The OEB also approves the five-year average losses to be used for the loss factor for billing purposes. InnPower already included this five-year average on the proposed Tariff, and in calculating bill impacts for secondary metered customers. The loss factors for billing are approved as follows:

Secondary metered customers at less than 5000 kW	1.0604
Primary metered customers at less than 5000 kW	1.0498

The loss factor for primary metered customers is amended from the 1.0480 proposed by InnPower in its proposed Tariff and bill impacts model filed on September 20, 2017. The approved 1.0498 loss factor is calculated as 1% lower than the loss factor for secondary metered customers, consistent with how it was calculated for the previous Tariff.

3.7 Revenues and Costs relating to Affiliate - InnServices

InnServices is the water and waste water utility for the Town of Innisfil and an affiliate of InnPower. InnPower provides services to InnServices for:

- providing the back office for financial services (Financial Services)
- issuing bills, customer care, and collections (Billing Services)

InnPower updated its forecast for revenues from InnServices for Financial Services to $346,309[11], and revenue for Billing Services to $245,000 in an undertaking following the oral hearing[12].

SEC submitted that the annual bill for Financial Services of $346,309 would be substantially higher if costs were allocated fully rather than on an incremental basis. SEC noted that InnPower bills InnServices based on docketed hours spent on the affiliate's work with a standard payroll burden, but no overhead charge for other costs such as work space, computers or administrative support. SEC submitted that the revenue offset for Financial Services should be increased to $550,000.

[11] The $346,309 is the sum of the following:
- $232,198 revenue of Financial Services
- $112,981 additional expected revenue (J1.6)
- $1,130 administrative fee of 1% (other income)

[12] Undertaking J1.6

SEC submitted that the forecasted revenue for Billing Services of $245,000 is too low, creating an unfair subsidy provided by InnPower's electricity distribution customers. SEC calculated that InnPower's billing costs were $1,071,681, yet only $644,733 of this amount was divided between InnServices and InnPower. In addition, SEC argued that there should be overhead costs associated with the labour costs, yet none were allocated to InnServices. SEC submitted that the revenue offset for Billing Services should be increased by at least $100,000.

OEB staff submitted that the 2017 revenue requirement should be updated to include the increased amounts of other revenue proposed by InnPower.

In its reply submission, InnPower reinforced its commitment to ensure all affiliate services were priced appropriately and in accordance with the OEB's *Affiliate Relationships Code*. InnPower acknowledged SEC's submission regarding overhead costs and performed an analysis of all general and administrative expenses forecast in 2017. InnPower identified overhead costs attributable to Financial Services of $40,990 and Billing Services of $125,240, for an additional $166,230 in other revenue from InnServices. InnPower clarified that these overhead amounts were in addition to the additional forecast revenues of $112,981 that were included in the revised $346,309 Financial Services revenue in accordance with Undertaking J1.6. This amendment would result in a total of $757,539 in affiliate revenue[13], including $245,000 of Billing Services revenue that had already been incorporated into InnPower's forecast of other revenue submitted on September 20, 2017[14].

In addition to these revenues, InnPower charges $5,000 rent to InnServices for a couple of employees who occupy space in the office building. InnPower confirmed that the rent is $5,000 for 2017[15], and is based on rates that InnPower bills non-affiliate parties. The revenue for this was included as other operating revenue.

InnPower explained that it used different accounting treatment for Billing Services and Financial Services. Revenue related to Billing Services was included with other revenue. Expenses related to Financial Services were removed from OM&A, rather than included in other revenue (except for a 1% administration fee).

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[13] $757,539 = $346,309 for Financial Services + $245,000 for Billing Services + $166,230 (125,240 + 40,990) for additional overhead costs related to Billing Services and Financial Services, respectively)
[14] 2017_Filing_Requirements_Chapter2_Appendices TC_20170920, Appendix 2-H, cell H100
[15] Hearing transcript volume 1, page 123. Based on 7 months, $9,000 per year.

Findings

The OEB finds that InnPower's accounting practices related to affiliate services are inconsistent with the OEB's *Accounting Procedures Handbook*[16] (APH). For example, InnPower accounted for Billing Services and Financial Services OM&A expenses differently. The APH's Uniform System of Accounts requires the use of:

- Account 4375 Revenues from Non Rate-Regulated Utility Operations
- Account 4380 Expenses from Non Rate-Regulated Utility Operations

The OEB is also not clear if InnPower has followed the APH's Article 340, Allocation of Costs and Transfer Pricing.

The net amount from these two accounts is a revenue offset to the revenue requirement. Had InnPower adhered to the APH, non-rate regulated revenues and expenses would be segregated in the above-noted accounts to keep the accounting for the regulated utility clear.

Based on the evidence and InnPower's reply submission, InnPower's proposed 2017 affiliate revenue for Financial Services and Billing Services is $757,539. The OEB approves this amount for inclusion in Account 4375, Revenues from Non Rate-Regulated Utility Operations, as part of other revenue in 2017 as discussed in the OM&A section of this Decision.

The evidence indicates that InnPower forecast $1,087,311 for Account 4375, which includes $245,000 related to Billing Services revenue and $0 related to Financial Services revenue[17]. The OEB directs InnPower in its draft rate order to provide a summary of the updated 2017 amount for Account 4375, reflecting this Decision.

During the oral hearing, InnPower acknowledged that its affiliate transactions were based on incremental costs rather than fully-allocated costs. In its reply submission, InnPower provided an estimate of $166,230 in overhead costs associated with affiliate services. Unfortunately, this information was provided at the close of the record in InnPower's reply submission, without an opportunity for the information to be tested

[16] Ontario Energy Board Accounting Procedures Handbook, December 2011, Article 220 Uniform System of Accounts

[17] Appendix 2-H, Other Operating Revenue, September 20, 2017

applying fully-allocated costing principles as articulated in the *Affiliate Relationships Code*.

InnPower indicated that it negotiates its service agreements with InnServices. As InnPower and InnServices have the same CEO, the OEB finds any negotiated agreements are inappropriate for the purpose of determining affiliate revenue or expenses. For example, the OEB questions the sufficiency of the 1% administration fee for Financial Services. It also does not appear that InnPower takes into account the use of its assets and a return on its invested capital. For example, while InnPower's breakdown for the cost of issuing bills includes $75,000 for annual maintenance of the Customer Information System (CIS)[18], this cost does not appear to include sharing the cost of owning the CIS (i.e. depreciation and return on the asset), the system used for producing the bills.

The OEB will undertake an audit of InnPower's affiliate transactions to ensure its allocation of costs and approach to costing and applicable revenue complies with the *Affiliate Relationships Code*. The audit will take into consideration guidance on the approach to fully allocated costing previously issued by the OEB[19], in addition to the APH's Article 340, Allocation of Costs and Transfer Pricing. This audit is expected to be completed so that the audit findings are implemented by InnPower prior to the end of 2018. The OEB is not commenting on InnPower's compliance with the *Affiliate Relationships Code* at this time. This proceeding is addressing the rate-making implications.

The OEB directs InnPower to create two new Group 2 variance accounts. The first variance account will record the difference between the approved forecast of affiliate service revenues of $757,539 and actual revenues determined as a result of the audit. The approved affiliate forecast is being used to calculate rates for 2017, yet the variance account will be based on the appropriate actual amount, following the OEB audit results.

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[18] Undertaking JT2.3

[19] For example, Guideline G-2009-0300 on Regulatory and Accounting Treatments for Distributor-Owned Generation Facilities which includes Appendix A - Fully Allocated Costing Methodology for Non-Rate Regulated Activities

The second variance account will record the difference between the approved forecast of affiliate service expenses approved in this Decision, as discussed in the OM&A section of this Decision, and the fully-allocated costs as determined by the OEB audit.

These two new variance accounts will start effective January 1, 2018, the effective date of this Decision, and continue until the OEB closes the accounts. The OEB will consider annual dispositions of these two new Group 2 variance accounts as part of InnPower's future Price Cap IR applications.

3.8 Operations, Maintenance & Administration Expenses

InnPower proposed a 2017 operations, maintenance and administration (OM&A) budget of $5.990 million. The proposed budget was 22.5% higher than InnPower's OEB-approved budget in 2013. InnPower's OM&A budgets from 2013 to 2017 are set out in Table 3.

Table 3 – OM&A Budgets 2013-2017 ($'000)

	2013 Approved	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Proposed	Increase over 2013 Approved
OM&A	$4,890	$4,995	$5,225	$5,558	$5,689	$5,990	22.5%

InnPower indicated that its historical OM&A increases were in line with customer growth plus inflation, and driven by factors outside of management's control. InnPower submitted that cost controls had been implemented by its new management team and further reductions to OM&A could not be made at this time.

SEC, VECC and OEB staff did not support the OM&A budget proposed by InnPower.

SEC proposed a budget reduction of $0.650 million. SEC submitted that a top-down adjustment was required. SEC compared InnPower to other distributors, focusing on customers per FTE and OM&A per customer using the OEB's 2016 yearbook data. SEC concluded that InnPower had 422 customers per FTE compared to the industry average of 553 and calculated InnPower's 2017 OM&A cost per customer to be $351, which is 28% higher than the average.