



Monday, August 27, 2018

Tony Stanco
Manager, Audit & Investigations
Ontario Energy Board
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Mr. Stanco:

Re: Management Response to the Ontario Energy Board's Inspection of Processes Related to Global Adjustment and Regulated Price Plan Settlement

On February 27, 2018, Oakville Hydro received a letter from the Ontario Energy Board's (OEB's) Audit and Investigations department advising that it would be conducting an inspection of Oakville Hydro's processes and practices specifically related to global adjustment and Regulated Price Plan (RPP) settlement with the IESO.

During the course of the inspection, Oakville Hydro provided the information requested and worked cooperatively with OEB staff as they assessed its systems and processes. On August 13, 2018, OEB staff issued an Inspection Report (the Report) with their findings and recommendations.

The following paragraphs summarize the findings of the Report and describe the actions that Oakville Hydro has taken to address the issues identified by OEB staff.

1. Settlement of Embedded Generation Amounts with the IESO

As identified in the Report, Oakville Hydro had been settling with the IESO for amounts related to embedded generation based on the wholesale market price of electricity plus the global adjustment. Oakville Hydro had implemented this process based on direction from the Ontario Internal Audit Division Treasury Board Office of the Ministry of Finance in July 2010.

In its inspection, OEB staff found that this direction was inconsistent with the guidelines issued by the OEB and the Independent Electricity System Operator (IESO) and, as a result, the amount recovered from the IESO was \$967,335 less than it should have been over the two-year period under review.

OEB staff noted that, since Oakville Hydro has not applied for the disposition of accounts 1588 and 1589, there has been no impact to the customer.

Oakville Hydro has updated its processes to settle amounts related to embedded generation based on the wholesale price of electricity only and has adjusted the balance in Account 1588. Oakville Hydro will claim back the amount of \$967,335 that was settled in error from the IESO in 2018.

2. Allocation of Global Adjustment

As per the OEB's guidelines, Oakville Hydro trues up the global adjustment rate from the estimated rate to the actual rate. However, during the inspection, OEB staff found that when Oakville Hydro was allocating the Class B Global Adjustment charges between RPP and non-RPP customers, the true-up amount was not reflected in the calculation. As a result, there was a cumulative misallocation of \$1,240,162 between accounts 1588 and 1589 for 2016 and 2017. OEB staff noted that, since Oakville Hydro has not applied for the disposition of accounts 1588 and 1589, there has been no impact to the customer.

Oakville Hydro has updated its processes to accurately allocate the true-up of the global adjustment and has made the necessary adjustments to the balances of accounts 1588 and 1589.

3. Billing of Ineligible RPP Customers

Oakville Hydro reviews customer eligibility for the RPP on an annual basis. Those non-residential customers with a demand less than 50 kW or those that consume less than 250,000 kWh per year are classified as RPP customers. However, during the inspection, OEB staff identified three customers with demand greater than 50 kW and annual consumption of over 250,000 kWh that had incorrectly been classified as RPP customers.

Oakville Hydro agreed with these findings and reclassified the three customers to non-RPP effective May 28, 2018. Oakville Hydro notes that it has undergone a number of staff changes and therefore, it has updated its process to include a more rigorous management oversight of RPP eligibility. Oakville Hydro will also look for opportunities to automate the process to reduce the risk of error in the future.

4. Control Weaknesses

OEB staff noted two areas of control weakness:

- a) An immaterial anomaly in the information regarding unbilled consumption provided in system-generated reports.
- b) In calculating the peak demand for one Class A customer, Oakville Hydro inadvertently used the same demand for the 2016 base period as in the previous year. Since the values were similar, the impact was not material.

Oakville Hydro has updated its processes related to unbilled consumption estimates to include more reasonableness checks on system-generated reports. Oakville Hydro will look for opportunities to simplify the processes related to the calculation of RPP settlement variances and increase the level of management review.

Oakville Hydro appreciates the opportunity to participate in this process, given the complexity of the global adjustment and RPP settlement process, and thanks OEB staff for the recommendations provided in the final report.

Sincerely,



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Oakville Hydro

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