



Ontario  
Energy  
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de l'énergie  
de l'Ontario

March 29, 2019

Mr. Larry McCabe  
President  
West Coast Huron Energy Inc.  
64 West Street  
Goderich, ON N7A 2K4

Dear Mr. McCabe:

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

The Ontario Energy Board's (OEB) Audit & Investigations Department has completed its inspection of West Coast Huron Energy Inc.'s (WCHE) compliance with regulatory requirements for deferral and variance accounts (DVA) for Account 1588 (RSVA – Power) and Account 1589 (RSVA – Global Adjustment).

The results of the inspection are included in the attached inspection report. OEB staff expects WCHE's management to implement the applicable actions to address the findings outlined in this report.

Please provide a management response to the report by **April 12, 2019**.

The OEB issued a letter on July 20, 2018, advising electricity distributors of the OEB's initiative to standardize the accounting guidance related to commodity pass-through accounts. The OEB provided an initial set of standardized requirements for regulatory accounting and RPP settlements on February 21, 2019 titled *Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment*. For some distributors, the result of implementing this guidance may be that changes will be required to their current processes even though the current processes result in accurate balances. WCHE is expected to comply with this accounting guidance and to continue to comply with all other relevant regulatory requirements.

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

Yours truly,



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Cc. Deanna Hastie, Treasurer, West Coast Huron Energy Inc.

# **ONTARIO ENERGY BOARD**



## **Inspection Report**

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**West Coast Huron Energy Inc.**

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

**March 2019**

## Table of Contents

1. SUMMARY .....	1
2. REASON AND AUTHORITY FOR INSPECTION.....	1
3. OBJECTIVE AND SCOPE .....	2
4. METHODOLOGY .....	2
5. LICENSEE PROFILE AND BACKGROUND .....	2

Appendix 1 – Detailed Findings.....	A1
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Finding 1 – Misstated balances for Accounts 1588 and 1589 .....	A1
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Finding 2 – Improper timing of RPP settlement with the IESO .....	A3
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Finding 3 – No accruals for unbilled power and GA revenues .....	A4
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## 1. SUMMARY

The OEB's Audit & Investigations staff (staff) conducted an inspection of West Coast Huron Energy Inc.'s (WCHE) deferral and variance accounts (DVA) for Account 1588 (RSVA – Power) and Account 1589 (RSVA – Global Adjustment) for the period from January 1, 2015 to December 31, 2017.

Staff found that, due to errors in calculating Regulated Price Plan (RPP) settlement amounts as well as misallocation of GA charges, WCHE materially misstated the year-end balances reported for Accounts 1588 and 1589 in 2015, 2016 and 2017.

Staff noted that there has been no impact to customers for these years as these balances have not yet been approved for disposition by the OEB.

In particular, staff found the following:

1. Due to errors in calculating the monthly RPP variances and misallocation of GA charges between RPP and non-RPP customers, WCHE misstated the year-end balances of Accounts 1588 and 1589 in 2015, 2016, and 2017.
2. WCHE is not settling the monthly RPP variance with the IESO in the appropriate month.
3. WCHE does not record monthly accruals for unbilled power and GA revenues, which is not in accordance with the Accounting Procedures Handbook (APH).

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

## 2. REASON AND AUTHORITY FOR INSPECTION

The inspection was triggered by the OEB in its March 22, 2018 Decision and Order on WCHE's 2018 IRM rate proceeding.<sup>1</sup>

The inspection was conducted under the authority of Part VII of the *Ontario Energy Board Act, 1998* (Act) by staff appointed as inspectors by the OEB's management committee under section 106 of the Act.

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<sup>1</sup> EB-2017-0083.

### **3. OBJECTIVE AND SCOPE**

The objective of the inspection was to examine the balances of WCHE's Accounts 1588 and 1589 and determine whether:

- 1) accounting policies and procedures for these accounts were properly and consistently applied in accordance with the OEB's Accounting Procedures Handbook, Reporting and Record-Keeping Requirements, and related regulatory guidelines; and
- 2) adequate systems and processes were in place to ensure that settlements with the IESO are in compliance with relevant legislation, regulations, and OEB and IESO guidance.

Staff reviewed entries in Accounts 1588 and 1589 from January 2015 to June 2018. The last disposition of these accounts on a final basis were the December 31, 2014 balances as part of WCHE's 2016 IRM rate proceeding.<sup>2</sup>

### **4. METHODOLOGY**

Staff reviewed WCHE's procedures, systems, and controls with respect to the tracking, recording, calculating, and reporting of the balances in Accounts 1588 and 1589.

Staff interviewed key WCHE staff and reviewed supporting documents such as IESO invoices, customer billing data, settlement calculations and procedures, and accounting records.

### **5. LICENSEE PROFILE AND BACKGROUND**

WCHE serves about 4,000 mostly residential and commercial electricity customers in the Town of Goderich.

On December 20, 2018, the OEB approved the amalgamation of WCHE and Erie Thames Powerlines Corporation (ERTH Power Corporation).<sup>3</sup> ERTH Corporation (the parent company of ERTH Power Corporation) will acquire all of the shares of WCHE from the Town of Goderich. The distribution licence and rate orders of WCHE will be transferred to ERTH Power Corporation, and the distribution licence of ERTH Power Corporation will be amended to include the service territory of WCHE. ERTH

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<sup>2</sup> EB-2015-0111.

<sup>3</sup> EB-2018-0082.

Power Corporation will continue to track costs to existing deferral and variance accounts for each of EARTH Power Corporation and WCHE.

WCHE's last approved Cost of Service application was filed for 2013 rates.<sup>4</sup> WCHE's Accounts 1588 and 1589 were last disposed on a final basis as part of the IRM rate application finalizing 2016 rates.<sup>5</sup>

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<sup>4</sup> EB-2013-0159.

<sup>5</sup> EB-2016-0097.

**1 Finding 1 – Due to errors in calculating the monthly RPP variances and misallocation of GA charges between RPP and non-RPP customers, WCHE misstated the year-end balances of Accounts 1588 and 1589 in 2015, 2016, and 2017.**

**1.1 Basis of Finding**

During WCHE’s 2018 IRM rate proceeding<sup>6</sup>, WCHE noted that its 2015 and 2016 year-end balances for Accounts 1588 and 1589 were misstated due primarily to the following errors:

- WCHE used incorrect RPP and non-RPP consumption figures to calculate both the RPP variance settled with the IESO and the allocation of GA charges between RPP and non-RPP customers.
- WCHE used the GA 2<sup>nd</sup> estimate to calculate GA expenses that were allocated to RPP and non-RPP customers, and did not true-up to actual GA rates.

As a result, WCHE made the following adjustments for Accounts 1588 and 1589 in 2017:

	<b>Adjustment for 2015</b>	<b>Adjustment for 2016</b>	<b>Total adjustments for 2015 and 2016 recorded in 2017</b>
<b>Account 1588 – RSVA Power</b>	\$161,836	\$269,091	<b>\$430,927</b>
<b>Account 1589 – RSVA GA</b>	\$(161,836)	\$(269,091)	<b>\$(430,927)</b>

Staff reviewed the adjustments and the source of the errors that resulted in the misstatements for 2015 and 2016. Staff confirmed that WCHE made the proper adjustments in 2017 to correct for the errors made in 2015 and 2016.

However, WCHE did not discover and correct for the above errors until September 2017. As a result, WCHE had to make an additional correcting adjustment for the months of January to August 2017. WCHE submitted this adjustment to the IESO in November 2017 as part of the RPP settlement process, and updated the balances of Accounts 1588 and 1589 at that time. As a result, the year-end balances for 2017 and reported to the OEB as part of Electricity Reporting and Record-keeping Requirements reflected the adjustments for 2015, 2016, and Jan-Aug 2017.

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<sup>6</sup> EB-2017-0083.

## Appendix 1 – Detailed Findings

	<b>Principal balance as of Dec 31, 2017 (including adjustments for Jan-Aug 2017)</b>	<b>Total adjustments for 2015 and 2016</b>	<b>Adjusted principal balance as of Dec 31, 2017 (agreed to RRR 2.1.7)</b>
<b>Account 1588 – RSVA Power</b>	\$77,375	\$430,927	<b>\$508,302</b>
<b>Account 1589 – RSVA GA</b>	\$616,417	\$(430,927)	<b>\$185,490</b>

However, WCHE subsequently reviewed the adjustment it made in November 2017 and found that it contained an error in the calculation of the RPP settlement with the IESO. Specifically, WCHE overstated the RPP revenues in its calculation, resulting in an additional \$418,457 being paid to the IESO for settlement of the RPP variance. This in turn resulted in WCHE overstating the 2017 year-end balance in Account 1588 by \$418,457. As this error only involved an incorrect RPP settlement with the IESO (Charge Type 1142) which is recorded in Account 1588, there was no impact to Account 1589.

	<b>Adjusted principal balance as of Dec 31, 2017 (per RRR 2.1.7)</b>	<b>Misstatement due to miscalculation of RPP settlement</b>	<b>Final adjusted principal balance as of Dec 31, 2017</b>
<b>Account 1588 – RSVA Power</b>	\$508,302	\$(418,457)	<b>\$89,845</b>
<b>Account 1589 – RSVA GA</b>	\$185,490	--	<b>\$185,490</b>

Staff noted that WCHE made the correcting adjustment for 2017 balances in November 2018. Staff also noted that this correcting adjustment was simply a carryover of errors that were corrected in September 2017. Beginning in September 2017 and going into 2018, WCHE had updated its processes to ensure greater accuracy of the RPP settlement with the IESO as well as proper allocation of GA charges between RPP and non-RPP customers.

### 1.2 Required Action

WCHE should continue with its updated processes for calculating the RPP variance settlement with the IESO and the allocation of GA charges between RPP and non-RPP customers. Going forward, WCHE should also ensure adequate controls are in place to report accurate balances in Accounts 1588 and 1589.

**2 Finding 2 – WCHE is not settling the monthly RPP variance with the IESO in the appropriate month.**

**2.1 Basis of Finding**

Staff found that WCHE settles its RPP variance with the IESO on a one month lag. This results in inaccurate monthly settlements with the IESO, and incorrect monthly balances in Account 1588.

In WCHE's 2018 IRM rate proceeding, WCHE noted that it did not perform true-ups for the RPP variance settlements with the IESO. Staff found that in 2017, WCHE began calculating the RPP settlement using the actual GA rate as required, but only because it was performing the calculation one month later, when actual rates are available.

For example, WCHE calculated the RPP variance settlement for April 2017 using April's actual billing to RPP customers, and the actual GA rate for April. Both of these values were available and confirmed only after the fourth business day in May, when the RPP variance settlement was due for submission to the IESO. As a result, WCHE did not submit April's RPP variance settlement to the IESO until June. Therefore, the RPP variance settlement on the IESO invoice (Charge Type 1142) for May actually represented settlement for energy consumption in April.

WCHE records Charge Type 1142 on the IESO invoice in Account 1588, which means that the amounts recorded in Account 1588 are one month delayed. This results in WCHE recording incorrect monthly carrying charges, which are likely not material.

Furthermore, staff noted that WCHE properly accrued the RPP variance settlement for December 2017, even though it was not submitted to the IESO until February 2018. Therefore, other than the issue noted in Finding 1 above, the balance in Account 1588 as of December 31, 2017 was not misstated.

**2.2 Required Action**

WCHE should review and update its processes and procedures to ensure that the monthly RPP variance is being settled with the IESO in the appropriate month. This will ensure greater accuracy of settlements as well as balances reported in Account 1588 going forward.

- 3 Finding 3 – WCHE does not record monthly accruals for unbilled power and GA revenues. This is not in accordance with the APH. However, staff noted that WCHE records unbilled revenues at year-end so there is no impact on the year-end balances reported for Accounts 1588 and 1589.**

**3.1 Basis of Finding**

Article 220 of the APH states that Account 1588 shall be used monthly to record the net difference between the energy amount billed to customers, including accruals, and the energy charge to a distributor from the IESO, including accruals.

Similarly, the APH also states that Account 1589 shall be used monthly to record the net difference between the GA amount billed to non-RPP consumers, including accruals, and the GA charge to a distributor for non-RPP customers from the IESO, including accruals.

Staff found that WCHE does not record monthly accruals of the energy and GA amounts billed to customers.

As a result, WCHE does not properly match the monthly revenues with expenses, and the monthly variances recorded in Accounts 1588 and 1589 are not accurate.

However, staff noted that at the end of the year, WCHE recalculates what the monthly variances would have been, and records carrying charges based on the actual monthly variances. Also, staff noted that WCHE appropriately accrued for unbilled energy and GA revenues for the balances at year-end. As a result, there is no impact on the year-end balances of Accounts 1588 and 1589.

**3.2 Required Action**

By not recording monthly accruals for unbilled energy and GA revenues, WCHE is not in conformity with the APH. Moving forward, WCHE should develop procedures to account for monthly unbilled revenues to ensure the accuracy of monthly balances in Accounts 1588 and 1589.

