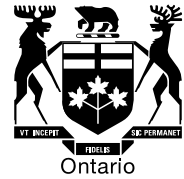


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BY EMAIL

November 22, 2017

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@oeb.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Lakefront Utilities Inc.
2018 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2017-0057**

In accordance with Procedural Order No.1, please find attached the OEB staff submission in the above proceeding. This document is also being forwarded to Lakefront Utilities Inc.

Lakefront Utilities Inc. is reminded that its reply submission is due by December 6, 2017, should it choose to file one.

Yours truly,

Original Signed By

Katherine Wang
Advisor, Incentive Rate Setting & Accounting
Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2018 ELECTRICITY DISTRIBUTION RATES

Lakefront Utilities Inc.

EB-2017-0057

November 22, 2017

**OEB Staff Submission
Lakefront Utilities Inc.
2018 IRM Rate Application
EB-2017-0057**

Introduction

Lakefront Utilities Inc. (Lakefront Utilities) filed an application with the Ontario Energy Board (OEB) on August 11, 2017 under section 78 of the *Ontario Energy Board Act, 1998*. Through the application, Lakefront Utilities seeks approval for changes to the rates that it charges for electricity distribution, effective January 1, 2018.

The purpose of this document is to provide the OEB with the submissions of OEB staff, based on its review of the evidence submitted by Lakefront Utilities.

OEB staff has no concern with the data supporting the updated Retail Transmission Service Rates proposed by Lakefront Utilities. OEB staff will update the applicable data at the time of the OEB's decision on the application based on the Uniform Transmission Rates in place at that time.¹

OEB staff's submission relates to the following issue:

- Deferral and Variance Account Disposition

Deferral and Variance Account Disposition

Lakefront Utilities submitted a completed deferral and variance account continuity schedule included in the 2018 IRM Rate Generator Model at Tab 3 for its Group 1 deferral and variance accounts (DVA). Lakefront Utilities' total Group 1 DVA balances amounted to a credit of \$574,890 (as amended during the course of the proceeding). The balance of Account 1589 – Global Adjustment (GA) is a credit of \$1,595,650 and is applicable only to non-RPP Class B customers. The remaining DVAs excluding GA amount to a debit of \$1,020,760. These balances also include interest calculated to December 31, 2017.

Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of \$0.0024 per kWh which exceeds the pre-set disposition threshold. In its application, as originally filed, Lakefront Utilities requested disposition of its Group 1 DVAs, over a one-year period.

Upon review of the Lakefront Utilities' Group 1 DVA balances, OEB staff confirms that the principal balances and interest as of December 31, 2016 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Upon reviewing the GA Analysis Workform however, OEB staff provided the applicant with a series of

¹ Pursuant to the Ontario Energy Board Guideline G-2008-0001

preliminary questions regarding certain balances within the GA Analysis Workform. In the workform, in the “Reconciling Items” section, Lakefront Utilities included a reconciling item for \$1,563,022 (as adjusted during the course of the proceeding) for “Consumption - IESO compared to Billed”. The explanation for this item states:

Breakdown of Global Adjustment amount per the monthly IESO invoice is determined based on the data downloaded from Utilismart. The Global Adjustment billed to customers is based on the monthly consumption data per Northstar.

Note, Utilismart is Lakefront Utilities wholesale settlement system and Northstar is Lakefront Utilities billing system.

The “Consumption - IESO compared to Billed” reconciliation item was flagged as an issue by OEB staff as the amount indicated there may be inconsistencies in data used by Lakefront Utilities in RPP settlements with the IESO. This is explained further below.

OEB staff asked Lakefront Utilities to clarify the process for determining the actual RPP and non-RPP split and to calculate the RPP/non-RPP split for each month in 2016.² Lakefront Utilities’ response was:

When Lakefront calculates the RPP and non-RPP split, it uses the Utilismart data and the query used to gather Northstar billing data, to determine the non-RPP consumption data.

Lakefront Utilities provided a calculation to reconcile the RPP and non-RPP split used for settlement purposes. In the “Utilismart and Northstar Recon” tab of the reconciliation that Lakefront Utilities provided, three reconciliation items were identified by Lakefront Utilities that were the cause of the data inconsistencies:

1. Retailer Residential, Retailer Small Commercial, Missing RPP Customer, Incorrect NSLS data,
2. Actual kWh (NS Effective Date) Less Billing (NS Posted Date) kWh, and
3. Generation kWh (microFIT, FIT)

OEB staff notes that these three reconciling items confirm that the data used by Lakefront Utilities to perform the split between the RPP and non-RPP kWh usage volumes are not reliable. This is because in OEB staff’s view, these type of reconciling items (and specifically #1) should have been factored into the RPP and non-RPP volumes at the time of original settlement. OEB staff notes that Lakefront Utilities has not corrected its settlement amounts with the IESO to account for this since it made

² OEB staff Interrogatory-2 part 2) c

these adjustments in this proceeding. In addition, this affects the RPP and non-RPP allocation. The split between the RPP and non-RPP kWh usage is needed in order to properly prorate the amount charged on the monthly IESO invoice, under charge type 148, between Accounts 1588 and 1589. Therefore, the issues observed through OEB staff's review bring into question the accuracy of the balances being sought for disposition in these accounts.

In terms of the corrections made under #1 above, Lakefront Utilities indicated that it has not included consumption data of 9,078,790 kWh for retailers as the query used to extract the consumption data from the Northstar billing system did not factor in the volumes for customers with retailers. As such, retailer consumption data was not included in the calculation of the RPP and non-RPP split.³ Lakefront Utilities provided calculations whereby it updated the non-RPP quantities to factor in retailer quantities which changed the RPP and non-RPP split. In response to staff Interrogatory-2 part 3).

Based on the updated non-RPP quantities that factored in the retailer quantities, Lakefront Utilities now proposes to make an adjustment to account 1589 to correct for a discrepancy to the RPP and non-RPP split by changing the original GA Expense (paid to the IESO) from \$11,940,940 to \$12,842,312.⁴ This explains a \$901,372 portion of the reconciling item of \$1,563,022. OEB staff is of the opinion that this \$901,372 difference will need to be trued-up and settled with the IESO before disposition of any revised balances can be implemented. The remaining \$661,650 (\$1,563,022 - \$901,372) is, however, unexplained and may relate to items #2 and #3 above. This amount is material as it equates to 5.0% of the total expected GA expense of \$13,265,326 as per the GA Analysis Workform.

Lakefront Utilities noted that it has engaged its auditors to thoroughly audit the balances of certain accounts. Lakefront Utilities indicates that it is withdrawing its request to dispose of its Group 1 DVAs.⁵ OEB staff supports this request.

Given the issues observed through its review of the GA Analysis Workform, it is OEB staff's opinion that Lakefront Utilities should engage a third-party auditor, at its expense, to perform an audit of the December 31, 2017 balances in Accounts 1588 and 1589. This should be done in place of any other more limited scope audit that Lakefront may be planning.

In addition, Lakefront Utilities should undertake a review and update its business processes relating to RPP settlement with the IESO and have such business processes

³ Lakefront Utilities' response to OEB staff Interrogatory-2 part 3)

⁴ Lakefront Utilities' response to OEB staff Interrogatory-2 part 3)

⁵ Lakefront Utilities' response to OEB staff interrogatory-2 part 7)

confirmed for accuracy by a third-party auditor, at its expense, to perform an Audit on the compliance with IESO settlement rules, at the same time. The results of the audit, together with the report summarizing the review and update of its RPP Settlements business processes, should be submitted to the OEB as part of a future rate application.

All of which is respectfully submitted