

**Guelph Hydro Electric Systems Inc.**  
**2018 Price Cap IR Application (EB-2017-0044)**

**Follow-Up IRRs**

**November 27, 2017**

**Board's Staff IR:**

Please provide an explanation of the \$2.2 Million adjustment that was made, please provide discussion regarding the Guelph Hydro unbilled revenue worksheet (spreadsheet) and the history of the discrepancies starting December 2015 and that the error in the Guelph Hydro unbilled revenue worksheet (spreadsheet) was not discovered until June 2017. Please explain that you went back and corrected the 2016 closing balance and made corrections to your RRR. Please explain how the \$2.2 Million adjustment was calculated and explain when the unbilled revenue was corrected on your books and what the impact was. Please provide a clear line of sight so the explanation can be easily followed and it is supported both by Qualitative and Quantitative support. Please update the GA Analysis Workform as appropriate.

**Guelph Hydro's Response:**

In June 2017 while doing work on the GA Analysis Workform and D&VA continuity schedule, a misallocation error was discovered in Account 1589 – RSVA GA with respect to the unbilled revenue (“UBR”) Class B Non RPP GA. The balance in this account was discovered to incorrectly contain the GA UBR related to RPP Settlement, which should have been allocated to the UBR account under Account 1588 – RSVA Power. The error was the result of incorrectly grouping the GA UBR attributable to RPP customers with the Class B Non RPP customers.

At this point in time, the financial system ledger for 2016 external financial reporting had been closed. As a result, the misallocation was not corrected in financial system ledger until the June 2017 period. For Regulatory accounting purposes, the Q4 2.1.1 report as well as the 2.1.7 Trial Balance had already been filed.

On July 6, 2017, a RRR Revision Request was filed with the OEB. Guelph Hydro requested to correct the December 31, 2016 balances for Accounts 1588 and 1589 resulting from the misallocation of UBR. The correction amount at December 31, 2016 was \$2,089,986.74 excluding carrying charges. Please see Table 1 and Note 2 below for calculation of the \$2,089,986.74 difference.

The Regulatory account tracking ledger/leadsheets for Account 1588 and 1589 were revised effective January 1, 2016 up to June 30, 2017, with the aim to quantify the effect of the December 2015 misallocation, as well as to correct the misallocation error up to the end of June 2017. The effect of the December 2015 misallocation was determined to be a \$2,220,295.47 (excluding carrying charges) overstatement of Account 1589

resulting from UBR revenues related to RPP settlement being grouped with UBR related to Class B Non RPP GA. The offsetting understatement was in Account 1588, where the GA pertaining to RPP Settlement should have been allocated. The reclassification was reflected in the Regulatory ledger effective January 1, 2016 between Account 1589 and Account 1588 and in June 2017 when the actual financial system ledger was corrected. At this point in time, the Regulatory ledger adjustment was reversed to resynchronize the financial system ledger with the Regulatory ledger.

The \$2,220,295.47 amount related to UBR RPP settlement was determined by summing up the UBR amounts related to RPP Settlement for Residential, General Service below 50 kW, and Sentinel Lighting accounts.

When preparing the 2018 IRM D&VA continuity schedule with the corrected Regulatory account tracking ledger data, it was considered to be the best course of action to reflect the 2015 misallocation error effect of \$2,220,295.47 in the “adjustment” column of the worksheet<sup>1</sup>, transparently separated from the true 2016 Account 1589 activities for which the GA Analysis Workform is based on.

The mechanics of the UBR accruals would have naturally corrected the misallocation in 2017 once the correct UBR accrual was booked at a month’s end, however Guelph Hydro believes that, by making the \$2.2M adjustments in 2016:

1. The Activity column in the D&VA continuity schedule will reflect correctly 2016 Account 1589 GA activity; and
2. The reflection of the correction in 2016 will allow for earlier compensation to rate payers instead of postponing until 2019 IRM disposition of 2017 balances, when the reclassification would be captured in the financial system.

The comparison of the Financial System ledger vs. the Regulatory ledger from December 2015 until June 2017 can be seen in Table 1 below:

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<sup>1</sup> 2018IRM Rate Generator Model, Tab 3. Continuity Schedule, Column BF, cells BF28 and BF29

**Table 1**

Guelph Hydro Electric Systems Inc.							
Account 1589 - RSVA GA - GL account for Class B Non RPP GA_Unbilled Revenue (UBR)							
Comparison of Original Activity and Monthly Balance vs. Revised Activity and Monthly Balance used for Regulatory Reporting							
		Original Account 1589	Period Ending	Revised Account 1589	Period Ending	Balance Variance	
		Class B Non RPP GA UBR (Financial Ledger)	Balance	Class B Non RPP GA UBR (Regulatory Ledger)	Balance	Original vs. Revised	Notes
		@		#			
	December 31, 2015	Balance	\$ (8,509,320.37)	\$ (8,509,320.37)		\$ -	
2016	JANUARY	Activity	\$ 2,307,995.39	\$ (6,201,324.98)	\$ 4,382,094.73	\$ (4,127,225.64)	\$ (2,074,099.34) 3
2016	FEBRUARY	Activity	\$ (1,256,794.90)	\$ (7,458,119.88)	\$ (971,461.65)	\$ (5,098,687.28)	\$ (2,359,432.60)
2016	MARCH	Activity	\$ (493,463.58)	\$ (7,951,583.46)	\$ (14,186.43)	\$ (5,112,873.71)	\$ (2,838,709.75)
2016	APRIL	Activity	\$ (452,786.44)	\$ (8,404,369.90)	\$ (1,056,215.69)	\$ (6,169,089.40)	\$ (2,235,280.49)
2016	MAY	Activity	\$ 581,654.98	\$ (7,822,714.92)	\$ 636,322.38	\$ (5,532,767.02)	\$ (2,289,947.89)
2016	JUNE	Activity	\$ (247,516.39)	\$ (8,070,231.31)	\$ (514,463.54)	\$ (6,047,230.56)	\$ (2,023,000.75)
2016	JULY	Activity	\$ (606,595.80)	\$ (8,676,827.11)	\$ 1,735,883.45	\$ (4,311,347.11)	\$ (4,365,480.00)
2016	AUGUST	Activity	\$ 2,226,459.42	\$ (6,450,367.69)	\$ (199,178.55)	\$ (4,510,525.66)	\$ (1,939,842.03)
2016	SEPTEMBER	Activity	\$ 347,793.65	\$ (6,102,574.04)	\$ 510,044.16	\$ (4,000,481.50)	\$ (2,102,092.54)
2016	OCTOBER	Activity	\$ 222,149.59	\$ (5,880,424.45)	\$ (1,461,535.11)	\$ (5,462,016.60)	\$ (418,407.85)
2016	NOVEMBER	Activity	\$ (1,998,186.83)	\$ (7,878,611.28)	\$ (986,293.14)	\$ (6,448,309.75)	\$ (1,430,301.53)
2016	DECEMBER	Activity	\$ (307,416.98)	\$ (8,186,028.26)	\$ 352,268.22	\$ (6,096,041.52)	\$ (2,089,986.74) 2
2017	JANUARY	Activity	\$ 3,645,833.80	\$ (4,540,194.46)	\$ 3,980,717.20	\$ (2,115,324.32)	\$ (2,424,870.14)
2017	FEBRUARY	Activity	\$ (885,590.13)	\$ (5,425,784.59)	\$ (1,213,068.23)	\$ (3,328,392.55)	\$ (2,097,392.04)
2017	MARCH	Activity	\$ (936,921.99)	\$ (6,362,706.58)	\$ (1,353,934.06)	\$ (4,682,326.61)	\$ (1,680,379.97)
2017	APRIL	Activity	\$ 459,027.48	\$ (5,903,679.10)	\$ 1,090,424.81	\$ (3,591,901.80)	\$ (2,311,777.30)
2017	MAY	Activity	\$ (1,868,123.10)	\$ (7,771,802.20)	\$ (1,794,876.01)	\$ (5,386,777.80)	\$ (2,385,024.40)
2017	JUNE	Activity	\$ 1,800,070.41	\$ (5,971,731.79)	\$ (584,953.99)	\$ (5,971,731.79)	\$ 0.00 1

1 In June 2017 while doing work on the GA Analysis Workform and DV&A continuities, a misallocation error was discovered with respect to the UBR Class B Non RPP GA. At this point in time, the financial ledger for external financial reporting for the 2016 period had been closed so the misallocation was not corrected in financial ledger until June 2017 period. For Regulatory accounting purposes, the Q4 2.1.1. had already been filed as well as the 2.1.7. Trial Balance however the 2018 IRM for disposal of 2016 balance was not submitted yet.

2 On July 6th, 2017 a RRR Revision Request was filed with the OEB with Guelph Hydro requesting to correct the December 31, 2016 balances for Accounts 1588 and 1589 as a result of a misallocation of UBR. The correction amount at December 31, 2016 was \$2,089,986.74 excluding carrying charges.

3 The Regulatory account tracking ledger/leadsheets for Account 1588 and 1589 were revised effective January 1, 2016 up to June 30, 2017 with the aim to quantify the effect of the 2015 misallocation as well as to more correctly reflect the 2016 monthly balances for carrying charge purposes. The effect of the 2015 misallocation was determined to be \$2,220,295.47 over statement of Account 1589 for UBR revenues related to Class B RPP GA being grouped with UBR related to Class B Non RPP GA. The offsetting understatement was for Account 1588 where the GA pertaining to RPP Settlement should have been allocated.

@ The Original Account 1589, also represents the actual financial system ledger for which the external financial reporting is done. Under normal circumstances when no Regulatory adjustments are required, the financial system ledger would match the Regulatory ledger.

# The Revised Account 1589, represents the Regulatory ledger.

Guelph Hydro has updated GA Analysis workform and 2018 IRM Rate Generator Model as following:

**GA Analysis workform:**

1. Removed the \$2.2M from the Reconciling Items table
2. Updated "Net Change in Principal Balance in the GL", cell D65

**2018 IRM Rate Generator:**

1. Tab. "3. Continuity Schedule" – updated the activity and the adjustments in cells BD28, BD29, BF28, BF29

Respectfully submitted,



Cristina Birceanu

Vice-President of Regulatory Affairs, Customer Care and Billing  
Guelph Hydro Electric Systems Inc.  
395 Southgate Drive,  
Guelph, ON N1G 4Y1  
Telephone - (519) 837-4735  
Mobile - 226-218-2150  
Fax - 519-836-6115  
Email - [cbirceanu@guelphhydro.com](mailto:cbirceanu@guelphhydro.com)