

EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

EB-2016-0089

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Status and Disposition of Deferral and Variance Accounts

Ex.9/Tab 1/Sch.1 - Overview

Lakefront Utilities Inc. (LUI) has included in this Cost of Service (COS) Application, a request for approval of Group 1 and Group 2 balances as at December 31, 2015 and forecast interest through December 31, 2016. LUI has followed the Board's guidance in the *Accounting Procedures Handbook* and FAQ's (APH) for recording amounts in the deferral and variance accounts. Such guidance also includes the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative ("EDDVAR Report").

Table 9.0 contains descriptions of all the outstanding DVAs. LUI follows and is in compliance with OEB's Uniform System of Accounts for electricity distributors. The account balance in Table 9.0 reconciles with the Trial Balance reported through the Electricity Reporting and Record-keeping Requirements and LUI's Audited Financial Statements.

The forecasted interest on December 31, 2015 principal balances of the DVAs is calculated using the Board's prescribed rate of 1.10% for the period January 1, 2016 to December 31, 2016. The interest rates by quarter for each year used since LUI's COS in 2012 are provided in Table 9.2 in this Exhibit.

LUI proposes to dispose of a credit of \$535,428 related to Group 1 and Group 2 Variance Accounts. This credit includes carrying charges up to and including December 31, 2016. These balances are proposed to be disposed of over 1 year.

LUI notes that both the Smart Meter and Stranded Meter Disposition were approved of during its 2012 COS Application (EB-2011-0250) and no further costs are being applied for in the application. Also, the Disposition and Recovery/Refund of Regulatory Account Balances 2012, and Recovery/Refund of Regulatory Account Balances 2015, have a time period that has not expired and therefore are not being asked for recovery in this application.

LUI has followed the OEB's guidance as provided by the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

LUI has not made any adjustments to DVA balances that were previously approved by the Board on a final basis in Cost of Service and/or IRM proceedings.

LUI is requesting the following new deferral/variance account:

- Account 1595 – Sub-account 2017
Rate Rider for Disposition of Deferral/Variance Accounts (2017) – effective until December 31, 2017. Upon approval of disposition, LUI is requesting Board approval to establish 1595-Sub-account 2017 to track costs, revenues and interest for amounts disposed of in LUI's 2017 Application.

1 A breakdown of Energy Sales and Cost of Power Expense Balances, as reported in the Trial Balance
2 reported through the Electricity Report and Record-Keeping Requirements (RRR) and the Audited Financial
3 Statements by LUI, is provided in Table 9.4.

4 LUI confirms that the IESO Global Adjustment Charge is pro-rated into the Regulated Price Plan ("RPP")
5 and non-RPP portions. This is discussed further in Ex.9/Tab 1/Sch.9 – Pro Rata of Global Adjustment into
6 RPP/non-RPP.

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Ex.9/Tab 1/Sch.2 – Description of DVA used by the Applicant

Table 9.0 below presents the list of deferral and variance accounts, with the proposed selection of balances for disposition. All account balances selected for disposition are as at December 31, 2015, being the most recent date the balances was subject to audit.

Board policy states: at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. In accordance with the above statement, LUI proposes to dispose of all its balances. Each account being disposed of is described at Ex.9/Tab 1/Sch.3 – Disposition of DVAs used by the Applicant.

As of December 31, 2015, LUI recorded principal balances in the following Board-approved deferral and variance accounts:

Group 1 Accounts

- 1550 – LV Variance Account
- 1551 – Smart Meter entity Charge Variance Account
- 1580 – Retail Settlement Variance Account 1 – Wholesale Market Service Charges (“RSVAWMS”)
- 1584 – Retail Settlement Variance Account – Retail Transmission Network Charges (“RSVANW”)
- 1586 – Retail Settlement Variance Account – Retail Transmission Connection Charges (“RSVACN”)
- 1588 – Retail Settlement Variance Account – Power (“RSVAPOWER”)
- 1589 – Retail Settlement Variance Account – Global Adjustment (“RSVAGA”)
- 1595 – Disposition and Recover/Refund of Regulatory Balances

Group 2 Accounts

- 1508 – Other Regulatory Assets
- 1518 – Retail Cost Variance Account – Retail
- 1548 – Retail Cost Variance Account – STR
- 1582 – RSVA – One-Time

1 **Table 9.0 - Account and Balances sought for disposition/recovery**

Group 1 Accounts	USoA	Principal	Interest to December 31, 2015	Total	Balance per RRR 2.1.7	Variance	Explanation
LV Variance Account	1550	644,455	9,418	653,873	653,875	2	Rounding
Smart Metering Entity Charge Variance Account	1551	5,302	297	5,599	5,598	(1)	Rounding
RSVA - Wholesale Market Service Charge	1580	(683,225)	(9,392)	(692,617)	(692,615)	2	Rounding
RSVA - Retail Transmission Network Charge	1584	(258,903)	(6,528)	(265,431)	(265,431)	0	Rounding
RSVA - Retail Transmission Connection Charge	1586	(156,700)	(5,607)	(162,307)	(162,306)	1	Rounding
RSVA - Power (excluding Global Adjustment)	1588	896,631	(17,601)	879,030	879,030	(0)	
RSVA - Power - Sub-account - Global Adjustment	1589	(1,539,387)	(11,597)	(1,550,984)	(1,550,984)	(0)	
Recovery of Regulatory Asset Balances - 2009	1595	(11,380)	930	(10,450)	(10,450)	0	
Recovery of Regulatory Asset Balances - 2010	1595	38,211	(33,131)	5,080	5,080	0	
Recovery of Regulatory Asset Balances - 2011	1595	(7,536)	(6,385)	(13,921)	(13,921)	0	
Recovery of Regulatory Asset Balances - 2012	1595	489,758	(48,586)	441,172	441,173	1	Rounding
Recovery of Regulatory Asset Balances - 2013	1595	4,933	(1,616)	3,317	3,316	(1)	Rounding
Recovery of Regulatory Asset Balances - 2014	1595	59,326	(156,308)	(96,982)	(96,982)	0	
Recovery of Regulatory Asset Balances - 2015	1595	127,631	796,625	924,256	924,256	(0)	
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(390,884)	510,519	119,635	119,639	4	
Other Regulatory Assets	1508	1,314	500	1,814	1,814	(0)	
Retail Cost Variance Account - Retail	1518	13,442	2,390	15,832	15,832	(0)	
Retail Cost Variance Account - STR	1548	11,509	5,288	16,797	16,797	(0)	
RSVA - One-Time	1582	(3,366)	2,943	(423)	(424)	(1)	Rounding
Group 2 Sub-Total		22,899	11,121	34,020	34,018	(2)	
LRAM Variance Account	1568	85,545	0	85,545	0	(85,545)	LRAM Adjustment
Total		(282,440)	521,640	239,200	153,658	(85,542)	

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Group 1 Accounts	USoA	Principal and Interest December 31, 2015	Disposition in 2016	Interest to December 31, 2016	Total Claim
LV Variance Account	1550	653,873	348,194	7,089	312,768
Smart Metering Entity Charge Variance Account	1551	5,599	7,370	83	(1,688)
RSVA - Wholesale Market Service Charge	1580	(692,617)	(219,275)	(7,515)	(480,857)
RSVA - Retail Transmission Network Charge	1584	(265,431)	(236,325)	(2,848)	(31,954)
RSVA - Retail Transmission Connection Charge	1586	(162,307)	(204,374)	(1,724)	40,343
RSVA - Power (excluding Global Adjustment)	1588	879,030	491,095	9,863	397,798
RSVA - Power - Sub-account - Global Adjustment	1589	(1,550,984)	(782,205)	(16,933)	(785,712)
Recovery of Regulatory Asset Balances - 2011	1595	(13,921)	0	(83)	(14,004)
Recovery of Regulatory Asset Balances - 2013	1595	3,317	0	54	3,371
Recovery of Regulatory Asset Balances - 2014	1595	(96,982)	0	653	(96,329)
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(1,240,423)	(595,520)	(11,361)	(656,265)
Other Regulatory Assets	1508	1,814	0	14	1,828
Retail Cost Variance Account - Retail	1518	15,832	0	148	15,980
Retail Cost Variance Account - STR	1548	16,797	0	127	16,924
RSVA - One-Time	1582	(423)	0	(37)	(460)
Group 2 Sub-Total		34,020	0	252	34,272
LRAM Variance Account	1568	85,545	0	1,020	86,565
Total		(1,120,858)	(595,520)	(10,089)	(535,428)

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4 The 2017_EDDVAR_Continuity_Schedule which shows a continuity schedule for the period following the
5 last disposition of the present, showing separate itemization of opening balance, annual adjustments,
6 transactions, interest and closing balances is being filed in conjunction with this application.

Ex.9/Tab 1/Sch.3 – Disposition of DVAs used by the Applicant

Group 1 Accounts

1550 – LV Variance Account

For account 1550, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$312,768.

1551 – Smart Metering Entity Charge Variance Account

For account 1551, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$1,688.

1580 – Retail Settlement Variance Account 1 – Wholesale Market Service Charges (“RSVAWMS”)

For account 1580, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$480,857.

1584 – Retail Settlement Variance Account – Retail Transmission Network Charges (“RSVANW”)

For account 1584, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$31,954.

1586 – Retail Settlement Variance Account – Retail Transmission Connection Charges (“RSVACN”)

RSVACN is used to record the difference between the amount of retail transmission connection costs paid to the IESO or host distributor and the amounts billed to customers for retail transmission connection costs. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

For account 1586, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$40,343.

1588 – Retail Settlement Variance Account – Power (“RSVAPOWER”)

The SVAPOWER account is to be used to record the net differences in energy costs using the settlement invoice received from the IESO, host distributor, or embedded generator and the amounts billed to customers for energy. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

The RSVA power account is designed to capture variances due to billing timing differences (i.e: electricity charged by the IESO to LDCs vs electricity billed by LDCs to their customers), price and quantity differences (i.e.: arising from final vs preliminary IESO settlement invoices), and line loss differences (i.e: actual vs estimate line loss factors).

This account is not designed to capture any price differences between the regulated rice plan (RPP) and spot prices applicable to RPP customers. This is the function of the Ontario Power Authority (OPA) RPP variance account which is trued-up in accordance with the terms established by the Board for the RPP.

Accordingly, since the RSVA power account is generic to all customers of an LDC, disposition of the account balance in rates is attributable to all its customers.

For account 1588, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$397,798.

1589 – Retail Settlement Variance Account – Global Adjustment (“RSVAGA”)

The RSVAGA account is used to record the net differences between the global adjustment amount billed, to non-RPP consumers and the global adjustment charge to a distributor for non-RPP consumers, using the settlement invoice received from the IESO, host distributor or embedded generator. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

The 1589 RSVA power – sub account Global Adjustments is designed for the global adjustments applicable to non-RPP customers. Hence, the disposition of the account balance should be attributable to non-RPP customers.

For account 1589, LUI is requesting disposition of the December 31, 2015 audited balance, plus the forecasted interest through December 31, 2016. The December 31, 2015 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$785,712.

1595 – Disposition and Recover/Refund of Regulatory Balances (2011)

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$14,004.

1595 – Disposition and Recover/Refund of Regulatory Balances (2013)

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$3,371.

1595 – Disposition and Recover/Refund of Regulatory Balances (2014)

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$96,329.

Group 2 Accounts

1508 – Other Regulatory Liabilities

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$1,828.

1518 – Retail Cost Variance Account – Retail

The Retail Cost Variance Account – Retail is used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing. The account also includes costs of entering into service agreements, related contract administration, and monitoring, necessary to maintain the contract, as well as incremental costs incurred to provide the services as applicable and the avoided costs credit arising from retailer-consolidated billing, including accruals.

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$15,980.

1548 – Retail Cost Variance Account - STR

The Retail Cost Variance Account – STR is used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the service transaction request services.

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of \$16,924.

1582 – RSVA – One-Time

The RSVA – One-Time Account is used to record the net of the amount charged by the Independent Electricity System Operator based on the monthly settlement invoice for Wholesale Market Service, specified by the Board and the amount billed to customers for the same services using the Board-approved Rate, including accruals.

LUI is requesting disposition of the December 31, 2015 audited balance. The December 31, 2015 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of \$460.

One Time Incremental IFRS Transition Costs

LUI's application for 2017 rates is being filed under (M)IFRS and as such, the utility has completed all of its transition to (M)IFRS. LUI has incurred no additional transition costs and therefore; LUI will not be applying for disposition of any costs in Account 1508, Other Regulatory Assets – Sub-Account – Deferred IFRS Transition Costs.

OEB Appendix 2-U of the OEB 2016 Filing Requirements Chapter 2 Appendices is presented at the next page.

OEB Appendix 2U – One Time Incremental IFRS Transition Costs

Nature of One-Time Incremental IFRS Transition Costs ¹	Audited Actual Costs Incurred 2009	Audited Actual Costs Incurred 2010	Audited Actual Costs Incurred 2011	Audited Actual Costs Incurred 2012	Audited Actual Costs Incurred 2013	Audited Actual Costs Incurred 2014	Audited Carrying Charges to Dec 31, 2014	Forecasted Costs 2015	Forecasted Costs 2016 ²	Total Costs Including Carrying Charges	Carrying Charges January 1, 2015 to December 31, 2015/April 30, 2016 (As appropriate)	Total Costs and Carrying Charges	Reasons why the costs recorded meet the criteria of one-time IFRS administrative incremental costs
professional accounting fees										\$ -	\$ -	\$ -	
professional legal fees										\$ -	\$ -	\$ -	
salaries, wages and benefits of staff added to support the transition to IFRS										\$ -	\$ -	\$ -	
associated staff training and development costs										\$ -	\$ -	\$ -	
costs related to system upgrades, or replacements or changes where IFRS was the major reason for conversion										\$ -	\$ -	\$ -	
										\$ -	\$ -	\$ -	
										\$ -	\$ -	\$ -	
										\$ -	\$ -	\$ -	
Amounts, if any, included in previous Board approved rates (amounts should be negative) ³										\$ -	\$ -	\$ -	
										\$ -	\$ -	\$ -	
Insert description of additional item(s) and new rows if needed.										\$ -	\$ -	\$ -	

Ex.9/Tab 1/Sch.4 – Account 1592, PILs and HST

Lakefront Utilities Inc. has not recorded any items in USoA account 1592 – Deferred PILs, therefore the attached OEB appendix 2-TA has a balance of \$0. LUI has followed the guidelines set out in the July 2007 FAXs of the *Accounting Procedures Handbook*. Appendix 2-TA is shown below:

Appendix 2-TA: Account 1592, PILs and Tax Changes for 2006 and Subsequent Years

Tax Item	Principal as of December 31, 2015
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4/12ths of the approved grossed-up proxy), if not recorded in PILs account 1562	
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	
Ontario Capital Tax rate decrease and increase in capital deduction for 2011	
Ontario Capital Tax rate decrease and increase in capital deduction for 2012	
Ontario Capital Tax rate decrease and increase in capital deduction for 2013	
Capital Cost Allowance class changes from 2006 EDR application for 2006	
Capital Cost Allowance class changes from 2006 EDR application for 2007	
Capital Cost Allowance class changes from 2006 EDR application for 2008	
Capital Cost Allowance class changes from 2006 EDR application for 2009	
Capital Cost Allowance class changes from 2006 EDR application for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2011	
Capital Cost Allowance class changes from 2006 EDR application for 2012	
Capital Cost Allowance class changes from 2006 EDR application for 2013	
Capital Cost Allowance class changes from any prior application not recorded above. Please provide details and explanation separately.	
Insert description of additional item(s) and new rows if needed.	
Total	\$ -

Effective in the 2010 rate year, several of the Board's Decisions and Orders approved a new sub account of Account 1595, PILs and Tax Variances for 2006 and Subsequent Years to record the Input Tax Credit ("ITC") savings arising from the elimination of the Provincial Sales Tax ("PST") and the implementation of the HST on July 1, 2010.

As part of LUI's 2012 COS Application (EB-2011-0250) LUI requested, and was approved of the disposition of a credit of \$49,420 for Account 1592, PILs and tax Variances for 2006 and Subsequent years – Sub-Account HST ITCs. LUI has completed this disposition. The Board's Appendix 2-TB has been filed with a balance of \$0.

Appendix 2-TB – Account 1592, PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST/OVAT Input Tax Credits (ITCs)

**Appendix 2-TB
Account 1592, PILs and Tax Variances for 2006 and Subsequent Years,
Sub-account HST/OVAT Input Tax Credits (ITCs)**

The following table should be completed based on the information requested below. An explanation should be provided for any blank entries.

100% of the balance in Account 1592, PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST/OVAT Input Tax Credits (ITCs), should be recorded in this table.

Summary of PST Savings from 2009 Historic Year Analysis

	Principal 2010	Principal 2011	Principal 2012	Principal 2013	Principal 2014	Principal 2015	Principal Jan-April 2016 ¹	Carrying Charges to April 30, 2016	Total Account 1592, sub- account HST/OVAT Balance
OM&A Expenses PST Savings									\$ -
Capital Items PST Savings									\$ -
Total Annual PST Savings ²	\$ -	\$ -	\$ -	\$ -			\$ -	\$ -	\$ -

Ex.9/Tab 1/Sch.5 – Account 1575 and 1576 Accounting Changes

On July 17, 2012, the OEB issued a letter to all LDCs authorizing the use of Account 1576, Accounting Changes under CGAPP, for recording the financial differences arising as a result of a LDCs election to use revised depreciation expenses and capitalization policies effective January 1, 2012.

LUI was approved for an accounting policy change to update its capital asset typical useful lives when the 2012 COS Application was completed.

As LUI does not have any further impacts on policy changes for capitalization under CGAAP related to Account 1576 – Accounting Changes under CGAAP Balance and Return Component, LUI has a balance of \$0 in this account.

Therefore, OEB Appendix 2-EB – Account 1576 Accounting Changes under CGAAP, Accounting Policies under CGAAP are not provided in this evidence. LUI will submit them with the Chapter 2 Appendices with nil balances.

For account 1575, IFRS-CGAAP Transitional PP&E amounts LUI does not have any material transactions as LUI has already changed its TUL based on the Kinectrics Study and does not capitalize overhead burden, therefore LUI has not completed OEB Appendix 2-EA – Account 1575 PP&E Deferral Account (2015 IFRS Adopters). LUI will submit them with the Chapter 2 Appendices with nil balances.

Ex.9/Tab 1/Sch.6 – Interest Rate Applied

Table 9.2 below provides the interest rates by quarter that are applied to calculate actual and forecast carrying charges for each regulatory and variance account.

Table 9.2 – Interest Rates Applied to Deferral and Variance Accounts (%)

Period	Rate		Period	Rate
Q4 2015	1.10		Q3 2010	0.89
Q3 2015	1.10		Q2 2010	0.55
Q2 2015	1.10		Q1 2010	0.55
Q1 2015	1.47		Q4 2009	0.55
Q4 2014	1.47		Q3 2009	0.55
Q3 2014	1.47		Q2 2009	1.00
Q2 2014	1.47		Q1 2009	2.45
Q1 2014	1.47		Q4 2008	3.35
Q4 2013	1.47		Q3 2008	3.35
Q3 2013	1.47		Q2 2008	4.08
Q2 2013	1.47		Q1 2008	5.14
Q1 2013	1.47		Q4 2007	5.14
Q4 2012	1.47		Q3 2007	4.59
Q3 2012	1.47		Q2 2007	4.59
Q2 2012	1.47		Q1 2007	4.59
Q1 2012	1.47		Q4 2006	4.59
Q4 2011	1.47		Q3 2006	4.59
Q3 2011	1.47		Q2 2006	4.14
Q2 2011	1.47			
Q1 2011	1.47			
Q4 2010	1.2			

Note that LUI has used the latest OEB prescribed interest rates as published on the website at:

<http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms/Prescribed+Interest+Rates>

Closing Interest Balances as of December 31, 2015 Adjust for Dispositions during 2015 are detailed in the table below.

1 **Table 9.3 – Closing Interest Balances as of December 31, 2015 Adjusted for Dispositions during**
2 **2015**

Group 1 Accounts	USoA	Principal	Interest to December 31, 2015	Total	Balance per RRR 2.1.7	Variance	Explanation
LV Variance Account	1550	644,455	9,418	653,873	653,875	2	Rounding
Smart Metering Entity Charge Variance Account	1551	5,302	297	5,599	5,598	(1)	Rounding
RSVA - Wholesale Market Service Charge	1580	(683,225)	(9,392)	(692,617)	(692,615)	2	Rounding
RSVA - Retail Transmission Network Charge	1584	(258,903)	(6,528)	(265,431)	(265,431)	0	Rounding
RSVA - Retail Transmission Connection Charge	1586	(156,700)	(5,607)	(162,307)	(162,306)	1	Rounding
RSVA - Power (excluding Global Adjustment)	1588	896,631	(17,601)	879,030	879,030	(0)	
RSVA - Power - Sub-account - Global Adjustment	1589	(1,539,387)	(11,597)	(1,550,984)	(1,550,984)	(0)	
Recovery of Regulatory Asset Balances - 2009	1595	(11,380)	930	(10,450)	(10,450)	0	
Recovery of Regulatory Asset Balances - 2010	1595	38,211	(33,131)	5,080	5,080	0	
Recovery of Regulatory Asset Balances - 2011	1595	(7,536)	(6,385)	(13,921)	(13,921)	0	
Recovery of Regulatory Asset Balances - 2012	1595	489,758	(48,586)	441,172	441,173	1	Rounding
Recovery of Regulatory Asset Balances - 2013	1595	4,933	(1,616)	3,317	3,316	(1)	Rounding
Recovery of Regulatory Asset Balances - 2014	1595	59,326	(156,308)	(96,982)	(96,982)	0	
Recovery of Regulatory Asset Balances - 2015	1595	127,631	796,625	924,256	924,256	(0)	
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(390,884)	510,519	119,635	119,639	4	
Other Regulatory Assets	1508	1,314	500	1,814	1,814	(0)	
Retail Cost Variance Account - Retail	1518	13,442	2,390	15,832	15,832	(0)	
Retail Cost Variance Account - STR	1548	11,509	5,288	16,797	16,797	(0)	
RSVA - One-Time	1582	(3,366)	2,943	(423)	(424)	(1)	Rounding
Group 2 Sub-Total		22,899	11,121	34,020	34,018	(2)	
LRAM Variance Account	1568	85,545	0	85,545	0	(85,545)	LRAM Adjustment
Total		(282,440)	521,640	239,200	153,658	(85,542)	

Group 1 Accounts	USoA	Principal and Interest December 31, 2015	Disposition in 2016	Interest to December 31, 2016	Total Claim
LV Variance Account	1550	653,873	348,194	7,089	312,768
Smart Metering Entity Charge Variance Account	1551	5,599	7,370	83	(1,688)
RSVA - Wholesale Market Service Charge	1580	(692,617)	(219,275)	(7,515)	(480,857)
RSVA - Retail Transmission Network Charge	1584	(265,431)	(236,325)	(2,848)	(31,954)
RSVA - Retail Transmission Connection Charge	1586	(162,307)	(204,374)	(1,724)	40,343
RSVA - Power (excluding Global Adjustment)	1588	879,030	491,095	9,863	397,798
RSVA - Power - Sub-account - Global Adjustment	1589	(1,550,984)	(782,205)	(16,933)	(785,712)
Recovery of Regulatory Asset Balances - 2011	1595	(13,921)	0	(83)	(14,004)
Recovery of Regulatory Asset Balances - 2013	1595	3,317	0	54	3,371
Recovery of Regulatory Asset Balances - 2014	1595	(96,982)	0	653	(96,329)
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(1,240,423)	(595,520)	(11,361)	(656,265)
Other Regulatory Assets	1508	1,814	0	14	1,828
Retail Cost Variance Account - Retail	1518	15,832	0	148	15,980
Retail Cost Variance Account - STR	1548	16,797	0	127	16,924
RSVA - One-Time	1582	(423)	0	(37)	(460)
Group 2 Sub-Total		34,020	0	252	34,272
LRAM Variance Account	1568	85,545	0	1,020	86,565
Total		(1,120,858)	(595,520)	(10,089)	(535,428)

Ex.9/Tab 1/Sch.7 – Departure from Board Approved Balances

LUI has not made any adjustments to deferral and variance account balances that were not previously approved by the Board on a final basis either through Cost of Service or IRM proceedings.

Ex.9/Tab 1/Sch.8 – Reconciliation of Energy Sales and COP Expenses to Financial Statements

The filing requirements state that a breakdown of energy sales and cost of power expenses, as reported in the 2015 audited financial statements is requested. The sale of energy is a flow through revenue and the cost of power is a flow through expense. LUI has no profit or loss resulting from the flow through of energy revenues and expenses as variances are included in the RSVA balances.

Please note that the Financial Statements and RRR filings 2.1.7 for historical years 2011, 2012, and 2013 do not reconcile, the reason being that the utility was asked to re-file its Trial Balances in accordance with the Audit of Group 1 Deferral and Variance Accounts completed November 2014 (Attachment A).

Please refer to Table 9.4 below for a reconciliation of the 2015 RRR 2.1.7 with the 2015 Financial Statements.

1 **Table 9.4 – Energy Sales and Cost of Power Expenses from Financial Statements**

Lakefront Utilities Inc.
Income Statement
Year Ended December 31, 2015

	ACCOUNT	2015
SERVICE REVENUE		
ELECTRICITY		
Residential Energy Sales	4006	7,527,308
Street Lighting Energy Sales	4025	109,092
Sentinel Lighting Energy Sales	4030	4,570
General Energy Sales - GS<50	4035	14,275,744
Energy Sales for Retailers - Residential	4055	1,086,711
Intermediate Energy Sales	4015	1,558,247
Unmetered Energy Sales	4031	59,953
		<u>24,621,625</u>
WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION		
Billed WMS - Residential	4062	965,338
Billed NW - Residential	4066	1,543,246
Billed CN - Residential	4068	1,099,984
Billed - LV	4075	295,876
Billed - Smart Metering Entity Charge	4076	91,925
		<u>3,996,368</u>
		<u>28,617,992</u>
COST OF SALES		
ELECTRICITY		
Power Purchased	4705	5,872,920
Power Purchased - Global Adjustment	4706	18,748,705
		<u>24,621,625</u>
WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION		
Charges - Wholesale Market Services (WMS)	4708	965,338
Charges - Network Services (NW)	4714	1,543,246
Charges - Connections (CN)	4716	1,099,984
Charges - Smart Metering Entity Charge	4751	91,925
Shared LV Line	4750	295,876
		<u>3,996,368</u>
		<u>28,617,992</u>

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3 As can be seen in the comparison above, there is no difference between energy sales and cost of power
4 expense reported numbers.

Ex.9/Tab 1/Sch.9 – Pro-Rata of Global Adjustment into RPP/non-RPP

Lakefront Utilities Inc. confirms that it pro-rated the IESO Global Adjustment Charge into the RPP and non-RPP portions and that Global Adjustment is only being applied to customers that are non-RPP. LUI maintains a database which splits the Global Adjustment between the amounts belonging to the RPP customers versus the amount belonging to the Non-RPP customers. This has been done in order to determine the portion belonging to the Account 1588 – RSVA – Power (excluding Global Adjustment) and Account 1589 – Power – Sub-account – Global Adjustment.

The proration of the monthly Global Adjustment amount on the database based on the RPP versus Non-RPP kWh quantities submitted on the monthly IESO settlement reports. This allows for effective splitting of Account 1589 Global Adjustment variance account from the Account 1588 Cost of Power variance account.

Global Adjustment

Lakefront's customers are Class B customers and pay the global adjustment ("GA") charged based on the amount of electricity they consume in a month (kWh). Within the Class B group, there are two categories of customers: RPP customers who pay an RPP rate which has a built in GA adjustment component and the remaining non-RPP customers who pay the Hourly Ontario Electricity Price, and pay a monthly GA price separately on their bill.

For Class B customers, RSVA Account 1589 captures the difference between the amounts billed to non-RPP customers and the actual amount paid by the distributor to the IESO for those customers.

Global Adjustment Rate Used

Lakefront Utilities Inc. uses the first estimate to bill its customers. This treatment is applicable for all customer classes.

Monthly Settlement Submission to the IESO

At month end, Lakefront Utilities Inc. has four business days to settle with the IESO on its RPP settlement and other related settlements, as detailed below. Finance staff complete the calculations in an excel settlement spreadsheet and enter the information into the IESO portal. Both the settlement spreadsheet and the IESO portal entry are reviewed and approved by the Manager of Regulatory and Finance prior to the submission. Each month, Finance staff compare the RPP and non-RPP customers, and compare consumption for block 1, block 2 and on, off, and mid – as indicated below:

CUSTOMER COUNT/CONSUMPTION								
	RPP	NON-RPP	BLOCK 1	BLOCK 2	ON PEAK	OFF PEAK	MID PEAK	TOTAL
	CUSTOMERS	CUSTOMERS	CONSUMPTION	CONSUMPTION	CONSUMPTION	CONSUMPTION	CONSUMPTION	CONSUMPTION
January	133	9,285	636,562.60	343,660.73	1,980,666.93	6,524,089.40	1,915,069.89	11,400,049.55
February	133	9,294	1,141,254.56	953,303.26	1,594,848.36	5,430,169.93	1,521,881.59	10,641,457.70
March	133	9,300	864,689.73	776,716.57	2,457,999.08	8,267,204.16	2,285,486.58	14,652,096.12
April	136	9,302	901,800.52	575,484.66	1,507,997.89	4,963,933.20	1,433,511.09	9,382,727.36
May	138	9,317	687,488.49	321,855.78	1,613,611.78	5,385,581.77	1,512,707.66	9,521,245.48
June	138	9,324	542,010.24	380,218.09	1,429,496.73	4,583,219.53	1,347,513.61	8,282,458.20
July	139	9,340	684,707.79	430,652.09	1,609,292.41	5,072,573.14	1,580,016.69	9,377,242.12
August	138	9,369	561,362.61	440,628.29	1,263,788.28	3,938,028.00	1,176,524.93	7,380,332.11
September	144	9,396	477,772.60	633,400.86	1,837,178.62	5,727,047.15	1,711,987.41	10,387,386.64
October	140	9,400	603,614.14	476,832.41	1,931,207.80	5,608,994.79	1,790,566.24	10,411,215.38
November	148	9,426	638,279.37	407,566.81	1,551,907.81	5,517,393.60	1,566,915.35	9,682,062.94
December	151	9,445	763,650.13	426,998.31	1,604,653.77	4,816,912.07	1,533,676.19	9,145,890.47

Upon receipt of the final IESO invoice, the Manager of Regulatory Compliance and Finance reviews to ensure the settlement charges on the IESO invoice agree to the settlement information submitted by LUI.

A separate excel spreadsheet is used to determine the various settlement amount required by the IESO, which includes:

1. RPP vs. Market Price Variance for Smart Meters and for Conventional Meters
2. RPP Final Variance Amount

The process for each is briefly described below.

RPP vs Market Price Variance from Smart Meters and Conventional Meters

LUI is required to settle its commodity pricing with the IESO for RPP customers. LUI receives payment from its RPP customers based on the three-tiered TOU pricing and on the residual two tiered RPP pricing. LUI must then settle with the IESO on the difference between revenues collected from customers and the wholesale cost of power, which includes the amount of the global adjustment allocated to this portion of a distributors load. This settlement process achieves the objective of settling with the IESO based on wholesale costs, with the under/over collected amounts from customers being recovered from/remitted to the IESO.

Finance staff obtain consumption and pricing data from the Utilismart website in terms of total load, retail (interval) load, streetlight and NSLS load data in order to determine the load (kWh) subject to RPP pricing.

RPP Final Variance Amount

The RPP final variance amount is a one-time charge or credit that will appear on the electricity bill if you leave the Regulated Price Plan. It exists because customers have to settle their outstanding Regulated Price Plan account with their local utility.

For customers who exit the RPP price plan and either go to retailer or spot pricing, there is a true up settlement applied to their final bill. The OEB posts the monthly RPP final variance rate to be used to calculate and charge this amount to the customer, which is entered into our CIS systems by billing staff. The billing system has the necessary programming in place to calculate and charge this amount on the customer's bill with the offset entry going to account #4705.

Overall Process and Procedural Controls over the IESO Settlement Process

Management are knowledgeable on the methodologies pursuant to the OEB and IESO requirements and are responsible for updating internal processes and procedures accordingly. Management are responsible for the settlement spreadsheet and to meet changing OEB/IESO settlement requirements.

The process designed in the settlement process includes various reconciliation procedures to ensure the appropriate methodologies pursuant to the OEB and IESO requirements are met, and to ensure the accuracy and validity of the RPP claims.

All completed settlement spreadsheets are reviewed in detail monthly by the Manager of Regulatory and Finance prior to submission.

Testing and Reconciliation Process

Lakefront Utilities Inc. follows a substantive approach using reconciliation procedures to ensure accuracy and completeness for the settlement submission process where possible. In addition, LUI does monthly bill testing for each class of customer, recalculates the various charges based on approved rates and ensures all correct GL accounts are used. LUI also has routine month end balancing processes to ensure sub ledger balances are agreed to the GL.

LUI also performance substantive testing on the monthly IESO settlement process, as detailed above.

RPP vs. Market Price Variance from Smart Meters and Conventional Meters – True-up Procedures – Reconciliation of estimated claim amounts to post-billing amounts

At the time of submission, the actual load data and pricing is fairly accurate as it is taken from the Utilismart settlement system which mirrors the IESO pricing and quantities. However, the kWh sales information is based on "billed" quantities and dollars for the month.

Lakefront Utilities Inc. reconciles the estimates of RPP and non-RPP consumption to actuals on a monthly basis. Total volume is determined by taking the actual kWh volume purchased from the IESO less any embedded generation volume, less street lighting, to determine the total actual volume to be split between RPP and non-RPP. An IT system query is run, which identifies monthly consumption for non-RPP customers, with the difference being RPP volume. The RPP volume is multiplied by the actual GA rate to

1 determine the GA allocated to RPP customers and is netted against the estimate that was either paid or
2 received from the IESO on a monthly basis.

3
4 In addition, annually, LUI uses the original settlement spreadsheets and completes a true-up calculation
5 based on actual billed quantities for the year. The true-up differential is then added/subtracted from the next
6 month's IESO submission. The 2014 true-up was completed in July 2015 and was recorded on the August
7 2015 submission. Furthermore, the 2015 true-up will be completed in July 2016 and recorded on the
8 August 2016 submission.

Ex.9/Tab 1/Sch.10 – Request for New Variance Account

LUI is requesting the following new deferral/variance account:

- Account 1595 – Sub-account 2017
Rate Rider for Disposition of Deferral/Variance Accounts (2017) – effective until December 31, 2017. Upon approval of disposition, LUI is requesting Board approval to establish 1595-Sub-account 2017 to track costs, revenues and interest for amounts disposed of in LUI's 2017 Application.

LUI will continue to monitor OEB directives and implement new accounts as set out by the OEB and identified in the Accounting Procedures Handbook or other sources of information as required complying with regulation.

Ex.9/Tab 1/Sch.11 – Group 2 Accounts to be Continued or Discontinued on Go-Forward Basis

Table 9.5 below lists all Group 2 accounts which LUI proposes to continue or discontinue on a go-forward basis. Explanations for each account are also provided in Table 9.5.

Table 9.5: Group 2 Continuance/Discontinuance

Account Description	USoA	Continue/Discontinue	Explanation
Other Regulatory Assets - Sub Account Deferred IFRS Transition Costs	1508	Discontinue	Disposed in 2017 COS and finished
Other Regulatory Assets - Energy East Consultation	1508	Continue	Use if needed
Retail Cost Variance Account - Retail	1518	Continue	Ongoing use
Miscellaneous Deferred Debits	1525	Continue	Use if needed
Renewable Generation Connection Capital Deferral Account	1531	Continue	Use if needed
Renewable Generation Connection OM&A Deferral Account	1532	Continue	Use if needed
Smart Grid Capital Deferral Account	1534	Continue	Use if needed
Smart Grid Capital OM&A Account	1535	Continue	Use if needed
Retail Cost 1 Variance Account - STR	1548	Continue	Ongoing use
Deferred PILs	1562	Discontinue	Finished
Deferred PILs Contra	1563	Discontinue	Finished
LRAM Variance Account	1568	Continue	Use if needed
IFRS-CGAAP Transition PP&E Amounts	1575	Discontinue	Finished
Accounting Changes under CGAAP	1576	Discontinue	No activity
PILs and Tax Variance for 2006 and Subsequent Years	1592	Discontinue	No activity

LUI will continue to monitor OEB directives and implement new accounts as set out by the OEB and identified in the Accounting Procedures Handbook or other sources of information as required complying with regulation.

Retail Service Charge

Ex.9/Tab 2/Sch.1 - Overview

Lakefront Utilities Inc. has balances in accounts 1518 and 1548. LUI attests that it has followed Article 490 of the Accounting Procedure Handbook.

Account 1518 – Retail Cost Variance Account - Retail

With respect to Account 1518, LUI confirms that the account has been used to record the net of revenues derived, including accruals, from establishing service agreements, distributor-consolidated billing and retailer-consolidated billing. Account 1518 also includes the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well the incremental costs incurred to provide the services related to distributor-consolidated billing, and retailer-consolidated billing.

Account 1548 – Retail Cost Variance Account - STR

With respect to Account 1548, LUI confirms that the account has been used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor in the form of: Request fee, processing fee, information request fee, default fee, and other associated costs fee. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the previous mentioned services.

Table 9.6 - Retail Service Charges – Schedule of Revenues and Incremental Costs

Account 1518 – Retail Cost Variance Account - Retail

Details	2015	2014
Total 4082 - Retail Service Charges	8,056	7,593
EBT Spoke and settlement costs	11,400	11,400
Difference booked to Account 1518	3,344	3,808

Account 1548 – Retail Cost Variance Account - STR

Details	2015	2014
Total 4084 - Retail Service Charges	2,620	2,612
EBT Spoke and settlement costs	6,300	6,300
Difference booked to Account 1548	3,680	3,689

Disposition of Deferral and Variance Accounts

Ex.9/Tab 3/Sch.1 – DVA Balances and Continuity Schedules

LUI is requesting disposition of the variance accounts noted below according to the Report of the Board, EB-2010-0046, which states: at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. In accordance with the above statement, Lakefront Utilities Inc. proposes to dispose of all its balances except for the Disposition and Recovery/Refund of Regulatory Balances 2012, and Disposition and Recovery/Refund of Regulatory Balances 2015 which have a time period that has not expired. LUI has also followed the guidelines in the Report of the Board in requesting a one year disposition period.

LUI confirms that the account balances listed in Table 9.7 proposed for disposition before projected interest are consistent with the last Audited Financial Statements and reconcile with the Trial Balance reported through the Electricity Reporting and Record-Keeping Requirements.

Table 9.7: DVA Balances Sought for Disposition

Group 1 Accounts	USoA	Principal and Interest December 31, 2015	Disposition in 2016	Interest to December 31, 2016	Total Claim
LV Variance Account	1550	653,873	348,194	7,089	312,768
Smart Metering Entity Charge Variance Account	1551	5,599	7,370	83	(1,688)
RSVA - Wholesale Market Service Charge	1580	(692,617)	(219,275)	(7,515)	(480,857)
RSVA - Retail Transmission Network Charge	1584	(265,431)	(236,325)	(2,848)	(31,954)
RSVA - Retail Transmission Connection Charge	1586	(162,307)	(204,374)	(1,724)	40,343
RSVA - Power (excluding Global Adjustment)	1588	879,030	491,095	9,863	397,798
RSVA - Power - Sub-account - Global Adjustment	1589	(1,550,984)	(782,205)	(16,933)	(785,712)
Recovery of Regulatory Asset Balances - 2011	1595	(13,921)	0	(83)	(14,004)
Recovery of Regulatory Asset Balances - 2013	1595	3,317	0	54	3,371
Recovery of Regulatory Asset Balances - 2014	1595	(96,982)	0	653	(96,329)
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(1,240,423)	(595,520)	(11,361)	(656,265)
Other Regulatory Assets	1508	1,814	0	14	1,828
Retail Cost Variance Account - Retail	1518	15,832	0	148	15,980
Retail Cost Variance Account - STR	1548	16,797	0	127	16,924
RSVA - One-Time	1582	(423)	0	(37)	(460)
Group 2 Sub-Total		34,020	0	252	34,272
LRAM Variance Account	1568	85,545	0	1,020	86,565
Total		(1,120,858)	(595,520)	(10,089)	(535,428)

Lakefront Utilities Inc. notes that all relevant calculations are embedded in the 2017_EDDVAR_Continuity_Schedule OEB provided model.

The utility did not propose a billing determinant that is different than the OEB standards. LUI does not need to establish separate rate riders to recover the balances in the RSVAs from Market Participants ("MPs")

1 who must not be allocated to the RSVA account balances related to charges for which the MPs settle
2 directly with the IESO (e.g. wholesale energy, wholesale market services).

3 LUI is proposing to dispose of these balances over a period of one year. The rate rider calculations are
4 calculated in the OEB's EDDVAR model. The rate riders are reproduced at the next page.

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Ex.9/Tab 4/Sch.3 – Calculation of Rate Rider

Lakefront Utilities Inc. notes that all relevant calculations are embedded in the 2017_EDDVAR_Continuity_Schedule OEB provided model.

The utility did not propose a billing determinants that is different that the OEB standards. LUI does not need to establish separate rate riders to recover the balances in the RSVAs from Market Participants (“MPs”) who must not be allocated the RSVA account balances related to charges for which the MPs settle directly with the IESO (e.g. wholesale energy, wholesale market services).

LUI is proposing to dispose of these balances over a period of one year. The rate rider calculations are calculated in the OEB’s EDVARR model. The rate riders are reproduced at the next page.

Table 9.8: Deferral and Variance Account Rate Riders

Accounts: 1550, 1551, 1584, 1586

Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.)

1550, 1551, 1584, 1586, 1595

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts	
RESIDENTIAL	kWh	79,373,076	\$ 71,543	0.0009	\$/kWh
GENERAL SERVICE LESS THAN 50 KW	kWh	32,807,440	\$ 27,900	0.0009	\$/kWh
GENERAL SERVICE 50-2999 KW	kW	291,085	\$ 99,854	0.3430	\$/kW
GENERAL SERVICE 3000-4999 KW	kW	36,771	\$ 11,341	0.3084	\$/kW
STREET LIGHTING	kW	3,853	\$ 1,365	0.3542	\$/kW
SENTINEL LIGHTS	kW	133	\$ 25	0.1878	\$/kW
UNMETERED SCATTERED LOAD	kWh	599,974	\$ 479	0.0008	\$/kWh
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
Total			\$ 212,507		

Table 9.9: Deferral and Variance Account Rate Riders

Accounts: 1580 and 1588

Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.) - NON-WMP

1580 and 1588

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts	
RESIDENTIAL	kWh	79,373,076	-\$ 26,975	- 0.0003	\$/kWh
GENERAL SERVICE LESS THAN 50 KW	kWh	32,807,440	-\$ 11,150	- 0.0003	\$/kWh
GENERAL SERVICE 50-2999 KW	kW	291,085	-\$ 39,169	- 0.1346	\$/kW
GENERAL SERVICE 3000-4999 KW	kW	36,771	-\$ 5,060	- 0.1376	\$/kW
STREET LIGHTING	kW	3,853	-\$ 488	- 0.1265	\$/kW
SENTINEL LIGHTS	kW	133	-\$ 15	- 0.1117	\$/kW
UNMETERED SCATTERED LOAD	kWh	599,974	-\$ 204	- 0.0003	\$/kWh
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
		-	\$ -	-	
Total			-\$ 83,060		

Balance of Account 1589 Allocated to Non-WMPs

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1 Attachment A - Audit of Group 1 Deferral and Variance Accounts

Ontario Energy
Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie
de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



November 12, 2014

Dereck C. Paul
President
Lakefront Utilities Inc.
PO Box 577
207 Division St.
Cobourg, Ontario K9A 4L3

Dear Mr. Paul:

Re: Audit of Group 1 Deferral and Variance Accounts

The Ontario Energy Board (the "Board") authorized an audit of Lakefront Utilities Inc.'s ("Lakefront Utilities") Group¹ deferral and variance accounts ("Group 1 DVA") as per the Board Decision and Order EB-2013-0148. This audit was conducted by the Board's Audit and Performance Assessment group ("Audit").

Audit issued an engagement letter on April 14, 2014 regarding an audit of Lakefront Utilities' Group 1 DVA balances as of December 31, 2012. The objective of this audit was to examine Lakefront Utilities' DVA balances as at December 31, 2012 to determine whether accounting policies and procedures for these accounts were properly and consistently applied and reported to the Board in accordance with Accounting Procedures Handbook ("APH"), Reporting and Record-keeping Requirements ("RRR"), and related guidelines. Audit examined entries in the Group 1 DVAs from January 1, 2011 to December 31, 2012, as the December 31, 2010 account balances were disposed on a final basis as per Lakefront Utilities' 2012 Cost of Service Board Decision and Order EB-2011-0250 dated May 1, 2012.

A final audit report based on Audit's work (the "Report") has now been completed. The Report outlines the audit objective, scope, criteria, procedures used, findings and observations, basis of findings and observations, areas of non-conformity requiring action, areas of concerns, management responses, and management action plans for Lakefront Utilities.

Lakefront Utilities has made the necessary adjustments to the Group 1 DVA balances as at December 31, 2012 as a result of the audit findings.

¹ Please refer to the July 31, 2009 *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)* [EB-2008-0046] for classification and descriptions of Group 1 and Group 2 accounts.

On October 30, 2014, Audit filed a letter with the Board and placed the letter on the public record of Lakefront Utilities' 2015 IRM rate proceeding EB-2014-0090. The letter indicated that Audit concluded its audit. The letter confirmed that Lakefront Utilities made all necessary audit adjustments to balances in its Group 1 DVAs as of December 31, 2012. The letter stated that Audit noted that nothing came to its attention during this audit to lead it to believe that the account balances for Group 1 DVAs as of December 31, 2012, as adjusted based on the results of this audit are materially misstated. The letter also stated that Lakefront Utilities provided Audit with an undertaking that Lakefront Utilities will voluntarily file the audit report with the Board in its upcoming 2015 IRM rate proceeding EB-2014-0090. Therefore, I expect that Lakefront Utilities will voluntarily file the Report with the Board in its 2015 IRM rate proceeding EB-2014-0090. Please help ensure that I am copied in your correspondence with the Board regarding Lakefront Utilities' filing of the Report.

Although the scope of the audit was limited to examination of Group 1 DVAs for the periods of 2011 and 2012, Audit expects Lakefront Utilities' management to apply the applicable findings as outlined in this audit report and make the applicable adjustments to the 2013 and 2014 DVA balances. Lakefront Utilities has indicated that its external auditors will work with Lakefront Utilities to ensure that the appropriate adjustments are made to its 2013 and 2014 DVA balances. Audit also expects that Lakefront Utilities will re-file RRR 2.1.7 for 2013 for Group 1 DVAs in accordance with the APH. Audit expects that Lakefront Utilities will provide a status update to Audit of its action plans with respect to applying the audit findings to the Group 1 DVAs as of December 31, 2013 and December 31, 2014.

To ensure that the audit findings related to Group 1 DVAs audited as outlined in the Report are properly and consistently addressed and the required action plans are implemented by Lakefront Utilities, Audit will be conducting a follow-up audit in the future.

The findings in the Report represent the views of Audit and are not necessarily the views of the Board as a whole. Audit provides no assurances that addressing the areas of non-conformity requiring actions alone will resolve the issues identified in the audit.

We thank the staff of Lakefront Utilities for the assistance and support provided to us during this audit.

Yours truly,



Daria Babaie, P. Eng., CPA, CMA
Manager, Audit and Performance Assessment

cc: Barry Gutteridge, Chairman

ONTARIO ENERGY BOARD



AUDIT REPORT

**Audit of Group 1 Deferral and Variance Accounts
Lakefront Utilities Inc.
November 2014**

**Audit of Group 1 Deferral and Variance Accounts
Lakefront Utilities Inc.
November 2014**

Executive Summary

An audit of Lakefront Utilities Inc. ("Lakefront Utilities") was undertaken by the Audit and Performance Assessment department ("Audit") of the Ontario Energy Board (the "Board") pursuant to the Board's Decision and Order in Lakefront Utilities' 2014 IRM rate proceeding EB-2013-0148, dated March 13, 2014.

The Board noted in its Decision and Order in EB-2013-0148, the following:

Board staff accordingly submitted that the Board might wish to consider disposing Lakefront Utilities' Group 1 DVA balances on an interim basis, with final disposition subject to the completion of an audit to be conducted by Audit and Performance Assessment of the Board. In its reply submission, Lakefront Utilities agreed with Board staff's suggestion of an interim disposition.

The Board will dispose of the Group 1 DVA balances on an interim basis pending the audit by the Board's Audit and Performance Assessment group.

The audit focussed on the account balances in Lakefront Utilities' Group 1 deferral and variance accounts (each a "Group 1 DVA") as at December 31, 2012.

Audit has completed the audit and concluded that the balances in Lakefront Utilities' Group 1 DVAs as at December 31, 2012 were not accurately recorded in Lakefront Utilities' general ledger and therefore not accurately reflected in the Board's Reporting and Record Keeping Requirements ("RRR") 2.1.7 Annual Trial Balance Filing for 2011 and 2012. In addition, Audit noted that Lakefront Utilities has not followed some of the accounting procedures as prescribed in the Accounting Procedures Handbook ("APH") and its related guidance in recording the transactions in the Group 1 DVAs.

During this audit process, when Audit used the information provided by Lakefront Utilities' management, Audit relied on Lakefront Utilities' management representation, where appropriate as audit evidence in performing the audit and arriving at its conclusions and findings.

The findings and observations of the DVA audit are found in Sections 8 and 9 of this audit report. Audit notes that Lakefront Utilities has made the necessary adjustments to the regulatory balances in its Group 1 DVAs as at December 31, 2012. The revised total Group 1 DVA balances to be requested by Lakefront Utilities for disposition as at December 31, 2012 is a credit balance of \$281,057 after a net debit audit adjustment of \$604,777 for all Group 1 DVAs including Global Adjustment and a debit adjustment of \$737,547 for the corrections for mistakes made on IESO forms 1598. As a result of this audit, the Lakefront Utilities' balance for the Group 1 DVAs as of December 31, 2012 is

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reduced from a credit balance of \$1,623,380 to a credit balance of \$281,057, a reduction of \$1,342,324, which comprises of the audit adjustment of \$604,777 and the adjustment for the corrections on IESO 1598 Settlement Forms for 2011 and 2012 (the "IESO form 1598") of \$737,547. Lakefront Utilities has included the total adjustment of \$1,342,324 in its 2015 IRM rate proceeding EB-2014-0090 as total claim for the Group 1 DVAs in order to true up the Group 1 DVA balances to the final revised adjusted balances after the Audit. The Table below provides the details of the final adjusted balances and the adjustments by accounts:

Account Name	Account Number	Total Claim ¹ in the Decision and Order EB-2013-0148 (A)	Final Revised Adjusted Balance (B=A+D+E)	Total Claim in EB-2014-0090 for Total Adjustment (C=A-B)	Audit Adjustment ² for the claim (D)	Adjustment for the corrections on IESO forms 1598 2011 and 2012 (E)
					Total Adjustment Breakdown (C=D+E)	
LV Variance Account	1550	\$19,067	\$19,887	\$820	\$820	
RSVA - Wholesale Market Service Charge	1580	-\$579,546	-\$577,693	\$1,853	\$1,853	
RSVA - Retail Transmission Network Charge	1584	-\$24,961	-\$22,237	\$2,724	\$2,724	
RSVA - Retail Transmission Connection Charge	1586	\$1,950	\$2,832	\$882	\$882	
RSVA – Power	1588	\$1,148,627	\$1,320,264	\$171,637	-\$565,910	\$737,547
RSVA - Global Adjustment	1589	\$1,254,248	-\$993,221	\$261,027	\$261,027	
Recovery of Regulatory Asset Balances	1590	0	0	0	0	
Disposition of Regulatory Balances (2008)	1595	0	0	0	0	
Disposition of Regulatory Balances (2009)	1595	-\$373,534	0	\$373,534	\$373,534	
Disposition of Regulatory Balances (2010)	1595	\$459,624	-\$11,603	-\$471,227	-\$471,227	

¹ Total claims for the Group 1 DVAs includes the principal balance and interest balance including projected interests as per Lakefront Utilities' 2014 IRM Decision and Order EB-2013-0148 Page 7.

² Audit adjustment in the Table includes the adjustments on projected interests for the rate proceeding purpose. However, audit adjustments made in the G/L by Lakefront does not include the projected interests.

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Disposition of Regulatory Balances (2011)	1595	- \$1,020,360	-\$19,286	\$1,001,074	\$1,001,074	
Total Group 1 Excluding Global Adjustment – Account 1589		-\$369,133	\$712,164	\$1,081,297	\$343,750	\$737,547
Total Group 1		- \$1,623,380	-\$281,057	\$1,342,323	\$604,777	\$737,547

As noted in above Table, the audit adjustments for Account 1588, Account 1589 and Account 1595 are material³. As a result, the account balances as at December 31, 2012 were materially misstated for the accounts impacted.

A number of adjustments to the IESO forms 1598 in 2011 and 2012 to correct the errors made by Lakefront Utilities is required because Audit noted that Lakefront Utilities made mistakes on the IESO forms 1598 which caused the material impact for a total of \$737,547 on the invoice line item charge type 142⁴ of the IESO monthly invoices to Lakefront for the period of 2011 and 2012. Although these mistakes were noted by Audit, Audit did not perform substantive audit testing on all inputs of the IESO former settlement forms 1598, and therefore Audit cannot provide an audit assurance for the adjustment of \$737,547 for the corrections on the IESO forms 1598 for the period of 2011 and 2012. Audit noted that Lakefront Utilities is in the process of contacting the IESO for this adjustment. Audit expects Lakefront Utilities to provide Audit with an update of the status of the settlement for the adjustment with IESO. Audit also encouraged Lakefront Utilities to provide such status update to its 2015 rate application proceeding.

Audit acknowledges that Lakefront Utilities made all necessary audit adjustments to balances in its Group 1 DVAs as of December 31, 2011 and Group 1 DVAs as of December 31, 2012.

During the course of the audit, Audit also noted a number of issues that Lakefront Utilities has not followed the procedures in the APH and related guidance. However, this audit has focused on findings with account balance implications.

Although the scope of the audit was limited to examination of Group 1 DVAs for the periods of 2011 and 2012, Audit expects Lakefront Utilities' management to apply the applicable findings as outlined in this audit report and make the applicable adjustments to the 2013 and 2014 DVA balances. Lakefront Utilities has indicated that its external auditors will work with Lakefront Utilities to ensure that the appropriate adjustments are made to its 2013 and 2014 DVA balances. Audit also expects that Lakefront Utilities will re-file RRR 2.1.7 for 2013 for Group 1 DVAs in accordance with the APH. Lakefront Utilities to provide a status update to Audit of its action plans with respect to applying

³ Lakefront Utilities' materiality per its 2012 CoS rate application is \$50,000

⁴ The source of the charge type 142 is the IESO form 1598 submitted by the utilities and utilities need to reflect this charge type into Account 1588.

the audit findings to the Group 1 DVAs as of December 31, 2013 and December 31, 2014.

Overall, Audit observed several control weaknesses (refer to Observation 1 in section 9.1.1) with regards to the implementation of Lakefront Utilities' review controls in its regulatory accounting function and IESO settlement function. The lack of the controls may lead to the number of findings and observations and the quantum of these findings and observations that are made during the audit.

On October 20, 2014, Lakefront Utilities' President sent a letter to Audit acknowledging Audit findings and concerns including several areas of non-conformity by LUI with respect to the APH and internal control and weaknesses with respect to Lakefront Utilities' regulatory accounting and IESO settlement processes. In its letter, Lakefront Utilities made a commitment to address the Audit findings and concerns and stated that,

A copy of the Audit Report was shared with LUI's board of directors, LUI's internal audit committee and LUI's external auditors. LUI's board acknowledge the findings and concerns made by the OEB Audit team and recognize the challenges LUI faced over the last three years due to several staff turnovers in the Finance department. Having said that, the LUI board recognizes that necessary steps must be taken to ensure proper controls are in place and procedures are in line with the OEB's APH.

LUI appreciates the audit work performed by Audit and welcomes the opportunity to review and enhance its internal controls as part of our ongoing operational improvements and efficiencies. LUI considers the findings and concerns of the Audit very seriously to ensure we continue to meet licensing requirements with the OEB. LUI is optimistic, moving forward, and considers the audit as a learning exercise for regulatory improvement. Some steps have already been taken, including external training arrangements for Finance staff. We are confident that the strengthening of internal processes and procedures will allow the organization to address the control gaps identified through this process.

The letter from Lakefront Utilities dated October 20, 2014 is attached to Appendix A of this report.

On October 30, 2014, Audit filed a letter with the Board and placed the letter on the public record of Lakefront Utilities' 2015 IRM rate proceeding EB-2014-0090. The letter indicated that Audit concluded its audit. The letter confirmed that Lakefront Utilities made all necessary audit adjustments to balances in its Group 1 DVAs as of December 31, 2012. The letter stated that Audit noted that nothing came to its attention during this audit to lead it to believe that the account balances for Group 1 DVAs as of December 31, 2012, as adjusted based on the results of this audit are materially misstated. The letter also stated that Lakefront Utilities provided Audit with an undertaking that Lakefront Utilities will voluntarily file the audit report with the Board in its upcoming 2015 IRM rate proceeding EB-2014-0090.

On November 3, 2014, Lakefront Utilities filed with the Board the revised RRR filings for the Lakefront Utilities' balances for Group 1 DVAs as of December 31, 2011 and Group 1 DVAs as of December 31, 2012.

On November 3, 2014, Lakefront Utilities filed its 2015 IRM rate proceeding EB-2014-0090 with the Board and disclosed this audit in its rate application. Lakefront Utilities outlined the audit adjustments that it made to its Group 1 DVA balances as at December 31, 2012. In its rate application, Lakefront Utilities made a commitment to implement an action plan to take a sequence of corrective actions using recent audit findings and application of APH to its regulatory books of accounts to ensure the accuracy for the Group 1 DVA balances as of December 31, 2013. In addition, Lakefront Utilities stated that Lakefront Utilities will be strengthening controls and review of regulatory accounting processes, while working with a third party and its external auditors, in order for Lakefront Utilities to accurately recording transactions to its deferral and variance accounts using the APH requirements.

Summary of Findings Impacting DVA balances

Findings Impacting Account 1588 Balance Only

1. The debit adjustment of \$324,462 made by Lakefront Utilities in the Account 1588's continuity schedule filed in its 2014 IRM rate application did not have any basis, and therefore was not an appropriate adjustment. This adjustment was not recorded in the Lakefront Utilities General Ledgers ("G/L") for Account 1588, was not audited by the external auditor, and further was not supported by any supporting documents. As a result, the debit balance disposed (that was collected from customers) on an interim basis for Account 1588 was overstated by \$324,462.
2. Audit noted a number of mistakes on the IESO forms 1598 submitted by Lakefront Utilities to IESO for the period of 2011 and 2012. As a result, the invoice line item for Charge type 142 on IESO invoices and hence the debit balance in Account 1588 as at December 31, 2012 was understated by an amount of \$737,547.
3. Lakefront Utilities did not record the payments of the electricity for Feed in Tariff ("FIT") and micro-fit contracts and charge type 1412 on the IESO invoices in the cost of power Account 4705, Power Purchased. Therefore, these charges and payment amounts were not reflected in Account 1588. As a result, Account 4705 and Account 1588 balances as at December 31, 2012 were misstated by \$18,885.

Findings Impacting Both Account 1588 and Account 1589

4. December 2012 Global Adjustment ("GA") charge of \$902,015 on IESO invoice was accrued in Account 1588 G/L and continuity schedule instead of being split into RPP portion of GA (approximately \$421,435) and Non-RPP portion of GA (approximately \$480,580) and being recorded in Account 1588 and Account 1589 respectively. As a result, the debit balance in Account 1588 as at December 31, 2012 was overstated by \$480,580 and the credit balance in Account 1589 as at December 31, 2012 was also overstated by \$480,580.
5. The allocation of the opening balances as at January 1, 2011 for Account 1588 and Account 1589 in the G/L did not agree to the sum of the balances approved in the prior Lakefront Utilities' Board Decisions and Orders (2012 CoS Decision EB-2011-0250 and 2011 IRM Decision EB-2010-0095). As a result of the misallocation differences, the ending debit balance of Account 1588 was overstated by \$137,598 and the ending credit balance of Account 1589 as at December 31, 2012 was overstated by \$137,596.
6. In the year of 2012 beginning April 2012, Lakefront Utilities mistakenly included the street lighting consumption into RPP volumes to prorate the GA charges into RPP portion and Non-RPP portion when the street lighting consumption was not included as part of RPP consumption on IESO Forms 1598 for these months. As a result, the split of the GA charges into Account 1588 and Account 1589 may not be correct. Although the impact on the account balances may not be material for a single month, it has resulted in an overstatement of \$46,072 in the debit balance of Account 1588 as at Dec 31, 2012 and an overstatement of \$46,072 in the credit balance of Account 1589 as at December 31, 2012.
7. The splits of the GA charges into RPP and Non-RPP portions were not supported by the RPP and Non-RPP volumes on the IESO settlement form 1598 for the month of August 2011 and the months of February 2012 to December 2012. While the impact on individual month may be material, the overall impact on the account balances for Account 1588 and Account 1589 was an overstatement of \$7,155 in Account 1588's debit balance as at 2012 year end and an overstatement of \$7,155 in the credit balance in Account 1589 as at 2012 year end.

Findings Impacting Account 1595 Balance

8. Lakefront Utilities requested for the disposition of the credit balance of \$1,020,360 related to the 2012 DVA and GA rate riders in Account 1595 sub-account 2011 in EB-2013-0148 instead of Account 1595 sub-account 2012. The Board approved the Lakefront Utilities' request for disposition on an interim basis. Lakefront Utilities should not have used the inappropriate sub-account (2011) of

Account 1595 in 2014 IRM rate application EB-2013-0148 and should not have requested the disposition of any sub-account of Account 1595 before the DVA rate rider ceases. This mis-use of the sub-account of Account 1595 has resulted in a premature disposition on an interim basis of the credit balance of \$1,020,360 in the form of a refund to customers before the 2012 DVA and GA rate riders cease on April 30, 2016.

9. Lakefront Utilities incorrectly used sub-account 2009 of Account 1595 to record the 2010 DVA and GA rate riders and incorrectly used sub-account 2010 of Account 1595 to record the 2011 DVA and GA rate riders. In addition, Lakefront recorded 2010 and 2011 DVA and GA rate riders from 2010 Board Decision and Order EB-2009-0233 and 2011 Board Decision and Order EB-2010-0095 in Account 1595 sub-account 2010, instead of separately recording the recoveries in the proper sub-accounts 1595-2010 and 1595-2011 respectively based on the rate year the disposition was approved. As a result, the credit balance in sub-account of Account 1595-2009 was overstated by \$373, 534 and the debit claim including the projected interests in sub-account of Account 1595-2010 was overstated by \$471, 227.
10. Lakefront Utilities incorrectly recorded an amount for the tax sharing refund in Account 1595 sub-account 1595-2010, instead of Account 4080. As a result, Account 1595 sub-account 1595-2010 balance as of December 31, 2012 was overstated by a debit balance of \$39,731.
11. Lakefront Utilities incorrectly set up rate riders for tax sharing in its billing system that resulted in immaterial under- refunding of its customers of the Board approved amount by \$4,418. As a result, Account 1595 sub-account 1595-2010 balance was understated by an immaterial debit balance of \$4,418 as of December 31, 2012.

Finding Impacting All RSVAs (Account 1580, 1584, 1586, 1588 and 1589)

12. When transferring the Board approved DVA principal and interest dispositions from EB-2010-0095 and EB-2011-0250 in the second quarter of 2011 and 2012, Lakefront Utilities incorrectly transferred both principal and interest balances from the principal sub-account of all Retail Settlement Variance Accounts (each an "RSVA") (Accounts 1550, 1580, 1584, 1586, 1588 and 1589) instead of from each respective accounts' principal and interest sub-accounts. Lakefront Utilities also incorrectly recorded the disposition of both principal and interest of each RSVA in the principal sub-account of Account 1595. This Lakefront Utilities' accounting practice resulted in immaterial impact of \$7,039 (collect from customers) on the balances for the RSVAs.

Observations Summary

1. There appears to be control weaknesses with regards to the implementation of Lakefront Utilities' review controls in its regulatory accounting function and IESO settlement function.
2. Lakefront Utilities incorrectly recorded the rate rider for late payment penalty ("LPP") in Account 1508, instead of Account 4080.

CONFIDENTIAL

1. Background

Lakefront Utilities owns and operates the electrical distribution systems in Cobourg and Colborne and carries on the business of distributing electricity to approximately 9,800 residential and business customers within its service territory.⁵

Lakefront Utilities' most recent approved base revenue requirement was \$4,417,674 in its 2012 cost of service proceeding EB-2011-0250.

Lakefront Utilities' Group 1 DVA balances at December 31, 2010 including interest projected to April 30, 2012 were last disposed at final basis in its 2012 CoS Decision and Order EB-2011-0250 dated May 1, 2012. The 2011 year-end total balance for Group 1 DVAs including interest projected to April 30, 2013 was not disposed in Lakefront Utilities' 2013 IRM Decision and Order EB-2012-0144 dated April 4, 2013 because the total claim per kWh based on the total Group 1 DVA balance did not exceed the pre-set disposition threshold to dispose the Group 1 DVA balances.

2. Authority for review

To the extent that the audit required Lakefront Utilities to provide documents, records or information, Audit acted under its inspection powers under Part VII of the *Ontario Energy Board Act, 1998*.

During the IRM plan term, the Board decided that the revised Group 1 Account balances would be reviewed and that a preset disposition threshold of \$0.001/kWh (debit or credit) would trigger their disposition. The Board has decided that at the time of rebasing all account balances should be reviewed and disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guidance.⁶

To assist the Board in discharging its responsibilities related to the Group 1 DVAs, pursuant to the Board Decision and Order EB-2013-0148, Audit initiated an audit of Lakefront Utilities' account balances in Group 1 DVAs as of December 31, 2012 to mitigate the risk associated with the incorrect disposition of these account balances.

3. Reason for Audit

The Board's audit function is a regulatory instrument of the Board to ensure that the regulated licensed entities comply with requirements of the Ontario Energy Board (OEB) Act, regulations, the Board Decisions and Orders, and the Board's issued regulatory accounting guidelines and policies. The role of Audit is to assist the Board in carrying

⁵ Per Lakefront Utilities' 2012 CoS rate application EB-2011-0250.

⁶ July 31, 2009 Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) (EB-2008-0046), Executive Summary

out its legislative mandate including the oversight of the province's electricity and natural gas sectors.

Audit conducts audits of regulated entities including financial audits, compliance audits, operational audits, financial viability audits, and audits of RRR information filed with the Board. In addition, the Board's Audit function performs audits and assesses performance of regulated entities. This includes audit and assessment of utility performance scorecard data and analysis of performance trends to assist the Board's decision makers.

Audit ensures that the data collected from regulated entities is reliable for decision making and supports the Board's decision making process with respect to financial and non-financial information.

The Board requires electric utilities to report certain information to the Board at specific intervals. The Board relies on this information for industry monitoring, replying to stakeholders' requests, assisting in the review of applications and many other purposes. The DVA balance information is important to the Board, as it assists the Board in ensuring that accurate amounts are cleared through rates to customers. It is important that distributors file information that is complete, accurate and on time.

The Board Decision and Order EB-2013-0148 approved Lakefront Utilities' 2014 rates on an interim basis subject to an audit of Lakefront Utilities' Group 1 DVAs to be conducted by Audit.

4. Objectives

The objective of the Lakefront Utilities' audit is to determine whether the Group 1 DVA account balances as at December 31, 2012 that were approved on an interim basis for disposition in Lakefront Utilities' 2013 rate proceeding as at December 31, 2012 are reasonable. Furthermore, the audit was conducted by Audit to determine whether regulatory accounting policies and procedures of these accounts were properly and consistently applied in accordance with the APH and related guidance, Record Keeping Requirements ("RRR") and Lakefront Utilities' Board Decisions and Orders.

5. Scope

The audit covered the testing for the accumulation of the balances in Lakefront Utilities' Group 1 DVAs from January 1, 2011⁷ to December 31, 2012.

The Table below provides the details of Lakefront Utilities' Group 1 DVAs as at December 31, 2012, which the Board approved on an interim basis:

⁷ 2010 balances were last disposed in Lakefront Utilities' 2012 CoS proceeding EB-2011-0250.

	Account	Principal Balance	Interest Balance	Total Claim
LV Variance Account	1550	\$20,517	-\$1,448	\$19,067
RSVA - Wholesale Market Service Charge	1580	-\$561,377	-\$18,169	-\$579,546
RSVA - Retail Transmission Network Charge	1584	-\$22,504	-\$2,457	-\$24,961
RSVA - Retail Transmission Connection Charge	1586	\$3,731	-\$1,781	\$1,950
RSVA – Power	1588	\$1,169,452	-\$20,826	\$1,148,627
RSVA - Global Adjustment	1589	-\$1,212,757	-\$41,492	\$1,254,248
Recovery of Regulatory Asset Balances	1590	0	0	0
Disposition of Regulatory Balances (2008)	1595	\$3,552	-\$3,552	0
Disposition of Regulatory Balances (2009)	1595	-\$361,409	-\$12,125	-\$373,534
Disposition of Regulatory Balances (2010)	1595	\$444,911	\$14,713	\$459,624
Disposition of Regulatory Balances (2011)	1595	-\$958,829	-\$61,530	\$1,020,360
Group 1 Excluding Global Adjustment – Account 1589		-\$261,956	-\$107,175	-\$369,132
Total Group 1		-\$1,474,713	-\$148,667	\$1,623,380

6. Criteria

The audit relied on the following documents to establish the criteria to conduct the audit:

- APH effective January 1, 2012 and APH effective July 31, 2007
- October 2009 APH FAQs
- July 2012 APH FAQs
- Board Decision and Order EB-2013-0148, March 13, 2014
- Board Decision and Order EB-2012-0144, April 4, 2013
- Board Decision and Order EB-2011-0250, May 1, 2012
- Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) EB-2008-0046
- Electricity Reporting and Record Keeping Requirements (RRR), version dated March 7, 2014

7. Procedures Used

Audit used procedures that consisted primarily of enquiry, observation, analytical procedures, and discussion related to information and materials provided by Lakefront

Utilities' management or available to the Board from filings made under the Board's Electricity RRR filings for electricity distributors.

8. Findings Impacting DVA Balances

A. Findings Impacting Account 1588 Balance Only

8.1.1 Finding 1

The debit adjustment of \$324,462 made by Lakefront Utilities in the Account 1588's continuity schedule filed in its 2014 IRM rate application did not have any basis, and therefore was not an appropriate adjustment. This adjustment was not recorded in the Lakefront Utilities General Ledgers ("G/L") for Account 1588, was not audited by the external auditor, and further was not supported by any supporting documents. As a result, the debit balance disposed (that was collected from customers) on an interim basis for Account 1588 was overstated by \$324,462.

8.1.2 Basis for Finding

In its 2014 IRM rate application proceeding EB-2013-0148, Lakefront Utilities made a debit adjustment of \$324,462 (recovery from customers) in the continuity schedule filed in 2014 IRM rate generator spreadsheet for Account 1588 and stated that:

Lakefront Utilities believes to properly reflect the activity of the RSVA Power 1588 account the \$324,462 needs to be applied to the 2012 year, which is an entry performed in the open of fiscal 2013 year. Lakefront Utilities requests that the Board approve of this adjustment for disposal of the 1588 in its 2012 rates so as to not create an intergenerational inequity.

Lakefront Utilities provided the supporting journal entries in the response to Board staff interrogatories for the adjustment of \$324,462. Board staff, in its submission, noted that upon review of Lakefront Utilities' response to Board staff interrogatories #8 and #9, Board staff could not understand how Lakefront Utilities determined the need for certain journal entries made to Account 1588 RSVA Power.

In reviewing Lakefront Utilities' G/L for Account 1588, Audit noted that the after mentioned journal entries for the adjustment of \$324,462, submitted by Lakefront Utilities in its interrogatory response, were not made in the G/L by Lakefront Utilities, and hence not audited by its external auditor.⁸ Upon further inquiry, Audit noted that the adjustments cannot be explained properly by Lakefront Utilities and not supported by

⁸ Confirmed by Lakefront Utilities' response by email dated June 3, 2014

any supporting documents. As a result, the debit balance disposed at interim basis for Account 1588 was overstated by \$324,462.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.1.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should not have made the debit adjustment of \$324,462 in the Account 1588 and should not have requested for disposition in its 2014 IRM rate application proceeding EB-2013-0148. This adjustment was not made based on any reasonable ground.

Moving forward, Lakefront Utilities should not request for an adjustment without the recording of the adjustments in its books and without the audit assurance of the adjustment.

8.1.4 Management Responses

LUI agrees the adjustment of \$324,462 should be removed from the EDDVAR continuity schedule since there is no documentation to support such an adjustment.

8.1.5 Management Action Plan

LUI has removed the adjustment of \$324,462 for the Continuity Schedule and confirms no adjustment will be made in future EDDVAR Continuity Schedules unless they have been included in the General Ledger and audited by the external auditor.

8.2.1 Finding 2

Audit noted a number of mistakes on the IESO forms 1598 submitted by Lakefront Utilities to IESO for the period of 2011 and 2012. As a result, the invoice line item for Charge type 142 on IESO invoices and hence the debit balance in Account 1588 as at December 31, 2012 was understated by an amount of \$737,547.

8.2.2 Basis for Finding

In reviewing the RPP volumes on the IESO forms 1598 for the purpose of prorating the GA charges into RPP and Non-RPP portions and reflect in accounts 1588 and 1589, Audit noted a number of mistakes on the IESO forms 1598 for the periods of 2011 and 2012, including:

- a) Signs of the GA true ups on the IESO forms were wrong for the period of 2011 and 2012;
- b) April 2012 IESO form 1598: double claimed the RPP settlement amount (one based on the conventional tier price and one based on the smart meter TOU prices)
- c) Some of the GA rates on the IESO forms for 2012 were not trued up in the following months;
- d) The estimated RPP two tiers percentages that were included on some of the IESO forms were not trued up to actuals;
- e) Lakefront Utilities did not submit IESO forms for May 2012 and Oct 2012. May 2012 was not settled anytime in the year and the true up of the Oct 2012 was not done.
- f) Incorrect RPP prices used on the IESO forms for some of the months during 2011 and 2012.

The IESO form 1598 that is completed by the utility and is provided to the IESO to generate the invoice line item charge type 142 on the IESO invoice. Subsequently, the utility needs to reflect the charge type 142 into the account balance for Account 1588. As such, any inclusion of incorrect or inaccurate information in forms 1598 may result in incorrect charge type 142 on the IESO invoices, which could subsequently impact the account balance for Account 1588.

During the Audit, Audit noted that Lakefront Utilities' staff has also uncovered some of the mistakes made by Lakefront Utilities on the IESO form 1598 of 2011 and 2012 (TOU rates, Billing start date for the TOU rates and Non-designated loads in some months). In addition, Lakefront Utilities has retained a third-party company to perform the annual reconciliation for the years of 2011 and 2012. The result of the annual reconciliation approximates to the total quantification of the mistakes noted by both the Audit and Lakefront Utilities.

Due to the mistakes noted above, the invoice line items charge type 142 on IESO invoices to Lakefront Utilities for the periods of 2011 and 2012 were incorrect. The impact on the settlement with IESO is in the total amount of \$737,547 owing by Lakefront Utilities to the IESO. It appears that Lakefront Utilities must now collect, from its customers, an amount of \$737,547 due to these mistakes on the IESO forms 1598 by recording the adjustment on IESO forms 1598 in Account 1588. Audit also noted that Lakefront has disclosed the issue in its IRM application EB-2014-0090.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.2.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have implemented internal control reviews for timely and accurate preparation of the IESO settlement forms. The adjustment should be

separately outlined in the EDDVAR continuity schedule when Lakefront brings the balance of Account 1588 to the Board for disposition. In addition, the adjustment should not be subject to the interests because it was Lakefront Utilities' mistakes.

Moving forward, Lakefront Utilities needs to review and strengthen its internal control regarding its regulatory accounting activities and implement timely review controls with respect to its regulatory books.

8.2.4 Management Response

Although a review of the 1598 submissions may be outside the scope of the OEB audit LUI felt it was prudent to correct the errors associated with the monthly Form 1598 IESO submissions, as those submissions impact the 1588 and 1589 RSVAs which were out of balance during the EB-2013-0148 IRM application. LUI agrees with the findings relating to Form 1598.

8.2.5 Management Action Plan

LUI has acquired the services of a third party to perform annual reconciliations of the 1598 submissions. The annual reconciliations were prepared for the 2011 and 2012 years and have resulted in a payment owing to the IESO of \$737,547 including the generation settlement. LUI has compared the results of the reconciliations with the total of the edited monthly submissions for the years 2011 and 2012 and is comfortable the monthly form 1598 submissions are now being completed correctly. Correspondence has been received from the IESO to ensure they are aware of the \$737,547 reconciliation payment for 2011 and 2012. LUI is planning on paying the amount owing to the IESO in November and December 2014. Proof of this payment will be provided to Audit as an update. LUI has also implemented an internal control review process where the form is prepared by the regulatory analyst and reviewed by the CFO prior to being submitted on the 4th business day of each month. LUI agrees the amount of the adjustment should not be subject to interest since the errors are the fault of LUI.

8.3.1 Finding 3

Lakefront Utilities did not record the payments of the electricity for Feed in Tariff ("FIT") and micro-fit contracts and charge type 1412 on the IESO invoices in the cost of power Account 4705, Power Purchased. Therefore, these charges and payment amounts were not reflected in Account 1588. As a result, Account 4705 and Account 1588 balances as at December 31, 2012 were misstated by \$18,885.

8.3.2 Basis for Finding

APH Article 220 states that Account 1588 RSVA Power shall be used monthly to record the net difference between:

- i) the energy amount charged to customers, including accruals,
AND
- ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator, including accruals.

In addition, further clarification was provided in Q16 of the APH July 2012 FAQ regarding the payment of electricity for a FIT contract and the settlement of a FIT contract. Specifically,

The payment for the electricity at the contract price is recorded in Account 4705, Power Purchased.

In addition, the distributor is required to settle the difference between the amounts it pays to the supplier (or embedded generator) under a FIT contract at the contract price and the amount calculated at wholesale market prices. In the IESO settlement invoice process, this difference results in an electricity commodity adjustment that is charged or paid to the distributor via Charge Type 1412 "Feed-In Tariff Program Settlement Amount". Electricity distributors should record amounts attributable to Charge Type 1412 in Account 4705.

Audit noted from a sample testing of IESO invoices for the period of 2011 and 2012 that both charge type 1412 on the IESO invoices and payments to the suppliers of micro-fit and FIT contracts were not recorded in Account 4705 and hence not reflected in Account 1588. Instead, the charge type was recorded in a liability account. However, Lakefront Utilities stated that the charge type 1412 is now recorded in the 4705 account from the beginning of year 2013 and that it would accordingly make adjustment for the period of 2011 and 2012.⁹ As such, Account 4705 and Account 1588 may be misstated due to the incorrect application of the accounting procedures for 2011 and 2012. The debit balance in Account 1588 as at December 31, 2012 is understated by a total debit amount of \$18,885.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.3.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have recorded the payments of electricity at the contract prices and charge type 1412 on the IESO invoices in the Account 4705 and reflected the charges in Account 1588.

⁹ Per Lakefront Utilities' response to follow-up questions received on

Moving forward, Lakefront Utilities needs to record the contract price and the charge types related to electricity in the Account 4605 and reflect them in the Account 1588.

8.3.4 Management Responses

LUI agrees charge type 1412 should be reflected in account 4705 in 2012 and not in a liability account.

8.3.5 Management Action Plan

Since the 2013 year, LUI had advised its staff that charge type 1412 is to be reflected in account 4705-1000 and has made the appropriate adjustment in the G/L. LUI has captured both the 2011 and 2012 variance of this charge in its continuity schedules and has updated the RRR for 2012 to reflect this adjustment in account 1588.

B. Findings Impacting Both Account 1588 and Account 1589

8.4.1 Finding 4

December 2012 Global Adjustment (“GA”) charge of \$902,015 on IESO invoice was accrued in Account 1588 G/L and continuity schedule instead of being split into RPP portion of GA (approximately \$421,435) and Non-RPP portion of GA (approximately \$480,580) and being recorded in Account 1588 and Account 1589 respectively. As a result, the debit balance in Account 1588 as at December 31, 2012 was overstated by \$480,580 and the credit balance in Account 1589 as at December 31, 2012 was also overstated by \$480,580.

8.4.2 Basis for Finding

APH requires that the distributor split the GA charges on IESO invoices into RPP portion and Non-RPP portion and record the portions in Account 1588 and Account 1589, respectively. Q11 of October 2009 APH FAQs provided the guidance on how the distributor should determine the RPP and non-RPP Portions of the Global Adjustment to be reflected in Account 1588 and Account 1589.¹⁰

In reviewing the G/L and continuity schedules of Account 1588 and Account 1589, Audit noted that Lakefront Utilities recorded the entire cost of power including total GA charges in Account 1588 in 2012 and reallocated the variance related to Non-RPP customers to Account 1589 through two adjusting entries at 2012 year end. However, the two adjusting entries of \$620,497 and \$16,489 do not include the Non-RPP portion

¹⁰ The account was named as account 1588, sub-account Global Adjustment at the time.

of global adjustment charges for December 2012. Lakefront Utilities confirmed this finding in its email dated September 3, 2014.

As a result, December 2012 Global adjustment charge of \$902,015 on IESO invoice was recorded in Account 1588 G/L and continuity schedule instead of being split into RPP portion of GA (approximately \$421,435 based on the proration of the volumes per IESO settlement form 1598) and Non-RPP portion of GA (approximately \$480,580). Lakefront Utilities should have been recorded these amounts in Account 1588 and Account 1589, respectively. As a result, the debit balance in Account 1588 as at December 31, 2012 was overstated by \$480,580 and the credit balance in Account 1589 as at December 31, 2012 was also overstated by \$480,580.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.4.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should not have accrued the total global adjustment charges into Account 1588 as at 2012 year end.

Moving forward, Lakefront Utilities should split the total global adjustment and accrue the RPP portion and Non-RPP portion separately in the Account 1588 and Account 1589.

8.4.4 Management Responses

LUI agrees the Non-RPP portion of global adjustment amounts should not be initially recorded in the 1589 and 1588 accounts. The charge type 146 "portions" the distributor submits to the IESO should be used as the basis of the accounting entries for the RPP portion posted to account 4705, Power Purchased, and the non-RPP portion posted to 4707, Global Adjustment. Ultimately, the amounts recorded in these two expense accounts are reflected in the variances recorded in account 1588, RSVA power, and 1588 RSVA power, "Sub-account Global Adjustment." Lakefront recognizes that line 148 Power Purchased Class B Global Adjustment charge on the IESO bill should be recorded separately in the general ledger according to RPP portion and Non RPP portion, as well as in the continuity schedules between accounts 1588 and 1589.

8.4.5 Management Action Plan

LUI has opened the appropriate sub accounts of 4705/4707 to record the RPP portion of global adjustment charge and the Non-RPP portion of global adjustment charge from the IESO bill in separate accounts. LUI has also corrected its continuity schedules and IESO settlement tracking to recognize the split of this global adjustment charge. LUI has

refiled the RRR balance for 2012 to reflect the charges appropriately and as reflected in the continuity schedule.

8.5.1 Finding 5

The allocation of the opening balances as at January 1, 2011 for Account 1588 and Account 1589 in the G/L did not agree to the sum of the balances approved in Lakefront Utilities' two Decisions (2012 CoS Decision EB-2011-0250 and 2011 IRM Decision EB-2010-0095). As a result of the misallocation differences, the ending debit balance of Account 1588 was overstated by \$137,598 and the ending credit balance of Account 1589 as at December 31, 2012 was overstated by \$137,596.

8.5.2 Basis for Finding

Lakefront Utilities' Group 1 DVA balances as at December 31, 2010 were last disposed in its 2012 CoS Decision and Order EB-2011-0250 effective on May 1, 2012 on a final basis. In addition, Lakefront Utilities' Group 1 DVA balances as at December 31, 2009 were disposed in its 2011 IRM Decision and Order EB-2011-0095 dated March 17, 2011 for the rates effective May 1, 2011. Lakefront Utilities was directed by the Board to transfer the approved 2009 and 2010 balances to the Account 1595 no later than June 30, 2011 and June 30, 2012, in its respective Decisions and Orders.

Due to the time lag between the approving the DVA balances in the Board Decisions and Orders and the transfer of the Group 1 DVA balances to Account 1595 in Lakefront Utilities' G/L, it is expected that the opening balances for the Group 1 DVAs as at January 1, 2011 in the G/L should be closely approximating the sum of the December 31, 2010 balance and the December 31, 2009 balance approved by the Board. The table below provides the details of the expected opening balances for Account 1588 and Account 1589 as at December 31, 2011, although the forecast interest at the time of the rate applications may cause slightly differences between the actual opening balances in GL and the expected balances based on the Board Decisions.

	Principal plus Interest Balance @ December 31, 2010 - Approved in 2012 CoS Decision	Principal balance @ December 31, 2009 plus Interest Balance @ December 31, 2010 - Approved in 2011 IRM Decision	2011 Expected Opening Balance - including 2011 IRM disposed amounts (A)
Account 1588	-413,099	549,194	136,095
Account 1589	-114,245	50,283	-63,962
Total	-527,344	599,477	72,133

In reviewing Lakefront Utilities' G/L for Account 1588 and Account 1589, Audit noted differences in the opening balances between Lakefront Utilities' G/L and the expected opening balances based on the sum of the approved balances (i.e. the sum of December 31, 2010 balance and the December 31, 2009 balance which were approved in Lakefront Utilities' 2012 CoS and 2011 IRM respectively). As a result, the opening balances for Account 1588 and Account 1589 contain a misallocation difference of \$137,000. Lakefront Utilities confirmed¹¹ that due to the G/L being netted, the allocation of the opening balances did not agree to the balances approved by the Board and opening balance allocation has been corrected in the new continuity schedule using Appendix M from Lakefront Utilities' 2012 CoS rate application model EB-2011-0250. Audit noted that the balances in the Appendix M of 2012 CoS rate application closely approximated the expected opening balances as in the table above.

The Table below provides the details of the opening balance differences:

	Expected 2011 Account Opening Balance which is equal to the ending balance in Appendix M of 2012 CoS rate application ¹² (A)	The 2011 Account Opening Balance Per Lakefront Utilities Detail GL 2011 (B)	2011 Account Opening Balance Difference (B-A)
Account 1588	137,627	275,225	137,598
Account 1589	-63,822	-201,418	-137,596
Total 1588 and 1589	73,805	73,808	2

As a result of inaccurate opening balances in the G/L, the ending debit balance of Account 1588 was overstated by \$137,598 and the ending credit balance of Account 1589 as at December 31, 2012 was overstated by \$137,596. These misallocated account balances, if disposed, would result in the cross subsidization among the different customer groups (all customers vs. Non-RPP customers) due to the different rate riders of Account 1588 and Account 1589.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

¹¹ Per Lakefront Utilities' email response dated August 22, 2014

¹² The ending balances in Appendix M of 2012 CoS rate application represents the sum of the approved balances in Lakefront's two Decisions (2011 IRM and 2012 CoS)

8.5.3 Area of Non-Conformity Requiring Action

Account 1588 and Account 1589's opening balances as at January 1, 2011 should have been equal to the sum of the approved balances per Lakefront Utilities' two Decisions (2012 CoS Decision EB-2011-0250 and 2011 IRM Decision EB-2010-0095).

Moving forward, Lakefront Utilities should reallocate the opening balance properly between Account 1588 and Account 1589.

8.5.4 Management Responses

LUI was not keeping the global adjustment amounts separate from the cost of power in the general ledger. LUI had also incorrectly split the 1588 (net of GA) account to segregate the 1589 balance as per the internal continuity schedule for the global adjustment revenues and charges in 2012. LUI therefore agrees with the audit findings for the mis-allocation of opening balances.

8.5.5 Management Action Plan

To ensure proper record keeping LUI has opened 1589 global adjustment principal and interest accounts. LUI also records separately in the general ledger the charges and revenues into class specific sub accounts. LUI has corrected the continuity schedules to reflect the correct amounts in both the 1588 and 1589 RSVA Accounts. This will ensure that the proper customer class and rate plans will receive the appropriate charges or credits at the time of disposition of 1588 and 1589. LUI has refiled the RRR balances for 2012.

8.6.1 Finding 6

In the year of 2012 beginning April 2012, Lakefront Utilities mistakenly included the street lighting consumption into RPP volumes to prorate the GA charges into RPP portion and Non-RPP portion when the street lighting consumption was not included as part of RPP consumption on IESO Forms 1598 for these months. As a result, the split of the GA charges into Account 1588 and Account 1589 may not be correct. Although the impact on the account balances may not be material for a single month, it has resulted in an overstatement of \$46,072 in the debit balance of Account 1588 as at Dec 31, 2012 and an overstatement of \$46,072 in the credit balance of Account 1589 as at December 31, 2012.

8.6.2 Basis for Finding

The various FAQs issued by the Board suggest that the balances in variance accounts should be supported by the kWhs consumptions between the RPP and Non-RPP customers. The RPP consumption is to be supported by the volumes submitted by the utility to IESO through the RPP settlement form 1598.

In reviewing the IESO form 1598 for the testing months of 2011 and 2012, Audit noted that Lakefront Utilities did not include the street lighting consumptions as part of RPP consumptions on the settlement form 1598 for the testing months of 2012. The testing of evidence for three months of April, July, and December in 2011 indicates that Lakefront Utilities did not include the street lighting consumption as part of RPP consumption when prorating the GA charges, which is consistent with its practice for the IESO settlement form 1598, i.e. not including the street lighting as part of RPP consumptions. However, a review of the supporting documents for 2012 testing related to the months of April, July, and December indicates that Lakefront Utilities included the street lighting consumption as part of the RPP consumption to prorate the GA charges into RPP and Non-RPP portions while on IESO form 1598 it did not include the street lighting consumptions as part of RPP consumption in 2012. The Table below provides the details of the finding and impact of the finding for each of the testing months in 2012:

Testing Months in 2012	RPP consumption (kWhs) used in prorating the GA charges	RPP consumption (kWhs) on the IESO form 1598	KWhs Difference (street light consumption)	\$ Impact ¹³ of the kWhs difference on the misallocation of account balances for 1588 and 1589
April 2012	9,415,316	9,319,036	96,280	\$5,845
July 2012	12,189,087	12,104,489	84,598	\$2,841
December 2012	11,692,338	11,551,963	140,375	\$5,770

Lakefront Utilities confirmed¹⁴ that it has mistakenly included the street lighting consumptions as part of RPP consumptions to split the GA charges beginning April 2012. Lakefront Utilities has quantified the overall impact on the account balances for a misallocation of \$46,072 between Account 1588 and Account 1589. As a result, the debit balance of Account 1588 as at Dec 31, 2012 was overstated by \$46,072 and the credit balance of Account 1589 as at December 31, 2012 was also overstated due to the understatement of the Non-RPP portion of the GA charges.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

¹³ \$ impact of the KWH difference is calculated as the street lighting consumption for the month (kWhs) divided by the total consumptions for the month and multiplied by the total GA charges for the month on IESO invoice for the respective month.

¹⁴ Per Lakefront Utilities' email response dated September 3, 2014

8.6.3 Area of Non-Conformity Requiring Action

Because Lakefront Utilities does not include street lighting consumptions as part of the RPP consumption on the IESO Forms 1598, Lakefront Utilities should not have included the street lighting into the RPP consumption to prorate the GA charges into RPP and Non-RPP portions and reflect the portions respectively in Account 1588 and Account 1589.

Moving forward, Lakefront Utilities should ensure that the volumes used in prorating the GA charges for the variance account purpose should be supported by the IESO Form 1598.

8.6.4 Management Responses

LUI agrees with Audit findings that Street Light customers are Non-RPP and therefore should not be included in the RPP volumes to prorate the GA charges into the RPP and Non-RPP portions. LUI has removed the streetlight reference in its form 1598 process and corrected the RPP and Non RPP split of global adjustment charge line 148 to exclude the street lighting kWhs from the proration.

8.6.5 Management Action Plan

LUI is documenting its Form 1598 settlement process to note that the splitting of GA charge line 148 from the IESO invoice is not to include street lighting. LUI does not include street lighting as part of the RPP designated net system load consumption on the IESO Form and should not have included the street lighting into the RPP settlement to prorate global adjustment into RPP and Non RPP portions. LUI has corrected the forms and adjusted the continuity schedules between 1588/1589 account 4705 IESO expenses. LUI has refiled the RRR for 2012.

8.7.1 Finding 7

The splits of the GA charges into RPP and Non-RPP portions were not supported by the RPP and Non-RPP volumes on the IESO settlement form 1598 for the months of August 2011, February 2012 to December 2012. While the impact on individual month may be material, the overall impacts on the account balances for Account 1588 and Account 1589 was an overstatement of \$7,155 in Account 1588's debit balance as at 2012 year end and an overstatement of \$7,155 in the credit balance in Account 1589 as at 2012 year end.

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8.7.2 Basis for Finding

The various FAQs issued by the Board suggest that the balances in variance accounts should be supported by the kWhs consumptions.

The December 2005 APH – FAQ #15, in part, states that:

Therefore, for the purposes of this variance account, and LDC must calculate the volume of electricity for non-RPP customers only x GA rate used on that particular monthly invoice.

The October 2009 APH – FAQ #11, in part states that:

The IESO charge type 146 for the Global Adjustment comprises the total kWhs consumption of the distributor (including embedded generation) and hence the distributor must determine the appropriate splits.

Audit noted the fluctuation of the splits of the RPP-portion and Non-RPP portion of the global adjustment charges in 2012: Non-RPP portion of the global adjustment in three testing months (April, July and December) of the 2012 were much greater than the average of the Non-RPP portion of the global adjustments allocated in 2012. Lakefront Utilities confirmed¹⁵ that this error was due to the fact that the 1589 spreadsheet and the data entry tab had been selecting the RPP and Non-RPP figures from the previous 1598 work form based on two tiers and not the form based on the Time of Use ("TOU") split.

Audit confirmed this error through the testing to the forms 1598 for April, July and December of 2012. As a result, the balances in Account 1588 and Account 1589 are misallocated for total of \$462,555 for the three testing months. The table below provides the details of the misallocation:

Consumption Month	Current Split of GA recorded in the continuity schedules of accounts 1588 and 1589 (incorrect)		The split of GA charges should be recorded in accounts 1588 and 1589 which is supported by the RPP volumes on Form 1598 (correct)		\$ Impact of the misallocation of the cost for Account 1588 and Account 1589 for the testing months of 2012	
	RPP portion of GA	Non-RPP portion of GA	RPP portion of GA	Non-RPP portion of GA	Overstatement of RPP portion of GA to	Understatement of Non-RPP portion

¹⁵ Per Lakefront Utilities' response to follow-up questions received on June 19, 2014

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					be reflected in Account 1588	of GA to be reflect in Account 1589
April 2012	826,607	411,349	672,097	565,858	154,510	-154,510
July 2012	603,172	198,764	395,415	406,521	207,757	-207,757
Dec 2012	513,036	388,980	427,206	474,810	85,830	-85,830
The mis-allocation \$ for the three months of 2012:					448,097	-448,097

Lakefront Utilities confirmed¹⁶ that overall the finding impacts the GA split for 12 months (August 2011 and February to December 2012). Lakefront also provided a table listing the impacts by months due to this finding. Audit noted that due to the offsetting effect of the individual differences in each month impacted, the total impact of the finding for all months impacted is an overstatement of RPP portion of GA for \$7,155 which in turn resulted in an overstatement of Account 1588's debit balance as at 2012 year end and an understatement of Non-RPP portion of GA for \$7,155 which in turn resulted in an overstatement of the credit balance in Account 1589 as at 2012 year end.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.7.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have split the global adjustment charges based on the kWh consumption split between the RPP and Non-RPP customers and then recorded the respective portions in Account 1588 and Account 1589.

Moving forward, Lakefront Utilities should follow the APH and related guidelines to split the RPP and Non-RPP portions of global adjustments based on the kWh consumptions for RPP and Non-RPP customers.

¹⁶ Per Lakefront Utilities' email response dated September 3, 2014

8.7.4 Management Responses

As mentioned in 8.4, LUI agrees line 146 of the IESO invoice should be split based on the kWh consumption split between the RPP and Non-RPP customers and recorded in accounts 1588 and 1589 respectively.

8.7.5 Management Action Plan

LUI has opened the appropriate sub accounts of 4705/4707 to record the RPP portion of Line 146 and the Non-RPP portion of Line 146 from the IESO bill in separate accounts. LUI has also corrected its continuity schedules and IESO settlement tracking to recognize the split of this global adjustment charge. LUI has refiled the RRR balance for 2011 and 2012 to reflect the charges appropriately and as reflected in the continuity schedule.

LUI is documenting the process in its 1598 file to note that the splitting of the RPP and Non-RPP portions of global adjustments based on the kWh consumptions for RPP and Non-RPP customers. LUI has refiled the RRR for 2011 and 2012.

C. Findings Impacting Account 1595 Balance

8.8.1 Finding 8

Lakefront Utilities requested for the disposition of the credit balance of \$1,020,360 related to the 2012 DVA and GA rate riders in Account 1595 sub-account 2011 in EB-2013-0148 instead of Account 1595 sub-account 2012. The Board approved the Lakefront Utilities' request for disposition on an interim basis. Lakefront Utilities should not have used the inappropriate sub-account (2011) of Account 1595 in 2014 IRM rate application EB-2013-0148 and should not have requested the disposition of any sub-account of Account 1595 before the DVA rate rider ceases. This mis-use of the sub-account of Account 1595 has resulted in a premature disposition on an interim basis of the credit balance of \$1,020,360 in the form of a refund to customers before the 2012 DVA and GA rate riders cease on April 30, 2016.

8.8.2 Basis for Finding

APH dated January 1, 2012 Article 330, Page 13 states:

Account 1595, Disposition and Recovery/Refund of Regulatory Balances Control Account. This control account shall be used to record the disposition and recoveries of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process. This control account structure has three generic Sub-accounts for each rate year starting in 2008. For each year that the deferral or variance account balances are approved for disposition by the Board, distributors are required to set-up under this control account, three sub-accounts for the purposes and in the format outline below (i.e., a **vintage year identification consisting of three sub-accounts in relation to the year in which the account balances are approved**). [Emphasis added]

Question 6 of the APH FAQs dated October 2009 states:

Upon completion of the recovery (or refund) period and the provision of audited financial statements to support the underlying residual balance in the sub-account(s), **the distributor should include the residual balance in the sub-account(s) in its next rate application, for review and disposition.** Any final settlement adjustment of the residual balance in the sub-account(s) should be recorded in the sub-account(s) to which the settlement relates so that its balance is drawn down to zero. [Emphasis added]

The Board approved four-year rate riders for the disposition of the Group 1 DVAs and GA arising from the 2012 Decision EB-2011-0250 dated May 1, 2012. The rate riders are in effect from May 1, 2012 to April 30, 2016.

However, in the 2014 IRM application EB-2013-0148, Lakefront Utilities incorrectly used the sub-account 2011 of Account 1595 to record the 2012 DVA and GA rate riders approved by the Board in 2012 Decision and Order. If the correct sub-account (2012) of Account 1595 were used by Lakefront Utilities, the balance in the 2012 sub-account of Account 1595 would have not been requested in the 2014 IRM rate application since the continuity schedule in the 2014 IRM rate generator model issued by the Board staff did not include the sub-account 2012 of Account 1595.

In addition, a credit balance of \$1,020,360 for Account 1595 sub-account 2012 was not a residual balance since the related 2012 DVA and GA rate riders would not be ceased until April 30, 2016.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

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Audit requested Lakefront Utilities to disclose and address this issue in Lakefront Utilities' upcoming IRM rate application.

In its application EB-2014-0090, Lakefront Utilities stated:

As part of LUI's most recent proceeding EB-2013-0148 IRM application for 2014 rates effective May 1st 2014, LUI had inadvertently included the credit balance Disposition and Recovery/Refund Balances of \$1,020,360 related to DVA and GA rate riders for 2012 Cost of Service Application EB-2011-0250. The 2012 Cost of Service 1595 disposition for year end balances related to 2010 should not have been included in the continuity schedule as its recovery/refund period had not yet reached its rate rider sunset date of April 30th 2016.

Consequently in the 2015 IRM, LUI is not asking for final disposition of the credit balance of \$1,020,360 related to the 2012 DVA and GA rate riders in account 1595 sub account 2012 as the rate rider won't cease until April 17 30, 2016.

Audit expects Lakefront Utilities seek the Board approval for a disposition of the final residual balance for 1595 sub-account 2012 following the 2012 rate rider's sunset date, i.e. when the rate rider ceases in April 2016.

8.8.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should not have recorded the 2012 rate riders in the sub-account 2011 of Account 1595. In addition, Lakefront Utilities should not have asked for the disposition of Account 1595 sub-account 2012 as the sunset date for the rate riders is April 30, 2016.

Lakefront Utilities should have followed the APH and related guidelines in recording and tracking the implementation of the rate riders in the proper sub-accounts of Account 1595 in the year that the rate riders were approved by the Board. Lakefront Utilities should have only brought the residual balances of any rate riders for disposition once the rate riders were ceased.

Moving forward, Lakefront Utilities must prepare its proposed disposition of the Group 1 DVAs in accordance with the APH and related guidelines and Board issued Decisions and Orders.

8.8.4 Management Response

LUI agrees account 1595 needs to reflect approved dispositions in separate subaccounts for each year of disposition. LUI also agrees requests for disposition of account 1595 should not happen until after the sunset date of the rate rider.

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8.8.5 Management Action Plan

LUI has created separate sub accounts for 1595 dispositions approved by the Board. Each year's dispositions that are still applicable have three accounts as follows:

1. Sub-account Principal Balances Approved in "20yy"
2. Sub-account Carrying Charges Approved in "20yy"
3. Sub-account Carrying Charges for Net Principal in "20yy"

LUI has also created sub 1595 accounts for class specific rate riders in a naming convention which identifies the year of the rate rider setup.

Lakefront Utilities disclosed the issue with the Board in its 2015 rate application EB-2014-0090 to address Finding 8.

8.9.1 Finding 9

Lakefront Utilities incorrectly used sub-account 2009 of Account 1595 to record the 2010 DVA and GA rate riders and incorrectly used sub-account 2010 of Account 1595 to record the 2011 DVA and GA rate riders. In addition, Lakefront recorded 2010 and 2011 DVA and GA rate riders from 2010 Board Decision and Order EB-2009-0233 and 2011 Board Decision and Order EB-2010-0095 in Account 1595 sub-account 2010, instead of separately recording the recoveries in the proper sub-accounts 1595-2010 and 1595-2011 respectively based on the rate year the disposition was approved. As a result, the credit balance in sub-account of Account 1595-2009 was overstated by \$373, 534 and the debit claim including the projected interests in sub-account of Account 1595-2010 was overstated by \$471,227.

8.9.2 Basis for Finding

As noted in the Section 8.8.2 above, page 13 of the APH dated January 1, 2012 Article 330 requires that the distributors set-up under Account 1595 control account, three sub-accounts in the format of a vintage year identification consisting of three sub-accounts in relation to the year in which the account balances are approved.

In addition, Question 3 of the July 2012 FAQ states that,

Electricity distributors are required to annually open new sub-accounts of Account 1595, Disposition and Recovery/Refund of Regulatory Balances. The account description of (control) Account 1595 specifies that for each year the deferral or variance account balances are approved for disposition by the Board, distributors are required to set-up under the control account three sub-accounts using the format of a vintage year classification of the year in which the balances are approved for disposition and recovery from or refund to customers. [Emphasis added]

The three sub-accounts are as follows:

1. Sub-account Principal Balances Approved in "20yy"
2. Sub-account Carrying Charges Approved in "20yy"
3. Sub-account Carrying Charges for Net Principal in "20yy"

Note that **the nature of the amounts recorded in the three sub-accounts remains unchanged from previously issued guidance in the October 2009 APH-FAQs** and as updated in the revised 2012 APH. [Emphasis added]

Question 5 of October 2009 FAQ summarized the accounting procedures for 2009 and specifically pointed out that the rate rider approved in 2009 is to be recorded in the sub-account principal balances approved for disposition in 2009. Therefore, similar accounting procedure shall be applied in recording the 2010 and 2011 DVA rate riders.

In summary, the accounting procedures for the deferral and variance account balances approved for disposition in 2009 are as follow:

The principal account balances will be transferred and recorded in **"Sub-account Principal Balances Approved for Disposition in 2009."** [Emphasis added]

- **Rate recoveries (or refunds) amounts in a rate rider are also recorded in this sub-account**¹⁷ [Emphasis added]

In 2010 and 2011 IRM Board Decisions EB-2009-0233 and EB-2010-0095, the Board approved Group 1DVA dispositions on a final basis by way of one-year DVA and GA rate riders from May 1, 2010 to April 30, 2011 and a one-year DVA rate rider from May 1, 2011 to April 30, 2012, respectively.

Audit noted that Lakefront did not set up the sub-accounts of Account 1595 properly in the year in which the account balances are approved by the Board. Rather, Lakefront used incorrect sub-accounts of Account 1595 to record the rate riders approved by the Board in the 2014 IRM rate application. Lakefront explained¹⁸ that Lakefront used the EB Board Decision number to align the sub-accounts of Account 1595 in the 2014 IRM application, i.e. used the Account 1595 -2009 for the 2010 rate riders approved in the 2010 Board Decision EB-2009-0233, used the Account 1595-2010 for the 2011 rate riders approved in the 2011 Board Decision EB-2010-0095 and used the Account 1595-2011 for the 2012 rate riders approved in the 2012 Board Decision EB-2011-0250.

In addition, in reviewing the accounting records for Account 1595, Audit noted that Lakefront Utilities incorrectly recorded DVA and GA rate riders from Board Decisions EB-2009-0233 and EB-2010-0095 both in Account 1595 sub-account 1595-2010,

¹⁷ Please refer to Question 6 of October 2009 FAQ for the sequence of the application of the rate rider recoveries (or refunds).

¹⁸ Per Lakefront's email response dated October 1, 2014

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instead of recording the rate riders in each sub-account of 1595-2010 and 1595-2011 based on the rate year the disposition was approved. This is not in conformity with the Board's issued FAQs.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.9.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have set up the sub-accounts of Account 1595, Disposition and Recovery/Refund of Regulatory Balances to properly record the balances approved for disposition from the relevant Board Decisions and Orders based on the year the account balances were approved by the Board.

Lakefront Utilities should have recorded DVA and GA rate rider recoveries from Board Decision EB-2009-0233 in sub-account 1595-2010 and DVA rate rider recovery from Board Decision EB-2010-0095 in sub-account 1595-2011.

Going forward, Lakefront Utilities should follow the APH and guidelines regarding the set-up and proper recording of the transactions under sub-accounts of Account 1595. Lakefront Utilities should record the DVA and GA rate riders in the specific sub-account of Account 1595 based on the rate year the disposition was approved.

8.9.4 Management Response

LUI agrees with the Audit finding and should have set up more specific recovery/refund accounts.

8.9.5 Management Action Plan

LUI has setup specific sub-accounts of 1595 by the year of disposition that are specifically identified by rate class, and identify between GA and DVA rate riders.

A sample from the 2014 Rate Rider setup is that all accounts from 1595-1401 to 1595-1407 represent the Power rate riders by class for the May 2014-April 2015 rate rider. Accounts from 02-100-1595-1411 to 02-100-1595-1417 represent the GA rate riders by class for the May 2014 – April 2015 rates.

8.10.1 Finding 10

Lakefront Utilities incorrectly recorded an amount for the tax sharing refund in Account 1595 sub-account 1595-2010, instead of Account 4080. As a result, Account 1595 sub-account 1595-2010 balance as of December 31, 2012 was overstated by a debit balance of \$39,731.

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8.10.2 Basis for Finding

In examining the accounting record of Account 1595, Audit noted that Lakefront Utilities recorded on the debit side of the journal entry \$39,731 for the tax sharing using the rate riders approved from the Board Decision EB-2010-0095 in Account 1595 sub-account 1595-2010. However, this is not in conformity with Question 14 of July 2012 FAQs. As per the FAQ, distributors are to record the tax sharing in Account 4080:

The tax sharing (50/50) is in relation to an adjustment to a distributor's PILs/tax provision due to tax changes that result in a reduction (or increase) to rates going forward. The derived "shared tax saving" rate rider is applied prospectively in the distributor's new rate year. There was no Board-approved deferral or variance account or true-ups required for amounts associated with the tax sharing. As such, the normal accounting treatment should apply, that is, the use of accounts receivable (Account 1100) and **distribution services revenue (Account 4080 subdivided by applicable customer classes)**. [Emphasis added]

Audit notes that Lakefront Utilities has since made the necessary audit adjustment, and has corrected the RRR reporting with the Board.

8.10.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have recorded the tax sharing amount of \$39,731 in Account 4080 instead of Account 1595.

Going forward, Lakefront should record the tax sharing in Account 4080.

8.10.4 Management Response

LUI agrees with the finding that the tax sharing amount of \$39,731 should have been recorded in account 4080 and not in account 1595 as per Question 14 of the July 2012 FAQs.

8.10.5 Management Action Plan

LUI has made the journal entry to move this balance from account 1595 and debit the 4080 account. LUI has made the appropriate adjustments to correct the RRR filings.

8.11.1 Finding 11

Lakefront Utilities incorrectly set up rate riders for tax sharing in its billing system and resulted in immaterial under- refunding the Board approved amount by \$4,418. As a result, Account 1595 sub-account 1595-2010 balance was understated by an immaterial debit balance of \$4,418 as of December 31, 2012.

8.11.2 Basis for Finding

In the Board Decision EB-2009-0233 effective May 1, 2010, the Board directed Lakefront Utilities to refund the customers the tax sharing amount of \$19,105 and record the refund in Account 1595. In examining the accounting record of Account 1595, Audit noted that instead of transferring the Board approved amount of \$19,105 to Account 1595 sub-account 1595-2010 and refunding the customer for the full amount, Lakefront Utilities incorrectly set up rate riders in its billing system which resulted in an actual refund of \$14,688.48 for the period of May 2010 to March 2011. The under-refunding of the Board approved amount was \$4,418.¹⁹

During the audit, Audit raised the issue with Lakefront Utilities. Although the amount in question is immaterial, Audit requested Lakefront Utilities disclose this issue in its next IRM application and propose to the Board an action plan to refund the customer the remaining tax sharing balance of \$4,418 and the associated carrying charges.

Audit notes that Lakefront Utilities disclosed the issue. However, Lakefront Utilities did not propose any action plan to the Board on how this issue should be addressed.

8.11.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have refunded the full tax sharing amount of \$19,105 to its customers as directed by the Board Decision EB-2009-0233.

Moving forward, Lakefront Utilities is expected to strengthen its internal control processes to ensure compliance with the Board Decisions and proper implementation of the Board Orders.

8.11.4 Management Response

LUI agrees that the full tax sharing amount of \$19,105 should have been refunded to the customers.

8.11.5 Management Action Plan

LUI disclosed the issue with the Board in its 2015 IRM rate application EB-2014-0090. As a part of IRM rate proceeding EB-2014-0090, Lakefront proposes to refund this

¹⁹ Confirmed by Lakefront Utilities per August 27, 2014 email

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amount by crediting the 1595 account for \$4,418 and debiting its 4080 account. The basis for this adjustment is to reduce any amounts owing to LUI through rate rider 1595 disposition.

D. Finding Impacting All RSVAs (Account 1580, 1584, 1586, 1588 and 1589)

8.12.1 Finding 12

When transferring the Board approved DVA principal and interest dispositions from EB-2010-0095 and EB-2011-0250 in the second quarter of 2011 and 2012, Lakefront Utilities incorrectly transferred both principal and interest balances from the principal sub-account of all Retail Settlement Variance Accounts ("RSVAs") (Accounts 1550, 1580, 1584, 1586, 1588 and 1589) instead of from each respective accounts' principal and interest sub-accounts. Lakefront Utilities also incorrectly recorded the disposition of both principal and interest of each RSVAs in the principal sub-account of Account 1595. This Lakefront Utilities' accounting practice resulted in immaterial impact of \$7,039 (collect from customers) on the balances for the RSVAs.

8.12.2 Basis for Finding

In examining the accounting record of RSVAs, Audit noted that Lakefront Utilities transferred the Board approved principal and interest dispositions from EB-2010-0095 and EB-2011-0250 from each respective account's principal sub-accounts, instead of separately from principal and interest sub-accounts.

Article 490 of the APH directs the distributor to have a sub-account for carrying charges and separately record any related carrying charges for the Group 1 DVAs. This shall include the carrying charges approved for disposition. Therefore, Lakefront Utilities should not transfer the Board approved carrying charges from the principal sub-accounts of RSVAs.

Page 9 of the APH also provides the accounting guidance on 1595 sub-accounts

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances Approved in "20yy"

This account shall be used to **record the approved principal account balances** on the transfer to Account 1595 of the Board-approved deferral or variance account balances. This account shall also include the amounts

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recovered (or refunded) in rates through regulatory asset or deferral and variance accounts rate riders.

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges Approved in "20yy"

This account shall be used to **record cumulative carrying charge account balances on the transfer to Account 1595 of the Board-approved deferral or variance account balances**. No additional carrying charges shall be applied or added to these carrying charge balances transferred to this account (i.e., no interest on interest is applicable).

1595 Disposition and Recovery/Refund of Regulatory Balances, Sub-account Carrying Charges for Net Principal in "20yy"

This account shall be used to record the carrying charges calculated on the opening monthly net principal balance (i.e., transferred account principal balances less recoveries) recorded in "Sub-account Principal Balances Approved in "20yy". The interest rate shall be the rate prescribed by the Board.

Therefore, Lakefront Utilities should not record the approved disposition of both principal and interest balances in the principal sub-account of Account 1595.

Audit notes that Lakefront Utilities has since made the necessary audit adjustments, and has corrected the RRR reporting with the Board.

8.12.3 Area of Non-Conformity Requiring Action

Lakefront Utilities should have transferred the approved principal and interest dispositions separately from each principal and interest sub-account of RSVAs. Lakefront Utilities should have recorded the disposition of principal and interest separately in the principal and interest sub-account of Account 1595.

Going forward, Lakefront Utilities should ensure the Board approved DVA disposition is recorded in conformity with the APH.

8.12.4 Management Response

LUI agrees the principal and interest dispositions should have been reflected separately in subaccounts of their RSVAs.

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8.12.5 Management Action Plan

LUI has corrected the disposition amounts by reflecting the principal and interest in separate subaccounts of the RSVA. LUI has corrected the RRR reporting to reflect the necessary audit adjustments.

9. Observations

9.1.1 Observation 1

There appears to be control weaknesses with regards to the implementation of Lakefront Utilities' review controls in its regulatory accounting function and IESO settlement function.

9.1.2 Basis for Observation

There appears to be control weaknesses with regards to the implementation of proper review controls in Lakefront Utilities' regulatory accounting function and Lakefront Utilities' settlement process with the IESO. During the course of the audit, multiple instances of the control weakness, among others, were observed including:

- a) Unsupported adjustment for a material amount of \$324,462 made in Account 1588 without any supporting documents as noted in Finding 8.1.
- b) Material impact on the settlement amounts with IESO, which resulted in a material adjustment in Account 1588 as noted in Finding 8.2.
- c) Missed split of GA charge in December 2012 into RPP and Non-RPP portions as noted in Finding 8.4.
- d) The opening balance mis-allocation between Account 1588 and Account 1589 as noted in Finding 8.5.
- e) The street light consumptions were included in the wrong class in some months of 2012 to prorate the GA charges as noted in Finding 8.6.
- f) The RPP and Non-RPP splits of the GA charges for some months were not based on the volume split reported on the IESO forms 1598 as noted in Finding 8.7.
- g) A manual entry mistake in accruing the 2010 unbilled revenue for one billing cycle: the \$4,491 unbilled revenue was accrued and then reversed instead of the correct figure of \$44,912 which was based on the billing.
- h) Improper implementation of tax sharing refunds to customers for the period of May 2010 to March 2011 as noted in Finding 11.

Should there be an adequate review control in Lakefront Utilities' regulatory accounting function and IESO settlement function, these mistakes would not have occurred. As a

result of these instances, there appear control weaknesses with regards to the implementation of Lakefront Utilities' review controls in regulatory accounting and its IESO settlement processes.

9.1.3 Area of Concern

Lakefront Utilities is encouraged to review and strengthen its internal control regarding its regulatory accounting activities and implement adequate review controls with respect to its regulatory accounting and IESO settlement processes.

9.1.4 Management Response

LUI would like to acknowledge the comments made by the audit team and would like to confirm it is has taken necessary steps to ensure the weaknesses identified has been corrected.

9.1.5 Management Action Plan

LUI management has discussed the Audit findings with its board of Directors, its audit committee and external auditors and has taken steps including appropriate training by external experts and consultants to strengthen its processes, procedures and controls related to the APH requirements.

9.2.1 Observation 2

Lakefront Utilities incorrectly recorded the rate rider for late payment penalty ("LPP") in Account 1508, instead of Account 4080.

9.2.2 Basis for Observation

As per the FAQ, distributors are to record the LPP rate rider in Account 4080:

In the court case, the Ontario Superior Court of Justice approved the settlement of the class action against the affected distributors regarding the LPP which required the distributors to pay a total of \$17 million for damages, the costs of which were allowed to be claimed for recovery in rates. The Board's generic Decision and Order (EB-2010-0295) of February 22, 2011 stated that the Board "...found that it is appropriate for the Affected Electricity Distributors to be eligible to recover the costs and damages associated with the LPP class action in rates..."

Due to the nature of the LPP costs, the affected distributor should use Account 6215, Penalties, to record its allocated share of the LPP costs. **The revenues derived from the associated rate rider for the recovery of the approved LPP costs should be recorded in Account 4080, Distribution Services Revenue.** Note that the Board's generic Decision and Order **did not approve a variance account for the affected distributors to record any differences between the LPP cost and related revenue recovered in rates through the rate rider.** [Emphasis added]

The Board approved a LPP rate rider in Decision EB-2010-0095 for the period of May 1, 2011 to April 30, 2012. Audit noted that Lakefront Utilities recorded the LPP rate rider in Account 1508. However, this is not in conformity with Question 8 of July 2012 FAQs.

Audit notes that Lakefront Utilities has since made the necessary audit adjustment, and has corrected the RRR reporting with the Board.

9.2.3 Area of Concern

Lakefront Utilities should have recorded the LPP rate rider in Account 4080, instead of Account 1508.

Going forward, Lakefront Utilities should record this rate rider in Account 4080.

9.2.4 Management Response

LUI agrees the LPP rate rider should have been reflected in Account 4080 instead of Account 1508.

9.2.5 Management Action Plan

LUI has made the adjustments to Account 1508 and Account 4080 and filed revised RRR reporting with the Board.

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APPENDIX A

**The letter from Lakefront Utilities dated
October 20, 2014**

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**Lakefront
Utilities
Inc.**

207 Division St., P.O. Box 577, Cobourg, ON. K9A 4L3 • www.lusi.on.ca • Tel: (905) 372-2193 • Fax: (905) 372-2581

October 20, 2014

Mr. D. Babaie, P. Eng., CPA, CMA
Manager, Audit & Performance Assessment
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 24th Floor
Toronto, Ontario M4P 1E4

Re: Audit Report – Audit of Lakefront Utilities Inc. Group 1 Deferral and Variance Accounts

Dear Mr. Babaie,

Pursuant to your letter dated April 14th, 2014, the Ontario Energy Board ("OEB") Audit and Performance Assessment group ("Audit") conducted an audit of Lakefront Utilities Inc. ("LUI") Group 1 deferral and variance ("DVA") balances as at December 31, 2012. The objective of the audit was to determine whether LUI's Group 1 DVA account balances as at December 31, 2012 that were approved on an interim basis for disposition in Lakefront Utilities' 2013 rate proceeding are reasonable, as well as whether accounting policies and procedures for these accounts are properly and consistently applied and reported to the Board in accordance with the Accounting Procedures Handbook ("APH"), Reporting and Record-keeping Requirements ("RRR") and regulated guidelines.

Your team, Audit, completed its field work at the end of September and you provided me with a draft written report ("Audit Report") on October 1st.

During the field work, although a review of the IESO Form 1598 submissions may be outside the scope of the OEB audit, LUI staff felt it was prudent to identify errors associated with the monthly Form 1598 IESO submissions as those submissions can impact the 1588 and 1589 accounts.

The Audit Report identified several areas of non-conformity by LUI with the APH and internal control and raised concerns for weaknesses with respect to LUI's regulatory accounting and IESO settlement processes. LUI agrees with the Audit findings and concerns as outlined in the audit report. Immediate corrective actions were required by Audit so that LUI can file its next IRM application which is due on November 2nd, 2014 for rates effective May 1, 2015. Management outlined the corrective action plans taken for each item identified by Audit in LUI's Audit Report's response.

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A copy of the Audit Report was shared with LUI's board of directors, LUI's internal audit committee and LUI's external auditors. LUI's board acknowledge the findings and concerns made by the OEB Audit team and recognize the challenges LUI faced over the last three years due to several staff turnovers in the Finance department. Having said that, the LUI board recognizes that necessary steps must be taken to ensure proper controls are in place and procedures are in line with the OEB's APH.

Action Plans looking ahead:

- A complete review of LUI's finance team is currently being conducted to ensure the proper structure is in place and staff has the appropriate competency, knowledge, tools, and training to effectively review the regulatory accounting information and perform the work at the required level.
- Effective immediately, LUI has implemented changes to follow the relevant OEB guidelines, including the APH, to ensure that DVA balances are generated in accordance with the Board's requirements. Finance staff will conduct additional reviews to ensure the accuracy of all RRR filings.
- Although the scope of the OEB audit was limited to examination of Group 1 DVAs for the periods of 2011 and 2012, LUI will conduct a thorough reconciliation of all Group 1 DVAs for the periods of 2013 and 2014, as well as all Group 2 DVAs for 2011 through 2014. This work is expected to be done by Q1, 2015. We will also work with our external auditors to ensure that the appropriate adjustments are made to the 2013 and 2014 DVA balances. We will also share this information with your team.
- LUI will make adjustments to the IESO form 1598 for the month of November 2014 for the reconciliation of 2011 and 2012 year. Staff will continue the initiative of reconciling all of 2013 and 2014 to date.
- LUI will work with the OEB's Audit team to re-file RRR 2.1.7 and any other applicable RRR reports for 2013 (and all relevant periods) for Group 1 DVAs in accordance with the APH.
- Effective November 1, 2014, LUI will ensure that monthly entries are made to record the variance between purchases and sales and entries recorded in the DVAs, including principal and interest calculations, monthly unbilled revenues, appropriate GA charges split, etc.
- The LUI board recommended an additional annual external audit review by a third party of LUI's regulatory books to be conducted.
- Over the next three months, LUI is updating all regulatory accounting procedures and policies in line with the APH and Board guidelines.

In summary, LUI appreciates the audit work performed by Audit and welcomes the opportunity to review and enhance its internal controls as part of our ongoing operational improvements and efficiencies. LUI considers the findings and concerns of the Audit very seriously to ensure we continue to meet licensing requirements with the OEB. LUI is optimistic, moving forward, and considers the audit as a learning exercise for regulatory improvement. Some steps have already been taken, including external training arrangements for Finance staff. We are confident that the strengthening of internal processes and procedures will allow the organization to address the control gaps identified through this process.

Yours truly,



Dereck C. Paul, President
Lakefront Utilities Inc.

1 Attachment B – Lakefront Audit Follow-Up – September 2015



**Lakefront
Utilities
Inc.**

September 8, 2015

Mr. D. Babaie, P. Eng., CPA, CMA
Manager, Audit & Performance Assessment
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 24th Floor
Toronto, Ontario M4P 1E4

Dear Mr. Babaie,

Re: Follow-up regarding audit of Lakefront Utilities Inc. Group 1 Deferral and Variance Accounts

Pursuant to the audit conducted by the Ontario Energy Board's ("OEB") Audit and Performance Assessment group ("Audit") on Lakefront Utilities Inc. ("LUI") and the report dated November 12, 2014; The Audit Report identified several areas of non-conformity by LUI with the APH and internal controls and raised concerns for weaknesses with respect to LUI's regulatory account and IESO settlement process.

LUI's Finance staff have worked diligently over the past year and have implemented the following changes:

EDDVAR Continuity Schedule

As noted in the OEB audit, there was an adjustment in the 2014 IRM rate application that was not recorded in LUI's General Ledger ("GL") and did not agree to the RRR filing.

All GL entries are prepared and recorded based on properly approved supporting documents. The RRR filings for 2013 were revised and refiled with the OEB based on revised continuity schedules. LUI also filed the 2014 quarterly filings based on the revised continuity schedules. As part of the fiscal 2014 audit, LUI requested their auditors to perform additional procedures to ensure the DVAD accounts were being prepared correctly in accordance with the APH. There were no issues noted during the audit.



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LUI is currently preparing the EDDVAR continuity schedule for the 2016 IRM (due October 19, 2015) and notes there are no differences between the GL balances for Group 1 accounts and the RRR balance as at December 31, 2014.

IESO form 1598

The OEB audit noted a number of mistakes on the IESO form 1598 for the period of 2011 and 2012. It was also noted that the annual 1598 reconciliation for 2011 and 2012 were not filed. As you know, the annual 2011 and 2012 were subsequently filed as a result of the audit.

LUI staff have filed the annual 1598 reconciliation for both 2013 and 2014. Furthermore, staff are correctly filing the monthly 1598 form. It was also noted as part of the OEB audit that the split of the Global Adjustment ("GA") charges into RPP and Non-RPP portions were not supported by the RPP and Non-RPP volumes on the IESO settlement form 1598. As part of the on-going monthly form 1598 process, LUI ensures that the GA is allocated to RPP and non-RPP portions. Furthermore, as part of the DVAD account reconciliation quarterly filing, LUI ensures that the amounts are correctly recorded in the appropriate Cost of Power GL and are suitably recorded in the correct 1588/1589 DVAD account. Furthermore, LUI ensures that the GA rates on the IESO form is trued up in the following month.

1595 Account Balances

The OEB audit noted various issues with the 1595 accounts, including:

- LUI requested disposition for a rate rider that had not reached its sunset date.
- LUI incorrectly used sub-accounts for various Board Decision and Orders.
- LUI incorrectly record the tax sharing refund.

LUI has increased account 1595 analysis monthly. When disposing of group 1 accounts, LUI ensures three accounts are set-up: 1) Approved principal account balance, 2) Cumulative carrying charge



**Lakefront
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Inc.**

account balance on the transfer of the DVAD balance, 3) Carrying charges calculated on the opening monthly net principal balance.

Furthermore, LUI ensures that no additional carrying charges are applied to the cumulative carrying charge (i.e.: no interest on interest).

As part of LUI's quarterly OEB filing, all 1595 accounts are analysed to ensure that amounts collected/paid are consistent each month and are broken down by separate classes (residential, GS >50, etc). Furthermore, LUI does monthly rate testing for each class of customer. This ensures that the correct DVAD accounts and 1595 accounts are properly used and verifies that rates that have reached their sunset date are not used.

LUI emailed the OEB staff before recording its journal entry related to the 2015 IRM tax sharing refund to ensure the correct GL accounts were used.

Group 1 – Principal and Interest

The OEB Audit identified that when transferring the Board-approved DVA principal and interest dispositions, LUI incorrectly transferred both principal and interest balances from the sub-account (1550, 1580, 1584, 1586, 1588 and 1589).

LUI now correctly allocates all principal and interest balances for each Group 1 account. Furthermore, as part of the quarterly OEB filing, LUI verifies that the correct charges based on Hydro One and IESO invoices are properly allocated to the Cost of Power account and are therefore correctly allocated to the DVAD account. Furthermore, LUI verifies that the entry to record interest is based on the Board-approved quarterly interest rate.

Similar to the 1595 accounts, LUI performs monthly rate testing to verify that charges are recorded in the correct Cost of Power revenue accounts. LUI also summarizes the revenue accounts by rate class and compares the monthly transactions and note any anomalies.



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Feed in Tariff

The OEB Audit identified that LUI did not record the payments of the electricity for Feed in Tariff ("FIT") and micro-fit contracts and charge type 1412 on the IESO invoices in the cost of power Account 4705, Power Purchased. As part of LUI's revised process for monitoring DVAD accounts, LUI ensures that all charges types on the IESO invoice is properly allocated per the APH.

Conclusion

As noted in the 2014 OEB audit, there appeared to be numerous control weaknesses with regards to the implementation of Lakefront Utilities review controls in its regulatory account function and IESO settlement function.

As mentioned in LUI's management response, LUI considered the findings and concerns of the audit very serious and feels that over the past year, LUI has implemented numerous controls and feels the controls in the regulatory environment have improved significantly. This correspondence is to apprise you of the controls improvement we've put in place over the last year.

Yours truly,

A blue ink signature of Dereck C. Paul, consisting of a large, stylized 'D' and 'P'.

Dereck C. Paul, President
Lakefront Utilities Inc.

Cc: Adam Giddings, CPA, CA
Finance & Regulatory Supervisor