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December 18, 2017

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: EB-2017-0056 Kitchener-Wilmot Hydro Inc. 2018 IRM Application
VECC's Final Submissions**

Attached please find VECC's final submissions in the above proceeding.

We have also directed a copy of the same to the Applicant.

Yours truly,

A handwritten signature in black ink, appearing to read 'Cynthia Khoo', written in a cursive style.

Cynthia Khoo
Counsel for VECC

Cc: Kitchener-Wilmot Hydro Inc.

Kitchener-Wilmot Hydro Inc.
Application for electricity distribution rates effective January 1, 2018
EB-2017-0056

VECC's Final Submissions
December 18, 2017

Kitchener-Wilmot Hydro Inc. (Kitchener-Wilmot Hydro) filed an application with the Ontario Energy Board (OEB) on August 14, 2017 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) and under the OEB's Filing Requirements for Incentive Regulation Rate Applications seeking approval for changes to its electricity distribution rates to be effective January 1, 2018.

As part of the application, Kitchener-Wilmot Hydro is requesting disposition of its Group 1 Deferral and Variance account balances. In doing so, Kitchener-Wilmot Hydro seeks to correct errors in the 2013 balances within accounts 1588 and 1589 which were disposed of on a final basis as part of Kitchener-Wilmot Hydro's 2015 IRM proceeding (EB-2014-0089). As a result of the errors, Non-RPP customers were overcharged and RPP customers were undercharged.

VECC's position is that the Board should approve Kitchener-Wilmot Hydro's request to refund amounts to non-RPP customers that were overcharged. At the same time, the Board should approve an asymmetrical treatment and not require payment from RPP customers who underpaid.

Background

In its 2016 IRM application (EB-2015-0084), Kitchener-Wilmot Hydro was not approved for disposition of any Group 1 Deferral and Variance account balances. The Board determined that adjusting the 2013 DVA balances raises questions of retroactive ratemaking that go beyond the scope of the proceeding.¹ Further, the OEB ordered an audit to be completed by the Board's Audit and Performance unit on the balances in Retail Settlement Variance Accounts (RSVA) 1588 (Power) and 1589 (Global Adjustment (GA)). The audit was triggered due to a manual recording error in 2013 affecting Accounts 1588 and 1589 that was discovered during the interrogatory phase in EB-2015-0084 when Board Staff questioned the large balance in the Global Adjustment account.² The audit was completed in April 2017.

The conclusion of the audit determined that since the 2016 IRM application, Kitchener-Wilmot Hydro made two additional errors beyond the original error detected in its 2016 IRM application, for a total of three errors. The errors are a misallocation between DVA accounts and years. The errors are as follows:

1. A manual adjustment error. The error was to place a wrong number in a cell of a worksheet. This error occurred in November 2013³ and was disclosed in the 2016 IRM (EB-2015-0084). The impact of error #1 is \$3,443,918 excluding interest.⁴ Account 1588 is overstated and Account 1589 is understated by this amount.

Kitchener-Wilmot Hydro explains that there were several contributing factors to not finding error

¹ EB-2015-0084 Decision Page 12

² Board Staff IR#9

³ Board Staff IR#9 (a)

⁴ SEC IR#10

#1: changes in management, manual processes due to system limitations and oral hearing pressures.⁵ The incorrect amount input by a senior regulatory analyst was not noticed by the manager reviewing the file due to pressures that included preparation for an oral hearing.⁶

Also, Kitchener-Wilmot Hydro indicates the General Ledger account balance for the GA was hard to reconcile due to not matching the spreadsheet on a monthly basis and the wild swings between final GA charges from the IESO and the first estimate billed by Kitchener-Wilmot Hydro.⁷ VECC submits given the known ongoing need to reconcile these large cash balances on a monthly basis as explained by Kitchener-Wilmot Hydro, extra due diligence was required on the part of Kitchener-Wilmot Hydro to ensure a reliable variance reconciliation process was in place and executed accurately and adequate oversight was in place. Kitchener-Wilmot Hydro failed to provide this due diligence and the appropriate checks and balances were not in place to ensure accuracy resulting in a data input error in the formula. VECC acknowledges that this error was not intentional but in its view, was preventable had sufficient protocols been in place.

In response to Board Staff IR#9, Kitchener-Wilmot Hydro outlines steps it has taken to improve the Power/GA variance process including using the IESO power bill as the source of the information for the GA charges and reconciling the GA variance account monthly to the General Ledger. In VECC's view, it is reasonable to expect that these steps should have already been in place. Kitchener-Wilmot Hydro was unable to provide any internal documents that detail its internal monitoring processes noting that the process of documenting procedures is ongoing and currently not available.⁸ VECC is concerned that since documented internal processes are not available, allocation errors could persist.

2. Not matching revenue and expenses. Kitchener-Wilmot Hydro made monthly adjustments to accrue for unbilled revenue but did not separate the Power expense into its components of GA and Power until December 2014. This error was discovered and corrected in December 2014. The impact of error #2 is greater than the original error: \$5,637,187 excluding interest.⁹

The OEB's requirement to separate the RSVA GA and Power Account 1588 and 1589 and a revenue account for GA was in place January 2012. Kitchener-Wilmot Hydro explains that it has a 30-year old home-grown CIS system and the change to separate the GA from the power revenues took some additional programming that was not completed until October 2013. It took 14 more months to December 2014 for Kitchener-Wilmot Hydro to update the GA Variance spreadsheet to account for the split between Power and GA. It is unclear why it took so long to implement this change. The unbilled revenue adjustment corrected in 2014 is built into the 2014 and 2015 closing balances. Kitchener-Wilmot Hydro did not self-identify this error to the OEB during the 2016 IRM application which is concerning.

⁵ Staff IR#9

⁶ SEC IR#3

⁷ Board Staff IR#9

⁸ VECC IR#2 (a)

⁹ Staff IR#10

3. The third error KWHI made was to use the Final Settlement instead of the actual IESO bill to record the GA variance. The impact of error #3 is \$79.¹⁰ Kitchener-Wilmot Hydro changed its processes in 2015 and error#3 cannot occur again.¹¹

VECC submits the totality of the errors is significant. Some customers were overcharged, and some were undercharged.¹² Kitchener-Wilmot Hydro seeks to correct all three errors in this application that affect 2013 and 2014 entries, with balances as of December 31, 2016.

To correct these errors Kitchener-Wilmot Hydro proposes an adjustment and reallocation between RPP and non-RPP customers. Specifically, non-RPP customers would receive a credit and RPP customers would have a debit balance owing. Non-RPP customers have overpaid by \$2,195,104 and RPP customers have underpaid by the same amount.¹³

Retroactive Ratemaking

Given that the 2013 incorrect balances have been cleared on a final basis the Board must determine if any adjustment to 2013 DVA balances violates the legal requirements concerning retroactive ratemaking. VECC reviewed the draft detailed submissions of SEC on retroactive ratemaking and supports those submissions. Specifically, VECC notes that in some previous cases the Board has allowed the application of a credit to ratepayers for amounts that were included in past approved rates in error. VECC agrees that past Board Decisions confirm that there is no need for symmetrical treatment between ratepayers and utilities where the basis of the error is the utilities mistakes.¹⁴

VECC submits that Kitchener-Wilmot Hydro failed in its responsibility to ensure it is properly following the OEB's Accounting Procedures Handbook and providing accurate filings to the OEB. The nature of Kitchener-Wilmot Hydro's errors discussed above demonstrates carelessness in its processes and inattentiveness in its oversight which resulted in input errors and the misallocation of unbilled revenues, all to the detriment of customers, through no fault of their own. All affected customers are innocent third parties. Vulnerable energy consumers and in particular low income seniors cannot afford to be out of pocket because of inadequate controls and errors made by the utility. Similarly, these same customers would be unreasonably burdened if required to pay out of period costs in future years. Also, there is a risk of inter-generational inequity when the consumers responsible for incurring costs are not the same consumers paying the costs out of period.

VECC submits that Kitchener-Wilmot Hydro's non-RPP customers should be made whole and Kitchener-Wilmot Hydro should refund the over-collected amounts. At the same time, VECC submits that the Board should approve an asymmetrical treatment whereby RPP customers who underpaid are not required to payback the unbilled amounts and no retroactive adjustment is made to Account 1588.

VECC submits Kitchener-Wilmot Hydro is ultimately accountable for its mistakes. There is no evidence that such a refund would have an adverse impact on the financial viability of Kitchener-Wilmot Hydro. In 2015, the year the 2013 balances were disposed of Kitchener-Wilmot Hydro over-earned and

¹⁰ Staff IR#9

¹¹ VECC IR#2 (e)

¹² EB-2017-0056 2018 IRM Application Page 14 Table 5

¹³ EB-2017-0056 2018 IRM Application Page 12 Table 3

¹⁴ SEC Submission Page 4

achieved a Return on Equity (ROE) of 11.47%.¹⁵ In the years 2016, 2017 and 2018, the actual and forecast ROE is 10.18%, 8.62% and 7.10%, respectively.

ALL OF WHICH IS RESPECTFULLY SUBMITTED DECEMBER 18, 2017.

¹⁵ SEC IR#5