

Ontario Energy
Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie
de l'Ontario
C.P. 2319
27e étage
2300 rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



October 29, 2019

Lise Wilkinson
Manager
Hydro 2000 Inc.
440 rue St-Philippe St. Alfred ON K0B 1A0

Dear Ms. Wilkinson:

**Re: Inspection of Power and Global Adjustment Deferral and Variance
Accounts**

The Ontario Energy Board's Audit & Investigations Department (OEB staff) has completed its inspection of Hydro 2000 Inc.'s (Hydro 2000) deferral and variance accounts (DVA) for Account 1588 (RSVA – Power) and Account 1589 (RSVA-Global Adjustment) for the period of January 1, 2015 to December 31, 2016. The inspection evaluated whether Hydro 2000's accounting practices related to Account 1588, Account 1589 and its Regulated Price Plan settlement claims were in compliance with the relevant regulations under the Electricity Act, 1998 and Ontario Energy Board Act, 1998. Further the inspection examined whether the Account 1588 and Account 1589 balances were accounted for in accordance with the OEB's Accounting Procedures Handbook and OEB guidance.

The results of the inspection are now shared with Hydro 2000 in the form of a written inspection report. To the extent that the inspection required the examination of documents, records or information that are not already in the OEB's possession, OEB staff acted under Part VII of the *Ontario Energy Board Act, 1998*.

The inspection resulted in a reconstruction of the balances for Account 1588 and Account 1589. The inspection report concludes that nothing has come to OEB staff's attention indicating that the reconstructed balances were materially misstated.

We thank you for your cooperation and assistance. Please do not hesitate to contact the undersigned directly should you have any questions.

Yours truly,



Tony Stanco
Manager - Audit & Investigations

Copy:

Brigitte Pigeon, President - brigittepigeon26@hotmail.com

Michael Buonaguro, Lawyer - mikebuonaguro@me.com

Gerald Gauthier, Director of Deloitte - gegauthier@deloitte.ca

ONTARIO ENERGY BOARD



Inspection Report

**Inspection of Account 1588 (RSVA – Power) and
Account 1589 (RSVA- Global Adjustment)**

Hydro 2000 Inc.

Date: October 29, 2019

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1. Executive Summary

The Ontario Energy Board's (OEB) Audit & Investigations Department (Staff) conducted an inspection of Hydro 2000 Inc.'s (Hydro 2000) deferral and variance accounts (DVA) for Account 1588 (RSVA – Power) and Account 1589 (RSVA- Global Adjustment) for the period of January 1, 2015 to December 31, 2016.

The inspection evaluated if Hydro 2000's accounting practices related to Account 1588, Account 1589 and its Regulated Price Plan (RPP) settlement claims were in compliance with the relevant regulations under the *Electricity Act, 1998* and *Ontario Energy Board Act, 1998*. Further the inspection examined if the Account 1588 and Account 1589 balances were accounted for in accordance with the OEB's Accounting Procedures Handbook (APH) and OEB guidance.

Due to the pervasiveness of the errors noted below, Hydro 2000 was requested to reconstruct the Account 1588 and Account 1589 balances for the period of 2015 and 2016 using source documents such as monthly billing data and power invoices from its host distributor, Hydro One Networks Inc. (Hydro One).

Except for the findings and observations noted below, nothing has come to Staff's attention that Hydro 2000's reconstructed balances for DVA Account 1588 (RSVA-Power) and Account 1589 (RSVA-Global Adjustment) were materially misstated.

Findings

1. Hydro 2000 made numerous errors in its monthly RPP settlements with Hydro One, its host distributor for the period of January 2015 to December 2016. As a result, \$50,100 was over-collected from Hydro One for the period of January 2015 to December 2016.
2. Hydro 2000 made numerous errors in the entries to Account 1588 and Account 1589 throughout the inspection period of 2015 and 2016. As a result, Account 1588 balance was understated by a debit balance of \$69,676 and Account 1589 balance was overstated by a debit balance of \$65,781.
3. Hydro 2000 made numerous errors in its monthly embedded generation (EG) settlements with Hydro One, its host distributor for the period of January 2015 to December 2016.

4. Hydro 2000 incorrectly included Ontario Clean Energy Benefit (OCEB) reimbursements from Hydro One in the revenue accounts of Account 1588 in December 2015 and February 2016. As a result, the Account 1588 revenue was overstated by \$2,378 in December 2015 and \$30,562 in February 2016.

Observations

1. Hydro 2000 incorrectly included Ontario Electricity Support Program (OESP) revenue in the revenue accounts of Account 1588 in April 2016. Hydro 2000 also incorrectly included OESP charge from its host distributor Hydro One's invoices in the expense accounts of Account 1588 in March and April of 2016.
2. Hydro 2000 didn't convert from billed/cash basis of accounting to accrual basis of accounting until 2015 fiscal year.

A complete description of the findings and observation is detailed in **Appendix 1** and **Appendix 2**.

2. Reason for Inspection

The inspection was conducted by Staff in response to the Decision and Order of the OEB in Hydro 2000's 2017 IRM rate proceeding, in which, it stated that "Hydro 2000 Inc. could not explain a significant discrepancy in account 1589. The OEB also considers that the credit balance of Hydro 2000 Inc.'s RSVA – Power is high in light of the size of the utility's customer base."¹ Therefore, the Decision concluded that "the OEB plans to conduct an audit of balances in Hydro 2000's Accounts 1588 and 1589 for the period following when balances were last disposed."²

Hydro 2000's Accounts 1588 and 1589 were last disposed of on a final basis for the balances as of December 31, 2014 in its 2016 IRM rate proceeding EB-2015-0076.

¹ Page 7 of EB-2016-0078, Decision and Order issued March 30, 2017

² Page 8 of EB-2016-0078, Decision and Order issued March 30, 2017

3. Objective and Scope

The objectives of this inspection were as follows:

- 1) Examine the balances of Account 1588 and Account 1589 for the period of January 2015 to December 2016.
- 2) Determine if the accounting policies and procedures for Account 1588 and Account 1589 were properly and consistently applied in accordance with OEB's Accounting Procedures Handbook (APH) and OEB regulatory guidance.
- 3) Determine if the accounting practices related to Account 1588, Account 1589, and RPP and EG settlement claims were in compliance with the relevant regulations under the *Electricity Act, 1998* and *Ontario Energy Board Act, 1998*.
- 4) Determine if the RPP and EG settlement amounts, including the true-ups were accurate and complete and the settlements were recorded in the appropriate account.
- 5) Validate that GA charges were properly allocated between Account 1588 and Account 1589.

The scope of the inspection was for the period of January 2015 to December 2016. The last disposition of Account 1588 and Account 1589 on a final basis were the December 31, 2014 balances as part of Hydro 2000's 2016 IRM rate proceeding.³

4. Methodology

Through the inspection, Staff:

- Obtained an understanding of Hydro 2000's policies, procedures, and controls with respect to the determination and reporting of Accounts 1588 and 1589 balances, RPP and EG settlement amounts with Hydro One.
- Sample tested six months of entries to Accounts 1588 and eight months of entries to Account 1589.
- Assessed Hydro 2000's compliance with relevant regulations made under the *Ontario Energy Board Act, 1998* and *Electricity Act, 1998*.

³ EB-2015-0076, Decision and Order issued March 17, 2016

- *Ontario Energy Board Act, 1998*, Ontario Regulation 95/05 Classes of Consumers and Determination of Rates
 - *Electricity Act, 1998*, Ontario Regulation 429/04 Adjustment under Section 25.33 of the Act
 - *Electricity Act, 1998*, Ontario Regulation 430/04 Payments re Section 25.33 of the Act
-
- Assessed the methodology and underlying information (volumes and prices) for the determination of the monthly RPP settlement amounts and true-up amounts.
 - Examined Hydro 2000's compliance with the relevant sections in the APH, effective January 1, 2012, for the purpose of Account 1588 and Account 1589.
 - Assessed the process for EG settlement and GA allocations between RPP and non-RPP customers.

Due to the pervasiveness of the errors noted, Hydro 2000 was requested to reconstruct the Account 1588 and Account 1589 balances for the period of 2015 and 2016 using source documents such as monthly billing data and Hydro One power invoices.

Refer to Appendix 3 for the description on the compliance assessment criteria.

5. Licensee Profile

Hydro 2000 Inc. serves about 1,200 mostly residential and commercial electricity customers in the Township of Alfred and Plantagenet in eastern Ontario, half-way between Ottawa and Montreal. Hydro 2000's accounting function is outsourced to Deloitte Touche Tohmatsu Limited, commonly referred to as Deloitte. Hydro 2000 Inc. is an embedded utility and Hydro One is its host distributor.⁴ Hydro 2000 receives power invoices from Hydro One on a monthly basis.

⁴ EB-2007-0704 Exhibit: 1 Tab: 1 Schedule: 12 Page: 1

6. Conclusion

Staff concluded that Hydro 2000's reconstructed balances for Account 1588 and Account 1589 reflected the errors noted in the report and were not materially misstated. Hydro 2000's last disposition of Account 1588 and Account 1589 were for the balances as of December 31, 2014, therefore Hydro 2000's customers have not been affected by the errors. The reconstructed balances should be submitted for disposition in the next rate application. Table 1 below presents the original balances and the revised balances as a result of the inspection for Account 1588 and Account 1589 for the reporting period of January 2015 to December 2016.

Table 1

	Revised Balances (\$)		Previously Filed Balances (\$)		Adjustments (\$) as a Result of Inspection	
	1588	1589	1588	1589	1588	1589
2015						
Principal	29,817.33	9,804.40	(53,374.00)	106,405.00	83,191.33	(96,600.60)
Interest	1,043.83	438.55	(302.24)	1,809.25	1,346.07	(1,370.70)
Total	30,861.16	10,242.95	(53,676.24)	108,214.25	84,537.40	(97,971.30)
2016						
Principal	16,507.87	6,737.44	(19,620.12)	6,737.44	36,127.99	0.00
Interest	2,360.62	404.09	808.56	1,104.27	1,552.06	(700.18)
Total	18,868.49	7,141.53	(18,811.56)	7,841.71	37,680.05	(700.18)

Since the revised balances for Account 1588 and 1589 in Table 1 were presented on accrual basis and Hydro 2000 followed cash method of accounting in 2014 of which the accounting books were closed, Hydro 2000 recorded the November and December 2014 Hydro One invoices and December 2014 billing in 2015 as opening balance adjustments. The impact of such adjustments were \$158,168 for Account 1588 and \$32,891 for Account 1589 as seen in Table 2 below. These opening balance adjustments should also be submitted for disposition in the next rate application. The total adjustments were presented in the Table 3 below.

Table 2

Account #	Revised Balance (\$)	Previously Recorded (\$)	Adjustments (\$) as a Result of Inspection
1588	158,168.48	210,709.78	(52,541.30)
1589	32,890.96	-	32,890.96

Table 3

Account #	Principal (\$)	Interest (\$)	Total Adjustments (\$)
1588	66,778.02	2,898.13	69,676.15
1589	(63,709.64)	(2,070.88)	(65,780.52)

7. Appendix 1 – Detailed Inspection Findings

7.1.1 Finding 1

Hydro 2000 made numerous errors in its monthly RPP settlements with Hydro One, its host distributor for the period of January 2015 to December 2016. As a result, \$50,100 was over-collected from Hydro One for the period of January 2015 to December 2016.

7.1.2 Basis of Finding

As an embedded distributor, Hydro 2000 is required to make RPP settlement claims with its host distributor Hydro One for each trade month (i.e. calendar month) by the 4th business day after the month end. Through these claims Hydro 2000 recovers/returns the differences between amounts billed to RPP customers for commodity costs, and amounts charged by Hydro One based on the HOEP plus GA. Hydro One bills Hydro 2000 for RPP settlement claims through “Electricity Bill 100 Adj” which Hydro 2000 calculates and files with Hydro One.

Staff noted several issues with Hydro 2000’s RPP settlement process during the inspection period of January 2015 to December 2016, which affects the balances Hydro 2000 settled with Hydro One and Account 1588.

- (1) Hydro 2000 has been late in claiming the initial RPP settlement by a month. For example, Hydro 2000 submitted its April 2016 settlement claim on June 4, 2016 instead of May 6, 2016, the 4th business day after the April month end.

Hydro 2000 stated that it was because they have always settled the full calendar month sales volumes with Hydro One but the actual data won’t be available by the 4th business day after the month end. Hydro 2000 should have made estimates for the volumes at each RPP Time-of-Use (TOU) and tiered bucket at calendar month end for the initial settlement and true-up when the actual data becomes available.

- (2) Hydro 2000 has been using calendar month billed consumption data directly in its RPP settlements where the billed consumption adjusted for loss should be used as a basis to prorate the purchased volumes at the wholesale level to determine the appropriate RPP volumes for the RPP settlements.

The actual calendar month sales volumes adjusted for the Total Loss Factor (TLF) are not the same as the purchased volumes from Hydro One. Difference exist between actual system losses and TLF billed to Hydro 2000 customers, which is unaccounted for energy. Since the RPP settlement is meant to settle the price difference for the volumes purchased from Hydro One, the actual calendar month billed volumes between RPP and non-RPP volumes should be used as a basis to prorate the purchased volumes from Hydro One.

- (3) Hydro 2000 didn't use GA 2nd estimate⁵ posted on the IESO website in its RPP settlement calculation. Instead Hydro 2000 used a number internally calculated from the GA actual⁶ from Hydro One invoices and the GA1st estimate⁷ of the month. This internally calculated number varies from the value of the GA 2nd estimate from the IESO. Hydro 2000 should use the GA 2nd estimate in the initial RPP settlement claim on day 4 after month-end for the relatively accurate settlement estimate in the absence of the actual GA.
- (4) Hydro 2000 incorrectly reported tiered volumes at HOEP as the settlement amount for the tiered customers. Hydro 2000 should have reported the difference between the tiered prices and HOEP plus GA as the settlement amounts for the tiered customers.
- (5) Hydro 2000 didn't perform any true-up adjustments in the following month after submitting the initial settlement. Therefore, any potential difference between the actual and initial settlement related to GA and RPP volumes was missed from the settlement claims. Timely true-ups are necessary to ensure that the variances attributable to RPP and non-RPP customers are minimized, and the amounts that are accumulated are done so in the correct commodity account, and are then subsequently disposed to the correct group of customers.⁸

Due to the pervasiveness of the mistakes in the RPP settlement process throughout the inspection period, Hydro 2000 was requested to recalculate the RPP settlement for the period of January 2015⁹ to December 2016 resulting in \$50,100 over-refund of the RPP settlement amounts from its host distributor. In other words, Hydro 2000 over-collected \$50,100 from its host distributor during the inspection period.

⁵ GA 2nd estimate is available by the 1st of the following month for the current month

⁶ GA actual rate is available by the 15th of the following month for the current month

⁷ GA1st estimate is available by the 1st of the month for the current month

⁸ APH update Accounting Guidance related to Commodity Pass-Through Accounts Issued: February 21, 2019

⁹ Including opening balance adjustments to January 2015

7.1.3 Conclusion and Expectation

Hydro 2000 is expected to contact Hydro One regarding the resolution of the over-collection of \$50,100. Hydro 2000 is also expected to be in compliance with the accounting guidance issued on February 21, 2019 related to RPP settlements and commodity pass-through accounts.

7.2.1 Finding 2

Hydro 2000 made numerous errors in the entries to Account 1588 and Account 1589 throughout the inspection period of 2015 and 2016. As a result, Account 1588 balance was understated by a debit balance of \$69,676 and Account 1589 balance was overstated by a debit balance of \$65,781.

7.2.2 Basis of Finding

Staff noted several issues in the sample tests of six months of entries to Accounts 1588 and eight months of entries to Account 1589 during the inspection period of 2015 and 2016.

- (1) For two sample months in 2015, Staff noted that Hydro 2000 incorrectly included GA revenues in the revenue accounts of Account 1588. For one sample month in 2015, Staff noted unexplained difference in the revenue accounts of Account 1588.
- (2) For all sample months except for one month in 2015 and 2016, Staff noted material unexplained differences in Account 4705, the expense account of Account 1588.
- (3) For one sample month in 2015, Hydro 2000 recorded the RPP portion of GA in Account 4705, the expense account for Account 1588 on accrual basis but recorded the rest of entries to Account 4705 (e.g. power cost, EG payments, RPP and EG settlements) on cash basis upon receipt of the Hydro One invoices. Therefore, Account 4705 represents a mix of entries from the current period and following period of Hydro One invoices, resulting in misstatements of balances in Account 4705 and Account 1588.
- (4) For account 1589, the revenues were booked when bills were generated in the following month in 2015. In other words, revenues were booked on billed/cash

basis. However, the expenses which represented the non-RPP portion of GA for the same month were recorded on accrual basis from the current month Hydro One invoice. Therefore, Account 1589 balance for the period of 2015 incorrectly reflected a mixture of accrual and non-accrual accounting which resulted in misstatement of the balances in Account 1589.

- (5) Hydro 2000 applied incorrect proration between RPP and non-RPP volumes for the GA charge from the Hydro One invoices, affecting balances for both Account 1588 and Account 1589.
- (6) Hydro 2000 was on cash basis in 2014 where the Hydro One invoices were recorded upon payment and revenues were recorded upon billing. Since the 2014 accounting books were closed, Hydro 2000 had to reflect the November and December 2014 Hydro One invoices which were paid in 2015 and the billing for December consumption which was billed in January 2015 as opening balance adjustment for 2015 as the revised balances for 2015 were prepared on accrual basis.

However, when accounting for these transactions, Hydro 2000 recorded an amount of \$210,710 all in Account 1588. This was incorrect as part of the balance should have been recorded in Account 1589. For example, the GA revenue billed to non-RPP customers in an amount of \$33K and the non-RPP portion of the GA charge in an amount of \$66K. As a result, Account 1589 balance of \$33K were incorrectly included in Account 1588.

The impacts of such opening balance adjustments were \$158,168 for Account 1588 and \$32,891 for Account 1589 as shown below. The large debit balances were result of accounting for two months of Hydro One invoices with the offset of only one month of revenue.

Account #	Revised Balance (\$)	Previously Recorded (\$)	Adjustments (\$) as a Result of Inspection
1588	158,168.48	210,709.78	(52,541.30)
1589	32,890.96	-	32,890.96

Due to the pervasiveness of the errors noted, Hydro 2000 was requested to reconstruct Account 1588 and Account 1589 balances for the inspection period of 2015 and 2016. In the reconstructed schedule, Hydro 2000 followed accrual

accounting in its monthly entries and accounted for the transactions in item (6) above as opening balance adjustments.

The revised Account 1588 and Account 1589 balances for 2015 and 2016 variances on accrual basis and total adjusted balances for Account 1588 and Account 1589 were shown below:

	Revised Balances (\$)		Previously Filed Balances (\$)		Adjustments (\$) as a Result of Inspection	
	1588	1589	1588	1589	1588	1589
2015						
Principal	29,817.33	9,804.40	(53,374.00)	106,405.00	83,191.33	(96,600.60)
Interest	1,043.83	438.55	(302.24)	1,809.25	1,346.07	(1,370.70)
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2016						
Principal	16,507.87	6,737.44	(19,620.12)	6,737.44	36,127.99	0.00
Interest	2,360.62	404.09	808.56	1,104.27	1,552.06	(700.18)
Total	18,868.49	7,141.53	(18,811.56)	7,841.71	37,680.05	(700.18)

Account #	Principal (\$)	Interest (\$)	Total Adjustments (\$)
1588	66,778.02	2,898.13	69,676.15
1589	(63,709.64)	(2,070.88)	(65,780.52)

7.2.3 Conclusion and Expectation

Hydro 2000 is expected to apply the lessons learned from the inspection period of 2015 and 2016 and properly record the transactions in Account 1588 and Account 1589 in future periods.

7.3.1 Finding 3

Hydro 2000 made numerous errors in its monthly EG settlements with Hydro One, its host distributor for the period of January 2015 to December 2016.

7.3.2 Basis of Finding

As an embedded distributor, Hydro 2000 is required to make EG settlement claims with its host distributor Hydro One for each trade month (i.e. calendar month) by the 4th business day after the month end. After the settlement, the net result of the amounts paid by Hydro 2000 for the volumes it receives from EG customers would be based on the wholesale market price.

Staff noted several issues with Hydro 2000's EG settlement process during the inspection period of January 2015 to December 2016, which affects the balances Hydro 2000 settled with its host distributor Hydro One and Account 1588.

- (1) Hydro 2000 missed reporting the EG settlements for the period of April 2016 to December 2017, but did a catch-up settlement in December 2018. The total impact of the missed settlements was \$55,348. As a result, the EG settlements were not correctly accounted for in Account 4705 and Account 1588 during the period of April 2016 to December 2017.
- (2) Hydro 2000 has been late in claiming the EG settlements by a month outside the period mentioned in (1) above. For example, Hydro 2000 submitted its February 2016 settlement claim by the 4th business day in April rather than in March 2019. Settlement claims should be submitted four business days after the preceding calendar month for that calendar month.
- (3) Hydro 2000 used incorrect contract rates in calculating the EG settlements for two MicroFIT customers for a nine-month period from April 2016 to December 2016. For one customer, the contract rate of \$0.549/kWh was used instead of \$0.802/kWh. For the other customer, the contract rate of \$0.802/kWh was used instead of \$0.396kWh.
- (4) Hydro 2000 didn't track the actual on-peak and off-peak generated kWh for all three MicroFIT customers. Instead, Hydro 2000 used a method to prorate the on-peak¹⁰ and off-peak kWh from the total generated volumes.

For example, for the month of July 2019, Hydro 2000 calculated the on-peak hours as 176 hours (i.e. 22 business days * 8 hours = 176 hours) and the off-peak hours as 568 hours (i.e. 31 days * 24 hours a day – 176 on-peak hours = 568 off peak hours). Hydro 2000 then prorated the monthly generated kWh by the on-peak and off-peak ratio (i.e. 176 hours / 568 hours) calculated.

This proration method is incorrect because it always results in less volumes generated from the on-peak period than the off-peak period which contradicts to that of the solar generations.

¹⁰ On-peak represents electricity generated on business days between 11am and 7pm

Due to the insignificance of the generated volumes from the three MicroFIT customers, the total impact of the incorrect contact rates used in settlement and the proration method was \$1,887 for the period of 2015 and 2016.

- (5) Hydro 2000 paid one customer the incorrect rate of \$0.802/kWh instead of \$0.396/kWh for the generated volumes in the months of April to June, August and September of 2016 and incorrect rate of \$0.302/kWh instead of \$0.396/kWh for the months of November and December of 2016. The total impact of the incorrect rates resulted in an overpayment of \$3,314 to this customer.

7.3.3 Conclusion and Expectation

Hydro 2000 should ensure timely and accurate reporting of the EG settlements with Hydro One in future periods. Hydro 2000 is also expected to be in compliance with the accounting guidance issued on February 21, 2019 related to EG settlements.

7.4.1 Finding 4

Hydro 2000 incorrectly included Ontario Clean Energy Benefit (OCEB) reimbursements from Hydro One in the revenue accounts of Account 1588 in December 2015 and February 2016. As a result, the Account 1588 revenue was overstated by \$2,378 in December 2015 and \$30,562 in February 2016.

7.4.2 Basis of Finding

The OCEB provided eligible customers a 10% rebate on the total cost of electricity charges from the period of January 1, 2011 to December 31, 2015.

Account 1588 is to record the net difference between the energy amount billed to customers, including accruals and the energy charge to a distributor using the monthly settlement invoice received from IESO or host distributor including accruals.¹¹ Account 1588 should not include the amounts of OCEB reimbursement claimed from the host distributor.

¹¹ APH Article 490

7.4.3 Conclusion and Expectation

Hydro 2000 is expected to only include the power sales billed and accrued to RPP and non-RPP customers in the revenue accounts for Account 1588.

8. Appendix 2 – Detailed Inspection Observations

8.1.1 Observation 1

Hydro 2000 incorrectly included Ontario Electricity Support Program (OESP) revenue in the revenue accounts of Account 1588 in April 2016. Hydro 2000 also incorrectly included OESP charge from its host distributor Hydro One's invoices in the expense accounts of Account 1588 in March and April of 2016.

8.1.2 Basis of Observation

The OESP, introduced in 2016, is a program that delivers on-bill rate assistance to low income electricity customers. During the sample testing for Account 1588, Staff noted that Hydro 2000 incorrectly included the OESP charge from Hydro One invoices in Account 4705, the expense account for Account 1588 in March and April of 2016. The OESP charge should be recorded in Account 4708, the expense account for Account 1580 RSVA Wholesale Market Service Charge based on the following from the OEB Decision and Order EB-2015-0294:

Effective January 2016, IESO invoices to distributors will include the new OESP charge type. This new charge type will be applied on IESO invoices to the amount a distributor withdraws from the IESO-controlled grid, as well as embedded generation of the distributor. For the purpose of regulatory accounting, these charges will be included as part of USoA Account 4708: Charges - Wholesale Market Services in the distributors' books of accounts.¹²

Staff also noted that Hydro 2000 incorrectly included the OESP revenue billed to customers in the revenue accounts for Account 1588 in April 2016 where the revenue should have been recorded in Account 4062, the revenue account of Account 1580 based on the following from the OEB Decision and Order EB-2015-0294:

Effective January 1, 2016, distributors will start billing their customers the OESP recovery rate, as part of the Regulatory Charges line on customer bills. For the purpose of regulatory accounting, the revenues related to OESP amounts billed to customers will be included as part of USoA Account 4062: Billed - Wholesale Market Services in the distributors' book of accounts.¹³

¹² Page 8 of EB-2015-0294

¹³ Page 8 of EB-2015-0294

8.1.3 Conclusion and Expectation

Hydro 2000 should record the OESP charge and credit correctly in Account 4708 and Account 4062 on a going forward basis.

8.2.1 Observation 2

Hydro 2000 didn't convert from billed/cash basis of accounting to accrual basis of accounting until 2015 fiscal year.

8.2.2 Basis of Observation

In an effort to convert to accrual accounting in 2015, Hydro 2000 recorded December 2015 Hydro One invoice and December 2015 billing in 2015. However, according to the following guidance from Article 490 of the APH, the conversion (i.e. accrual adjustments for Hydro One invoices and customer bills) should take place effective January 1, 2012 with the adjustments recorded at the end of December 2011. Essentially, Hydro 2000 was quite late in its conversion from cash to accrual basis of accounting.

Effective January 1, 2012, where a distributor has to make a change to the accrual method from a previous method ("billed" method/cash accounting), such change is permitted only on a prospective basis. The change must not impact any previous account balances filed for disposition as part of regulatory assets or other reviews for which recoveries (or refunds) have been approved in rates. In moving from the "billed" method/cash accounting in order to apply the accrual basis of accounting for the calculation of RSVA balances effective January 1, 2012, a distributor shall record the first set of accrual adjustments at the end of the previous period (i.e. in December 2011). This may result in the distributor effectively accounting for 13 periods of IESO, host distributor or embedded generator charges in 2011 (12 periods as normally would have been recorded under the cash basis of accounting, as well as an accrual for the December 2011 settlement invoice, which would have otherwise been recorded in January 2012). Additionally, 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 2011.¹⁴

8.2.3 Conclusion and Expectation

Hydro 2000 didn't convert to accrual accounting effective January 1, 2012. Hydro 2000 is expected to continue follow proper accrual accounting.

¹⁴ Article 490 of OEB Accounting Procedures Handbook

9. Appendix 3 – Detailed Inspection Criteria

Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012:

- APH Article 490 – Retail Services and Settlement Variances: Power Charges
 - Retail Settlement Variance Account for Power (RSVA Power)
 - Retail Settlement Variance Account for Global Adjustment (RSVA GA)
- July 2012 APH FAQs, October 2009 APH FAQs and December 2005 APH FAQs

Ontario Regulations made under the *Electricity Act, 1998*.

- Ontario Regulation 429/04 Adjustment under Section 25.33 of the Act (The regulation for GA)
- Ontario Regulation 430/04 Payments re Section 25.33 of the Act (The regulation for RPP settlements)

Ontario Regulations made under the *Ontario Energy Board Act, 1998*

- Ontario Regulation 95/05 Classes of Consumers and Determination of Rates

Ontario Energy Board Guidance:

- OEB letter Guidance on the Disposition of Accounts 1588 and 1589 (May 23, 2017)
- Report of the OEB on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) EB-2008-0046
- OEB's Regulated Price Plan Manual
- Implementation of the Ontario Clean Energy Benefit EB-2011-0009

Ontario Energy Board Decision and Rate Order:

- Hydro 2000's 2017 IRM Decision EB-2016-0078
- Hydro 2000's 2016 IRM Decision EB-2015-0076
- Decision and Order EB-2015-0294 (OESP)