

Milton Hydro Distribution Inc. (Milton Hydro)
EB-2020-0039

February 17, 2021

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Staff Question-5

Ref (1): Manager's summary, pp. 8-9, p. 12

Ref (2): 2021 IRM Rate Generator, Tab 3. Continuity Schedule

Preamble:

In its application, Milton Hydro requested not to dispose of its Group 1 DVA balances, despite exceeding the disposition threshold. Milton Hydro noted that it cannot reasonably determine the proper account balances for disposition.¹

On p. 8, Milton Hydro states that it has applied the OEB Accounting Guidance on the commodity-pass through accounts 1588 RSVA Power and 1589 RSVA GA for 2019 by using calendarized billing statistic data for RPP Settlements and made the appropriate adjustments to these accounts. However, Milton Hydro has not gone back to 2018 as planned and continued to follow its current process into 2020. Milton Hydro does not believe that the 2019 balances in accounts 1588 RSVA Power and 1589 RSVA GA correctly reflect the appropriate split of Global Adjustment costs between the two accounts based on the Accounting Guidelines.²

OEB staff notes from the DVA continuity schedule of the IRM rate generator that there are no figures in the cells (cell BF18 and BF29) for the principal adjustments during 2019 of Account 1588 and Account 1589.

On p.12, Milton Hydro states that:

¹ EB-2020-0039, Manager's summary, p. 9

² Ibid. p. 8

“The retail kWh consumption data used in the RPP Settlement calculations is obtained from Milton Hydro’s Customer Information System (“CIS”) monthly billing statistics. This is not consistent with the Accounting Guidance which requires distributors to settle with the IESO based on calendar month consumption data for each of the RPP price points. Milton Hydro has recalculated the RPP Settlements for 2019 and is currently working on recalculating the RPP Settlements for 2018 and 2020. Milton Hydro will make RPP Settlement Adjustments or Journal Entries to update the balances of the Commodity pass-through accounts if required.”

Questions:

- a) Please confirm that the commodity account transactions for the fiscal year 2019 now reflect the correct split of Global Adjustment costs between Account 1588 and 1589, following the application of the OEB’s accounting guidance.
- b) Please confirm that the 2019 adjustments with respect to the calendarized billing statistic data impact both Account 1588 and Account 1589 and these adjustments are included in the cells (cell BD28 and cell BD29) of “Transaction Debit/(Credit) during 2019” for Account 1588 and Account 1589, respectively.
- c) If b) is confirmed, please remove the adjustments from the cells of “Transaction Debit/(Credit) during 2019” and include these adjustments in the cells of “Principal Adjustments during 2019” for increased transparency.
- d) Please explain whether Milton Hydro has claimed the 2019 RPP settlement true-up associated with the prior use of monthly billing data. If so, please indicate when the 2019 true-up was settled with the IESO and provide the dollar amount. If not, please explain why not and explain Milton Hydro’s plan to settle these differences with the IESO.
- e) Please confirm that the issue of using the calendarized billing stats data is the only issue to date identified by Milton Hydro in reviewing its commodity accounting processes against the OEB’s accounting guidance. If not, please indicate any other noticeable deviations.
- f) Please confirm that Milton Hydro also intends on reviewing and amending its 2017 balances, if necessary, which have not yet been disposed of on a final basis.
- g) Milton Hydro filed its application on November 23, 2020, and at that time indicated that it has only been able to apply the OEB’s accounting guidance to the 2019 year. As of today’s date, has Milton Hydro extended the historical review of the guidance to the 2017 and/or 2018 balances?

- i. If not, please explain when Milton Hydro expects to complete its historical review of the 2017 and 2018 balances in the context of the OEB's accounting guidance and whether any estimated impacts can be assessed at this time. If applicable, please elaborate on whether there are any specific constraints (other than additional time needed), with respect to applying the OEB's accounting guidance to these years in a process similar to the one carried out for 2019.
- ii. If Milton Hydro has applied the OEB's guidance to 2017 and 2018, please provide an updated set of evidence, including an updated rate generator model that includes any necessary historical adjustments, as well as an updated GA Analysis Workform that substantiates these updated balances and any principal adjustments.

Response:

- a) Milton Hydro clarifies a statement made on page 8 of 20 of its managers summary on lines 9 to 11 that the record needs to be updated for. Milton Hydro stated that:

"Milton Hydro has applied the OEB Accounting Guidance on the commodity-pass through accounts 1588 RSVA_{power} and 1589 RSVA_{GA} for 2019 by using calendarized billing statistic data for RPP Settlements and made the appropriate adjustments to these accounts."

Milton Hydro updates this statement, which should have been:

"Milton Hydro has applied the OEB Accounting Guidance on the commodity-pass through accounts 1588 RSVA_{power} and 1589 RSVA_{GA} for 2019 by using calendarized billing statistic data for RPP Settlements and recalculated the monthly RPP Settlements affecting these accounts."

The commodity account transactions for the fiscal year 2019 do not now reflect the correct split of Global Adjustment costs between Account 1588 and 1589. Although Milton Hydro has performed the monthly recalculations for RPP Settlements for 2019, it has not yet performed any RPP Settlement Adjustments with the IESO nor has it prepared any Journal Entries (if required) to adjust the balances of accounts 1588 and 1589. Once Milton Hydro has performed the monthly recalculations for the RPP Settlements for each year from 2018 to 2020 it will perform any necessary RPP Settlement Adjustments with the IESO and

prepare any required Journal Entries to adjust the balances of accounts 1588 and 1589 pertaining to the 2018 to 2020 fiscal years.

It is premature to record any necessary RPP Settlement Adjustments and Journal Entries for only 2019 when the work relating to 2018 has not been completed yet. In addition, Milton Hydro has not determined if any one-time transitional adjustments are required because of implementing the new guidance to align the actual kWh volumes used for settlement with the new RPP settlement methodology.

- b) As indicated in a) above, although the 2019 monthly recalculations for RPP Settlements have been completed, there have been no RPP Settlement Adjustments made with the IESO nor have Journal Entries been prepared relating to 2019. Therefore, there have been no adjustments relating to 2019 RPP Settlements reflected in cells BD28 and BD29 related to “Transaction Debit/(Credit) during 2019” for Account 1588 and Account 1589, respectively.
- c) Milton Hydro did not confirm b). There were no adjustments that were needed to be removed from the cells of “Transaction Debit/(Credit) during 2019”. Therefore, there were no adjustments needed to be included in the cells of “Principal Adjustments during 2019”.
- d) As indicated in part a) of this question, Milton Hydro has not claimed any 2019 RPP Settlement Adjustments with the IESO associated relating to its 2019 monthly recalculations of RPP Settlements. Once Milton Hydro has recalculated the RPP Settlements for the full period from 2018 to 2020 Milton Hydro will make the required RPP Settlement Adjustments with the IESO and prepare Journal Entries as required for each fiscal year.
- e) The predominant issue with Milton Hydro’s accounting processes compared to the OEB’s accounting guidance is that Milton Hydro was performing RPP Settlements based on statistical data billed during the calendar month rather than using consumption data related to the calendar month settled with the IESO. The timing of Milton Hydro’s RPP Settlements was inherently delayed since consumption for a given calendar month is not fully known until about two calendar months later. In addition, Milton Hydro’s calculations were not based on the same methodology as the OEB’s Illustrative RPP Settlements methodology, so each months RPP Settlements had to be recalculated. Once Milton Hydro

recalculates each month's RPP Settlements for the period from 2018 to 2020 using the OEB's methodology as per the Illustrative model, Milton Hydro will be in a position to determine the RPP Settlement Adjustments required with the IESO and the Journal Entries applicable to each calendar year.

- f) Milton Hydro confirms that it also intends on reviewing and amending its 2017 balances, if necessary, and then request approval of the final disposition of its Group 1 account balances.
- g) To date Milton Hydro has extended its historical review of the guidance of the 2018 period but has further analysis to do before determining if any RPP Settlement Adjustments or Journal Entries are required. Milton Hydro has not commenced its historical review of the guidance of the 2017 period yet.
 - i. Milton Hydro expects to complete its historical review of the 2017 balances in the context of the OEB's accounting guidance in 2021 prior to filing its 2022 IRM Rate Application. Milton Hydro has no constraints at this time other than additional time needed to complete the work on the prior years.
 - ii. Milton Hydro has not applied the OEB's guidance to years 2017 to 2018 yet and has no further updated evidence to put on the record.

Staff Question-6

Ref: Manager's summary, pp. 8-9

Preamble:

Milton Hydro stated that it is working with its vendor to better calculate the data to use for RPP Settlement purposes and to calculate Unbilled Revenue more accurately using calendar month Smart Meter and MV90 Interval Meter data. These enhancements go beyond what is required in the current OEB Accounting Guidelines; however, such enhancements will better utilize Smart Meter and MV-90 Interval Meter data and create more precision in its business processes.³

Question:

³ Ibid. p. 8

- a) Please explain whether this project has had an impact on Milton Hydro's progress towards completing its implementation of the OEB's accounting guidance including a review of this guidance in the context of its 2017 and 2018 Group 1 DVA balances, in accordance with the OEB's stated expectations in Milton Hydro's 2020 IRM decision.
- b) Please explain whether the implementation of the OEB's accounting guidance (and application of the guidance to the relevant historical years) is independent of Milton Hydro's above-noted planned initiative.
- c) Is this project anticipated to be implemented on a prospective or retrospective basis (i.e. is Milton Hydro's intention to go back to historical years (2017-2020) and assess whether the use of smart meter data results in any differences in the commodity account balances already prepared in accordance with the OEB's prevailing accounting guidance)?
- d) If the implementation of the OEB's accounting guidance (and application to historical years) does have any relationship to or is in any way dependent on, completion of the above-noted project, please provide an estimated completion date for this project and how this will factor (if at all) into Milton Hydro's 2022 rate application.

Response:

- a) No, the work with the vendor has not impacted Milton Hydro's progress towards completing the implementation of the OEB's accounting guidance. The work to implement the guidance, to restate historical years RPP Settlements with the IESO, and record Journal Entries (if required) has been independent of the work with the vendor. The staff working on the restatements of Accounts 1588 and 1589 have not been extensively involved with the RPP Settlements Vendor.
- b) Yes, the implementation of the OEB's accounting guidance is independent of Milton Hydro's above noted planned initiative.
- c) This project is anticipated to be implemented retrospectively to January 1, 2021. The implementation of the OEB's accounting guidance for RPP Settlement and the restatement of Milton Hydro's Accounts 1588 and 1589 to the end of December 31, 2020 will enable Milton Hydro's RPP Settlement methodology to be consistent with the OEB's Accounting Guidance. The work being done with Milton Hydro's RPP Settlement vendor will enable Milton Hydro to continue to follow the OEB's accounting guidance; however, on a go forward basis Milton

Hydro would be able to extract more precise Smart Meter and MV-90 data on a timelier basis to be used in the monthly RPP Settlement calculations. The vendors solution will be an end-to-end technology based innovative solution. This vendor is developing innovative data controls that reconcile wholesale quantities with retail quantities unlike what is being used in the industry currently. In addition, the solution will be fully automated enabling Milton Hydro to be more efficient, and the solution will have more sophisticated accounting controls built into its Wholesale Settlement business processes.

- d) The implementation of the OEB's accounting guidance does not have any relationship to or is not in any way dependent on the completion of the above-noted project. Although work being is being done contemporaneously, different resources are being used to complete the work. The RPP Settlement solution will be done later in 2021; however, as indicated, Milton Hydro's work to restate the Account 1588 and 1589 balances as at December 31, 2020 will be completed prior to Milton Hydro filing its 2022 rate application.

Staff Question-7

Ref (1): GA Analysis Workform

Ref (2): Manager's Summary pages 18-19

Preamble:

In its Manager's Summary, on page 18, Milton Hydro states:

"Milton Hydro acknowledges that the unresolved difference is greater than the +/- 1% materiality threshold and Milton Hydro is adjusting its RPP Settlement Claims with the IESO and reviewing this account to determine what adjustments are required so the threshold is not exceeded."

OEB staff notes that the unexplained differences as a percentage of expected GA payments to IESO on the 2018 and 2019 GA Analysis Workforms are 3.4% and -2.1%, respectively, which are greater than +/- 1% threshold. OEB staff notes that Milton Hydro did not include any reconciling items in Note 5 of 2019 GA Analysis Workform and except for the load transfer reconciling item (item #3 a), Milton Hydro did not include any reconciling items in Note 5 of 2018 GA Analysis Workform.

OEB staff understands that the 2019 net change in principal balance of (\$87,453) includes the 2019 principal adjustment(s) related to using calendarized billing stats data in the 2019 RPP settlements.

Questions:

- a) Please confirm OEB staff's observation above. If confirmed, please update the 2019 GA Analysis Workform by:
 - i) separately listing the 2019 adjustment due to the correction for the calendarized billing stats data issue
 - ii) Confirming that the adjustment noted above was recorded in the general ledger in fiscal 2020.
 - iii) calculating the reconciling item #4 Differences in actual system losses and billed TLF and including the calculated figure in the Note 5
- b) Please revise the 2018 GA Analysis Workform by including:
 - i) reconciling item #6 Differences in actual system losses and billed TLF and provide the calculation for the differences in the losses
 - ii) the estimated 2018 adjustment due to the correction for the calendarized billing stats data issue (assuming the actuals are not already available) and indicating in which fiscal year this adjustment has been recorded.
- c) Does Milton Hydro, as of today's date, have any additional information or insights to determine why its calculated Global Adjustment balance, as indicated on the GA Analysis Workform, exceeds the 1% materiality threshold for 2018 and 2019? If so, please include these impacts in the updated GA Analysis Workform, along with an updated Rate Generator Model that incorporates these findings. If not, please indicate when Milton Hydro anticipates completing this review.

Response:

- a) OEB staff's observation above is not confirmed.
 - i) The 2019 net change in principal balance of (\$87,453) does not include the 2019 principal adjustment(s) related to using calendarized billing stats data in the 2019 RPP settlements.
 - ii) The adjustment noted above was not recorded in the general ledger in fiscal 2020, nor has it been booked to date.
 - iii) Once Milton Hydro has completed its analysis on the 2019 Account 1588 and 1589 amounts, has made any necessary RPP Settlement Adjustments with the IESO, and has prepared the Journal Entries (if any) to restate Accounts 1588 and 1589, then Milton Hydro will

calculate the differences in actual system losses and the billed TLF and incorporate into the GA Analysis Workform. When Milton Hydro updates the GA Analysis Workform for 2019, it will present a complete GA Analysis Workform with its 2022 IRM rate proceeding, including the differences in actual system losses and the billed TLF. The provision of a complete 2019 GA Analysis Workform at its 2022 rate proceeding will support its potential request for disposition of Account 1589 at that time.

b) 2018 GA Analysis Workform

- i) Once Milton Hydro has completed its analysis on the 2018 Account 1588 and 1589 amounts, has determined if any RPP Settlement Adjustments are required with the IESO, and has prepared the Journal Entries (if any) to restate Accounts 1588 and 1589, then Milton Hydro will calculate the differences in actual system losses and the billed TLF and incorporate into the GA Analysis Workform. When Milton Hydro updates the GA Analysis Workform for 2018, it will present a complete GA Analysis Workform with its 2022 IRM rate proceeding, including the differences in actual system losses and the billed TLF. The provision of a complete 2018 GA Analysis Workform at its 2022 rate proceeding will support its potential request for disposition of Account 1589 at that time.
- ii) Milton Hydro is unable to estimate an adjustment to Account 1589. Once Milton Hydro has completed its work recalculating the monthly RPP Settlements for 2018 and has determined what Journal Entries (if any) are required, then Milton Hydro will know the principal adjustments required to Account 1589 for 2018.

- c) No, as of today, Milton Hydro does not have any additional information or insights to determine why its calculated Global Adjustment balance, exceeds the 1% materiality threshold for 2018 and 2019. Milton Hydro anticipates completing this review in 2021 and will file with its 2022 IRM rate proceeding.

Staff Question-8

Ref (1): Manager's summary, pp. 8-9

Ref (2): Decision and Order, pp. 6, EB-2019-0053, Milton Hydro 2020 IRM

Preamble:

Milton Hydro's 2021 IRM Rate Generator shows a credit balance of \$962,275 for its Group 1 DVA balances, which results in a total claim of 0.0011 per kWh. This credit balance exceeds the OEB's threshold test.

In Milton Hydro's 2020 IRM, the OEB stated on page 6 of the decision, with respect to the 2018 DVA balances, that "[t]he OEB finds that the account balances appear reasonable and confirms that the threshold calculation is correct."

Question:

- a) Given that the OEB has previously opined that the 2018 closing balances appear reasonable, and since Milton Hydro has implemented the Accounting Guidance and applied it to the 2019 fiscal year, please explain Milton Hydro's position with respect to the notion of an interim disposition of the DVA balances as part of this proceeding under two scenarios:
 - i. The amounts are approved for interim disposition as filed (subject to any adjustments arising out of these or further staff questions)
 - ii. Milton Hydro is able to complete its historical review of the 2017 and 2018 balances in accordance with the OEB's accounting guidance and files an updated rate generator model to reflect any necessary adjustments prior to the OEB rendering a decision in this proceeding.

Response:

- a) In the Milton Hydro 2020 IRM OEB rate decision the total Group 1 Account balances did not meet materiality, they were in total a debit balance of \$465,532. Although the total of Group 1 Account balances were not material, the principal balance of Account 1588 was a credit balance of \$1,009,391 which relates only to 2018 RSVA power transactions. When comparing the RSVA power transactions to the total Power Purchased and recorded in account 4705 for the same time-period, the balance of account 1588 appears materially significant. Milton Hydro is concerned that the magnitude of the balance of account 1588 is larger than it ought to be, when the balance of the account should only relate to

unaccounted for energy. The balance of the account appears to be more than just unaccounted for energy. Once Milton Hydro has completed its analysis for 2018 it will be in a better position to justify the account balance, or determine what adjustments may be needed to the account.

Evaluation of the 2018 Balance of Account 1588			
Year	Net Principal USoA Account 1588	USoA Account 4705	%
2018	-\$ 1,009,391.18	\$ 48,076,619.71	-2.10%

- i. Given Milton Hydro's concern with the magnitude of the 2018 balance of Account 1588 RSVA power in its 2020 IRM rate application Milton Hydro respectfully requests that it be permitted to complete its work recalculating the RPP Settlements, calculating any one-time transitional adjustments if required as a result of implementing the new guidance in order to align the actual kWh volumes used for settlement with the new RPP settlement methodology, and determining any Journal Entries as necessary as the result of the work and analysis performed.
- ii. Milton Hydro is unable to complete its historical review of the 2017 and 2018 balances in accordance with the OEB's accounting guidance and file updated balances for disposition prior to the rendering of a decision in this proceeding; therefore, Milton Hydro respectfully requests that no disposition be approved in its 2021 IRM Rate Decision until Milton Hydro completes its review in 2021 and then at its 2022 rate proceeding it will support its potential request for disposition of Account 1588 and 1589 at that time.