Ontario Energy Board

November 5, 2018

P.O. Box 2319
27th Floor
2300 Yonge Street
TORONTO, ON M4P 1E4

Attention: Board Secretary

Re: Board File EB-2018-0046 2019 IRM Application

Dear Ms. Walli:

Please find attached Kenora Hydro's 2019 IRM Rate application requesting new rates effective May 1, 2019.

Two hard copies will follow by courier. This application has also been submitted through the OEB's web portal.

Please contact me directly at 807-467-2014 should you require anything further.

Sincerely,

Janice Robertson, CPA, CA
Manager of Finance & Regulatory Affairs
Kenora Hydro Electric Corporation Ltd.
Ph (807) 467-2014
Fax (807) 467-2068
jrobertson@kenora.ca

Encls.

APPLICATION FOR APPROVAL OF ELECTRICITY DISTRIBUTION RATES
EFFECTIVE MAY 1, 2019

EB – 2018-0046

IN THE MATTER OF the Ontario Energy Board Act, 1998, Schedule B to the Energy Competition Act, 1998, c.15;

AND IN THE MATTER OF an Application by Kenora Hydro Electric Corporation Ltd. to the Ontario Energy Board for an Order approving just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2019.

APPLICATION

The Applicant, Kenora Hydro Electric Corporation Ltd ("Kenora Hydro") is a corporation incorporated pursuant to the Ontario Business Corporations Act with its head office in the City of Kenora, Ontario. Kenora Hydro carries on the business of distributing electricity within the City of Kenora as a licensed electricity distributor under license ED-2003-0030.

Kenora Hydro hereby applies to the OEB pursuant to Section 78 of the Ontario Energy Board Act, 1998 for approval of these proposed distribution rates and other charges, on an Incentive Regulation Application, with rates effective May 1, 2019. In the event that the Board is unable to provide a Decision and Order for this Application for implementation on May 1, 2019, Kenora Hydro requests that the Board issue an Interim Rate Order declaring the current Distribution Rates and Specific Service Charges as interim until the implementation date.

This application will be made available for viewing at www.kenorahydro.ca.

Requests for further information on this application should be made to:

Janice Robertson, CPA, CA
Manager of Finance & Regulatory Affairs
807-467-2014
jrobertson@kenora.ca

The primary license contact:

David Sinclair
President & CEO
807-467-2075
dsinclair@kenora.ca

Dated in Kenora, Ontario, November 5, 2018

MANAGER'S SUMMARY

Kenora Hydro is applying for rates and charges to be effective May 1, 2019. Kenora Hydro last completed a full Cost of Service rebasing application, with rates effective July 1, 2011.

Kenora Hydro has maintained financial records during 2016 consistent with IFRS.

2019 Rate Filing - General Information

Kenora Hydro is filing this rate application under the OEB Filing Requirements for Electricity Distribution Rate Applications – 2018 edition for 2019 Rate Applications – Chapter 3 – Incentive Rate-Setting Applications, dated July 12, 2018. Kenora Hydro has elected to file an Annual Incentive Regulation Model for rates effective May 1, 2019.

Incremental Capital Module

An Incremental Capital Model has not been filed by Kenora Hydro for this application.

Z-Factor Claim

A Z-Factor Claim has not been filed by Kenora Hydro for this application.

Deferral and Variance Account Rate Rider

Kenora Hydro has included in this application an analysis of the Group 1 Deferral and Variance accounts. As the pre-determined threshold has not been met, Kenora Hydro will not be disposing of the balances in Group 1 DVA accounts, including the Global Adjustment Account balance. The LRAM balance will not be disposed of in this application. The Shared Tax Savings will not be disposed of in this application.

Rate Design Transition

Kenora Hydro is in the fourth of the four year transition to fully fixed rate revenue design for residential customers. The new split will be 100% Fixed and 0% Volumetric based revenue beginning May 1, 2019. Residential customers at the 750 kWh consumption level will experience no change in total distribution revenue as a result of this final transition. The residential class deemed to experience the greatest impact, those with consumption at the 254 kWh/month level, will be impacted by $1.83 increase per month, within the $4.00 increase limit deemed to require additional transition time.

Specific Service Charge and Loss Factors

Kenora Hydro is applying to continue the current Specific Service Charges and Loss Factors as approved by the Board (EB-2014-0087).

MicroFIT Generator Service Charge

Kenora Hydro does not propose any change to the current monthly service charge of $5.40 as prescribed by the Board.

Bill Impacts

Every customer class in this application is impacted by this Rate Application. Details of impacts presented under **Tab 20 – Bill Impacts** section.

The GA Methodology Description Questionnaire is included as Appendix A.

The 2019 Global Adjustment Working Paper is included as Appendix B.

The Full 2019 Annual IR Rate Generator, including Rate Impact sheets, is included as Appendix C.

These IRM documents and any related correspondence will be made available by link on our website at www.kenorahydro.ca.

2019 Annual IR Rate Generator Rate Application Inputs & Results

Tab 2 – Current Tariff Schedule

This Model was pre-populated with Kenora Hydro's current rates from May 1, 2018 Tariff of Rates and Charges EB-2017-0054. Kenora Hydro confirms the accuracy of these inputs.

Tab 3 – Continuity Schedule

RRR balances have been pre-populated from the 2.1.7 2017 RRR filing, as revised October 19, 2018. Kenora Hydro confirms the accuracy of these inputs, with the noted exception of Cell BU31. The total from the 2011 Year balances in account 1595 has not been brought forward by this model. E-mail discussion with Board Staff indicates that the activity and balances for both 2011 and 2012 should be reported together, and that the Variance as noted of $90,169 is expected. The balance of the missing 1595 account in this model is a DR ($90,169). Including this balance leaves an adjusted variance column of 0. Kenora Hydro used the OEB rate of 2.17% to project carrying charges to April 30, 2019.

In accordance with the Board's Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) issued April 26, 2012, at a minimum, distributors must apply for disposition of the balance in the LRAMVA at the time of their Cost of Service rate application. Distributors may apply for the disposition of the balance in the LRAMVA on IR rate applications if the balance is deemed significant by the applicant. As the total audited balance in the GL the LRAMVA account is $9,530 as at December 31, 2017, Kenora Hydro is electing to not dispose of this balance in this application. This balance has not been included in the Continuity Schedule.

Tab 4, 5 & 6 - Billing Determinant DVA Accounts

- **Tab 4:** As the DVA Account balances plus projected carrying charges results in a balance of, ($20,488) producing a claim of ($0.0002) per kWh, it does not exceed the preset disposition threshold of DR/CR $0.001/kWh and will not be disposed of in this application.

- **Tab 5:** No input required.

- **Tab 7:** No input required.

Tab 8 & 9 – Tax Change

- **Tab 8 & 9:** There is non-material impact of the currently known legislated tax changes on Kenora Hydro. Total impact is $(2,447) No Rate Rider is calculated in this model as a result of Tax Savings

as calculated. This amount will be recorded into Account 1595 in the 2019 year end for future disposal.

Tab 10 through 15 – RTSR Rates

- **Tab 10:** The most recent RRR billing determinants are pre-populated from the 2017 Annual RRR filing, as revised October 19, 2018. Kenora Hydro confirms the accuracy of these inputs.
- **Tab 11:** Rates effective January 1, 2019 are assumed to be the 2018 Rates until updated. Kenora Hydro agrees that the Board will update these rates in this application January 2019 as required.
- **Tab 12:** Network and Connection charges as inputs for this tab are taken directly from 2017 IESO Invoices.
- **Tab 13, 14 & 15:** No inputs.

Tab 16 – Revenue to Cost Adjustment & GDPIPI

The Board's Annual IR model dictates that Kenora's filing incorporates the following:

- Price Escalator = 1.2%
- Stretch Factor = 0.6%
- Resulting Total Price Cap Index = 0.6%

It is understood that the Board will update this rate application to reflect any required changes in these rates.

The Rate Design Transition on Tab 16 indicates that this, the fourth year of the four year transition will result in a 100% Fixed and 0% Variable component for residential customers.

As noted in the July 12, 2018 Filing Requirements, Kenora Hydro confirms that the annual adjustment mechanism will not be applied to the following components of delivery rates in this rate application:

- Rate Adders, Rate Riders
- Low Voltage Service Charge
- Retail Transmission Service Rates
- Wholesale Market Service Rate, Rural Rate Protection Benefit and Charge
- Standard Supply Service – Administrative Charge
- Capacity Based Recovery
- MicroFIT Service Charge
- Specific Service Charges

- Transformation and Primary Metering Allowances
- Smart Metering Entity Charge

Tab 17 – Regulatory Changes

No inputs made.

Tab 18 – Additional Rates

No inputs made.

Tab 19 – Final Tariff Schedule

No inputs made.

Tab 20 – Bill Impacts

The draft rates, as presented, produce the following rate impacts:

Rate Class	Sub Total A = Impact Excluding Pass Through		Sub Total B = Impact on Distribution		Impact to Total Bill	
	$	%	$	%	**$**	**%**
Residential (RPP)	$ 0.00	0.0%	$3.30	10.8%	$3.46	3.2%
General Service < 50 kW (RPP)	$ 0.24	0.5%	$9.24	18.3%	$9.70	3.9%
General Service > 50 to 4,999 kW (Non-RPP)	$4.32	0.6%	$161.48	26.5%	$179.72	7.8%
Unmetered Scattered Load (RPP)	$2.97	0.6%	$44.22	9.1%	$49.97	2.6%
Streetlight (Non-RPP)	$18.04	0.6%	$249.55	8.6%	$280.02	3.6%
Residential 10th Percentile (254 kWh)	$1.83	6.4%	$2.95	10.1%	$3.10	5.5%

In accordance with Chapter 3, s 3.2.3 Rate Design for Residential Electricity Customers, an additional analysis of the total bill impact was reformed on the 10th consumption percentile. The 10th percentile was determined to be the 254 kWh level of consumption. This was determined by a billing system query on all residential customers' consumption from the 2017 calendar year. This was imported to Excel, all accounts with incomplete 12 month data were removed. The data was then sorted in

ascending order. There were 4,134 residential customers with complete data from 2017. The 413th customer would approximate the consumption at the 10% level. This customer had an annual consumption of 3,048 kWh, or 254 kWh/month. This was taken as the consumption level for the 10th percentile analysis of bill impacts. This result is consistent with prior years.

Kenora Hydro notes that there are no rate mitigation measures required for any class as a result of Distribution rate changes in this application as no customer class will increase by more than 10%.

Specific Exclusions

As noted in the July 12, 2018 Filing Requirements, Kenora Hydro confirms that the following specific items have **not** been included as part of this rate application:

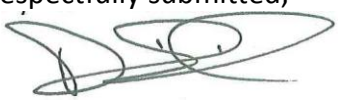
- Rate Harmonization
- Disposition of Account 1555
- Changes to Revenue-to-Cost ratios
- Loss Factor Changes
- Establishing or changing Specific Service Charges
- Loss Carry Forward adjustments to PILS/Taxes
- Disposition of Group 2 Deferral and Variance Accounts
- Loss of Customer Load

In accordance with Section 3.2.5.2, Kenora Hydro certifies the following:

Certification of Evidence

As President of Kenora Hydro Electric Corporation Ltd. (KHECL), I certify that, to the best of my knowledge, the evidence filed in KHECL's 2018 Incentive Rate-Setting Application is accurate, complete, and consistent with the requirements of the Chapter 3 Filing Requirements for Electricity Distribution Rate Applications as revised on July 12, 2018. I also confirm that internal controls and processes are in place for the preparation, review, verification and oversight of any account balances that are being requested for disposal.

Respectfully submitted,



David Sinclair
President & CEO
Kenora Hydr

APPENDIX A

GLOBAL ADJUSTMENT

METHODOLOGY DESCRIPTION

Appendix A
GA Methodology Description

The full OEB designed model, and specific notes on the GA Analysis Workform is included in Appendix B. Further, please note the following detailed descriptions of the methodology used by Kenora Hydro.

***** PROCESS REMAINS UNCHANGED FROM 2017 IRM FILING*****

GA Rate Used

Kenora Hydro uses the first estimate of GA as provided by IESO to bill all customer classes.

Monthly Filings to IESO

On or before the fourth business day of the month, Kenora Hydro submits to the IESO claims for the difference between spot and RPP pricing for RPP customers.

Consumption Estimates

Reports are generated from the billing system to produce RPP kWh billed during the filing month. This RPP kWh is multiplied by the final GA rate from the IESO for the corresponding consumption period. This process estimates the GA filing claim required for that period.

Inherent in this monthly process is the timing issue that customers are not billed by the calendar month. Reported kWh for the filing month will contain kWh consumed by customers for a portion of the reporting month, and also consumption from the prior month. To achieve better matching of kWh consumed and the GA rate in effect at the time of consumption, the GA rate used in the filing calculation is matched to the consumption month. For example, if the filing month is May, billing data from the May reports includes a large portion of April's consumption, so the IESO final GA rate from April is used in the calculation for the claim. The monthly filings require a True-up process to ensure the accuracy of both the monthly RPP kWh consumed and that the corresponding GA rates for that consumption period is correctly claimed for each month of the year.

Annual True-Up

Total actual RPP volume for the year is derived using the following process:

- Actual monthly kWh purchased from the IESO, adding back embedded generation from each month, to determine total kWh sold to Kenora Hydro each month

- An IT billing system query is run to determine the Non-RPP volume supplied to our customers each month
- The IESO kWh purchased less the Non-RPP consumption, results in the RPP consumption for each month of the year

GA claim recalculation for the year is done as follows:

- Each month's claim is re-calculated based on actual kWh volume for RPP (as determined from above process), and the actual final GA rate charged to Kenora Hydro for the corresponding month of consumption.
- Any difference between the total as claimed during the year, less the total for the year as recalculated in this True-up process, is submitted to the IESO on the monthly filing as soon as complete data is available, typically in February or March.

Embedded generation is taken into account when calculating total kWh purchased for the month.

Accrual accounting is used in the GA settlement process.

GA Methodology Description
OEB Questions on Accounts 1588 & 1589

1. In booking expense journal entries for Charge Type (CT) 1142 and CT 148 from the IESO invoice, please confirm which of the following approaches is used:
   a. CT 1142 is booked into Account 1588. CT 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589 respectively.
   b. CT 148 is booked into Account 1589. The portion of CT 1142 equaling RPP minus HOEP for RPP consumption is booked into Account 1588. The portion of CT 1142 equaling GA RPP is credited into Account 1589.
   c. If another approach is used, please explain in detail.

Kenora Response:

Kenora Hydro uses the approach detailed in option (b).

2. Questions on CT 1142
   a. Please describe how the initial RPP related GA is determined for settlement forms submitted by day 4 after the month-end (resulting in CT 1142 on the IESO invoice).

Kenora Response:

The kWh sold for RPP customers, pulled from billing system reports, is used to estimate the kWh for the GA on the filing. Those kWh are made up of primarily the month previous consumption, as there is an approximate lag of a month due to billing timing and processing. Since the consumption is primarily for the month previous, the GA rate applied to those kWh at this step, is the actual GA rate as posted by the IESO for the prior month. As an example, for June month filing due the first 4 days into July, the billed kWh pulled will be primarily from May, and the actual posted GA rate for May will be used. In our experience, this is producing a more accurate initial GA claim month over month. All consumption and rate differences are trued up quarterly.

b. Please describe the process for truing up CT 1142 to actual RPP kWh, including which data is used for each TOU/Tier 1&2 prices, as well as the timing of the true up.

Kenora Response:

Quarterly, a true-up is calculated which takes into account any differences in monthly RPP vs Non-RPP consumption, also taking into account unbilled adjustments each month. Monthly final IESO GA rates are also used in the true-up calculations, as they may differ from the estimated rates used in the initial claims. Any true-up claims will be accrued (recorded) in the GL in the Quarter to which they belong, to more accurately reflect the balances in 1588 and 1589 at each quarter end.

c. Has CT 1142 been trued up for with the IESO for all of 2017?

Kenora Response:

Yes, CT 1142 has been trued up for all of 2017.

d. Which months from 2017 were trued up in 2018?

Kenora Response:

The final calculations for true ups for the 2017 year end were performed in 2018 as soon as complete billing data from 2017 was available, however, any and all adjustments and postings of 2017 related true ups were made to the 2017 general ledger. No 2017 true-ups would be posted in 2018.

e. Have all of the 2017 related true-up been reflected in the applicant's DVA Continuity Schedule in this proceeding?

Kenora Response:

Yes, all the 2017 related true-ups are reflected in the Continuity Schedule in this proceeding.

f. Please quantify the amount reflected in the DVA Continuity Schedule, and the column where it is included.

Kenora Response:

The 2017 True-ups at year end were:

1588 : $95,710 in Column BD, Transactions Debit/(Credit) during 2017.
1589 : $(304,795) in Column BD, Transactions Debit/(Credit) during 2017.

3. Questions on CT 148
   a. Please describe the process for the initial recording of CT 148 in the accounts (i.e. 1588 and 1589).

Kenora Response:

CT 148 is recorded as follows:

The entire amount from line 148 is posted as a debit to Account 4706 (= 1589). The credit claimed for the GA on RPP customers is then credited from Account 4706. This leaves only the GA on Non-RPP in Account 4706.

The debit amount from the monthly claim for the RPP customers kWh is posted to Account 4705 (= 1588). This increases the power expense for the RPP.

b. Please describe the process for true up of the GA related cost to ensure that the amounts reflected in Account 1588 are related to RPP GA costs and amounts in 1589 are related to only non-RPP GA costs.

Kenora Response:

Annual True-Up

Total actual RPP volume for the year is derived using the following process:

- Actual monthly kWh purchased from the IESO, adding back embedded generation from each month, to determine total kWh sold to Kenora Hydro each month.
- A billing system query is run to determine the Non-RPP volume supplied to our customers each month. This report produces the unbilled adjusted kWh consumed each month by our Non-RPP customers.
- The IESO kWh purchased, plus the embedded generation, less the Non-RPP consumption, results in the RPP consumption for each month of the year.

GA claim recalculation for the year is done as follows:

- Each month's claim is re-calculated based on actual kWh volume for RPP (as determined from above process), and the actual final GA rate charged to Kenora Hydro for the corresponding month of consumption.
- Any difference between the total as claimed during the year, less the total for the year as recalculated in this True-up process, is submitted to the IESO on the monthly filing as soon as complete data is available, typically in February or March.

c. What data is used to determine the non-RPP kWh volume that is multiplied with the actual GA per kWh rate (based on CT 148) for recording as expense in Account 1589 for initial recording of the GA expense?

Kenora Response:

When the initial calculation of the GA expense claim for RPP customers is made, the RPP data is pulled from the billing system, for actual billed kWh for the claim month. This kWh is used for the GA claim. The total GA expense on the IESO invoice is reduced by this claim for the RPP kWh, leaving the GA expense related to the Non-RPP customers to be posted to the income statement 4706 account (= 1589).

d. Does the utility true up the initial recording of CT 148 in Accounts 1588 and 1589 based on estimated proportions to actuals based on actual consumption proportions for RPP and non-RPP?

Kenora Response:

Yes. Once complete billing data is available for the quarter, a report is generated from the billing system to indicate monthly consumed kWh (adjusted each month for estimated unbilled kWh) for all Non-RPP consumption. The prior claims are adjusted from the initial volumes used in monthly claims, to reflect this more accurate consumption by Non-RPP by month.

e. Please indicate which months from 2017 were trued up in 2018 for CT 148 proportions between RPP and non-RPP.

Kenora Response:

True-ups for the proportions between RPP and non-RPP consumption from all months from 2017 are calculated early in 2018 and posted back to 2017. A complete re-calculation of all months are done at year end to ensure accuracy. The majority of the value of the true-up is the result of Q4. There are minor adjustments to Q2 and Q3 in the final true-up as well.

Kenora Response:

f. Are all true-ups for 2017 consumption reflected in the DVA Continuity Schedule under 2017.

Kenora Response:

Yes.

g. Please quantify the amount reflected in the DVA Continuity Schedule, and the column where it is included.

Kenora Response:

The annual true up to Account 1589 : DR $304,795, is included in column BD, Transactions Debit/(Credit) during 2017.

4. Questions regarding principal adjustments and reversals on the DVA Continuity Schedule:

   Questions on Principal Adjustments - Accounts 1588 and 1589

   a. Did the applicant have principal adjustments in its 2018 rate proceeding which were approved for disposition?

Kenora Response:

Yes.

b. Please provide a break-down of the total amount of principal adjustments that were approved (e.g. true-up of unbilled (for 1589 only), true up of CT 1142, true up of CT 148 etc.).

Kenora Response:
Principal adjustments approved in 2018 were:

1588 : RSVA Power $195,719
1588 : RSVA Power $ 33,554
$229,273

1589 : RSVA Global Adjustment ($33,554)

c. Has the applicant reversed the adjustment approved in 2018 in its current proposed amount for disposition?

Kenora Response:

The debit adjustment of $33,554 in 1588 and the corresponding credit adjustment of ($33,554) in 1589 are not and will not be reversed, as they are a permanent correction of a noted mispost between the two RSVA accounts.

The debit adjustment of $195,719, done to move the additional A/P to IESO from Dec 2016 for the Fixed Rate Settlement, due to unbilled revenue adjustments, is reversed in the GL in 2017.

d. Please provide a breakdown of the amounts shown under principal adjustments in the DVA Continuity Schedule filed in the current proceeding, including the reversals and the new true up amounts regarding 2017 true ups.

Kenora Response:

In the current proceeding, the following are adjustments to principal :

1588 : ($34,676)
1589 : $34,676

This adjustment is needed to permanently correct a misallocation between the 2 accounts.

e. Do the amount calculated in part d. above reconcile to the applicant's principal adjustments shown in the DVA Continuity Schedule for the current proceeding? If not, please provide an explanation.

Kenora Response:

Yes.

f. Please confirm that the principal adjustments shown on the DVA Continuity Schedule are reflected in the GL transactions. As an example, the unbilled to actual true-up for 1589 would already be reflected in the applicant's GL in the normal course of business. However, if a principal adjustment related to proportions between 1588 and 1589 was made, applicant must ensure that the GL reflects the movement between the two accounts.

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Kenora Response:

Kenora confirms that the 2018 GL reflects the required permanent movement between 1588 and 1589 of $34,676 as stated in Part b) to correct a posing error detected after closing 2017 G/L.

APPENDIX B

GA Analysis Workform

Notes on GA Analysis Workform :

- The billing system allows a data pull for consumption which includes the unbilled portion of consumption by month. As a result, there was no data available or purpose in attempting to break out the unbilled and reverse of prior month unbilled amounts by month in the table, columns G and H. The Non-RPP Class B consumption inputs have already included the impact of reversing and including the monthly unbilled consumption.
- All settlement true-ups have been noted in their respective years in the tables.
- Cell K59 on the table indicates the expected change in GA RSVA 1589 for the year. The change expected in Account 1589 from this worksheet was $23,221. The actual change experienced in Account 1589 was ($42,790). The adjustment shown in Cell D75, $34,676, corrects a posting in 2017 to reallocate between 1588 and 1589. This entry should not have been made, and this adjustment corrects for that entry. This correction is made in Kenora Hydro's GL in 2018 to permanently correct this error. The impact of this on Account 1589 is included at Cell D75.
- The resulting Unresolved Difference in this account is -0.8%. No further investigation was performed on this account as the difference is less than 1%.

APPENDIX C

KENORA 2019 IRM RATE GENERATOR