

Power Liability Variance Explanation – Additional Filing

Waterloo North Hydro Inc. (WNH) is providing additional information with respect to the Power Liability per interrogatory 9-Staff-93.

This explanation should be read along with the live Excel model titled Att 10b Support – Power Liability Explanation. All tab references hereafter refer to this model.

Excel tab “Table 1” is a recreation of Table 1 as filed in Attachment 9-3 of Exhibit 3 in submission EB 2020-0059.

Excel tab “Table 2” provides supporting documentation for Table 2 as filed in Attachment 9-3 of Exhibit 3 in submission EB 2020-0059. It also contains live Excel versions of the appendices provided in Attachment 9-3. WNH has added references to describe the source of information used to calculate the tables and appendices.

Excel tab “Table 3” provides supporting documentation for Table 3 as filed in Attachment 9-3 of Exhibit 3 in submission EB 2020-0059. WNH has added references to describe the source of information used to calculate the table.

Excel tab “CI B Non-RPP GA” is an excerpt of an internal document used by WNH to calculate the balance in USoA 1589. The first chart provides total Class B Non-RPP GA (in \$) per consumption month based on the month billed. This is calculated by taking the consumption and multiplying it by the applicable final GA rate as posted by the IESO. The second chart provides the same consumption kWh multiplied by the 1st Estimate GA rate as posted by the IESO. These values align with WNH’s billing system.

Excel tab “RPP GA Est & True-Up” is an excerpt of an internal document previously used by WNH to calculate RPP GA necessary to complete RPP settlement submissions to the IESO. WNH’s former process involved estimating RPP GA for the current month submission and then performing a true-up the subsequent month. WNH has revised these

calculations based on correct inputs to recalculate RPP GA as demonstrated in tab Table 2-3.

Table 1

Table 1 is for explanatory purposes only to highlight the issue that will be addressed in Table 2. No further explanation is required.

Table 2

WNH has added references to describe the source of information. Table 2 is comprised of information from App.1.c – RPP Settlement per Actual Submissions and App.1.d – RPP Settlement Revised. The settlement difference arises from an incorrect method of calculating RPP GA which is referred to as “L” in the original submission and “N” in the revised.

As demonstrated in Tab RPP GA Est & True-Up, WNH's settlement process from 2015-2018 involved an estimate for the current month's RPP GA (“A” to “E”) and then a subsequent true-up (“F” to J”). The initial estimate was based off wholesale meter data and current pricing info available. The true-up was based on billed kWh and final GA pricing.

This true-up is where the issue lies. In this process, the true-up calculation uses actual non-RPP GA billed in the subsequent month at GA 1st estimate. However, as one can see from the CI B Non-RPP GA tab, the subsequent month's billings could include consumption from several months, not just the prior. As a result, this creates a timing difference. As the process continued, all kWh consumption would in fact be settled upon eventually, but it would not align with the consumption month. Moreover, the true-up compares total Class B GA per the IESO invoice at GA final rate to the non-RPP GA billed in the subsequent month at GA 1st estimate, creating a pricing difference.

With the benefit of being several months past the period in question, WNH was able to re-calculate the actual RPP GA by consumption month per Tab CI B non-RPP GA. Using this information, WNH re-created the estimate/true-up process to determine an accurate amount of RPP GA that should have been included in settlement (refer to “N” on RPP GA Est & True-Up). By using this information in Tab Table 2-3 App.1.c and App.1.d, WNH revised all RPP settlements from 2015-2018 and calculated the difference which would be owing to the IESO.

WNH has only included 2015 and 2016 in Table 2 since 2017 and 2018 differences have already been remitted as part of the true-ups submitted in 2019 during the transition to the new settlement process.

Table 3

As described in Att 9-3 in WNH's original submission, WNH investigated the impact of the RPP settlement revisions on the calculation of 1588 and 1589. WNH anticipated that the timing and rate issue from Table 2 would cause issues in year-end calculations. Prior to adopting the new 1588/89 settlement process, WNH would perform a GA Reconciliation Accrual at December 31st of each fiscal year. The Accrual was calculated by taking the cumulative difference of GA billed to Non-RPP customers and GA charged on the IESO invoice. This entry was necessary to balance 4705, 4707 and 1589.

In Tab “Table 3”, WNH has provided the inputs used to calculate the annual GA Reconciliation Accrual. Since these inputs were affected by the RPP settlement timing issue discussed in Table 2, WNH has revised the calculation of Non-RPP GA that should have been charged on the IESO invoice. Using these new figures and repeating the accrual/reversal process from 2015-2019, one can see that there is a nil effect to USoA 4705 each year except for 2019. Under the previous process, the December 31, 2018 accrual would have been reversed on January 1, 2019 and been included as part of Cost of Power in 2019. However, since the new settlement process was adopted as of January

1, 2019 this amount could not be reversed in 2019 to USoA 4705 and has been kept in USoA 2425 for disposal.

This remaining credit balance of \$2,621,628 represents an amount owing to WNH RPP customers due to the timing issue described previously. Unlike the amount owing to the IESO from Table 2, the amounts for 2017 and 2018 would not have been included in the 1588/89 true-ups performed in 2019.

Illustrative Example – Consumption Month December 2015

WNH has included this example in response to part (b) of IR 9-Staff-93. The illustrative example will discuss the following:

- RPP settlement submission for December 2015 submitted in January 2016
- GA Reconciliation Accrual as of December 31, 2015
- RPP settlement submission for December 2015 – corrected
- GA Reconciliation Accrual as of December 31, 2015 – corrected
- Effects of the above corrections on the balance of 1588

RPP Settlement Submission – December 2015

In the Table 2 tab, the App 1.a chart contains select charge types from the January 2016 IESO invoice. CT 1142 (\$2,983,538) has been expanded in App. 1.c (“J” to “M”) which describes WNH’s settlement submission to the IESO on Day 4 of January 2016. The calculation of RPP GA for settlement (“L” - \$7,200,248) is linked to “K” on the RPP GA Est & True-Up tab.

Since total RPP GA cannot be accurately measured on Day 4 of the subsequent month, WNH used an estimate/true-up process as follows:

Total RPP GA Included in Settlement is calculated as:

$K = E \text{ (current)} + I \text{ (prior)} + J \text{ (current)} = \$5,007,905 + \$2,192,343 + \$0 = \$7,200,248$,
where:

$E \text{ (December)} = \text{RPP GA estimate for current month} = \$5,007,905$

I (November) = RPP GA true-up for prior month = \$2,192,343

J (December) = Manual change to estimate = \$0 - not applicable in this month

“E” is an estimate of RPP GA for December 2015 based on the following inputs:

$E = D - C = \$10,123,649 - \$5,115,744 = \$5,007,905$, where:

A = Class B Non-RPP kWh = 58,074,057 kWh from wholesale meter data per Utilismart

B = GA 1st Estimate Price = \$0.08809/kWh from IESO posted GA prices
(Note: WNH bills GA at 1st estimate)

$C = A * B = \$5,115,744$

D = Total Class B GA estimate per WNH shadow invoice

“I” is a true-up of RPP GA for November 2015 based on the following:

$I = H - E = \$7,889,121 - \$5,696,778 = \$2,192,343$, where:

E (prior month) = November 2015 estimated RPP GA = \$5,696,778

F = Total Class B **GA @ Final Rate** per December IESO Invoice (note that December IESO invoice will be for November consumption) = \$12,404,982

G = **GA billed @ 1st Estimate** in December 2015 = (\$4,515,861) = total billed Class B GA billed in December 2015 per CI B Non-RPP GA tab (Excel cell reference BB79).

$H = F + G = \$12,404,982 + (\$4,515,861) = \$7,889,121$

In the above process, the true-up portion of the entry (“I”) compares “F” which is total Class B **GA @ Final Rate** per IESO Invoice vs. “G” which is GA Billed in Subsequent Month based on **GA 1st Estimate**. Herein lies the error previously discussed.

Note that in the next submission – in this case Day 4 of February 2016 – WNH would estimate January 2016 RPP GA and true-up December 2015 RPP GA in the same manner.

GA Reconciliation Accrual – December 2015

Prior to adopting the new accounting guidance issued in February 2019, WNH would perform a year-end GA Reconciliation Accrual. The goal of the accrual was to reconcile USoA 4705 and 1589 due to the cumulative timing difference between Non-RPP GA charged to WNH on the IESO invoice and Non-RPP GA charged to WNH customers per billings. This accrual would contain a two-year period to align with the disposal of historical 1588 balances as depicted in “H” transfer to balance sheet. Due to the inputs of the calculation, this entry also contains the rate difference described above.

Note: In practice, prior to January 1, 2019, WNH did not differentiate between USoA 4705 and 4707 in the General Ledger throughout the year. It was only at year-end that balances are separated. This is due to lack of monthly data available to perform the RPP/Non-RPP split. Please consider them to be interchangeable for this discussion.

A recalculation of the December 2015 accrual is contained on the Table 3 tab. The total accrual of \$2,354,388 (reference “I”) had the following entry and reversal:

December 31, 2015 Accrual

DR	USoA 4705	Power Purchased	2,354,388
CR	USoA 2205	Accounts Payable	2,354,388

January 1, 2016 Reversal

DR	USoA 2205	Accounts Payable	2,354,388
CR	USoA 4705	Power Purchased	2,354,388

The accrual is calculated as follows:

$$I = - (C + F + G + H) = - (\$109,503,163 + (\$105,709,168) + (\$2,143,035) + (\$4,005,348)) \\ = \$111,857,551 - \$109,503,163 = \$2,354,388 \text{ where:}$$

$$A = \text{Non-RPP GA charged on IESO invoice in 2014} = \$46,471,586$$

$$B = \text{Non-RPP GA charged on IESO invoice in 2015} = \$63,031,577 \text{ (note: this can be recalculated by summing all 2015 values in column “Q” on Table 2)}$$

$$C = A + B = \$109,503,163$$

$$D = \text{Non-RPP GA charged to customers per billing system in 2014} = (\$43,880,182)$$

$E = \text{Non-RPP GA charged to customers per billing system in 2015} = (\$61,828,986)$
 $F = D + E = (\$105,709,168)$
 $G = \text{Unbilled differences, carrying charges, etc. required for balancing} = (\$2,143,035)$
 $H = \text{Transfer to balance sheet} = (\$4,005,348) = \text{reversal of accrual from two years prior}$

The reversal of the above entry on January 1, 2016 and the subsequent accruals for the years ending 2016, 2017 & 2018 would continually push the timing and rate difference into the next period.

RPP settlement submission for December 2015 – corrected

WNH has re-created the RPP GA that should have been included in the Day 4 January 2016 settlement as if WNH had access to complete information one month subsequent to settlement (i.e. November can be true-up in the Day 4 January 2016 settlement). The revised RPP GA is \$4,873,998 and corresponds to column “N” on tab Table 2 and “O” on tab RPP GA Est & True-Up.

“O” on RPP GA Est & True-Up is calculated using the same estimate/true-up process as before but with complete information for the true-up step.

$O = E \text{ (current)} + N \text{ (prior)} = \$5,007,905 + (\$133,907) = \$4,873,998$, where:

$E \text{ (December)} = \text{RPP GA estimate for current month} = \$5,007,905$

$N \text{ (November)} = \text{RPP GA true-up for prior month} = (\$133,907)$

E has the same calculation as in the previous process.

“N” is a revised true-up of RPP GA for November 2015 based on the following:

$N = M - E = \$5,562,871 - \$5,696,778 = (\$133,907)$, where:

$E \text{ (prior month)} = \text{November 2015 estimated RPP GA} = \$5,696,778$

$F = \text{Total Class B GA @ Final Rate per December IESO Invoice (note that December IESO invoice will be for November consumption)} = \$12,404,982$

L = Total Non-RPP **GA @ Final Rate** = \$6,842,111 = total consumed kWh in November 2015 at final GA rate per tab CI B Non-RPP GA (cell reference O64)

$$M = F - L = \$12,404,982 - \$6,842,111 = \$5,562,871$$

As demonstrated above, this revised true-up entry compares GA based on **final** rates and includes total kWh for November 2015.

Using this revised RPP GA amount, WNH has recalculated what RPP settlement should have been for Day 4 January 2016 which is (\$657,288). This can be found on tab Table 2 under "O". When compared to actual submissions "M" or "F" of (\$2,983,538), it is apparent that WNH overclaimed RPP settlement from the IESO in the amount of \$2,326,250. Therefore, this amount needs to be returned to the IESO. Total amounts to be returned for 2015 and 2016 are included in Table 2.

GA Reconciliation Accrual as of December 31, 2015 – corrected

As described above, the GA Reconciliation Accrual contains a comparison of Non-RPP GA charged on the IESO invoice to the Non-RPP GA charged to customers per WNH's billing system. As a result of the corrections to the RPP settlement, the accrual would require correcting as well.

On tab Table 3, the total Non-RPP GA charged on the IESO in 2015 ("K") has been revised to include the corrections noted above. The 2015 amount is the sum of all revised Non-RPP GA charged on IESO invoice per "S" on tab Table 2. Using these revised amounts for 2015-2018, WNH has recalculated the accrual required in column "R". The same methodology is used to calculate "R" as "I" in the discussion above.

Per Table 3, for 2015 the incorrect RPP settlements understated USoA 4705 by \$2,463,200. However, by using the incorrect RPP settlement as an input in the GA reconciliation, this entry overstated USoA 4705 by \$2,463,200, nullifying the effect on 4705. Discussion on the effects of these errors on 1588 is discussed next.

Effects of the above corrections on the balance of 1588

In tab December 2015, WNH has provided a recalculation of 1588 and 1589 balances based on the information provided in the other tabs.

For the energy sub-accounts of USoA 4006-4055, no changes are necessary. These balances consist of billings from WNH's billing system. Non-RPP energy amounts are omitted for simplicity since they are not relevant to the errors described.

For 4705 – Energy cost, WNH has provided actual and revised RPP settlement amounts as calculated previously in this discussion. One can observe that through the revised settlement and GA accruals that the net effect on 4705 is nil. Non-RPP energy amounts are omitted since they are not relevant to the errors described. Unaccounted for energy (UFE) is also omitted for simplicity.

For the GA sub-accounts of USoA 4006-4055, no changes are necessary. These balances consist of December 2015 consumption at final GA rate per the CI B Non-RPP GA tab. Class A is omitted for simplicity.

For 4707 – GA Cost, WNH has provided actual and revised Class B – Non-RPP GA amounts as calculated previously in this discussion. Class A is omitted for simplicity. WNH's calculation of 1589 involves the comparison of December 2015 Non-RPP consumption kWh at GA 1st estimate (billed) and GA final rates per the CI B Non-RPP GA tab. Due to the error in RPP settlement, one can see that the calculation of Class B – Non-RPP GA was initially incorrect. Thus, WNH needed the GA Reconciliation Accrual to ensure the correct calculation of 1589. Again, after correction the net effect on 4707 is nil.

As noted previously, WNH uses 4705 and 4707 interchangeably until year-end reconciliation. A transfer between the two is shown through references "J1/J2" and "E1/E2" for clarity.

After the GA Reconciliation Accrual to 4705 that is offset to 2205, 1588 calculates properly and there is no immediate effect. 1589 also calculates properly and there is no effect.

Due to the GA Reconciliation Accrual which increases (debits) 4705 and increases (credits) 2205, the effect of the error on the calculation of 1588 is delayed into the next period. The credit balance in 2205 represents an amount owing to customers.

This continues until the new accounting guidance is implemented as of January 1, 2019 and this accrual is no longer performed. As Table 3 demonstrates, after correcting the errors from 2015-2018, there remains a cumulative credit balance of \$2,621,628 in account 2205 which is owing to customers. WNH subsequently moved this balance to 2425 to isolate the error for this rate filing.