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BY EMAIL

November 17, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission
Kitchener-Wilmot Hydro Inc.
Application for 2022 Rates
OEB File Number: EB-2021-0038**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Marc Abramovitz
Incentive Rate-setting & Regulatory Accounting

Encl.

cc: All parties in EB-2021-0038



ONTARIO ENERGY BOARD

OEB Staff Submission

Kitchener-Wilmot Hydro Inc.

Application for 2022 Rates

EB-2021-0038

November 17, 2021

Introduction

Kitchener-Wilmot Hydro Inc. (Kitchener-Wilmot Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 19, 2021 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2022.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Kitchener-Wilmot Hydro.

Consistent with the Chapter 3 Filing Requirements, Kitchener-Wilmot Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. OEB staff has no concerns with Kitchener-Wilmot Hydro's proposed price cap adjustment, although OEB staff notes that the 2021 inflation parameters have been applied as a placeholder, pending the OEB's issuance of the 2022 parameters.

On August 6, 2021, the OEB issued a notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022.¹ If the OEB's decision on the 2022 inflation parameters is issued following the close of record for this proceeding, OEB staff intends to update Kitchener-Wilmot Hydro's 2022 IRM Model to reflect the OEB-approved 2022 inflation factor, and resulting price cap adjustment, pursuant to the process that the OEB may lay out for implementation once available.

Kitchener-Wilmot Hydro has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO). OEB staff has no concerns with Kitchener-Wilmot Hydro's requested adjustments to its RTSRs.

OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts (DVAs)
- Account 1584 - Retail Transmission Network Charge
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

¹ EB-2021-0212

Group 1 Deferral and Variance Accounts

Kitchener-Wilmot Hydro requested disposition of its December 31, 2020 Group 1 DVA balances in the amount of \$5,598,513 on a final basis and is requesting disposition over a 12-month period. This includes interest projected to December 31, 2021. The projected interest amount excludes any interest related to historical RTSR charges by the IESO as discussed in the following section. The components of this balance are shown in Table 1. The Group 1 account balances exceed the OEB's \$0.001/kWh threshold for disposition. The OEB most recently approved disposition of Kitchener-Wilmot Hydro's Group 1 account balances on a final basis, as of December 31, 2019, as part of its 2021 rates proceeding.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Smart Metering Entity Charge	1551	(8,939)	19	(8,921)
RSVA - Wholesale Market Service Charge	1580	(941,678)	(7,115)	(948,792)
Variance WMS – Sub-account CBR Class B	1580	(52,594)	(910)	(53,504)
RSVA - Retail Transmission Network Charge	1584	6,393,599	1,409	6,395,008
RSVA - Retail Transmission Connection Charge	1586	40,831	(99)	40,731
RSVA - Power	1588	(315,874)	721	(315,153)
RSVA - Global Adjustment	1589	482,232	6,912	489,144
Totals for all Group 1 DVAs		5,597,577	936	5,598,513

OEB Staff Submission

OEB staff supports Kitchener-Wilmot Hydro's request to dispose of its December 31, 2020 Group 1 DVAs on a final basis. OEB staff has reviewed the 2020 DVA balances and the supporting evidence substantiating these balances. In OEB staff's opinion, the Group 1 DVA balances are reasonable. OEB staff notes that the balance in Account 1584 is atypical, given the inclusion of historical charges pertaining to prior periods. OEB staff's additional submission related to Account 1584 is discussed below.

Account 1584 - Retail Transmission Network Charge

Background

On August 17, 2020, Kitchener-Wilmot Hydro filed a Price-Cap IR application for rates effective January 1, 2021. The OEB issued a Decision and Rate Order on December 18, 2020 approving 2021 rates for Kitchener-Wilmot Hydro which include pass-through charges such as RTSRs, that recover the network service charges that the utility pays to the IESO.

On December 15, 2020, Kitchener-Wilmot Hydro filed a [letter](#) with the OEB to advise that it had recently been made aware of an error (pertaining to data that was omitted from one metering point) in the historical network service charges paid to the IESO and to seek guidance for disposition of the balance once the quantum of the error is known.

On December 21, 2020, the OEB [advised](#) Kitchener-Wilmot Hydro to address the matter within its 2022 IRM application or, if the utility anticipated cash flow constraints, it could file a standalone application instead of waiting to address the matter in its 2022 IRM application. Kitchener-Wilmot Hydro filed an application on January 26, 2021 to change its 2021 retail transmission charges.²

On May 6, 2021, the OEB issued its Decision and Rate Order allowing Kitchener-Wilmot to adjust its 2021 RTSRs to correct for the missing metering point data on a going forward basis. In this application, Kitchener-Wilmot Hydro is seeking to recover uncollected amounts due to the metering error for the applicable historical period.

In this application, Kitchener-Wilmot Hydro explains that it had been informed by the IESO in November 2020 that one of its meters had been originally entered into the IESO's system incorrectly, with an end date in June 2015, and that it has not been charged Network Service charges for that delivery point since June 2015. As a result, Kitchener-Wilmot Hydro had not been charged the proper amounts by the IESO and, correspondingly, it had not billed its customers for these charges.³

Kitchener-Wilmot Hydro seeks to dispose of the unbilled network service charges for the single meter delivery point that occurred between June 8, 2015, and November 30, 2020 in the amount of \$5,991,524.⁴ Unbilled volumes and associated charges are outlined in Table 2. Bill impacts associated with the inclusion/exclusion of the historical network service charges for 2022 rates can be found in Table 3.

² EB-2021-0074

³ EB-2021-0038, Manager's Summary, Page 12

⁴ EB-2021-0074, IR responses filed April 8, 2021, Staff-2(a)

Table 2: Unbilled Network Volumes and Charges

		Unbilled Volumes (kW)	Associated Charges
2015	Jun - Dec	(162,173)	(\$613,014)
2016	Jan - Dec	(307,605)	(\$1,125,834)
2017	Jan - Dec	(284,027)	(\$1,033,041)
2018	Jan - Dec	(294,770)	(\$1,064,120)
2019	Jan - Dec	(285,122)	(\$1,075,378)
2020	Jan - Nov	(275,545)	(\$1,080,136)
Total		(1,609,242)	(\$5,991,524)

Table 3: 2022 Monthly Bill Impacts

Inclusive of Historical RTSR Charges				
	Delivery \$ change	Delivery % change	Total bill \$ change	Total bill % change
Residential (750 kWh)	3.04	9.01	2.86	2.65
GS < 50 kW (2,000 kWh)	8.23	10.1	7.74	2.77
Exclusive of Historical RTSR Charges				
	Delivery \$ change	Delivery % change	Total bill \$ change	Total bill % change
Residential (750 kWh)	0.49	1.45	0.46	0.43
GS < 50 kW (2,000 kWh)	1.43	0.48	1.34	0.48

Kitchener-Wilmot Hydro noted that the IESO will not be charging the interest of \$271,371 on the associated unbilled charges and has therefore removed this amount from its total claim.

Kitchener-Wilmot Hydro stated that it was informed by the IESO that the IESO was planning to invoice the outstanding unbilled amount in June 2021, which Kitchener-Wilmot Hydro would have two days to pay.⁵ In subsequent discussions, Kitchener-Wilmot Hydro asked the IESO to delay billing the amount owing until it filed its 2022 rate application and received an OEB decision on the collectability of this amount from its customers.

⁵ Ibid., Pages 13-14

In its interrogatory responses, Kitchener-Wilmot Hydro further explained that it had been advised by the IESO as follows:

Section 6C.1.2 and 6C.1.3 of Chapter 10 of the Market Rules collectively provide that where an inaccuracy exists in respect of meter point documentation, the IESO shall include an amount equal to the correction on the applicable invoice.

The IESO deferred invoicing KWHI for the amount of the correction because this matter, including the timing of invoicing, was being brought to the OEB for determination.

If the OEB confirms that these amounts are due and owing by KWHI and does not issue an order for the IESO to align invoicing with KWHI's collection, the IESO is required by the Market Rules to issue a single invoice for the entire amount of the unbilled historical amount.

If the OEB confirms these amounts are due and owing by KWHI, approves KWHI's application to recover the historical amounts over a one-year period and issues an order for the IESO to align its invoicing with KWHI's collection, the IESO would comply with such an order.⁶

In light of the IESO's position on the requirements of the Market Rules, Kitchener-Wilmot Hydro is requesting an order from the OEB to align the IESO invoicing of the unbilled historical amounts with Kitchener-Wilmot Hydro's collection of such amounts in accordance with the OEB's decision and order in respect of this application. Kitchener-Wilmot Hydro noted that the IESO has agreed to delay invoicing for the historical amounts until such time as the OEB renders a decision with respect to the historical amounts.

Kitchener-Wilmot Hydro is requesting OEB approval to collect the unbilled historical amounts over a one-year period and explained the impact on the utility's financial situation if it is required to immediately pay the IESO the full amount of the unbilled charges rather than aligning payments to the IESO with recovery from ratepayers over a one-year period. Kitchener-Wilmot Hydro stated that it would be required to use its line of credit to pay the IESO, which would increase its financing costs, and that the increased borrowing would decrease the utility's financial standing, possibly increasing financing costs into the future.⁷ Kitchener-Wilmot Hydro also stated that, if it pays the

⁶ EB-2021-0038, Interrogatory Responses, Staff-7(a)(b), referencing IESO Market Rules, Chapter 10 - Transmission Service and Planning <https://www.ieso.ca/en/Sector-Participants/Market-Operations/Market-Rules-And-Manuals-Library>

⁷ IR responses to Staff-7(c)

outstanding amount to the IESO and subsequently is unable to collect the amount from its customers, the utility's financial viability is at risk and estimates that its ROE would fall to 3.8%, which is more than 300 basis points below its approved ROE of 8.52%.⁸

OEB Staff Submission

OEB staff notes that the OEB has provided generic guidance to distributors with respect to correcting errors through retroactive adjustments for “pass-through costs” related to certain commodity, IESO and other third-party charges that electricity distributors have paid or that are payable and that are intended to be passed through to their customers without earning a profit or incurring a loss (Retroactive Adjustments Guidance).⁹

The OEB stated that, where an accounting or other error is discovered after the balance in one of the “pass-through” variance accounts has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case, including factors such as:

- Whether the error was within the control of the distributor
- The frequency with which the distributor has made the same error
- Failure to follow guidance provided by the OEB
- The degree to which other distributors are making the similar errors

In its application, and in response to interrogatories, Kitchener-Wilmot Hydro discussed the relevant factors set out in the Retroactive Adjustments Guidance and made the following submissions:

- The IESO confirmed that Kitchener-Wilmot Hydro was not in control of the error and that it was notified of the error on November 27, 2020.¹⁰
- Invoices from the IESO do not identify the delivery points, quantities or the end date of the metering points.¹¹ Since the network transmission charges fluctuate from month to month, there was no reason to believe there was a metering issue as network transmission charges increased on average between June 2015 and September 2015.¹²
- Kitchener-Wilmot Hydro had not been made aware of any other billing error by

⁸ Manager's Summary, page 13

⁹ [“Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition”](#), Letter dated October 31, 2019 (Retroactive Adjustments Guidance)

¹⁰ IR responses to VECC-3(a)

¹¹ IR responses to VECC-1(c) & (d)

¹² Ibid.

the IESO.¹³

- Kitchener-Wilmot Hydro did not make any errors in recording the amounts payable to the IESO or in the disposition of its deferral and variance amounts.¹⁴
- Kitchener-Wilmot Hydro followed all guidance issued by the OEB, including Article 490 of the Accounting Procedures Handbook.¹⁵

Based on the evidence provided in support of the above-noted submissions, OEB staff agrees that Kitchener-Wilmot Hydro was not in control of the error. The incorrect end-date of the meter in the IESO's system (which is the source of the error) is not the utility's responsibility. OEB staff notes that Kitchener-Wilmot Hydro disclosed the error on a timely basis, in accordance with the Retroactive Adjustments Guidance. Further, it does not appear that the utility somehow failed to take reasonable steps to identify this problem sooner. Accordingly, OEB staff supports Kitchener-Wilmot Hydro's request to retroactively adjust the amount in the subject variance account and collect the unbilled charges from its customers that are payable to the IESO.

Kitchener-Wilmot Hydro confirmed that the volumes and charges that were missing resulting from the missing meter point have been considered in the determination of RTSRs for this application.¹⁶ OEB staff has reviewed the 2022 Rate Generator Model and, in its view, reflects the impact of these volumes.

OEB staff notes that Kitchener-Wilmot Hydro is requesting an order from the OEB to approve the IESO invoicing of the unbilled historical amounts in alignment with Kitchener-Wilmot Hydro's collection of such amounts.¹⁷

As discussed in the Background section above, if Kitchener-Wilmot Hydro is required to immediately pay the full unbilled amount to the IESO, it would be required to use its line of credit, thereby increasing its financing costs and decreasing its financial standing.¹⁸ Kitchener-Wilmot Hydro also noted that clearance of the historical amount over one year (versus an alternative five-year period) will reduce future interest costs, benefiting consumers by an estimated \$86,700 in forgone interest charged at current interest rates.¹⁹

OEB staff agrees that Kitchener-Wilmot Hydro's financial position could be negatively

¹³ Manager's Summary, page 13

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ IR response to VECC-1(b)

¹⁷ Manager's Summary, Page 7

¹⁸ IR response to Staff-7(c)

¹⁹ IR response to VECC-2(b) - "The interest calculation of \$86,700 assumes that the entire \$5,991,524 amount is repaid to the IESO in December 2021 and the rate rider is collected over a period of 5 years."

impacted if the utility is required to immediately pay the full unbilled amount and that the resulting financial constraints on the utility could have negative consequences for ratepayers. The IESO's position appears to be that it requires an order from the OEB to enable it to recover the amounts in question over an extended period,²⁰ that there is currently no limitation period applicable to it in relation to the amounts in question,²¹ and that it would comply with such an order. OEB staff submits that, in the particular circumstances of this case, there is a public interest in the IESO aligning its invoicing with Kitchener-Wilmot Hydro's collection of the unbilled amount from ratepayers over such time period as may be approved by the OEB, and in ordering the IESO to do so.

OEB staff notes that, according to the IESO, the unbilled historical amount is not sufficiently large to impact the Network Transmission Charge and overall transmission rates (UTR) charged to all electricity customers. In response to an interrogatory regarding the potential impacts the uncharged volumes from 2015-2020 may have on the overall UTRs, Kitchener-Wilmot Hydro provided the IESO's response as follows:

It is the IESO's belief that because of the revenue requirements of transmitters, the impact of the uncharged transmission services charges in respect of the network delivery point at Kitchener MTS 9 facility would be a very slightly higher overall UTR rate charged to all transmission customers (except Kitchener MTS 9). The impact of this amount relative to the total amount of UTR rates payable is extremely low.²²

In OEB staff's view, if the impact of the unbilled historical amounts on the provincial UTRs is "extremely low" (as stated by the IESO in the IR response above), then it follows that whether the amounts are recovered over a one-year period or as a lump sum, the impact on amounts payable to the IESO would be insignificant.

²⁰ IR response to Staff-7(a)(b)

²¹ IR response to VECC-1(g)

²² IR response to VECC 1(f), referring to IR response to Staff 2(b) in EB-2021-0074 which stated:

"It is the IESO's understanding that because of the revenue requirements of transmitters, the potential overall impact of the uncharged transmission services charges in respect of the network delivery point at Kitchener MTS 9 facility would be a very slightly higher overall UTR rate charged to all transmission customers (except Kitchener MTS 9). The impact of this amount relative to the total amount of UTR rates payable would be extremely low and there is potentially no impact to UTR rates as a result of rounding to two decimal points."

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

Kitchener-Wilmot Hydro requested disposition, on a final basis, of its December 31, 2019 LRAMVA balance resulting from its Conservation and Demand Management activities from the 2013 to 2019 period. This includes persisting savings from programs delivered in the 2013 to 2018 period, and new programs placed in service in 2019. The December 31, 2019 LRAMVA balance, including carrying charges projected to December 31, 2021, is a debit amount of \$874,417. Kitchener-Wilmot Hydro is requesting disposition over a 12-month period. The components of the LRAMVA balance are shown in Table 4.

Table 4: LRAMVA Balance

Account Name	Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D=(A-B)+C
LRAMVA	1568	1,042,228	192,865	25,054	874,417

OEB Staff Submission

OEB staff supports Kitchener-Wilmot Hydro's request to dispose of its December 31, 2019 LRAMVA on a final basis. OEB staff has reviewed the December 31, 2019 LRAMVA balance and the supporting evidence substantiating these balances. In OEB staff's opinion, the LRAMVA balance is reasonable.

~All of which is respectfully submitted~