**Hydro 2000 Inc.**

**EB-2020-0028**

Please note, Hydro 2000 Inc. is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff questions and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB’s *Rules of Practice and Procedure*.

**Staff Question-1**

**Ref: Manager’s Summary, p. 10**

In the Manager’s Summary, it states that Hydro 2000 confirms its distribution rates are fully fixed. However, in the same page, Hydro 2000 provides the following statement: “Hydro 2000 has not yet completed its transition to fully fixed residential rates. Hydro 2000 indicated in its 2020 Cost of Service application that it had two years remaining in its transition period, which would mean that the utility would go to fully fixed rates in this application”. Please explain the contradictory statements.

**H2000 Response:** H2000 confirms that it is proposing to go to fully fixed rates in this application.

**Staff Question-2**

**Ref: Manager’s Summary, p. 12**

In the Manager’s Summary, it states “Since the threshold was met, Hydro 2000 is therefore not seeking disposal of its deferral and variance account in this proceeding”. OEB staff notes this may be an erroneous statement because the rest of the application indicates otherwise. Please confirm that Hydro 2000 is seeking disposal of its deferral and variance account in this proceeding.

**H2000 Response:** H2000 is proposing to dispose of its outstanding balances in this application.

**Staff Question-3**

**Ref: Manager’s Summary, p. 14**

In the Manager’s Summary, it states “GA rate riders calculated on an energy basis (kWh) (not applicable in this case)”. Please explain why it is not applicable.

**H2000 Response:** H2000 confirms that the GA rate riders calculated on an energy basis and that it’s applicable in this case.

**Staff-Question-4**

**Ref: Manager’s Summary, p. 14**

**Ref: DVA Continuity Schedule**

In the Manager’s Summary, it states that Hydro 2000’s balances up to Dec 31, 2016, were approved on a final basis in its 2020 cost of service application.[[1]](#footnote-1)

In Hydro 2000’s settlement proposal that was approved in its 2020 cost of service rate application, it states

With respect to accounts 1588 and 1589, OEB staff had identified a number of issues during the proceeding with the 2017 and 2018 balances in these two accounts and suggested further review was required before disposing of these balances. As agreed to by the parties, H2000 will not dispose of balances in this proceeding. Instead H2000 will be permitted to dispose the balance to December 31, 2016 and bring forward a request for approval and clearance of amounts post December 31, 2016 in its 2021 IRM application.

Table 21 of the settlement proposal and the attached DVA Continuity Schedule show $0 claim amounts for both accounts 1588 and 1589. The associated tariffs also do not appear to reflect the disposition of these two accounts.

1. Please confirm that the 2015 and 2016 Account 1588 and Account 1589 balances were not included for disposition in the 2020 cost of service rate application.

**H2000 Response:** Confirmed. Although the settlement agreement states that ***H2000 will be permitted to dispose the balance to December 31, 2016*** *and bring forward a request for approval and clearance of amounts post December 31, 2016 in its 2021 IRM application, .* the models used for the final rate making purposes and to draft the decision and order did not include the balances for 2015 and 2016.

1. If confirmed, please update the DVA Continuity Schedule to start from the ending 2014 balances for accounts 1588 and 1589. Please ensure that the amounts pertaining to 2015 and 2016 agree to the Inspection Report filed in Hydro 2000’s 2020 cost of service proceeding for the inspection of Hydro 2000’s 2015 and 2016 account 1588 and 1589 balances.

**H2000 Response:** Please see the attached model for revised balances of 1588/1589.

1. If part a above is not confirmed, please reconcile the differences in the account 1588 and 1589 ending 2016 balances between the DVA Continuity Schedule included in Hydro 2000’s 2020 cost of service settlement proposal and the DVA Continuity Schedule in this proceeding.

**H2000 Response:** The year end balances in the attached model match the audit report.

**Staff Question-5**

**Ref: Manager’s Summary, p. 16**

The OEB’s February 21, 2019 Accounting Guidance for Account 1588 and Account 1589[[2]](#footnote-2) (Accounting Guidance) was effective January 1, 2019 and to be implemented by August 1, 2019. It appears that Hydro 2000 was not able to implement the Accounting Guidance in 2019, as the 2019 account 1588 and 1589 balances were recalculated after the year-end RRR 2019 balances were filed.

1. Please explain when Hydro 2000 implemented the Accounting Guidance.

**H2000 Response:** Hydro 2000 Manager attended the OEB presentation 3 times and could not understand how the new form would apply to the methodology of an embedded Distributor reporting to Hydro One and not to IESO. During the 2015-2016 Accounts 1588 & 1589, it was indicated that Hydro 2000 would need to remove the month lag in filing to meet OEB requirement. Hydro 2000 explained that all clients are unbilled at the end of the month since all clients are bill from the 1st to the 31st on or about the 17th day of the following month. Hydro 2000 was advised to report based on a estimate of the most accuracy as possible thus the same period of the previous year. Hydro 2000 was also informed to change the methodology to report the Microfits. This method was applied as of July 2019. Hydro 2000 has always reported with the actual amount causing a month lag in reporting. Yet, the reporting were based on actual hourly HOEP and mostly accurate. OEB new methodology seem to be based on monthly average thus not as accurate. On the other hand, OEB staff had Hydro 2000 change the methodology for Microfits from average to actual hourly production to be more accurate. This is a confusing message.

1. Please provide a narrative of Hydro 2000’s current RPP settlement process with Hydro One and confirm that this process was used when recalculating the 2017 to 2019 account balances.

**H2000 Response:** When completing RPP settlement process with Hydro One, Hydro 2000 uses a bottom up approach. The utility pulls out the RPP revenues for the month, divide that amount by the fixed OEB power rate to determine the kWh. With the total amount of kWh sold obtained, Hydro 2000 then multiplies the amount with the estimated power rate, and that results in the amount of dollars claimed/paid from/to Hydro One. Since applying the new method Hydro 2000 proceed in the same manner but estimate the current month power revenue and price then proceed to adjust with actual data in the following month. The difference found from the estimate and the actual is then adjusted to the following month estimate.

Hydro 2000 admits the change in administration created some differences in the settlement process with Hydro One. Upon new Management in 2018, 2017 and 2018 settlements were revised and resubmitted to Hydro One. The Manager found an issue with the formula used in the worksheet and rectified as soon as the issue was found.

1. An Inspection Report for an inspection of Hydro 2000’s 2015 and 2016 account 1588 and 1589 balances was filed in Hydro 2000’s 2020 cost of service proceeding. The Inspection Report noted a number of findings. Please confirm that Hydro 2000 has addressed and resolved all these findings and have revised its accounting practice applicable to the recalculated 2017 balances onwards.
	1. For each finding, please explain how Hydro 2000 has addressed the finding applicable to the recalculated 2017 balances onward.

H2000 revised all Microfits calculation and settlements for 2017-2018 and adapted the new method as of July 2019 as instructed.

H2000 has revised the formulas used for the method to do the settlements with Hydro One.

H2000 is striving for accuracy.

1. Please confirm that Hydro 2000 is requesting final disposition of its 2017 to 2019 account 1588 and 1589 balances.

**H2000 Response:** Hydro 2000 is requesting final disposition of its 2017 to 2019 account 1588 and 1589 balances.

**Staff Question-6**

**Ref: Manager’s Summary, p. 13, 16-17**

Table 5 shows the difference in Account 1588 and Account 1589 balances using Hydro 2000’s old method and that from the February 21, 2019 Accounting Guidance. Account 1588 has been revised by $407,756 and Account 1589 has been revised by $30,338.

Hydro 2000 notes differences were noted in the amounts claimed from Hydro One for GA in the RPP settlement. Differences were also noted in revenue and expense accounts.

1. Regarding the difference in RPP settlement relating to GA, please explain the reason for the difference. Please explain whether Hydro 2000 has already submitted these RPP settlement adjustments to Hydro One and whether the submissions have been processed already.

**H2000 Response:** H2000 submitted these RPP settlement adjustments to Hydro One as soon as it became aware of the discrepancy. The difference was created by an erroneous worksheet formula which was corrected then.

1. Regarding differences in revenue and expense accounts, please explain the reason for the difference.

**H2000 Response:** In its spreadsheet, Hydro 2000 was using the wrong sign for the actual RPP energy. Hydro 2000 was also using the kWh sold rather than the kWh purchased in its calculations. Some calculation errors were also identified. Hydro 2000 is confident that the variances calculated with the new accounting guidance is more accurate.

1. Please explain whether there were any other systemic differences between Hydro 2000’s old methodology and the methodology in the February 21, 2019 Accounting Guidance.

**H2000 Response:** Since H2000 Manager is under the impression OEB model should not be altered to meet their needs since there would be no uniformity; H2000 does not have actual bill and unbilled revenues at the 4th of the following month nor at the 16th of the following month; H2000 does not report to IESO but to Hydro One; H2000 is not a market participant; there was a misunderstanding how to report the estimated average unit cost of power sold for RPP & non-RPP for initial Settlement since the form does not have a cell to include the Average Weight; after using the methodology of February 21, 2019 to establish the variances, H2000 could see the accuracy of the new method.

1. Please breakdown the revisions for each account by year. Please also breakdown the revisions by type of revision, if readily available.

**H2000 Response:** Hydro 2000 recalculated its variances with the new model provided by OEB. Hydro 2000 did not summarize all the differences by type and by year. In order to have this information, Hydro 2000 would have to analyze every month one by one. This would represent a significant amount of work.

**Staff Question-7**

**Ref: Manager’s Summary, p.14**

As stated in Hydro 2000’s approved settlement proposal in its 2020 cost of service rate application “With respect to accounts 1588 and 1589, OEB staff had identified a number of issues during the proceeding with the 2017 and 2018 balances in these two accounts and suggested further review was required before disposing of these balances.” Please explain the issues identified and how Hydro 2000 has addressed each of the issues.

**H2000 Response:** With the change of general manager a few years ago, many errors were discovered. Many of these errors were corrected over the last two years. These errors created differences in every year. Variances for 2015 and 2016 have been recalculated in the inspection process with OEB staff. Variances for 2017 to 2019 have been calculated with the template provided by OEB with the February 21, 2019 Accounting Guidance.

**Staff Question-8**

**Ref: Manager’s Summary, p. 14**

Hydro 2000 filed an Inspection Report on its 2015 and 2016 account 1588 and 1589 balances in its 2020 cost of service rate application. In the Inspection Report, Hydro 2000 recalculated the 2015 and 2016 account 1588 and 1589 balances.

1. For the 2017 to 2019 account 1588 and 1589 balances presented in this application, please explain whether the methodology used to calculate the 2015 and 2016 balances in the Inspection Report was used to calculate the 2017 to 2019 balances.
	1. If not, please explain why not.
	2. If the methodologies are different, please explain the differences between the methodology used for the 2015 and 2016 balances in the Inspection Report and that used for the 2017 to 2019 balances as shown in this proceeding.

**H2000 Response:** No Hydro 2000 did not use the same method as for 2015 and 2016. Hydro 2000 followed the February 21, 2019 Accounting Guidance. The template provided by OEB with the Accounting Guidance was used to recalculate the variances for 2017, 2018, 2019 and 2020.

1. Please explain whether the 2017 to 2019 balances that were brought forth for disposition in Hydro 2000’s 2020 cost of service rate application used Hydro 2000’s old methodology.
	1. If not, please explain how the methodology used for the 2017 to 2019 balances brought forth in Hydro 2000’s 2020 cost of service rate application differs from the methodology used to calculate the 2017 to 2019 balances as shown in this application.

**H2000 Response:** In the DVA continuity schedule posted on OEB’s website on August 2, 2020, there were no numbers reported for accounts 1588 and 1589 for 2017 and 2018. 2019 amounts were not reported in this continuity schedule.

The numbers presented in this application are based on the February 21, 2019 Accounting Guidance and are calculated with the template provided by OEB.

**Staff Question-9**

**Ref: Manager’s Summary, p. 17**

In the Manager’s Summary, Hydro 2000’s auditor provided the following statement on Hydro 2000’s revised Account 1588 and Account 1589 balances “The adjustment made in 2020 to correct the existing variance account balances was deemed to be appropriate”. Please explain what level of assurance Hydro 2000’s auditor is providing. For example, has the auditor performed an audit or a review of the Account 1588 and Account 1589 balances? If a report is available from the auditors, please file it on the record of this proceeding.

**H2000 Response:** When an adjustment is being made to accounts 1588 and 1589, the differences have to be accounted for. After the entries have been made for the variances, the revenues and expenses for energy are equal. The auditor with the help of the general manager, completed the new templates to recalculate the variances. The auditor did not issue a special report on those variances. Those are audited through the annual audit of the financial statement.

**Staff Question-10**

**Ref: Manager’s Summary, p. 24**

In the Manager’s Summary, it states “Hydro 2000 has explored all rate mitigation tools at its disposal (e.g. exploring longer disposition period for its DVAs) and although it did somewhat lower the bill impacts, it did not reduce them enough to bring them under the 10% threshold”. Please provide a list of the rate mitigation strategies Hydro 2000 considered and the effect on the bill impacts it had.

**H2000 Response:** The IRM process if formulaic in nature and does not give utilities much leeway in rate mitigation other than adjusting the disposition period of deferral and variance account. H2000 notes that some of the bill impacts greater than 10% are because of previously approved rate riders. (i.e., 1576, 1568, DVA(2019) etc.).

H2000 notes that some of the larger DVA balances were requested to be disposed of in its Cost of Service but were denied therefore, as instructed by the Board, they are included in the herein application.

**Staff-Question-11**

**Ref: DVA Continuity Schedule**

Typically, large balances are not expected for Account 1588 as it should only hold the variance between commodity costs based on actual line losses and commodity revenues calculated using values for line losses approved by the OEB. Based on RRR data filed for Hydro 2000 for Account 4705 Cost of Power, OEB staff calculates the annual net activity (i.e. transactions plus principal adjustments) from the DVA Continuity Schedule as a percentage of annual Account 4705 amounts to be as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Account 4705 ($)**  | **Net Activity in Account 1588 ($)** | **% of net activity compared to Account 4705** |
| 2017 |  $ 1,688,797  |  $ 13,796  | 0.8% |
| 2018 |  $ 621,818  |  $ 16,363  | 2.6% |
| 2019 |  $ 1,068,208  |  $ (5,926) | -0.6% |
| Cumulative  |  $ 3,378,824  |  $ 24,233  | 0.7% |

1. Please confirm whether the amounts reported in RRR for Account 4705 are accurate, as Hydro 2000 has indicated adjustments to revenue and expense accounts were required in relation to adjustments for Account 1588 and Account 1589.

**H2000 Response:** In 2018, the new general manager discovered some errors made by the previous general manager. The claims made on form 1598 in 2017 were incorrect. This is why the expense in 2018 is lower. The average for the 3 years is $1.1M. In total, the expenses are correct.

1. If the Account 4705 amounts are not correct, please revise the calculation above.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Account 4705 ($)**  | **Net Activity in Account 1588 ($)** | **% of net activity compared to Account 4705** |
| 2017 |  $1,043,606  |  $13,796  | 1.3% |
| 2018 |  $1,267,009 |  $16,363  | 1.3% |
| 2019 |  $1,068,208  |  $(5,926) | -0.6% |
| Cumulative  |  $3,378,824  |  $24,233  | 0.7% |

1. For each year where the % of net activity compared to Account 4705 is greater than +/-1% (namely 2018, subject to any corrections made by Hydro 2000 to the table), please provide an explanation as to why the Account 1588 activity would be high in consideration of line losses.

**H2000 Response:** 2017 and 2018 are slightly higher than 1%. Monthly variances are stable. There are no large amounts.

**Staff Question – 12**

**Ref: GA Analysis Workform**

In the 2017 to 2019 GA Analysis Workforms, Hydro 2000 indicated that the RRR data used to calculate the loss factor is incorrect.

1. For each year, please provide the correct consumption data for the table in the GA Analysis Workform and recalculate the loss factor.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2017** | **2018** | **2019** |
|  |  |  |  |  |
|  Total metered excluding WMP  |  |  20,599,296  |  21,485,471  |  20,932,120  |
|  RPP  |  |  16,685,207  |  17,437,157  |  17,037,700  |
|  Non-RPP  |  |  3,914,089  |  4,048,314  |  3,894,421  |
|  Non-RPP Class A  |  |  -  |  -  |  -  |
|  Non-RPP Class B  |  |  3,914,089  |  4,048,314  |  3,894,421  |
|  |  |  |  |  |
|  |  |  |  |  |
|  Non-RPP Class B including loss factor billed  |  |  4,198,318  |  4,323,438  |  4,206,211  |
|  |  |  |  |  |
|  Calculated loss factor  |  |  1.07262  |  1.06796  |  1.08006  |
|  Approved loss factor  |  |  1.07720  |  1.07720  |  1.07720  |
|  Difference  |  |  (0.00458) |  (0.00924) |  0.00286  |

1. For each where the difference between the recalculated loss factor and the approved loss factor is greater than 1%, please reconcile the difference and provide an explanation for the high difference.

**H2000 Response:** All differences are below 1%.

1. EB-2019-0041 [↑](#footnote-ref-1)
2. Accounting Procedures Handbook Update – Accounting Guidance Related to Pass-Through Commodity Accounts 1588 & 1589 [↑](#footnote-ref-2)