

**EB-2021-0038**

**Kitchener-Wilmot Hydro Inc.**

**Application for electricity distribution rates and other  
charges effective January 1, 2022**

**VECC Submissions November 17, 2021**

Kitchener-Wilmot Hydro Inc. (KWHI) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 18, 2021 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2022.

VECC's submissions are in relation to KWHI's proposal to retroactively adjust and dispose of the balances in account 1584 Retail Settlement Variance Account (RSVA) – Network Services.

**Account 1584 - Retail Settlement Variance Account (RSVA) – Network Services**

Account 1584 is used monthly by distributors deemed to be transmission customers to record the net of: i) the amount charged by the Independent Electricity System Operator, based on the monthly settlement invoice, for transmission network services, including accruals AND ii) the amount billed to customers for the same services using the Board-approved Transmission Network Charge Rate, including accruals. The network charge is a pass-through charge.

In December 2020, KWHI was informed by the Independent Electricity System Operator (IESO) that it had not been billed for network service charges for a meter point at the Kitchener MTS 9 facility between June 8th, 2015, and November 30th, 2020. This error is the result of an improper end date being input into the IESO system used to bill for network service charges. During this period, KWHI has not been charged network service charges for one delivery point and correspondingly, KWHI has also not charged its customers for these network service charges. KWHI seeks to collect from customers the historical amount as a result of the error.

KWHI believes that it was not in control of the error, has never made an error like this in the past, has followed all guidance issued by the OEB, and is not aware of this error being made by other distributors.<sup>1</sup>

In evaluating the circumstances regarding an error in pass-through charges, a key consideration is whether the error was within the control of KWHI.

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<sup>1</sup> Application Page 13

Prior to the implementation of the current automated process in 2019, which sets the end date of business roles associated with a network delivery point as December 31, 5000 by default, a manual process was utilized by the IESO to set the end date. Under this manual process, the IESO created and updated business roles associated with a network delivery point, which may have included setting an end date, as directed by transmitters. Following the completion of the request, the IESO notified the transmitter that the change was complete and the transmitter was able to see the change reflected on its invoices.<sup>2</sup>

KWHI indicates it provided all forms the IESO requested to set the meter point in the IESO billing system and that the error was a data input error into an IESO system.<sup>3</sup> KWHI indicates it was not involved in setting the end date.<sup>4</sup>

The IESO confirmed that KWHI was not in control of the error.<sup>5</sup> The IESO clarified that invoices from the IESO do not identify the delivery points included on the bill nor the end date of the meter point<sup>6</sup>, such that KWHI would not be directly alerted to the error on the face of the invoice.

KWHI says it relies on the IESO to provide accurate invoicing.<sup>7</sup> However, VECC submits it is incumbent on KWHI to verify that the invoice makes sense prior to billing customers. With respect to why the change in invoice quantities and the change in bill for June 2015 (as compared to previous months) didn't alert KWHI to a potential problem/error, KWHI explained the fluctuations in network charges month to month are typical and KWHI had no reason to believe it was anything other than a normal monthly variance. Also, the decreases to network service charges over this period was coincident with decreasing Uniform Transmission Rates (UTRs).<sup>8</sup> KWHI indicates it routinely monitors and reviews its monthly invoices from the IESO, but that quantities are not included on the invoice.<sup>9</sup> It's unclear to VECC how KWHI could successfully monitor monthly invoices if quantities are not included on the IESO invoice. Regardless, VECC is satisfied that KWHI was not in control of the error and was not alerted to any potential input errors through the invoice process due to the fluctuations in network charges and the trend in UTRs over the same time period (June 8, 2015 to Nov 30, 2019).

### Relevant Section of Market Rules

The relevant sections from the Market Rules that allow the IESO to recover billing errors for transmission charges dating back to 2015 are as follows.

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<sup>2</sup> EB-2021-0074 OEB Staff-1 (c)

<sup>3</sup> Application Page 13

<sup>4</sup> EB-2021-0074 OEB Staff-1 (b)

<sup>5</sup> VECC-3 (a)

<sup>6</sup> VECC-1 (c)

<sup>7</sup> Application Page 13

<sup>8</sup> VECC-1 (d)

<sup>9</sup> VECC-1 (d)

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. There is currently no limitation period in respect of historical corrections under the Market Rules. While they would be prospective and have no impact on this matter, draft legislation and market rule amendments are currently in process, but not yet in effect, which would limit historical corrections to a 2-year period.”<sup>10</sup>

VECC accepts that the legal framework governing the IESO’s ability to recover the historical amounts is set out in the Market Rules.

### Financial Risk

KWHI indicates that if it pays the historical amount to the IESO and subsequently is unable to collect the amount from its customers, the financial viability of KWHI is at risk.

In order to finance the payment KWHI indicates it would be required to use its line of credit to pay the IESO, increasing its financing costs. Increased borrowing would decrease KWHI’s financial standing, possibly increasing financing costs into the future.<sup>11</sup>

KWHI estimates that its ROE would fall to 3.8%, which is more than 300 basis points below KWHI’s approved ROE of 8.52%.<sup>12</sup>

### VECC Position

The network charge is a pass-through charge and the unbilled amounts were supposed to be charged by the IESO. VECC submits KWHI has made its case to correct for errors in Account 1584 and has demonstrated with the support of the IESO that the error was not its fault. Further, KWHI will not benefit from the error.

VECC supports KWHI’s application to recover the network service charges not billed by the IESO.

### Alignment of IESO Invoicing and KWHI Collection

Under Market Rules, KWHI has two days to pay the outstanding unbilled amount upon receipt of the IESO invoice.<sup>13</sup> KWHI is requesting an order from the OEB to align the IESO invoicing of the unbilled historical amounts with KWHI’s collection of such amounts. The IESO has agreed to await the outcome of this proceeding prior to invoicing KWHI.

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<sup>10</sup> VECC-1 (g)

<sup>11</sup> Staff-7 (c)

<sup>12</sup> Application page 13

<sup>13</sup> Application page 13

The IESO confirms that if the OEB confirms these amounts are due and owing by KWHI, and issues an order for the IESO to align its invoicing with KWHI's collection, the IESO would comply with such an order.

KWHI is requesting disposition of its Group 1 Deferral and Variance account balances totaling \$5,598,512. The unbilled historical amounts in Account 1584 included in this total reflect a debit balance of \$6,395,008 (\$6,393,599 Principal + \$1,409 Interest).<sup>14</sup> VECC notes the IESO will not be charging KWHI interest on Account 1584 including interest since June 2015, so the amount of \$271,371 in interest has been removed from the continuity schedule.<sup>15</sup>

KWHI is proposing to collect the unbilled historical amounts over a one year period. VECC submits if the OEB approves the amount owing, a longer period to recover the significant unbilled historical amounts is desirable and recommends a five year period be implemented to mitigate bill impacts. If the OEB were to order a different time period for the recovery and invoicing of these amounts greater than the one-year period KWHI has applied for, the IESO confirms it would comply with such an order.<sup>16</sup>

KWHI indicates clearance of the historical amount over one year compared to five years will reduce future interest costs for KWHI, benefiting the consumer by an estimated \$86,700 in forgone interest charges at current interest rates. VECC submits that if the collection of the historical amount by the IESO through invoicing matches the collection of the rate rider from KWHI's customers, no interest charges should apply regardless of the recovery period.

#### Impact on Network Service Charge

In VECC-1 (f) VECC sought to understand if the cumulative amount owing by KWHI for the historical error is sufficiently large to impact the Network Service Charge.

KWHI referred to the response provided in EB-2021-0074 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."

The forecast 2022 network revenue requirement is \$1,144.9 million.<sup>17</sup> It would appear that the \$6.4 M owing from KWHI would be sufficient to impact the Network Service charge.

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<sup>14</sup> Application Page 10 Table 5

<sup>15</sup> Application Page 11

<sup>16</sup> SEC-4 (b)

<sup>17</sup> EB-2021-0185 – Hydro One Networks Inc.'s 2022 Transmission Revenue Requirement Exhibit A-4-1 Attachment 2 Page 1

As the Decisions regarding the annual Uniform Transmission Rates are typically issued by delegated authority, without a hearing, under section 6 of the Ontario Energy Board Act, 1998, VECC submits that the OEB should take the above facts into consideration when setting 2022 Uniform Transmission Rates.

VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.