**2022 IRM Application**

Interrogatory Responses

EB-2021-0023

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Staff Question #1

**Ref: Managers Summary pages 6**

 **Appendix C – Management Action Plan**

In Essex Powerlines’ 2021 decision and rate order, Essex Powerlines indicated that as part of its Management Action Plan, it was in the process of engaging a third party review of its improved Standard Operating Procedures (SOP) with respect to its approach to its regulatory accounting oversight. Therefore, Essex Powerlines requested interim disposition of its 2017 and 2018 balances. The OEB indicated that it expected Essex Powerlines to bring forth the results of its review of the 2019 Group 1 balances and of its SOP, including whether outcomes of this review impact the 2017 and 2018 balances being disposed in this proceeding, for the OEB’s consideration when Essex Powerlines requests disposition of its 2019 Group 1 balances.

In the 2022 IRM, Essex Powerlines requested for disposition Group 1 balances for 2019 and 2020 and Account 1595 (2015).

1. In the Management Action Plan, under finding #1, it states independent third party review commenced and the planned completion is 2020. Please provide an update on the review of the SOP and the conclusions in the review.
2. Please confirm whether Essex Powerlines is requesting an interim or final disposition for Group 1 balances for 2019 and 2020 and Account 1595 (2015).

Response

1. The review process commenced with the engagement of a third party prior to 2020 with the intention to have the process completed in 2020. However, the onset of the Covid 19 pandemic in early 2020 resulted in, but was not limited to, restrictive work conditions, disrupted employee work environment, limited third party engagements and enhanced health and safety protocols which were made paramount. The afore-mentioned together with the additional regulatory changes and reporting requirements that ensued and were also related to the Covid 19 pandemic resulted in the third party review process being delayed. The review has now resumed, with expected completion in 2022.
2. Subject to the delayed third party review being completed, Essex Powerlines is requesting interim disposition of Group 1 balances for 2019 and 2020 and Account 1595 (2015). Final disposition of these balances will be requested upon completion and submission to the OEB of the third party review.

Staff Question #2

**Ref: Managers Summary pages 6-8**

 **2022 Rate Generator Model, Tab 6.1. GA, cell K13**

 **2022 Rate Generator Model, Tab 7. Calculation of Def-var RR, cell C13**

 **2022 Rate Generator Model, Tab 20 Bill Impacts**

According to the Chapter 3 Filing Requirements, a distributor is required to file a mitigation plan if total bill increases for any customer class exceed 10.0%. The Filing Requirements also state that a distributor may propose and justify an alternative disposition period for Group 1 balances from the default of 12-months to mitigate bill impacts or address considerations. Essex Powerlines is requesting that the DVAs are disposed over a 24-month period to mitigate bill impacts. OEB staff notes that, even with a 24-month disposition timeline for the Group 1 DVA riders, the total bill impact exceeds 10% in the GS 50-4,999 kW and Embedded Distributor customer classes.

1. Please explain what is driving these particular classes to have bill impacts that are substantially higher than the other rate classes.
2. Please explain whether Essex Powerlines considered further mitigation measures in light of these impacts. Why or why not?

Response

1. The driving factor for the larger bill impacts for GS 50-4,999 kW and Embedded Distributor customer classes is the GA rate rider. The current rate rider results in a credit to customers, while the proposed rate rider results in a charge to customers, creating a large rate fluctuation, and therefore overall bill impacts slightly greater than 10%. The GA rate riders make up 69% and 88% respectively of the total bill impact for these two customer classes.
2. Essex Powerlines thoroughly analyzed the various disposition periods ranging from 12 to 48 months, and settled on a 24-month disposition timeline, as a lengthier timeline did not substantially lessen the bill impact to these customers.

Staff Question #3

**Ref: 2022 Rate Generator Model, Tab 3. Continuity Schedule**

 **1595 Analysis Workform**

 **EB-2014-0072 Decision and Order, June 9, 2015**

Typically, the remaining balance in Account 1595 after the expiration of applicable rate riders is expected to be relatively small as it is a residual of what was collected compared to the forecast. OEB staff notes that the Account 1595 (2015) balance of $2,437,103 per the Continuity Schedule is very large.

In the 1595 Analysis Workform, for the Rate Rider – Group 1 DVA accounts (excluding GA), the amount shown as the balance approved by the OEB is a $3,094,923 credit to customers. OEB staff notes that in the 2015 rates proceeding, a $3,202,317 credit amount was approved for disposition.

In the 1595 Analysis Workform, the following information was presented:

|  |  |  |
| --- | --- | --- |
| **Description** | **Cell** | **Amount** |
| Total Group 1 and Group 2 Balances excluding Account 1589 – Global Adjustment | F13 | ($3,843,411) |
| Total: Rate Rider 1 – Group 1 DVA Accounts (excluding Global Adjustments) | D59 | ($3,094,923) |
| Total: Rate Rider 3 for Disposition of Deferral and Variance Accounts (2015) | D204 | ($2,151,440) |

1. Please explain the large residual balance, $2,437,103, in 1595 (2015).
2. Please explain the difference between what was approved by the OEB in EB-2014-0072 and the 1595 Analysis Workform.
3. OEB staff expects the allocated balances in Step 3 in the Workform for Rate Rater 1 and 3 to equal the total Group 1 and 2 balances (excluding GA) from Step 1 in the workform. Please reconcile the significant difference between the two numbers.
4. Similarly, OEB staff expects the calculated variance for each rate rider in Step 3 to equal the total residual balance presented in Step 1. This figure is automatically calculated in Cell J240. Please explain why there is a significant variance of ($1,657,548).

Response

1. The largest component of the residual balance relates to the balance that was over-refunded to customers identified previously by the OEB and is being brought forward for disposition in the amount of $1,510,347. Other components of the balance are the residuals from four (4) rate riders, as well as interest and projected interest.
2. The difference between the OEB-approved amount per EB-2014-0072 and the 1595 Analysis Workform is $1,510,347, which is the balance that was over-refunded to customers identified previously by the OEB and is being brought forward for disposition at this time.
3. The difference between the allocated balances in Step 3 of the 1595 Analysis Workform for Rate Riders 1 and 3 and the total Group 1 and 2 balances (excluding GA) from Step 1 of the workform of $1,402,952 and is made up of the balance that was over-refunded to customers identified previously by the OEB and is being brought forward for disposition ($1,510,347), offset by the omission of consumption data associated with the General Service 3,000-4,999 kW rate class ($107,394) that was supported by the OEB in EB-2014-0072.
4. The difference between the calculated variance for each rate rider in Step 3 of the 1595 Analysis Workform and the total residual balance presented in Step 1 of the workform is comprised of the balance that was over-refunded to customers identified previously by the OEB and is being brought forward for disposition ($1,510,347), the omission of consumption data associated with the General Service 3,000-4,999 kW rate class ($107,394) that was supported by the OEB in EB-2014-0072, and an additional miscellaneous balance ($39,807).

Staff Question #4

**Ref: Manager’s Summary, page 3**

 **GA Analysis Workform**

Essex Powerlines states that a material adjustment was made to reallocate $1.4M between Accounts 1588 and 1589 in 2019. The principal adjustment tab of the GA Analysis Workform includes this reallocation for 2019.

1. Please explain the error that led to the material adjustment.
2. Please explain how the adjustment was quantified.
3. In the principal adjustment tab of the GA Analysis Workform, 2020 principal adjustments include a reallocation of $104,319 between Accounts 1588 and 1589 for “reclass entry and new acctging guidance impl. Allocation”. Please explain whether the reasons for these entries is the same in 2020 is the same as that in 2019. If not, please explain the reason for the adjustments and how it was quantified.
4. If these adjustments are related, please explain why the 2019 adjustment identified is much more significant than the 2020 adjustment identified.

Response

a) The error that led the material adjustment of $1.4M was due in part to timing-related adjustments of meter reads which fed into our calculation of the ratio of costs between RPP and non-RPP Class B customers. This in turn led to inaccurate recording of GA costs between Accounts 1588 and 1589. In addition, other accounting adjustments were required to correct the cost split between the two accounts.

b) We undertook an in-depth internal audit to address the cause of the variances and recalculated the trued-up ratios between RPP and non-RPP Class B customers. Essex Powerlines then compared what was initially recorded in the general ledger to what should have been recorded to quantify the adjustment.

c) The adjustments made in 2019 and in 2020 are for the above reason. The adjustments for both years were quantified in the same manner. Both years’ adjustments were of similar magnitude; however, the 2020 adjustment also included a large year-end true-up reversal, which reduced the overall adjustment in that year.

Staff Question #5

**Ref: GA Analysis Workform – 2019 and 2020 GA Tab**

In the GA Analysis Workform, the expected GA volume variance is $872,988 and $427,283 for 2019 and 2020, respectively. OEB staff calculated the actual loss factor below based on information in the GA Analysis Workform. Please comment on the reasonability of this high calculated actual loss factor as compared to the actual losses that Essex Powerlines experiences.

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2020** |
| Non-RPP retail kWh, including loss (A) | 192,481,499 | 122,897,567 |
| Approved loss factor (B) | 1.0355 | 1.0355 |
| Non-RPP retail kWh excluding loss (C = A/B) | 185,882,664 | 118,684,276 |
| Non-RPP wholesale kWh(D) | 200,465,661 | 126,690,242 |
| Calculated actual lossFactor (=D/C) | 1.0785 | 1.0675 |

Response

Response to be forthcoming at a later date as discussed as Loss Factor analysis is still in progress.

Staff Question #6

**Ref: GA Analysis Workform – Account 1588 Tab**

 **Manager’s Summary, page 5**

In the Account 1588 tab of the GA Analysis Workform, the Account 1588 transactions in 2019 as a percentage of Account 4705 is 4%. Essex Powerlines indicated that the principal adjustment includes a $1.4M amount for reallocation between accounts 1588 and 1589 further to a review of 2019 balances. In the Manager’s Summary, Essex Powerlines indicated that this review did not affect 2017 and 2018 balances. Essex Powerlines further indicated that excluding the principal adjustment, the 2019 Account 1588 transactions as a percentage of Account 4705 is -0.4%.

1. Please confirm that the $1.4M adjustment pertains only to 2019 transactions and no other years.
2. If confirmed, including the 2019 principal adjustment with the 2019 transactions in the general ledger should appropriately reflect all transactions pertaining to only the 2019 calendar year in the 2019 balance. Therefore, it would be expected that the 2019 transactions including the 2019 principal adjustments as a percentage of Account 4705 would be small. Please reassess and explain why the percentage is greater than 1%.
3. If part a is not confirmed, please provide a breakdown of the $1.4M adjustment by year. If any portion of the $1.4M pertains to 2017 and 2018, please indicate why the 2017 and 2018 balances which were approved for disposition on an interim basis, were not proposed to be adjusted.

Response

1. Confirmed. The $1.4M adjustment pertains only to 2019 transactions and no other years.
2. The 2019 general ledger balance as presented in the Account 1588 tab of the GA Analysis Workform does not include the $1,425,459 adjustment. When adjusted, the 2019 general ledger balance combined with the 2019 principal adjustment fall within the 1% threshold, as shown below:



1. N/A