

Northern Ontario Wires Inc.

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March 15, 2013

Ms. Kirstin Walli

Board Secretary

Ontario Energy Board

P.O. Box 2319

2300 Yonge Street, 27th Floor

Toronto, ON M4P 1E4

**Re: Cost of Service Application EB-2012-0153**

In the course of a regulatory audit conducted by the Regulatory Audit and Accounting division of the OEB with respect to deferral and variance accounts a billing error was discovered pertaining to Non-RPP Rate Rider Global Adjustment.

The nature of the error is that NOW was billing the Global Adjustment rate rider for the non-RPP customers incorrectly by applying the rate rider to the kWh grossed up by the loss factor. The billings for all other classes of customers are correct as the error is specific to non-RPP customers on the Global Adjustment as part of delivery charges.

The error occurred beginning on May 1, 2011 rates which resulted in an over-billing to select customers until April 30, 2012. Effective May 1, 2012 the error resulted in an under-billing to select customers until the error was identified and corrected in March 2013 in the billing system. The correction will be reflected on customer statements issued April 1, 2013 in the next billing cycle.

Based on preliminary analysis of the error, an estimated overbilling for the period of May 1, 2011 to December 31, 2012 resulted in the following total variance for all affected non-RPP customers.

Residential - $ 23.75, for May 1, 2011 to December 31, 2012

GS<50 - $476.43, for May 1, 2011 to December 31, 2012

GS>50 - $ 0.00, for May 1, 2011 to December 31, 2012

Unmetered - $ 0.18, for May 1, 2011 to December 31, 2012

Street lighting - $ 0.00, for May 1, 2011 to December 31, 2012

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**Total Error $500.00 for all Non-RPP Customers**

The estimate was calculated using the variance between the 2011 and 2012 rate riders, the difference between the uplifted versus actual consumption for May 1, 2011 to December 31, 2012, and the percentage of customers that are non-RPP. The number of customers affected is approximately 546-660. Of the affected customers, 79.3% are residential, 16.8% are GS<50, 3.1% are GS>50, 0.2% are Unmetered, and 0.6% are Street lighting.

There is no impact to the GS<50 and Street lighting classes as the correct consumption was used when calculating the Global Adjustment rate riders.

Regulatory Audit has not audited or reviewed the accuracy of NOW’s calculation that estimates impact of the billing error on customers.

Northern Ontario Wires Inc. is of the opinion that the resulting billing error is not material. NOW plans to notify affected customers by way of bill insert in the upcoming bill cycle. The insert will state that a non-material billing error has been corrected.

NOW have been working with Regulatory Audit to address this issue and are taking actions that are in compliance with Section 7.7 of the Retail Settlement Code. As NOW is of the opinion that the error is not significant and the cost outweighs the benefit of making a billing adjustment. As the adjustment would be approximately $0.05 total per residential non-RPP customer NOW believes that the cost outweighs the benefit of providing notice to this customer class. The estimated impact to GS<50 class is $5.18 total per customer. These per customer errors assume that all affected customers had the equal consumption.

NOW requests that the Board provide guidance as to what actions be taken in regards to the error and notification to customers.

Please note the amount of the overbilling will be disposed in account 1595 for amounts up to December 31, 2011 and the remaining variance from January 1, 2012 to March 2013 will be disposed of in a future proceeding.

The account balance in 1595 includes the billing error up to December 31, 2011 and is proposed to be disposed in the current application the remaining variance from January 1, 2012 to March 2013 will be proposed for disposition in a future proceeding.

NOW would like to draw attention to the following issues that NOW has corrected that have been audited by Regulatory Audit and Accounting division of the OEB. As a result of the Regulatory Audit issues were found in regards to variances that have been corrected and are correctly reflected in the current application (EB-2012-0153). The issues relate to account 1595 in which the December 2008 balances were used instead of December 2007 balances in the 2009 Disposition entry. The balance was adjusted from the 1595 account back to the proper accounts and can be seen in Exhibit 9, Tab 2, Schedule 2, Attachment 1 in the 2011 Q4 Other Adjustment column of EB-2012-0153.

In 2011 a settlement adjustment was discovered as a result of a Ministry of Finance RPP Fund Audit which resulted in a credit to customers as a result of IESO settlement process of $735,856.11. This settlement was received October 2011, and is reflected in 1588 as a part of 2011 transactions in Exhibit 9, Tab 2, Schedule 2, Attachment 1 as a part of the $656,396.

In the decision 2012 IRM (EB-2011-0188) the Board directed NOW to apply to dispose of the residual balance in Account 1590 in conjunction with its next cost of service application. As such, NOW is bringing to the Boards attention the inclusion in current application.

Yours Truly,

**NORTHERN ONTARIO WIRES INC.**

Geoffrey Sutton, CA

Chief Financial Officer

**Attachment 1 of 1**

**2012 IRM EXCERPT FROM EB-2011-0188**

Deferral and Variance Account Workform – 2012 Disposition

NOW Inc. has populated the Deferral and Variance Accounts continuity schedule as per the instructions provided in the workform. NOW Inc. balances exceed the threshold and is therefore requesting for disposition of its balances.

NOW Inc. is disclosing that it has been subject to an OEB Deferral and Variance account audit since July 2011, focusing at this time on the Group 1 accounts. OEB regulatory auditors have identified the following two issues that affect the deferral and variance account balances. They are as follows:

**OEB Deferral and Variance Account audit Item # 1: 2009 Disposition Entry – Erroneously included 1590 in the disposition entry and used Dec 31/08 balances instead of Dec 31/07 balances**

Background – As part of 2009 Cost of Service proceeding, NOW Inc received approval for disposition of Regulatory Asset Balances amounting to ($724,286) which represented Dec 31, 2007 Principle Balances with projected interest to April 30, 2009. Please note that 1590 was not included in this total since the recovery period was not over yet (1590 had a 2 year recovery period starting July 2006). The rate rider approved by the Board and implemented by NOW Inc. for May 1, 2009 is based on the ($724,286) balance – with a 4 year disposition period. When NOW Inc. performed the disposition adjustment to the Variance Schedules and the General Ledger as of May 1, 2009, we used the principle balances as of Dec 31, 2008 and not the balances as of Dec 31, 2007, with projected interest to Apr 30, 2009 and included the 1590 balances as well (1590 recovery period ceased in 2008). The error was a result of a misinterpretation of the wording in the OEB correspondence for 2009 rates, whereby reference was made to “most recent audited balances” to be used . The final submissions to the OEB were prepared at the same time that the 2008 Audited Financial Statement was being issued (ie: April 2009). As a result, NOW Inc. prepared its entry using Dec 31, 2008 balances and included 1590 as well. The total disposition entry was for ($715,752), a difference of $8,534 to the Dec 31, 2007 balances. Details provided as follows:



Additional Information – As part of its 2011 IRM, NOW applied for and received approval for Group 1 Variance accounts for the balances as of Dec 31, 2009. These balances included the disposition entry May 1, 2009 as described above. Therefore the balances approved for disposition in the 2011 IRM represented 2009 transactions.

Essentially NOW Inc. has transferred 2008 Deferral Accounts transactions to 1595 as well as 1590 Residual Balance – both of which were not part of the approved balances in the 2009 Cost of Service Application. The net difference amounts to $8,534. NOW Inc. has discussed with the OEB regulatory auditors how best to address this issue. NOW Inc. is disclosing this issue to the Board and proposes the following to remedy the error:

NOW Inc. is requesting to the Board as part of this 2012 rate proceeding, approval for the disposition of the 1590 residual balance and the 2008 Group 1 account transactions that were erroneously transferred to 1595 (net is $10,826 owing from customers). NOW Inc. would move this net balance from the “1595-2009 Regulatory Asset Balances” account to the “1595-2012 Regulatory Asset Balances” account. NOW Inc. will move the remaining amount of $3,263 which represents the 2008 Group 2 account transactions back to their original accounts (as they are not eligible for disposal as part of the IRM process) and they will flow through disposition as part of the 2013 COS Application. The 1590 balance and the 2008 Group 1 account transactions are reflected in column BI “Other Adjustments during Q4 2010”.

The Total Group 1 Accounts – column B1 “Other Adjustments during Q4 2010” as per the continuity schedule is $10,826, and not $11,796. NOW Inc. has adjusted the 1590 residual balance by $970 (from $167,337 to $166,367). This represents a difference between the carrying charges forecast as per the May 1, 2009 disposition entry and the actuals as recorded in the general ledger. The actual carrying charges are reflected in the revised 1590 actual figure of $166,367 to which approval for disposition is being requested. The $167,337 figure as previously recorded was based on forecasted interest to April 30, 2009. NOW Inc. is seeking disposition of the actual 1590 Residual balance of $166,367.

The residual balance of 1590 is included in the schedule and is being allocated to rate classes in proportion to the recovery share as established when the rate riders were implemented.

Variances as per column BX –“ Variance RRR versus 2010 Balance (Principle + Interest)” are explained as follows:

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| --- | --- | --- | --- |
| **Account Description** | **A/C#** | **Variance** | **Explanation** |
| LV Variance Account | 1550 | ($61,335) | Represents 2008 transactions as explained above |
| RSVA – Wholesale Market Service Charge | 1580 | $58,734 | Represents 2008 transactions as explained above |
| RSVA- Retail Transmission Network Charge | 1584 | ($30,302) | Represents 2008 transactions as explained above |
| RSVA- Retail Transmission Connection Charge | 1586 | $207,341 | Represents 2008 transactions as explained above |
| RSVA – Power | 1588 | ($18,899) | Represents 2008 transactions as explained above |
| Recovery of Regulatory Balances | 1590 | (167,336) | Residual Balance as explained above |
| **TOTAL RSVA Variance** |  | **($11,797)** | Represents 2008 transactions as explained above |
| Deferred Payment in Lieu of Taxes | 1562 | $49,123 | Continuity Schedule represents balance as per 1562 Deferred PILS determination & disposition review and supporting documentation (see Tab 5) which differs to what has been reported on our general ledger since 2006. This difference will be adjusted for following the OEB’s review and approval of the Deferred PILS component of this application. |
| Special Purpose Charge Assessment | 1521 | $45,574 | Difference represents actual and projected recoveries and interest from Jan 1, 2011 to April 2012 which have been recorded in 2010 section of the Continuity Schedule. See 1521 section below for more details |

In summary, the following deferral and variance account balances are included in this application for 2012 disposition:



**OEB Deferral and Variance Account audit Item # 2: 2011 Settlement Adjustment as per Ministry of Finance RPP Fund Audit**

Background – In 2010 the Ministry of Finance performed an RPP Fund Audit. The audit covered the period 2005 to May 2010 and a report dated June 30, 2010 was provided to NOW Inc. listing the observations and requesting a plan for action to address the observations. NOW Inc. worked with the Ministry of Finance to address the issues and reconcile the years in question through until November 2010, at which time NOW Inc. provided the Ministry with a reconciliation for 2005 to 2009. This reconciliation suggested an amount of $735,856.11 credit owing to customers as a result of IESO RPP settlement process and the settlement claim being made by NOW. NOW Inc. was waiting for a written acknowledgement or report from the Ministry before proceeding with filing the adjustment with the IESO. As of July 2011 we had not received such written acknowledgement to proceed, therefore we contacted the Ministry. They were not aware that they have not given the OK to proceed, have reviewed the adjustment and have accepted the proposed settlement adjustment. NOW Inc. will process this adjustment as part of its October 2011 RPP Settlement filing.

This settlement amount will be received in November 2011 and would normally flow through the variances and be proposed by NOW Inc. to be disposed as part of 2013 rate application process (which will be based on 2011 year end balances). NOW Inc. is disclosing this issue to the board in the current proceeding. NOW Inc. has given consideration to the fact that this settlement relates to prior periods and the Ontario Energy Board may decide that the balance represents a significant return to the customers and should be disposed of in the current rate proceeding. NOW Inc. wishes to advise the board that it anticipates an increase to customer rates in 2013 as a result of the 2013 Cost of Service Application and Smart Meter Recovery Rate Rider. Therefore NOW Inc. feels that by allowing the settlement credit to be disposed of in 2013, this will provide for natural rate mitigation.

Accordingly NOW Inc. has not included the RPP settlement credit (that is expected from the IESO in November 2011) as part of the balances being disposed of in the 2012 IRM 3 Rate Application. However NOW Inc. is seeking Board direction with respect to this issue.