Attachment A

London Hydro Inc.
Responses to OEB Staff Pre-Settlement Clarification Questions
EB-2023-0037
March 26, 2024

London Hydro 2024 IRM Application EB-2023-0037

Pre-Settlement Clarification Questions

Clarification Question - 1

Ref 1: Accounting Procedures Handbook (APH), Article 220, Page 37

Ref 2: London Hydro's Reply Submission, Page 7

Article 220 of the APH (Reference 1) defines the Account 1589 Global adjustment. Part of the definition states that:

> This account shall be used monthly to record the net difference between:
>
> i. the global adjustment amount billed to non-Regulated Price Plan consumers, including accruals
> AND
> **ii.** the global adjustment charge (i.e., under charge types as applicable) to a distributor for non-Regulated Price Plan consumers **using the monthly settlement invoice received from the Independent Electricity System Operator ("IESO")**

In the reply submission (Reference 2), London Hydro states that:

> Tables 1a and 1b illustrate the accounting that would have happened under the two methods if the Error had not occurred. It is important to note that under Method A, the actual paid GA price, calculated by LH, is used for the RPP settlement. **Under Method B, the final GA price published by the IESO is used for RPP settlement**. **If there had been no data error, both the actual paid GA price and the published final GA price would have been the same.** The total entries into Accounts 1588 (Power) and 1589 (GA) would also have been the same under both methods.

The IESO's website states that:

> Actual GA Rate for the month is the representation of the actual GA costs which are allocated over the total energy consumed in Ontario by Class B customers. The Actual

GA rate also includes a true-up component to cover any over-collection or under-collection which resulted from the previous month's published rate.

OEB staff understands that the IESO publishes the actual GA rate of the month on the 10th business day of the following month. OEB staff also understands that IESO invoices the distributors of the monthly invoices on the 10th business day of the following month.

Questions:

1) Please clarify why under Method B, the final GA price published by the IESO, rather than the actual paid GA price, was used for the RPP settlement? Please also provide the relevant policy document or relevant accounting guidance to support this practice.
2) London Hydro indicated that under the circumstance that an error is identified, the actual paid GA price is different than the published final GA price. Please clarify the following:
    i) Please clarify exactly under what circumstance that these two prices are different.
    ii) When an error is identified, would it impact the published GA rate of the month when it was reported by the LDC and processed by the IESO or the published GA rate of the month when the error occurred?

London Hydro Response

1) London Hydro understands that there were at least two methods historically used by LDCs. Method A uses the calculated actual paid GA price and Method B used the GA price published by the IESO. Those were two of the distinguishing features of the two methods. In theory, both methods produced the same result. The OEB provided an initial set of standardized requirements for regulatory accounting and RPP settlements by letter dated February 21, 2019.

    In preparing a response to this question, London Hydro spent considerable time and effort over the last few days to look for the requested policy document(s) or relevant accounting guidance. London Hydro estimates that the timing of such documentation would have been in the 2004/2005 timeframe as the global adjustment came into effect on January 1, 2005 and the RPP came into effect April 1, 2005. (per February 15, 2005 OEB letter) London Hydro was unable to locate the specific documentation requested from that time period.

    The following is an excerpt from the "INSTRUCTIONS FOR COMPLETING GA ANALYSIS WORKFORM – 2021 RATE, Appendix A GA Methodology Description"

    "1. Approach to recording CT 1142/142 and CT 148

In booking expense journal entries for Charge Type (CT) 1142/142 and CT 148 from the IESO invoice, please confirm which of the following approaches is used:

a. CT 1142/142 is booked into Account 1588. CT 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589 respectively.

b. CT 148 is booked into Account 1589. The portion of CT 1142/142 equaling RPP minus HOEP for RPP consumption is booked into Account 1588. The portion of CT 1142/142 equaling GA RPP is credited into Account 1589.

c. If another approach is used, please explain in detail.

d. Was the approach described in response to the above question used consistently for all years for which variances are proposed for disposition? If not, please discuss."

The following is an excerpt from "Q&A's for Accounting Guidance on Accounts 1588 and 1589"

"Q17. A utility currently uses another accounting approach that produces the same results as the OEB's accounting guidance. For example, the entire charge type 148 is recorded in Account 1589. Then the RPP minus HOEP portion of charge type 1142 is recorded in Account 1588 and the credit related to the RPP GA portion of charge type 1142 is recorded in Account 1589. Would this utility need to change its accounting process so that charge type 148 is split between Accounts 1588 and 1589, and the entire charge type 1142 is recorded in Account 1588?

A17. The accounting approach in recording the charge types from the IESO invoice has not changed from previously issued accounting guidance. The new accounting guidance simply reiterates this. One of the purposes of the new accounting guidance is to establish a consistent approach for the industry. A consistent approach would also minimize any potential errors that may arise due to differences in methodologies. To achieve this consistency, utilities would need to follow the new accounting guidance."

2)

i) The two prices can be different if the volumes which underpin the two methods are different, such as the case when there is a volume related data error.

The answer to Q20 of the "Q&A's for Accounting Guidance on Accounts 1588 and 1589" indicates: "The global adjustment posted price may also not equal the invoice price if there are consumption changes between preliminary and final settlement statements due to meter data updates and/or IESO system issues."

ii) The precise method the IESO uses to set the GA price is not completely transparent to London Hydro. It would seem logical that a data error (if material enough to impact the GA price) would impact the published GA price in the month that the error occurred and likely the published GA price in the month that the correction is processed by the IESO.

Clarification Question - 2

Ref 1: London Hydro's Reply Submission, Page 7

Ref 2: Attachment A to London Hydro's Reply Submission, illustrative example

In the reply submission, London Hydro states that:

> The issue is that, when an error in the "everything else" occurs, in this case the mistaken inclusion of Embedded Generation in the calculation, the results from Method A and Method B deviate. Table 2b illustrates the accounting that did occur when LH applied Method B for 2015 and 2016, including the impact of the Error, while Table 2a illustrates the accounting that would have occurred had Method A been used at that time including incorporating the Error. **Table 2a shows that the actual paid GA price is above the published final GA price. This results from the allocation of GA costs from the IESO being too high as a result of the Error.** Had Method A been used for 2015 and 2016, the impact of the error would have been allocated between RPP and non-RPP customers; however, under Method B, the methodology that was actually used, the entire impact of the Error was captured in Account 1589 (GA) which was in turn allocated entirely to non-RPP customers.

London Hydro also provided the illustrative example in the excel as an attachment A to the reply submission. OEB staff has compiled the RPP settlement amounts in Table 2a and Table 2b as below:

	Before making adjustment to the identified Issue		
RPP Settlement Amount	Amount in Table 2a under Method A - (A)	Amount in Table 2b under Method B - (B)	Difference (C=A-B)
RPP Fixed price debits = (RPP - HOEP)	$ 10,500	$ 10,500	$0
RPP related GA credits CT148	$ (11,096)	$ (11,000)	(96)
CT 142 RPP Settlement Amount	**$ (596)**	**$ (500)**	**(96)**

OEB staff notes that the difference in CT142 under method A and method B in the table above results from the difference in RPP related GA credits CT148 between method A of $(11,096) and method B of $(11,000). Furthermore, this $(96) difference results from the different GA rates used as follows:

- Method A: GA rate used under Method A of $79.52 (which is calculated as CT2148 total GA charges of the month divided by total Class B volume at the wholesale level, equals to, $23,000 divided by 289,233 mWh)
- Method B: GA rate used under Method B of $78.83, which London Hydro states that this is the final GA rate published by the IESO

Questions:

1) In the context of the illustrative example, please provide the calculation of the GA rate of $78.83 under Method B.
2) In the context of the illustrative example, please clarify which GA rate is the correct rate, i.e., the rate includes the adjusted volumes.
3) Please clarify why the CT 142 RPP settlement amounts (specifically, the RPP related GA credits embedded in the RPP settlement) under Method A and Method B, before the adjustment to the identified issue, are different, given that the information at the same should be the same to London Hydro under both methods?
4) Please clarify which RPP settlement amount is correct amount? Please explain why it is correct before the adjustment.

London Hydro Response

1) The final paid GA price would be the total Class B GA charge divided by the accurate total actual volume: ($23,000 - $200) / 289,233 * 1000 = $78.83.

2) The correct rate is $78.83.

3) The settlement amounts are different under the two methods because the two methods use different GA prices (calculated paid GA price or the GA price published by the IESO). If there was no data error the two prices would be the same. As a result of the data error, the two prices were different which impacted the settlement amounts under the two methods differently.

   Method A: The actual paid GA price is calculated using the paid Class B GA costs divided by the actual accurate Class B volume: $23,000 / 289,233 *1000 = $79.52. If the data error did not occur, the IESO would have charged $22,800 under CT 148 and the paid GA price would have been $22,800 / 289,233 *1000 = $78.83, equivalent to the actual final GA price published by the IESO.

   Method B: Before the adjustment for the data error, the $78.83 final GA price was used in the RPP settlement. No paid GA price was calculated.

4) The correct RPP settlement amount (CT 142) is ($500). Both methods produce this result if the correct data is used.

Clarification Question - 3

Ref 1: Attachment A to London Hydro's Reply Submission, illustrative example

In Table 3a and Table 3b of the illustrative example, London Hydro shows that it receives $200 GA credit from the IESO and this GA credit of $200 is allocated to the commodity accounts 1588 and 1589 under Method A and Method B. OEB staff has compiled certain information that are used in Table 3a and Table 3b as below:

Total Class B volume used by the IESO to allocate Class B GA (MWH)	291,770
Correction submitted for Identified Issue (MWH)	(2,537)
Total corrected Class B volume for Class B GA allocation (MWH)	289,233
Total GA Charge/Credit (CT148, CT2148) ($000s)	$ (200)
Original Paid GA Price ($/MWH)	$ 79.52
Paid GA Price Differential for RPP Settlement TU ($/MWH)	$ (0.69)
Paid GA Price after correction ($/MWH)	$ 78.83

OEB staff also notes that Table 2b (before making the adjustment under Method B) has the following information:

Final GA Price Published by the IESO ($/MWH) - Used	$ 78.83

Questions:

1) Please confirm that the final GA price published by the IESO, which is used by London Hydro under Method B before making the adjustment, is equal to the paid GA price after correction?
   i) If confirmed, please explain how London Hydro could use a GA price after the correction in its RPP settlement before the adjustment?
   ii) If not confirmed, please explain in detail what price was exactly used by London Hydro in its RPP settlement before the adjustment.

2) Please confirm that London Hydro's approach demonstrates that under the method B, the adjustment only needs to be made in Account 1589 because it assumes that RPP settlement already includes the correct amount of RPP portion of GA at the time of the error before the adjustment is made. If not confirmed, please explain.

London Hydro Response

1) Confirmed. A calculated GA price was not used in the RPP settlement in 2015/2016, the Second Estimate GA price published by the IESO was used in London Hydro's initial RPP settlements. Each month's RPP settlement was trued-up using the final GA price also published by the IESO.

2) Confirmed.