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November 21, 2018

via EMAIL

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited (“Toronto Hydro”) Application to Finalize
2019 Electricity Distribution Rates and Charges (EB-2018-0071) –
Additional Interrogatory Responses**

Enclosed please find Toronto Hydro’s responses to the OEB interrogatories circulated on November 19, 2018.

Yours truly,

A handwritten signature in blue ink that reads "Andrew J. Sasso".

Andrew J. Sasso

cc: Donald Lau, Case Manager, OEB
Anila Dumont, Legal Counsel, Toronto Hydro

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 1-STAFF-20:

Reference(s): Updated GA Analysis Workform

- a) For transparency purposes, please provide an updated GA Analysis Workform such that cell C62 of Note 5 contains the original balance from the “Transactions debit / (credit) during 2017” as per the initial DVA continuity schedule that was submitted. Then itemize the Applicant’s proposed adjustment to account 1589 as adjustment 9 of the Workform and provide the appropriate supporting explanation.
- b) The Applicant has presented an adjustment in Note 5 of the GA Analysis Workform to account for the difference between the actual system losses and billed TLF’s. Using the consumption data presented in Note 4 of the GA Analysis Workform, along with the difference between actual and billed loss factors, please provide a reasonability calculation that quantifies and supports the balance of reconciling item #7 in Note 5.
- c) In the GA Analysis Workform initially submitted as part of this current proceeding, the Applicant had presented a reconciling adjustment in Note 5 to account for the difference in GA (compared to the OEB expectation) due to cyclical billing (Adjustment 8 of the Initial GA Analysis Workform). In the recently submitted updated version of the GA Analysis Workform this reconciling item was eliminated altogether. OEB staff notes that a similar adjustment was included in the GA Analysis Workform that was ultimately approved as part of the Applicant’s 2018 rates proceeding. Please explain why such an adjustment would no longer be applicable for purpose of reconciling 2017 GA? If such an adjustment is applicable, please quantify its impact and include it as a reconciling item in Note 5 of the GA Analysis Workform.

- d) Please provide more clarity as to what Adjustment 8 of Note 5 in the GA Analysis Workform relates to, how it impacts the GA Analysis Workform, and explain how it has been quantified.

RESPONSE:

- a) See revised GA workform in Appendix A to this response.
- b) Reasonability calculation:

		GA Workform		Actual	Difference
Consumption (kWh)		10,451,888,901	A	10,377,041,128	
\$ Consumption		\$1,048,171,263	B	\$1,034,569,226	\$13,602,037
Consumption (kWh) per Note 2 in GA Workform	C	10,131,174,192			
Line Loss (%)			(A/C)-1	2.43%	

A = Consumption kWh for Non-RPP Class B as calculated as:

$$\frac{\text{Class B Global Adjustment charge (per invoice)}}{\text{Final rate per IESO website}} \times \text{Monthly Non-RPP \% split}$$

C = Consumption \$ for Non-RPP Class B as calculated as:

$$\text{Class B Global Adjustment charge (per invoice)} \times \text{Monthly Non-RPP \% split}$$

The consequence of the difference between billed and actual system losses (\$13.6 million or 2.43%) is determined by the difference between billed and actual Global Adjustment for non-RPP Class B customers. Actual line loss for the referenced customers (2.43%) is consistent with the actual total distribution loss (2.86%) derived from the 2017 RRR data.

- c) To be clear, Adjustment 8 continues to represent the same cyclical billing difference; Toronto Hydro did not eliminate the reconciling adjustment related to cyclical billing. Toronto Hydro reworded the explanation to assist with clarity. The resulting amount is different from previously filed due to the change in consumption data described in part (a) of 1-Staff-17.
- d) Due to cyclical billing, Toronto Hydro includes an estimated unbilled component to calculate earned load. Each month's consumption includes true-up of prior period usage. Toronto Hydro's unbilled accrual typically includes up to three prior months due to a lag in billing. For example, the unbilled accrual for June will include March to June unbilled consumption. In the GL, the true-up is based on the prior period's corresponding rate, while the GA workform uses only the current month's rate.

The Adjustment 8 calculation includes:

<u>Description</u>		<u>Amount</u>
\$ consumption at GA rate billed (as per workform)	A	1,026,625,858
\$ consumption at GA rate billed (Actual - as per GL)	B	1,033,169,971
Difference	C=B-A	6,544,113
Add: Dec-16 accrual vs actual billing true-up adjusted in Jan-17 (Shown separately in 2a)	D	3,356,155
Total	E=C+D	9,900,268
Adjustment 8 balance	F	9,904,520
Variance (immaterial)	G=F-E	4,252

GA Analysis Workform

Account 1589 Global Adjustment (GA) Analysis Workform

Input cells
 Drop down cells

Utility Name

- Note 1 **Year(s) Requested for Disposition**
- 2014
 - 2015
 - 2016
 - 2017

Note 7 **Summary of GA (if multiple years requested for disposition)**

Year	Annual Net Change in Expected GA Balance from GA Analysis (cell K51)	Net Change in Principal Balance in the GL (cell C62)	Reconciling Items (sum of cells C63 to C75)	Adjusted Net Change in Principal Balance in the GL (cell C76)	Unresolved Difference	\$ Consumption at Actual Rate Paid (cell J51)	Unresolved Difference as % of Expected GA Payments to IESO
2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
2017	\$ 21,545,404	\$ 56,920,193	\$ 32,163,380	\$ 24,756,813	\$ 3,211,408	\$ 1,048,171,263	0.3%
Cumulative Balance	\$ 21,545,404	\$ 56,920,193	\$ 32,163,380	\$ 24,756,813	\$ 3,211,408	\$ 1,048,171,263	N/A

GA Analysis Workform

Note 2 **Consumption Data Excluding for Loss Factor (Data to agree with RRR as applicable)**

Year		2017		
Total Metered excluding WMP	C = A+B	23,590,891,773	kWh	100%
RPP	A	9,761,714,371	kWh	41.4%
Non RPP	B = D+E	13,829,177,402	kWh	58.6%
Non-RPP Class A	D	3,698,003,210	kWh	15.7%
Non-RPP Class B*	E	10,131,174,192	kWh	42.9%

*Non-RPP Class B consumption reported in this table is not expected to directly agree with the Non-RPP Class B Including Loss Adjusted Billed Consumption in the GA Analysis of Expected Balance table below. The difference should be equal to the loss factor.

Note 3 **GA Billing Rate**

GA is billed on the

1st Estimate

Please confirm that the GA Rate used for unbilled revenue is the same as the one used for billed revenue in any particular month

Note 4 **Analysis of Expected GA Amount**

Year	2017								
Calendar Month	Non-RPP Class B Including Loss Factor Billed Consumption (kWh)	Deduct Previous Month Unbilled Loss Adjusted Consumption (kWh)	Add Current Month Unbilled Loss Adjusted Consumption (kWh)	Non-RPP Class B Including Loss Adjusted Consumption, Adjusted for Unbilled (kWh)	GA Rate Billed (\$/kWh)	\$ Consumption at GA Rate Billed	GA Actual Rate Paid (\$/kWh)	\$ Consumption at Actual Rate Paid	Expected GA Variance (\$)
	F	G	H	I = F-G+H	J	K = I*J	L	M = I*L	=M-K
January	999,203,823	1,050,384,095	1,078,155,854	1,026,975,582	0.06687	\$ 68,673,857	0.08227	\$ 84,489,281	\$ 15,815,424
February	969,901,154	1,078,155,854	923,426,850	815,172,150	0.10559	\$ 86,074,027	0.08639	\$ 70,422,722	\$ 15,651,305
March	1,007,444,730	923,426,850	973,088,062	1,057,105,942	0.08409	\$ 88,892,039	0.07135	\$ 75,424,509	\$ 13,467,530
April	938,282,495	973,088,062	990,353,504	955,547,936	0.06874	\$ 65,684,365	0.10778	\$ 102,988,957	\$ 37,304,591
May	953,116,551	990,353,504	896,257,876	859,020,923	0.10623	\$ 91,253,793	0.12307	\$ 105,719,705	\$ 14,465,912
June	928,537,599	896,257,876	938,694,870	970,974,593	0.11954	\$ 116,070,303	0.11848	\$ 115,041,070	\$ 1,029,233
July	983,922,255	938,694,870	1,071,259,568	1,116,486,952	0.10652	\$ 118,928,190	0.11280	\$ 125,939,728	\$ 7,011,538
August	815,202,902	1,071,259,568	874,077,397	618,020,732	0.11500	\$ 71,072,384	0.10109	\$ 62,475,716	\$ 8,596,668
September	813,873,700	874,077,397	790,985,845	730,782,148	0.12739	\$ 93,094,338	0.08864	\$ 64,776,530	\$ 28,317,808
October	800,035,994	790,985,845	747,455,035	756,505,184	0.10212	\$ 77,254,309	0.12563	\$ 95,039,746	\$ 17,785,437
November	753,321,225	747,455,035	714,018,487	719,884,677	0.11164	\$ 80,367,925	0.09704	\$ 69,857,609	\$ 10,510,316
December	688,685,942	714,018,487	850,744,627	825,412,082	0.08391	\$ 69,260,328	0.09207	\$ 75,995,690	\$ 6,735,363
Net Change in Expected GA Balance in the Year (i.e. Transactions in the Year)	10,651,528,369	11,048,157,445	10,848,517,977	10,451,888,901		\$ 1,026,625,858		\$ 1,048,171,263	\$ 21,545,404

Calculated Loss Factor

1.0317

GA Analysis Workform

Note 5 Reconciling Items

	Item	Amount	Explanation
	Net Change in Principal Balance in the GL (i.e. Transactions in the Year)	\$ 56,920,193	
1a	True-up of GA Charges based on Actual Non-RPP Volumes - prior year	\$ -	Not applicable as Toronto Hydro ("TH") records the true-up RPP settlement amounts with the IESO on a quarterly basis. The RPP amounts for 2017 are based on the actual IESO invoices received.
1b	True-up of GA Charges based on Actual Non-RPP Volumes - current year	\$ -	Not applicable as Toronto Hydro ("TH") records the true-up RPP settlement amounts with the IESO on a quarterly basis. The RPP amounts for 2017 are based on the actual IESO invoices received.
2a	Remove prior year end unbilled to actual revenue differences	-\$ 3,356,155	
2b	Add current year end unbilled to actual revenue differences	\$ 1,595,003	
3a	Remove difference between prior year accrual/forecast to actual from long term load transfers	\$ -	Not applicable.
3b	Add difference between current year accrual/forecast to actual from long term load transfers	\$ -	Not applicable.
4	Remove GA balances pertaining to Class A customers	-\$ 3,542,616	Due to timing differences between Class A GA charges from the IESO and billings to Class A customers, an amount of \$3.5M was included in the RSVA account pertaining to Class A customers.
5	Significant prior period billing adjustments recorded in current year	\$ -	Not applicable.
6	Differences in GA IESO posted rate and rate charged on IESO invoice	\$ -	Not applicable.
7	Differences in actual system losses and billed TLFs	\$ 13,602,037	
8	Others as justified by distributor	\$ 9,904,520	The current month consumption includes true-up of prior period usage. In the GL, the true-up is based on the prior
9	Adjustment due to change in consumption data	-\$ 50,366,169	Flaw in consumption data resulted in a revision to the RPP and Non-RPP split for GA.
10			
Note 6	Adjusted Net Change in Principal Balance in the GL	\$ 24,756,813	
	Net Change in Expected GA Balance in the Year Per Analysis	\$ 21,545,404	
	Unresolved Difference	\$ 3,211,408	
	Unresolved Difference as % of Expected GA Payments to IESO	<u>0.3%</u>	

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 1-STAFF-21:

Reference(s): Response to 1-Staff-17

In the response provided to the above noted Interrogatory, the Applicant discusses an issue that stemmed from the use of a new billing data extraction tool beginning in 2018, in combination with the tool utilized in previous years. The use of these two tools in combination, along with a flaw in a consumption data extraction has given rise to a significant adjustment to the balance in account 1589 as at December 31, 2017:

- a) Please provide more detail as to what the underlying issue is and why and how this issue impacted the balance in account 1589 that the Applicant had initially brought forward for disposition.
- b) Please explain how the applicant quantified the required adjustment to account 1589 and why it believes that this adjustment is accurate, and that no further adjustment to the balance in the account is required.
- c) As part of this proceeding, the Applicant had initially sought to recover a balance in account 1589 that now appears to be significantly overstated. In light of this, please explain why the OEB should not be concerned with the internal controls that the Applicant has in place with respect to overseeing the accumulation and disposition of the balances in accounts 1588 and 1589.
- d) Given that the Applicant's initial balance in account 1589 agreed to its December 31, 2017 audited financial statements, what implications will this proposed adjustment have on those audited financial statements?

- e) How does this issue affect the Applicant's 2017 settlements with the IESO:
- a. Were some or all of the settlements for 2017 consumption impacted? Please explain how or why not.
 - b. Was the data used inaccurate? Please explain why or why not.
 - c. Will the Applicant now seeking to recover the impacted amount (i.e. \$50M) from the IESO? Please explain why or why not.
 - d. If the Applicant will now be seeking to recover these amounts from the IESO, has the matter been discussed with the IESO? Please provide details of such discussion.
- f) Please provide the accounting entries that the Applicant recorded in order to accommodate their adjustment of account 1589.
- g) Does the entire amount being adjusted out of account 1589 relate specifically to 2017 GA transactions, or are earlier years impacted as well?

RESPONSE:

- a) The RPP (CT 142) /non-RPP Class B (account 1589) split calculation was based on data extraction coding logic that double counted the consumption load related to the GA Modifier upon the introduction of the Fair Hydro Plan. It was not apparent from the data extraction that there was a flaw in the extraction code logic. The extraction was from the billing system, which applies a rate to each customer's consumption related to the GA. The Fair Hydro Plan introduced a GA modifier rate, which, for eligible customers, was applied (correctly) as a negative rate in the billing system using the same consumption as the GA. Therefore, the consumption was double counted, as illustrated in the following simplified example:

A	Consumption (kWh) * GA rate (\$)	=	Global Adjustment	C
B	Consumption (kWh) * GA modifier rate (-\$)	=	GA Modifier	D
	<u>Total Global Adjustment</u>			

This resulted in the consumption data being double counted ($A+B$) wherever the GA modifier was applied. To be clear, this issue had no effect on customer bills, as the Global Adjustment billed amount was calculated as $C-D$ (i.e. customers were billed correctly).

- b) Toronto Hydro has adjusted the coding logic of the consumption extract from the system to account for any duplication in consumption data, and has recalculated the percentage split for CT 142 and account 1589.
- c) This was an isolated issue, triggered by the introduction of the Fair Hydro Plan. While Toronto Hydro has rigorous controls in place, it also recognizes the opportunity for continuous improvement. In this instance, Toronto Hydro intends to incorporate the principles behind the GA Analysis Workform into its reasonability analysis going forward.
- d) Toronto Hydro has taken this adjustment into its September 30, 2018 interim financial statements and has reflected the change prospectively for reporting purposes which have been posted on SEDAR.
- e)
 - a. Only July to December 2017 settlements were impacted triggered by the introduction of the Fair Hydro Plan as explained in a). Prior to that period, there was no impact as the Fair Hydro Plan was not in place.
 - b. The original consumption data that Toronto Hydro used to split the RPP and Non-RPP Class B consumption was inaccurate, as described in response to part a) of this interrogatory.
 - c. Toronto Hydro will be seeking to recover the impacted amount from the IESO, in accordance with wholesale settlement rules.
 - d. Toronto Hydro has not yet had a discussion with the IESO.

f) The accounting entries recorded to accommodate the adjustment were:

Dr. Accounts payable – IESO	\$50.4 million
Cr. RSVA – GA	(\$50.4 million)
Dr. Energy purchases	\$50.4 million
Cr. Net movements – RSVA GA	(\$50.4 million)

g) The entire amount relates to only 2017 GA transactions.