract rate. The contract rate beginning September 2015 (contract start date) was \$0.539/kWh, whereas KWHI paid this customer \$0.548/kWh. The customer ceased to be a FIT customer in January 2016.

As a result, KWHI has paid this customer and settled a greater amount of \$232 than what the contract stipulated.

KWHI confirmed that this FIT contract was subsequently transferred to another customer in January 2016. However, the incorrect higher rate continued to be used to pay this new customer.

KWHI confirmed that it has not corrected the above noted mistakes with the customer and the IESO.

2.1.3 Area of Non-Conformity Requiring Action

KWHI made incorrect payments to three EG customers out of 40 samples tested.

Staff expects that KWHI advise the IESO regarding the mistakes and seek IESO's directions for any corrections to the EG settlement. In addition, Staff expects that KWHI make the necessary billing corrections to the EG customers in accordance with the OEB's Retail Settlement Code. Staff also expects KWHI to propose a timeline for the above actions.

⁸ Calculated by KWHI and verified by Staff

⁹ Calculated by KWHI and verified by Staff

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Moving forward, KWHI should review its process of billing its' EG customers to ensure that the amounts being paid and settled are in accordance with underlying EG contracts.

2.1.4 Management Response

KWHI agrees with the finding that the incorrect dollars were settled on three accounts.

2.1.5 Management Action Plan

KWHI has implemented a review process for EG contracts going forward. Steps taken include:

Entering of contracts into the CIS system is limited to 3 staff who are properly trained.

Supervisor approval is required before a contract goes live

Programming has changed so that there is a view only screen and unauthorized changes cannot be made.

Programming has been checked to ensure that the rate entered into the CIS system is the rate that is being paid to the EG contractor.

An audit program is being developed to randomly check contracts to ensure compliance

KWHI will contact the IESO in April 2017 to seek direction on any corrections that may be required. KWHI will investigate the changes needed for billing corrections in accordance with the OEB's Retail Settlement Code at the same time.

2.2.1 Finding 2

While estimating the generation kWhs and dollar amounts that are settled with the IESO on a monthly basis for the RESOP contract, KWHI's process has resulted in an over-estimate for the off-peak generation kWhs and an under-estimate of the on-peak kWhs for a majority of the months within the audit scope. Although the estimations are trued up to the actuals after two months, KWHI's process has resulted in inaccurate settlement amounts and on-Peak performance incentives for the current month settlements with the IESO.

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2.2.2 Basis of Finding

Staff notes that KWHI has one customer signed under RESOP as at December 31, 2015. The customer is billed on a calendar month basis.

Staff noted that except for a few months from 2013 to 2015, KWHI has consistently overestimated the current month forecasted on-peak kWh generated for the RESOP contract and underestimated the forecasted off-peak kWhs by the same amount. As a result, for the majority of months from 2013 to 2015, KWHI has had to consistently adjust its originally forecasted on-peak kWh and off-peak kWh for its RESOP customer by equal and offsetting amounts. For some months, this has resulted in adjustments of more than 50% of the originally forecasted kWhs.

KWHI explained that the issue results from the design of the EG IT report that was developed from the CIS billing system: the IT report assigns the generation consumption to the off-peak bucket when the pricing information is not available at the time of settlement. Then the IT report assigns the consumption to the correct off-peak/on-peak buckets once the hourly pricing is complete (after a 10-day lag). The correct information is then included in the true-up process starting two months later.

Staff noted that KWHI's true-up process ensures that the forecasted kWhs are trued up to the actual kWhs generated after two months. Furthermore, there is no impact on the total kWhs being reported to the IESO, as the discrepancies relate to different buckets of the same RESOP customer (i.e. on-peak vs. off-peak). However, depending on the magnitude of the true-up adjustments, the amounts for the RESOP contract settled by KWHI with the IESO for the current month may be materially different than the actual amounts and would not get trued-up until two months later.

2.2.3 Area of Non-Conformity Requiring Action

The consistent over/under estimate of the RESOP contract's current month consumptions in on-peak and off-peak buckets is an inherent issue in the EG IT report that results in unnecessary true-up adjustments after two months.

Moving forward, Staff expects that KWHI look into improving the programming of the EG IT report to enable more accurate information to be submitted to the IESO for the current month on a timely basis.

2.2.4 Management Response

KWHI agrees with the finding.

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2.2.5 Management Action Plan

KWHI will implement two changes to the forecasting process for the RESOP customer. The first is the CIS program will check the time of the meter read and the time, rather than the price, will determine if the kWhs are on peak or off peak. The process has been designed, and final testing will occur in April 2017, to be implemented by June 2017. A second change is the analysis of the estimates to the actuals will be performed on a regular basis to ensure that the forecasts being filed are reasonable to the actuals recorded. The analysis has been implemented effective March 2017.

Detailed Observations

2.1.1 Observation 1

Staff notes some instances of control weaknesses in the RPP settlement process.

2.1.2 Basis of Observation

Staff notes that KWHI's RPP settlement process is mainly comprised of two parts: the customized RPP variance IT report that was developed from KWHI's in-house billing system and the in-house 1598 excel spreadsheet maintained by KWHI's regulatory group on a monthly basis to summarize the current month forecasted RPP settlements and prior months' true-ups for IESO submissions.

Staff notes the following control weaknesses for the RPP settlement process:

- 1) A formula error was noted in April 2014 to calculate the RPP portion of the GA to be claimed by KWHI. The formula was mis-linked to a prior month's GA rate so the original April RPP variance settlement with the IESO included the incorrect RPP GA amount. The mistake was corrected automatically through the subsequent true-up process in July 2014.

- 2) The RPP variances (kWhs and \$) in the Form 1598 excel spreadsheet for the purpose of RPP settlements are directly copied from the in-house developed IT report extracting the information from the billing system. The report was developed and reviewed by the same staff in the IT group. In addition, the staff's review is limited to a check and balance of two IT reports that are coming from the same source (billing system) and that were both developed by the same staff in KWHI. Staff confirmed with KWHI that there were no other controls for the accuracy and completeness of the information in the report.

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- 3) The Senior Regulatory Analyst who prepares the Form 1598 excel spreadsheet also reviews the spreadsheet by reconciling to the IT report and IESO submissions.

The above noted control weaknesses may undermine the accuracy of RPP variance settlement amounts.

2.1.3 Area of Concerns

The control weaknesses could impact the accuracy of the settlement amounts with the IESO, if not addressed.

Staff encourages KWHI to make efforts to improve on the internal controls and strengthen its reviews to ensure the accuracy and integrity of the RPP variance settlement processes. A number of measures could be implemented by KWHI, including but not limited to:

- 1) Increase automation of the in-house 1598 excel spreadsheet with respect to the RPP variance information by protecting formula cells and automatically linking input cells from different sources to reduce human errors.
- 2) Increase the segregation of the review by having a different staff review the work performed.

2.1.4 Management Response

KWHI agrees with the observation.

2.1.5 Management Action Plans

KWHI has implemented the following changes:

Second review of the Form 1598 submission commenced in February 2017

Beginning March 2017, additional staff are being trained for the IESO submission

Process documentation is being updated.

KWHI continues to explore ways to continuously improve and automate its processes with regards to Form 1598

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2.2.1 Observation 2

Staff notes a number of weaknesses and inconsistencies in the EG settlement process.

2.2.2 Basis of Observation

Staff notes that KWHI's EG settlement process is mainly comprised of two parts: the customized EG IT report developed from KWHI's in-house billing system and the Form 1598 excel spreadsheet maintained by KWHI's regulatory group on a monthly basis to summarize the current month forecasted EG settlements and prior months' true-ups for IESO submissions.

In reviewing KWHI's process of settling EG contracts with the IESO, Staff noted the following weaknesses and discrepancies:

- 1) Due to a formula error on KWHI's Form 1598 excel spreadsheet, the EG volume submitted by KWHI for June 2013, after true-up adjustments, was 2,115,930 kWh less than the actual volume of 3,589,806 kWh that should have been submitted (a 144% difference). As a result, the amount of GA settled with the IESO was understated by \$149,025 in June 2013. This was corrected in April 2014 after the IESO made inquiries with respect to inconsistencies in the EG data submitted by KWHI during 2013 and prior periods.
- 2) For the sample months of June and December 2013, Staff noted that the individual volumes for RESOP, FIT and microFIT contracts submitted by KWHI did not agree with the total volume of all EG contracts for each month. KWHI confirmed this was the case for all the months from January to October 2013. As a result, combined with the issue noted above for June 2013, the GA settled with the IESO for the prior periods up to October 2013 was understated by \$190,917. This discrepancy was also identified by the above-noted IESO inquiries and corrected in April 2014.
- 3) Staff noted an error made by KWHI in the April 2014 1598 excel spreadsheet, resulting in an incorrect generated kWh for FIT and microFIT customers being submitted to the IESO and incorrect total EG kWhs. When the kWh for these customers were first trued-up in July 2014, the adjustments represented an 85% reduction in the originally forecasted kWh for FIT customers and a 76% reduction in kWh for microFIT customers. Although the errors were trued up to the actual kWh, the materially incorrect total EG kWhs would have been used by the IESO to allocate the GA charges to KWHI in April 2014 using the GA rate in April 2014.

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- 4) Staff also noted an instance where KWHI did not use consistent source reports in compiling the EG data to the IESO. In December 2014, KWHI used two different source IT reports to determine the EG volume and settlement dollar amount for its RESOP customer. KWHI could not explain why this occurred but emphasized that the forecasted amount would have been trued up to the actuals subsequently.

- 5) Weakness in controls was exhibited as the incorrect EG payments to customers (refer to Finding 1 in Appendix 2) were not detected by KWHI.

Staff notes that the true-up process is intended to true up the estimates to the actuals rather than to correct mistakes. The inconsistencies of the process and the weakness in controls could undermine the accuracy of EG settlement amounts with the IESO and the customers.

2.2.3 Area of Concerns

It appears that KWHI's EG settlement process may have some weakness and inconsistencies.

Staff notes that KWHI has improved the EG IT report from the billing system and updated its supporting spreadsheet in 2015 to ensure formulas and totals are correct. Staff encourages KWHI to make further improvements to ensure the accuracy and integrity of the EG settlement process. The measures could include, but are not limited to:

- 1) Increase automation of the Form 1598 excel spreadsheet with respect to the EG information to limit human errors.

- 2) Perform a reconciliation of the actual EG kWhs by program to the sum of the retail generation statements on a periodic basis to ensure the accuracy of the kWhs settled and reported to the IESO.

- 3) Perform an analytical review of the EG true-ups on a regular basis to improve on the accuracy of the forecasted information.

2.2.4 Management Response

KWHI agrees with the observation.

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2.2.5 Management Action Plans

KWHI continues to look for ways to improve and automate its processes. In February 2017, KWHI implemented an input control spreadsheet to ensure kilowatt hours submitted agree to source documentation.

In March 2017, KWHI documented the process of the IESO submission to ensure consistency in reporting.

In February 2017, KWHI developed a spreadsheet to perform an analytical review of the actual volumes in dollars and kilowatt hours submitted to the IESO to ensure accuracy in the forecasted information.