



October 13, 2022

BY RESS

Ms. Nancy Marconi, Board Secretary
ONTARIO ENERGY BOARD
2300 Yonge Street,
26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

**Re: Board File No. EB-2022-0067
Enova Power Corp. - Licence No. ED-2022-0006
Interrogatory Responses**

Dear Ms. Marconi:

On August 3rd, 2022, Waterloo North Hydro Inc. filed its IRM Application (EB-2022-0067) for 2023 rates. On September 1st, 2022, Kitchener Wilmot Hydro Inc. and Waterloo North Hydro Inc. merged to become Enova Power Corp. (EB-2022-0006).

Attached are the responses to OEB Staff and Hydro One Networks Inc. Interrogatories received on September 29th for the former Waterloo North Hydro Inc. application. No interrogatories were received from Small Business Utility Alliance or the Vulnerable Energy Consumers' Coalition.

Contact the undersigned should you require any further information.

Sincerely,

A handwritten signature in blue ink that reads "A.P. Singh".

Albert Singh, MBA, CPA, CGA

Former VP Finance and CFO of Waterloo North Hydro Inc. (now Enova Power Corp.)

Enova Power Corp.-WNH EB-2022-0067

OEB Staff – 1

Ref: (1) IRM Rate Generator Tab 1 Cells F18

OEB staff has updated the rate generator model on Tab 1 to reflect the correct case number.

Question:

- a) Please confirm that the update is correct.

Response:

- a) Enova-WNH confirms and accepts the change reflected in the updated model.

OEB Staff – 2

Ref: (1) 2023 IRM Rate Generator Tab 3 Cell AW23 (2) 2022 IRM Rate Generator Tab 3 Cells BG23 and BL23

OEB staff notes that Enova- WNH's RSVA (account 1580) 2020 closing balance for including interest in its 2022 IRM Rate Generator is (\$1,052,462) and in its 2020 closing balance including interest in the 2023 IRM Rate Generator is (\$1,245,299).

Question:

- a) Please explain the difference in the 2020 closing balance between the two IRM applications.
- b) Please discuss what the principal adjustment of \$314,081 represents in the 2021 RSVA in the 2023 IRM rate generator.

Response:

- a) Enova-WNH erroneously included (\$192,838.05) in the 2020 closing balance instead of as 2021 transactions in Tab 3 Cell BD23. This has been corrected in the updated model and the closing balance including interest in the 2023 IRM Rate Generator is now (\$1,052,462). The variance in Tab 3 Cell BW23 matches Tab 3 Cell BV25.
- b) Enova-WNH erroneously included the amount of \$314,081 as a principal adjustment. This value has been included under Transactions Debit/(Credit) during 2021 in Tab 3 Cell BD23 in the updated model.

Through updating the model as noted above, Enova-WNH discovered an error in Tab 3 Cells BU33 and BU34. Enova-WNH erroneously selected “No” to dispose of the 2018 and 2019 1595 balances. Under Section 2.7, Deferral and Variance Account Balances on page 9 of the Summary of Application, Enova-WNH indicated, “WNH has not exceeded the disposition threshold of \$.001/kWh of its Group 1 Account Deferral and Variance Account Balances as reflected in Sheet 4 of its 2023 Rate Generator Model, however, WNH is electing to dispose of the Group 1 account balances as WNH would prefer to clear balances in preparation for its merger with Kitchener Wilmot Hydro (EB-2022-0006).” Enova-WNH has now indicated “Yes” in Tab 3 Cells BU33 AND BU34 to dispose of 1595 balances for 2018 and 2019. Enova-WNH has updated tables 2.7a, 2.7b, and 2.7c to reflect the changes. The tables are included below:

Table 2.7a – Summary of Deferral and Variance Accounts

Account Descriptions	Account Number	Closing Principal Balances as of Dec 31-21 Adjusted for Dispositions during 2022	Closing Interest Balances as of Dec 31-21 Adjusted for Dispositions during 2022	Projected Interest from Jan 1, 2022 to December 31, 2022 on Dec 31 -21 balance adjusted for disposition during 2022	Total Claim \$
Group 1 Accounts					
LV Variance Account	1550	161,016	2,758	2,001	165,775
Smart Metering Entity Charge Variance Account	1551	(32,145)	(853)	(399)	(33,397)
RSVA - Wholesale Market Service Charge	1580	1,247,056	(3,756)	15,495	1,258,795
Variance WMS – Sub-account CBR Class A	1580	-	-	-	-
Variance WMS – Sub-account CBR Class B	1580	(296,870)	454	(3,689)	(300,105)
RSVA - Retail Transmission Network Charge	1584	2,261,849	2,059	28,103	2,292,011
RSVA - Retail Transmission Connection Charge	1586	(456,865)	(501)	(5,677)	(463,043)
RSVA - Power	1588	(1,214,250)	(20,225)	(15,087)	(1,249,562)
RSVA - Global Adjustment	1589	(2,178,429)	(112,993)	(27,067)	(2,318,489)
Disposition and Recovery/Refund of Regulatory Balances (2018)	1595	60,545	(62,426)	752	(1,129)
Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	1,459,900	(1,455,220)	18,662	23,342
Disposition and Recovery/Refund of Regulatory Balances (2020)	1595	153,321	(114,403)	1,905	-
Disposition and Recovery/Refund of Regulatory Balances (2021)	1595	(32,367)	(100,012)	(402)	-
Disposition and Recovery/Refund of Regulatory Balances (2022)					
<i>Not to be disposed of until a year after rate rider has expired and that balance has been audited</i>	1595	678,862	5,438	8,435	-
RSVA - Global Adjustment	1589	(2,178,429)	(112,993)	(27,067)	(2,318,489)
Total Group 1 Balance excluding Account 1589 - Global Adjustment requested for disposition		3,190,236	(1,537,710)	40,161	1,692,687
Total Group 1 Balance requested for disposition		1,011,807	(1,650,703)	13,094	(625,802)
Total		1,011,807	(1,650,703)	13,094	(625,802)

Table 2.7b – Cost Allocation Deferral & Variance Balances

Allocation of Group 1 Accounts (Excluding Account 1589 - Global Adjustment)												
Rate Class	Unit	% of Total kWh	% of Customer Numbers **	1550	1551	1580	1584	1586	1588*	1595_(2018)	1595_(2019)	Total
Residential	\$/kWh	30.8%	89.7%	52,301	(29,970)	387,897	723,112	(146,086)	(385,052)	(610)	10,270	611,861
General Service Less Than 50 kW	\$/kWh	13.5%	10.3%	22,987	(3,427)	170,490	317,825	(64,208)	(169,239)	(237)	3,968	278,158
General Service 50 to 4,999 kW	\$/kW	46.1%	0.0%	79,199	-	580,428	1,095,017	(221,220)	(576,171)	(90)	6,536	963,698
Large Use	\$/kW	6.2%	0.0%	10,479	-	77,723	144,890	(29,271)	(77,153)	(192)	2,568	129,044
Unmetered Scattered Load	\$/kWh	0.2%	0.0%	379	-	2,808	5,234	(1,057)	(2,787)	-	-	4,576
Street Lighting	\$/kW	0.3%	0.0%	429	-	3,183	5,934	(1,199)	(3,160)	-	-	5,188
Embedded Distributor	\$/kW	2.9%	0.0%	-	-	36,265	-	-	(35,999)	-	-	266
Total		100.0%	100.0%	165,775	(33,397)	1,258,795	2,292,011	(463,042)	(1,249,562)	(1,129)	23,342	1,992,791

Table 2.7c – Calculation of Deferral & Variance Rate Riders

Rate Class	Unit	Total Metered kWh	Metered kW or kVA	Allocation of Group 1 Account Balances to All Classes	Allocation of Group 1 Account Balances to Non-WMP Classes Only	Deferral/Variance Account Rate Rider	Deferral/Variance Account Rate Rider for Non-WMP	Capacity Based Recovery Rate Rider	Unit	Total GA \$ allocated to Current Class B Customers	Global Adjustment Rate Rider
Residential	\$/kWh	434,604,346	-	611,862		0.0014	-	(0.0003)	\$/kWh	(25,798)	(0.0051)
General Service Less Than 50 kW	\$/kWh	191,018,779	-	278,158		0.0015	-	(0.0003)	\$/kWh	(157,774)	(0.0051)
General Service 50 to 4,999 kW	\$/kW	658,126,433	1,711,584	959,441	4,257	0.5606	0.0025	(0.0970)	\$/kWh	(1,848,327)	(0.0051)
Large Use	\$/kW	87,081,781	151,120	129,044		0.8539	-	-	\$/kWh	-	-
Unmetered Scattered Load	\$/kWh	3,145,674	-	4,576		0.0015	-	(0.0003)	\$/kWh	-	-
Street Lighting	\$/kW	3,566,727	9,949	5,188		0.5215	-	(0.0948)	\$/kWh	(18,299)	(0.0051)
Embedded Distributor	\$/kW	40,632,140	92,316	266		0.0029	-	(0.1164)	\$/kWh	(208,458)	(0.0051)
Total		1,418,175,880	1,964,969	1,988,535	4,257					(2,258,656)	

OEB Staff – 3

Ref: (1) 2023 IRM Rate Generator Tab 6- Question 3a

OEB staff notes that Enova- WNH's has only filled out the non-loss adjusted billing determinants of each customer on the year the customer transitioned between Class A and B. Generally, consumptions that are left blank or 0 are considered customers who have not connected or have been disconnected from the distributor.

Question:

- a) Please fill out the remainder of the Table for 3a for Customers 1-10 inclusive of 2019-2021.
- b) Please provide an explanation, for each consumer, if there are substantial (i.e. over 20%) consumption differences between consecutive periods.

Response:

- a) Enova–WNH has filled out the remainder of the Table for 3a. Through doing so, Enova-WNH discovered that customer 4 and 7 were the same customer. This has been corrected in the updated model. The updated model correctly includes 9 transition customers
- b) The decrease in customer 1's consumption and demand is due to the company going out of business. Customer 3 and 7's decreases in consumption from 2019 to 2020 is due to decreases in plant production. The increase in customer 5's consumption between 2019 and 2020 is due to an increase in production.

OEB Staff – 4

Ref: (1) 2023 IRM Rate Generator Tab 11

Enova- WNH is partially embedded within Enova-Kitchener-Wilmot Hydro, Energy+ and Hydro One.

Question:

- a) Please confirm that the distributor, in rows 44 to 56, is for Enova-Kitchener- Wilmot Hydro.
 - a. OEB staff has updated the rates for 2021 Jan to Jun based on Enova- Kitchener-Wilmot Hydro's 2021 Rate Order (EB-2020-0035). Please confirm accuracy.
- b) Please confirm that the distributor, in rows 59 to 71, is for Energy+.
 - a. OEB staff has updated the rates for 2021 based on Energy+'s 2021

Rate Order (EB-2020-0016). Please confirm accuracy.

Response:

- a) Enova-WNH confirms that the distributor, in rows 44 to 56, is for Enova-Kitchener-Wilmot Hydro.
 - a. Enova-WNH confirms and accepts the change made in the updated model.
- b) Enova-WNH confirms that the distributor, in rows 59 to 71, is for Energy+.
 - a. Enova-WNH confirms and accepts the change made in the updated model.

OEB Staff – 5

Ref: (1) 2023 IRM Rate Generator Tab 17

OEB staff has updated the Smart Metering Entity charge to \$0.42, effective January 1, 2023, based on OEB Letter issued September 8, 2022 (EB-2022-0137).

Question:

- a) Please confirm the update in the IRM rate generator.

Response:

- a) Enova-WNH confirms and accepts the update in the IRM rate generator.

OEB Staff – 6

**Ref: (1) 2023 IRM Rate Generator, Tab 3
(2) 2022 IRM Rate Generator, Tab 3**

Enova- WNH, in its Account 1580- RSVA Wholesale Market Service Charge, recorded a transaction during 2021 of \$967,631. OEB staff noted in Enova-WNH's 2022 IRM rate application, the same account had a transaction during 2020 of \$(748,787).

Enova- WNH, in its Account 1584- RSVA Retail Transmission Network Charge, recorded a transaction during 2021 of \$2,258,244. OEB staff noted in Enova-WNH's 2022 IRM rate application, the same account had a transaction during

2020 of \$(24,985).

Questions:

- a) For Account 1580- RSVA Wholesale Market Service Charge, please explain the factors that have resulted in a substantial difference in transactions between 2021 and 2020.
- b) For Account 1584- RSVA Retail Transmission Network Charge, please explain the factors that have resulted in a substantial difference in transactions between 2021 and 2020

Response:

- a) Enova-WNH has updated the transactions in 2021 based on the responses to OEB Staff-2 a & b. The revised transaction amount is now \$1,088,874, but is the same direction and similar magnitude of change. The significant increase is due to Wholesale Market Service charges from the IESO. Enova-WNH sales volumes have remained relatively stable and WMS rates charged to customers have not increased. In 2020, Enova-WNH billed customers approximately \$5.015M in WMS charges. In 2021 Enova-WNH billed only billed slightly more at \$5.101M. In contrast, the IESO billed Enova-WNH \$4.266M in 2020 and \$6.190M in 2021. Charge types 155, 183 and 1550 account for approximately 73% of the variance alone.
- b) The significant increase is due to Retail Transmission Network charges from the IESO. In 2020, Enova-WNH billed customers approximately \$9.900M in Network charges. In 2021 Enova-WNH billed only billed slightly less at \$9.890M. In contrast, the IESO and other distributors in which Enova-WNH is embedded to billed Enova-WNH \$9.875M in 2020 and \$12.148M in 2021. IESO Charge type 650 accounts for approximately \$2.109M (over 90%) of the variance alone.

OEB Staff – 7

Ref: (1) EB-2021-0062, 2022 IRM Decision and Rate Order, December 9, 2021, page 7 & 8
(2) Manager’s Summary, August 3, 2022, page 11

In the 2022 IRM decision, it was noted that the settlement agreement for Enova – WNH’s cost of service proceeding for 2021 rates stipulated that Enova – WNH not

dispose of 2019 balances for Accounts 1588 and 1589, pending a special purpose inspection (Inspection) by the OEB of those accounts.² The distributor was to apply for disposition of those accounts upon completion of the Inspection.

The Inspection related to a prior period adjustment of approximately \$2.6 million in overstated Global Adjustment (GA) costs attributable to Regulated Price Plan (RPP) customers, impacting Accounts 1588 and 1589 balances between the years 2015 to 2018.

Also in the 2022 IRM decision, the OEB agreed that in addition to the Inspection regarding the prior period adjustment of approximately \$2.6 million, Enova – WNH would further benefit from having the overall reasonability of the 2019 and 2020 Account 1588 and 1589 balances (including compliance with the OEB’s Accounting Guidance) assessed by the OEB’s Inspection and Enforcement group.

In the current proceeding, Enova – WNH noted that the issuance date of the Inspection Report was expected to occur before the interrogatory period.

Questions:

- a) Please file the Inspection Report on the record of this proceeding, as well as any written response from Enova – WNH regarding the findings.
- b) If the Inspection Report has not yet been issued, please outline Enova – WNH’s planned timing to file this report on the record of this proceeding.

Response:

- a) The Inspection Report has been filed as Attachment A to these responses. Enova-WNH notes that this Inspection Report was initially filed confidentially. Enova-WNH has received permission from the OEB’s Inspection & Enforcement Department to include the Inspection Report in this response.
- b) Not applicable.

OEB Staff – 8

**Ref: (1) Manager’s Summary, August 3, 2022, page 11
(2) IRM Rate Generator Model, Tab 3, August 3, 2022**

In the current application, Enova – WNH noted that the total of the 2015 – 2018 corrections, as well as the revised balances for 2019 – 2020, have restated the opening principal balances for 2021, of a credit of \$682,786 and a credit of \$897,220

for Accounts 1588 and 1589, respectively. These amounts are reconciled in Attachment G – 1588-1589 GL Reconciliation 2015-2021.

Enova – WNH further noted that the Account 1588 and Account 1589 balances will be confirmed by the OEB’s Inspection Report when issued.

Tab 3 of the IRM Rate Generator Model shows December 31, 2020 closing principal balances of a credit of \$682,786 for Account 1588 and a credit of \$897,220 for Account 1589.

Question:

- a) Please confirm that the December 31, 2020 closing principal balances of a credit of \$682,786 for Account 1588, and a credit of \$897,220 for Account 1589, in Tab 3 of the 2023 IRM Rate Generator Model reconcile to the outcome of the Inspection Report that is to be filed on the record of this proceeding. If this is not the case, please explain.

Response:

- a) Enova-WNH confirms that the December 31, 2020 closing principal balances of a credit of \$682,786 for Account 1588, and a credit of \$897,220 for Account 1589, in Tab 3 of the 2023 IRM Rate Generator Model reconcile to the outcome of the Inspection Report attached. In the Inspection Report, please refer to Appendix 1 – Summary of Inspection Adjustments to Balances as of December 31, 2020.

OEB Staff – 9

- Ref: (1) Manager’s Summary, August 3, 2022, page 10 & 22**
(2) IRM Rate Generator Model, Tab 3, August 3, 2022

OEB staff has created the following table, OEB Staff Table 1, which shows the principal adjustments that were made as a result of the Inspection. These adjustments are described in the Manager’s Summary and also reflected as 2020 principal adjustments in Tab 3 of the IRM Rate Generator model.

**OEB Staff Table 1 – Inspection Results –
Principal Adjustments to Accounts 1588 and 1589
Balances**

	Account 1588	Account 1589
Adjustments relating to 2015 to 2018 balances	(\$150,641)	(\$1,417,250)
Adjustments relating to 2019 balances	\$21,751	\$393,945
Adjustments relating to 2020 balances	<u>\$55,642</u>	<u>\$74,243</u>
Total Adjustments	<u>(73,249)</u>	<u>(949,062)</u>

Enova – WNH stated that the Account 1588 and 1589 balances for the years of 2015 to 2018 were previously approved for disposition on a final basis. However, given the magnitude of the adjustments and the fact that they are in favour of customers, Enova – WNH is of the view that correcting the amounts is a fair and prudent action. Enova – WNH further stated that the adjustments to 2015 to 2018 balances arose due to errors in its settlement process during those years.

Questions:

- a) Please confirm whether Enova – WNH is in agreement with OEB staff’s calculations and values shown in OEB Staff Table 1. If this is not the case, please explain, and update OEB Staff Table 1, as required.
- b) Please provide OEB precedents where the OEB has approved corrections to balances previously disposed on a final basis, specifically where such corrections were a credit to customers. Please provide the EB# and the date of the respective OEB decision.

Response:

- a) Enova-WNH is in agreement with OEB staff’s calculations and values shown in OEB Staff Table 1. These values match Appendix 1 – Summary of Inspection Adjustments to Balances as of December 31, 2020 of the Inspection Report.
- b) Enova-WNH was able to identify two similar scenarios where the OEB approved corrections to balances previously disposed on a final basis where such corrections were a credit to customers:
 - i. EB-2014-0043 Enbridge Gas Distribution Inc. per Decision and Order

published April 10, 2014. The decision describes an unintentional error committed by Enbridge resulting in an amount being incorrectly recovered from customers. The previous orders were final in EB-2012-0352 and EB-2013-0045, but the Board concluded that “An out-of-period adjustment can be justified if it ensures a utility does not profit on account of its own errors.”

- ii. EB-2016-0090 Lakeland Power Distribution Ltd. Per Decision and Rate Order published December 8, 2016. Lakeland identified errors in Accounts 1588 and 1589. The findings concluded, “While this is a retroactive adjustment, the OEB will approve disposition of the Group 1 balances on this basis because the adjustment is in favour of customers and Lakeland Power consented.”

OEB Staff – 10

Ref: (1) Manager’s Summary, August 3, 2022, page 21 & 22
(2) [OEB Letter](#), Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition, October 31, 2019

As noted in both the Manager’s Summary and OEB Staff Table 1, Enova – WNH is proposing to adjust 2015 to 2018 balances that were previously approved for disposition on a final basis. These adjustments are a credit to Account 1588 of \$150,641 and a credit to Account 1589 of \$1,417,250.

OEB staff notes that Enova – WNH has not specifically addressed the OEB’s October 31, 2019 letter, regarding adjustments to correct for errors after disposition.

For example, the OEB outlined factors that it may consider to determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case.

Question:

- a) Please describe how Enova – WNH has satisfied the OEB’s concerns noted in the OEB’s October 31, 2019 letter, regarding adjustments to correct for errors after disposition.

Response:

- a) Enova-WNH notes that the Board's October 31, 2019 letter permits adjustments to correct for errors in electricity distributor "Pass-Through" variance accounts after disposition, including Enova-WNH accounts 1588 and 1589. Enova-WNH submits, for the reasons that follow, that retroactive adjustments be made to accounts 1588 and 1589. The OEB has listed four factors that will be considered in making such a determination on a case-by-case basis:
- i. Whether the error was within the control of the distributor
 - ii. The frequency with which the distributor has made the same error
 - iii. Failure to follow guidance provided by the OEB
 - iv. The degree to which other distributors are making similar errors
 - v. Other key factors.

Per the OEB's Inspection Report (Attachment A), OEB Staff identified three errors; 1) Incorrect usage of GA 1st estimate instead of actual GA rate for RPP settlement with the IESO, 2) Incorrect usage of energy billed in settlement month instead of energy consumed in the settlement month for RPP settlement with the IESO, and 3) Incorrect energy volumes for embedded generation for RPP settlement with the IESO. While the errors were unintentional, Enova-WNH confirms that all of these errors were within the control of WNH.

This is the first time an OEB Inspection Report identified these errors occurring at WNH. In the report, OEB Staff also noted that the updated current processes have sufficient controls to ensure that the same errors shall not occur again.

On July 20, 2018, the OEB issued a letter titled, "OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." In this letter, the OEB recognized the need for standardized guidance to assist distributors given the number of errors discovered in previous audits, inspections and rate applications. Since that time, the OEB has continued to attempt to improve the accuracy of reporting by issuing and revising the GA Workform as well as the Illustrative Commodity Model that accompanied the February 2019 Guidance.

Enova-WNH reviewed IRM and Cost of Service rate applications for 2021 and 2022. In its review, Enova-WNH noted that several distributors indicated that they had not yet implemented the OEB's Accounting Guidance related to Accounts 1588 & 1589. Considering the errors discovered in past inspections and audits, as well as the number of distributors still not following the guidance, Enova-WNH believes that it is likely that other distributors may be making similar errors or may have made similar errors in the past.

In conclusion, Enova-WNH believes that since the retroactive corrections are in favour of customers and that the final dispositions were made prior to the full implementation of the revised guidance, making the corrections would be a fair and prudent action.

HONI – 1

- Ref: (1) Waterloo North Hydro Inc. 2023 IRM Filing, page 14 of 35, Tables 2.7b and 2.7c**
(2) EB-2021-0062 Waterloo North Hydro Inc. 2022 Rate Application, OEB Decision and 5 Rate Order, issued on December 9th, 2021, page 10 of 12 (OEB approved 2022 Tariff 6 of Rates
(3) EB-2020-0059 Waterloo North Hydro Inc. 2021 Rate Application, WNH I Interrogatory Responses, 9-HONI-1, filed on September 28th, 2020, page 315 of 419

As per reference #1, Waterloo North Hydro Inc. (WNH) is proposing to allocate \$4,750 of Account 1550 (LV Variance Account) balance, \$65,668 of Account 1584 (RSVA – Retail Transmission Network Charge) balance and -\$13,267 of Account 1586 (RSVA – Retail Transmission Connection Charge) balance to the Embedded Distributor rate class.

As per reference #2, the Embedded Distributor rate class is not subject to RTSR and LV charges. As per reference #3, in its response to Hydro One's Interrogatory 9-HONI-1 in EB-2020-0059, WNH acknowledged that since the Embedded Distributor rate class does not contribute to accounts 1550, 1584 and 1586, it should not be allocated these account balances.

Question:

- a) Given the references noted above, please explain why WNH proposes to allocate balances from accounts 1550, 1584 and 1586 to the Embedded Distributor rate class in this application.
- b) Please provide updated allocations of DVA balances which do not allocate RTSR and LV account balances to the Embedded Distributor class and the resulting DVA rate riders.

Response:

- a) Enova-WNH erroneously included allocated \$4,750 of Account 1550 (LV Variance Account) balance, \$65,668 of Account 1584 (RSVA – Retail Transmission Network Charge) balance and -\$13,267 of Account 1586 (RSVA – Retail Transmission Connection Charge) balance to the Embedded Distributor rate class. This has been corrected in the updated model.

- b) Tables 2.7b and 2.7c have been updated and included in the response to OEB Staff-2. Table 2.7b does not allocate RTSR and LV account balances to the Embedded Distributor rate class and Table 2.7c displays the resulting rate riders.

Attachment A – OEB Inspection Report

ONTARIO ENERGY BOARD



Inspection Report

Waterloo North Hydro Inc.

**Inspection of Group 1 Deferral and Variance Accounts
1588 and 1589**

August 2022

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1. SUMMARY

The Ontario Energy Board's (OEB) Inspection and Enforcement department (staff) conducted an inspection of Waterloo North Hydro Inc.'s (WNH) Group 1 deferral and variance accounts (DVA) 1588 (RSVA Power) and 1589 (RSVA Global Adjustment). The inspection assessed WNH's compliance with applicable enforceable provisions under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, and related regulations. The inspection also assessed whether WNH conformed with the OEB's Accounting Procedures Handbook and related guidelines. .

Staff found that WNH made a number of errors in the accounting and settlement of Regulated Price Plan (RPP) variances and embedded generation (EG) amounts with the Independent Electricity System Operator (IESO) which resulted in:

- WNH misstating the balances in Accounts 1588 and 1589 by \$131,621 and \$1,472,757 respectively, from 2015 to 2018, resulting in WNH overcharging its customers by a total of \$1,604,378 over that period;
- WNH further misstating the balances in Accounts 1588 and 1589 by \$72,797 and \$427,364 respectively, from 2019 to 2020, with no impact to customers; and
- WNH owing an additional \$3,333,747 to the IESO.

Staff made the following findings as detailed in this report:

1. WNH incorrectly used the 1st estimate global adjustment (GA) rate instead of the actual GA rate to settle RPP variances with the IESO and to record GA costs for RPP and non-RPP customers in Accounts 1588 and 1589. As a result, from 2015 to 2020, WNH did not settle accurate RPP variances with the IESO and WNH reported inaccurate Accounts 1588 and 1589 balances.
2. WNH incorrectly used the energy billed in the settlement month instead of the energy consumed during the settlement month to settle RPP variances with the IESO. As a result of the timing differences, from 2015 to 2020, WNH did not settle RPP variances with the IESO correctly and WNH reported inaccurate Accounts 1588 and 1589 balances.
3. WNH did not include correct energy volumes for its embedded generation customers in settling embedded generation amounts with the IESO. As a result, from 2015 to 2020, WNH did not settle correct embedded generation amounts with the IESO and WNH reported inaccurate Accounts 1588 balances.

A summary of the inspection adjustments to the account balances as of December 31, 2020 is detailed in **Appendix 1**. A summary of the adjustment settlements with the IESO is detailed in **Appendix 2**. A complete description of the findings is detailed in **Appendix 3**.

Staff expects WNH to make the necessary adjustments to the DVAs in 2022. In addition, staff expects WNH to include and provide explanation for all the corrective adjustments in the balances brought forward for disposition in WNH's 2023 IRM rate application.

2. REASON AND AUTHORITY FOR INSPECTION

The inspection was initiated as a result of concerns raised during WNH's 2021 Cost of Service proceeding¹ and 2022 IRM proceeding². The concerns included a prior period adjustment of \$2.6 million relating to the settlement of RPP variance amounts between WNH and the IESO from 2015 to 2018, and the reasonability of 2019 and 2020 Account 1588 and 1589 balances.

The settlement proposal for WNH's 2021 Cost of Service proceeding states:

WNH agrees to cooperate with OEB Staff in the special purpose inspection of Accounts 1588 and 1589 with respect to the prior period adjustment of approximately \$2.6 million credit that is recorded in Account 1588 and refund to the IESO for the same amount arising from the RPP submissions and GA reconciliation accrual process.

The inspection is to focus on the accuracy of the adjustment figure(s) and the debit/credit positions of the adjustment(s) instead of the GA reconciliation accrual process that was followed by WNH (the process is no longer used by WNH) but not in conformity with the Accounting Procedures Handbook and the Accounting Guidance issued in February 2019.

The special purpose inspection is also to determine any impacts from the prior period adjustment of approximately \$2.6 million to the Account 1589 balance.

In WNH's 2022 IRM proceeding, the OEB did not approve disposition of WNH's Account 1588 and 1589 balances. The Decision stated:

The OEB agrees that in addition to the Inspection regarding the prior period adjustment of approximately \$2.6 million, Waterloo North Hydro would further benefit from having the overall reasonability of the 2019 and 2020 Account 1588 and 1589 balances (including compliance with the OEB's Accounting Guidance) assessed by the OEB's Inspection and Enforcement group. The OEB expects that included in that review will be a consideration of any discrepancies that arose through the course of this proceeding.³

The inspection was conducted under the authority of Part VII of the *Ontario Energy Board Act, 1998* (Act) by staff appointed as inspectors by the OEB's management committee under section 106 of the Act.

¹ EB-2020-0059.

² EB-2021-0062.

³ EB-2021-0062, Decision and Rate Order, December 9, 2021

3. OBJECTIVE AND SCOPE

The objectives of the inspection were to examine the balances of WNH's Accounts 1588 and 1589 and determine whether:

- 1) RPP variance settlements with the IESO between 2015 and 2020 comply with enforceable provisions under the *Electricity Act, 1998* and related regulations (O.Reg. 429/04 and O.Reg. 430/04); and
- 2) transactions related to the prior period adjustment of \$2.6 million, as well as all other transactions recorded in Accounts 1588 and 1589 for the period from January 1, 2019 to December 31, 2020, were accounted for in conformity with the OEB's Accounting Procedures Handbook and related guidelines.

4. METHODOLOGY

Staff reviewed WNH's procedures, systems and controls with respect to the tracking, recording, calculating and reporting of the Account 1588 and 1589 balances.

Staff interviewed key WNH staff and reviewed supporting documents such as IESO invoices, customer billing data, settlement calculations and procedures and accounting records.

APPENDIX 1
SUMMARY OF INSPECTION ADJUSTMENTS TO BALANCES AS OF
DECEMBER 31, 2020

		Account 1588	Account 1589	Total
Principal	Adjustments to previously final disposed balances:			
	2015	785,021	(731,920)	
	2016	(897,039)	(936,109)	
	2017	999,533	743,520	
	2018	(1,038,157)	(492,741)	
	Total Adjustments to previously final disposed balances (A)	(150,642)	(1,417,250)	(1,567,892)
	Adjustments to undisposed balances:			
	2019	21,751	393,945	
	2020	55,642	74,243	
	Total Adjustments to undisposed balances (B)	77,393	468,188	545,581
	Total Adjustments for 2015-2020 (A) + (B)	(73,248)	(949,063)	(1,022,311)
Principal balance as of Dec 31, 2020 per GL	(609,537)	51,842		
Revised principal balance as of Dec 31, 2020	(682,785)	(897,221)		
Interest	Adjustments to previously final disposed balances:			
	2015	4,798	(4,474)	
	2016	3,290	(13,629)	
	2017	5,528	(14,905)	
	2018	5,404	(22,500)	
	Total Adjustments to previously final disposed balances (C)	19,021	(55,507)	(36,486)
	Adjustments to undisposed balances:			
	2019	(3,126)	(27,157)	
	2020	(1,470)	(13,667)	
	Total Adjustments to undisposed balances (D)	(4,596)	(40,823)	(45,420)
	Total Adjustments for 2015-2020 (C) + (D)	14,425	(96,330)	(81,906)
Interest balance as of Dec 31, 2020 per GL	(27,288)	12,417		
Revised interest balance as of Dec 31, 2020	(12,863)	(83,913)		
Total Principal and Interest Adjustments to previously final disposed balances (A) + (C)	(131,621)	(1,472,757)	(1,604,378)	
Total Principal and Interest Adjustments to undisposed balances (B) + (D)	72,797	427,364	500,162	
Total Principal and Interest Adjustments for 2015-2020	(58,824)	(1,045,393)	(1,104,217)	

APPENDIX 2
SUMMARY OF ADJUSTMENT SETTLEMENTS WITH THE IESO

	Adjustment for RPP variance settlement	Adjustment for EG settlement	Total amount owing to the IESO
2015	7,723,779	(2,655)	
2016	(197,767)	(27,910)	
2017	(1,956,888)	(96,570)	
2018	(1,739,895)	27,481	
2019	(234,641)	(45,507)	
2020	(164,486)	48,805	
Total Adjustment	3,430,103	(96,356)	3,333,747

**APPENDIX 3
DETAILED FINDINGS**

1. FINDING 1

WNH incorrectly used the 1st estimate GA rate instead of the actual GA rate to settle RPP variances with the IESO and to record GA costs for RPP and non-RPP customers in Accounts 1588 and 1589. As a result, from 2015 to 2020, WNH did not settle accurate RPP variances with the IESO and WNH reported inaccurate Account 1588 and 1589 balances.

1.1 Basis of Finding

From 2015 to 2019, WNH determined the portion of GA costs allocated to RPP customers by subtracting the GA billed to its non-RPP customers from total Class B GA costs:

	Total Class B GA costs per IESO invoice (Charge Type 148)	(A)
Less:	GA costs billed to non-RPP customers	(B)
	GA costs allocated to RPP customers	(C)

However, this methodology resulted in a mismatch of GA rates, as total Class B GA costs charged by the IESO (line **(A)** above) were based on final actual GA rates, while the GA costs that WNH billed to its non-RPP customers (line **(B)** above) were based on 1st estimate GA rates. As a result, WNH was not allocating GA costs appropriately between RPP and non-RPP customers.

Since WNH subsequently used the incorrectly calculated GA costs allocated to RPP customers (line **(C)** above) to calculate the monthly RPP variances settled with the IESO, WNH did not settle RPP variances with the IESO in accordance with O.Reg. 429/04⁴ and O.Reg. 430/04⁵, which require settlements with the IESO to be based on final actual GA charges. This error had significant impact on those settlement amounts from 2015 to 2020. Over that period, WNH under-remitted a total of \$3,430,103 to the IESO. Figure 1 below provides a summary of the differences from 2015 to 2020.

Figure 1: Summary of adjustments to the RPP variances settled with the IESO

	2015	2016	2017	2018	2019	2020	Total amount owing to IESO for 2015-2020
RPP variance settled with IESO	(8,304,184)	(1,391,399)	(12,436,087)	(21,023,222)	(23,931,791)	(5,228,905)	
Revised RPP variance to be settled	(580,405)	(1,589,166)	(14,392,975)	(22,763,117)	(24,166,431)	(5,393,390)	
Adjustment required	7,723,779	(197,767)	(1,956,888)	(1,739,895)	(234,641)	(164,486)	3,430,103

Furthermore, since WNH did not allocate GA costs appropriately between RPP and non-RPP customers, WNH did not report variances in Accounts 1588 and 1589 in conformity with the OEB's Accounting

⁴ Section 16(3) outlines the requirement for a distributor to establish and maintain variance accounts to settle with the IESO.

⁵ Section 5(1) outlines the amounts to be included in the calculation of the settlements with the IESO.

Procedures Handbook⁶ from 2015 to 2020. The inaccurate balances reported for 2015 to 2018 had impacts to customers while the inaccurate balances for 2019 and 2020 did not.

The Account 1588 and 1589 balances from 2015 to 2018 were disposed on a final basis (i.e. refunded or charged to customers) as part of WNH's annual rate proceedings. As a result of the errors, WNH overcharged all customers a total of \$1,604,378 (\$1,567,892 principal + \$36,486 interest) for the period of 2015 to 2018. Of that amount, \$1,472,757 (\$1,417,250 principal + \$55,507 interest) was overcharged to non-RPP customers through the disposition of Account 1589 balances.

For 2019 and 2020, WNH understated the amounts to be charged to customers by a total of \$500,162 (\$545,581 principal + (\$45,420) interest). However, since the 2019 and 2020 balances in Accounts 1588 and 1589 have not yet been approved for disposition, these amounts had no impact to customers.

A summary of the differences for the principal balances from 2015 to 2020 is shown in Figure 2 below.

Figure 2: Summary of adjustments to the principal balances for Accounts 1588 and 1589

		2015	2016	2017	2018	Total Adjustment to previously final disposed balances (A)	2019	2020	Total Adjustment to undisposed balances (B)	Total Adjustment for 2015-2020 (A) + (B)
1588	Original	(1,145,965)	770,633	(1,078,443)	865,538		(270,422)	(339,115)		
	Revised	(360,944)	(126,406)	(78,910)	(172,619)		(248,671)	(283,473)		
	Adjustment	785,021	(897,039)	999,533	(1,038,157)	(150,642)	21,751	55,642	77,393	(73,248)
1589	Original	1,654,466	357,678	995,825	(348,978)		411,318	(359,476)		
	Revised	922,546	(578,431)	1,739,345	(841,719)		805,263	(285,233)		
	Adjustment	(731,920)	(936,109)	743,520	(492,741)	(1,417,250)	393,945	74,243	468,188	(949,063)
					(1,567,892)			545,581	(1,022,311)	

Staff noted that beginning in September 2019, WNH changed its processes to conform with the OEB's Accounting Procedures Handbook and related guidelines. Staff also noted that during the course of the inspection, WNH implemented a monthly and annual reconciliation process as a control to ensure the accuracy of transactions in Accounts 1588 and 1589. Staff confirmed that the updated processes now ensure that WNH uses correct GA rates in the allocation of GA costs and calculation of RPP variance settlements.

1.2 Expected Action

WNH is expected to make an adjustment settlement with the IESO to ensure that historical settlements of the RPP variances are correct.

WNH is also expected to make the necessary adjusting entries to Accounts 1588 and 1589 to ensure accurate GL balances. WNH is also expected to reflect the correct balances in Accounts 1588 and 1589 upon request for disposition of these accounts in its 2023 IRM rate proceeding.

⁶ Accounting Procedures Handbook, January 2012, Articles 220 and 490; Accounting Procedures Handbook Update, February 21, 2019, Section I.

Going forward, WNH is expected to continue monitoring its updated processes of allocating GA costs and calculating RPP variances to ensure accurate reporting and settlement of these amounts on a monthly basis.

2. FINDING 2

WNH incorrectly used the energy billed in the settlement month instead of the energy consumed during the settlement month to settle RPP variances with the IESO. As a result of the timing differences, from 2015 to 2020, WNH did not settle RPP variances with the IESO correctly and WNH reported inaccurate Accounts 1588 and 1589 balances.

2.1 Basis of Finding

In calculating the monthly RPP variances to settle with the IESO, WNH used data based on amounts billed to customers in the settlement month. For example, the amount settled with the IESO for June 2018 was based on RPP volumes of electricity billed in June 2018. However, the electricity volumes billed in June 2018 would have been consumed by customers in May or prior months.

As per O.Reg. 430/04, the RPP variances to be settled with the IESO in a particular month should be based on the volume of electricity distributed by the distributor for that month.⁷ In other words, distributors should be calculating RPP variance settlements using the energy consumed for the month they are settling with the IESO.

Furthermore, WNH also erroneously used billed instead of consumed volumes in allocating monthly GA costs between RPP and non-RPP customers. As a result, WNH did not report accurate balances in Accounts 1588 and 1589 from 2015 to 2020.

The timing differences created by WNH using billed instead of consumed volumes of electricity to calculate RPP variances and allocate GA costs resulted in material impacts to the amounts settled with the IESO and amounts charged to customers, respectively. The impacts are included as part of the differences described in the previous finding and summarized in Figures 1 and 2.

Staff noted that beginning in September 2019, WNH changed its processes to conform with the OEB's Accounting Procedures Handbook and related guidelines. Staff also noted that during the course of the inspection, WNH implemented a monthly and annual reconciliation process as a control to ensure the accuracy of transactions in Accounts 1588 and 1589. Staff confirmed that the updated processes now ensure that WNH uses correct energy volumes in the allocation of GA costs and calculation of RPP variance settlements.

⁷ Section 5(1) of O.Reg. 430/04.

2.2 Expected Action

WNH is expected to make the necessary adjustments as described in the previous finding. Going forward, WNH is expected to continue monitoring its updated processes of allocating GA costs and calculating RPP variances to ensure accurate reporting and settlement of these amounts on a monthly basis.

3. FINDING 3

WNH did not include correct energy volumes for its embedded generation customers in settling embedded generation amounts with the IESO. As a result, from 2015 to 2020, WNH did not settle correct embedded generation amounts with the IESO and WNH reported inaccurate Accounts 1588 balances.

3.1 Basis of Finding

WNH generates a monthly report from its billing system that details the embedded generation volumes for its customers. WNH uses the volumes from this report to calculate the monthly embedded generation amount to settle with the IESO. However, due to errors in the report which resulted in some embedded generation volumes being reported in subsequent months, WNH did not use complete and accurate information to calculate the monthly embedded generation settlement amount. Embedded generation volumes that were billed in subsequent months were not captured in the correct month's amounts settled with the IESO. As a result, WNH did not settle correct monthly embedded generation amounts with the IESO.

During the course of the inspection, WNH performed a retrospective review to determine the actual monthly embedded generation volumes which should have been settled each month. WNH's review identified a total of \$96,356 to be recovered from the IESO for the period of 2015 to 2020. Figure 3 summarizes the adjustments to the embedded generation settlements over this period.

Figure 3: Summary of adjustments to the embedded generation (EG) settlement with the IESO

	2015	2016	2017	2018	2019	2020	Total amount to be recovered from the IESO for 2015-2020
EG settlement with IESO	(8,095,321)	(9,796,516)	(9,593,096)	(9,227,029)	(10,018,967)	(10,196,438)	
Revised EG settlement	(8,097,976)	(9,824,425)	(9,689,666)	(9,199,549)	(10,064,474)	(10,147,632)	
Adjustment required	(2,655)	(27,910)	(96,570)	27,481	(45,507)	48,805	(96,356)

Since the transactions related to embedded generation settlements are recorded in Account 1588 as per the OEB's Accounting Procedures Handbook, the erroneous embedded generation settlements resulted in minor impacts to the Account 1588 balances from 2015 to 2020. The impacts to Account 1588 are included as part of the differences described in Finding 1 and summarized in Figure 2.

Staff noted that during the course of the inspection, WNH implemented a monthly and annual reconciliation process as a control to ensure the accuracy of transactions in Accounts 1588 and 1589. Staff confirmed that the updated processes now ensure that WNH is settling accurate embedded generation amounts with the IESO on a monthly basis.

3.2 Expected Action

WNH is expected to make an adjustment settlement with the IESO to ensure that historical settlements of embedded generation transactions are correct.

Going forward, WNH is expected to continue monitoring its updated processes of settling embedded generation amounts to ensure accurate settlement of these amounts on a monthly basis.