



**Lakefront  
Utilities  
Inc.**

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**Lakefront Utilities Inc.**

**2022 Cost of Service Application**

**EB-2021-0039**

**Rates Effective: January 1, 2022**

**Date Filed: April 30, 2021**

**Lakefront Utilities Inc.  
207 Division St.  
P.O. Box 577**

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**EXHIBIT 9 - DEFERRAL AND VARIANCE ACCOUNTS**

**EB-2021-0039**

1 **Table of Contents**

2

3 2.9 STATUS AND DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS ..... 4

4 LIST OF OUTSTANDING DVA..... 5

5 DVA CONTINUITY SCHEDULE..... 8

6 INTEREST RATES..... 10

7 RECONCILIATION TO RRR AND FINANCIAL STATEMENT ..... 11

8 GROUP 2 ACCOUNTS ..... 12

9 IDENTIFICATION OF NEW ACCOUNTS ..... 13

10 ADJUSTMENTS TO PREVIOUSLY APPROVED ACCOUNT BALANCES ..... 14

11 ENERGY SALES AND COST OF POWER EXPENSES..... 15

12 GA ANALYSIS WORKFORM..... 16

13 ACCOUNTS 1588 AND 1589..... 17

14 1595 ANALYSIS WORKFORM..... 18

15 2.9.1 ACCOUNT 1575, IFRS-CGAAP TRANSITIONAL PP&E AMOUNTS..... 19

16 2.9.2 RETAIL SERVICE CHARGES..... 20

17 2.9.3 DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS..... 22

18 ACCCOUNTS REQUESTED/NOT REQUESTD FOR DISPOSTION..... 23

19 RECONCILIATION TO AUDITED FINANCIAL STATEMENT AND RRR FILING ..... 24

20 DISPOSITION OF ACCOUNT 1595..... 25

21 PROPOSED MECHANISM FOR DISPOSITION AND RATE RIDERS ..... 26

22 2.9.3.2 GLOBAL ADJUSTMENT ..... 29

23 2.9.4 ESTABLISHMENT OF NEW DEFERRAL AND VARIANCE ACCOUNTS..... 34

24 APPENDIX ..... 35

25 APPENDIX A – INDEPENDENT AUDITOR’S REPORT..... 36

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2.9 STATUS AND DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

Lakefront Utilities Inc. (LUI/Lakefront) has included in this Cost of Service Application a request for approval for disposition of Group 1 and Group 2 Deferral and Variance Account (DVA) balances as at December 31, 2020 and the forecasted interest through December 31, 2021.

Lakefront 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).

Lakefront has provided a continuity schedule of the Group 1 and Group 2 DVAs in the DVA Continuity Schedule in the live Excel forma model.

In Lakefront’s Decision and Rate Order for its 2020 IRM (EB-2019-0050), the OEB did not approve the disposition of Lakefront Utilities’ Group 1 account balances from January 1, 2016 to December 31, 2018 due to concerns with Accounts 1588 and 1589. Given these concerns, the OEB referred the matter to the OEB’s Audit and Investigations department for the consideration of Lakefront Utilities processes regarding RPP settlement claims with the IESO.

The OEB’s Audit and Investigations department contacted Lakefront in November 2020 and Lakefront responded to the Ontario Energy Board’s information request in December 2020. Lakefront has had a few follow-up discussions with the Audit and Investigations department subsequent to the information request in December 2020.

Lakefront has filed in this application a proposed disposition of the Group 1 and Group 2 account balance, and Lakefront will update its Application to reflect any revisions to Accounts 1588 and 1589 as a result of the audit.

**LIST OF OUTSTANDING DVA**

Table 9.0 contains the list of deferral and variance accounts and sub-accounts with balances that have not been disposed of yet, as detailed in the Filing Requirements.

LUI notes that it has four DVAs that resulted from OEB guidance:

1. Other Regulatory Assets – Sub-Account – Wireless and Wireline
2. Other Regulatory Assets – Sub-Account – Cost Assessment Variance
3. Account 1592 – PILS and Tax Variances – CCA Changes
4. Account 1509 – Impacts Arising from the COVID-19 Emergency

Below is a description of all the outstanding DVAs.

**Group 1 Accounts**

- 1550 LV Variance Account:

This account is used to record the variances arising from low voltage transactions which are not part of electricity wholesale market.

- 1551 Smart Metering Entity Charge Variance Account:

This account used monthly to record the variances arising from the Smart Metering Entity charges to Residential Service and General Service <50 kW customers.

- 1580 Retail Settlement Variance Account – Wholesale Market Service Charges (RSVA WMS):

This account is used to record the net of the amount charged by the IESO based on the settlement invoice for the operation of the IESO-administered markets and the operation of the IESO-controlled grid, and the amount billed to customers using the OEB approved Wholesale Market Service Rate.

- 1580 Retail Settlement Variance Account – Wholesale Market Service Charges (RSVA WMS) Sub-account CBR Class B:

The variance in this account is used to record the difference between the billed WMS CBR revenues in Account 4062 Billed – WMS, Sub-account CBR Class B and the charges from the IESO booked in Account 4708 Charges – WMS, Sub-account CBR Class B.

- 1584 Retail Settlement Variance Account – Retail Transmission Network Charges (RSVA NW):

1 This account is used to record the net of the amount charged by the IESO, based on the  
2 settlement invoice for transmission network services, and the amount billed to customers  
3 using the OEB-approved Transmission Network Charge.  
4

- 5 • 1586 Retail Settlement Variance Account – Retail Transmission Connection Charges (RSVA  
6 CN):  
7

8 This account is used to record the net of the amount charged by the IESO, based on the  
9 settlement invoice for transmission connection services, and the amount billed to  
10 customers using the OEB-approved Transmission Connection Charge.  
11

- 12 • 1588 Retail Settlement Variance Account – Power (RSVA Power):  
13

14 This account is used to record the net difference between the energy amount billed to  
15 customers and the energy charged to LUI using the settlement invoice from the  
16 Independent Electricity System Operator (IESO) net of global adjustment charges.  
17

- 18 • 1589 Retail Settlement Variance Account – Global Adjustment (RSVA GA):  
19

20 This account is used to record the net difference between the global adjustment amount  
21 billed to customers and the global adjustment charged to LUI using the settlement invoice  
22 from the IESO.  
23

- 24 • 1595 Disposition and Recovery/Refund of Regulatory Balances:  
25

26 This account records the net of amounts collected from or refunded to customers from  
27 balances stemming from Regulatory Assets subdivided by fiscal year.  
28

## 29 **Group 2 Accounts**

- 30 • 1508 Other Regulatory Assets:  
31

32 This account includes amounts of regulatory-created assets, not included in other accounts,  
33 resulting from the rate making actions of the OEB. LUI currently has balances in two sub-  
34 accounts:  
35

### 36 1. Other Regulatory Assets – Sub-Account – Wireless and Wireline 37

38 This account records the changes in revenue received due to any change in the currently  
39 regulated wireline attachment rate of \$22.35 per attachment per pole per year.  
40

### 41 2. Other Regulatory Assets – Sub-Account – Cost Assessment Variance 42

1 As per a Board letter dated February 9, 2016, the Board established this account for  
2 electricity distributors to record material differences between the OEB cost assessments  
3 currently built into rates, and cost assessments that will result from the application of  
4 the new cost assessment model effective April 1, 2016.

5  
6 • Account 1509 – Impacts Arising from the COVID-19 Emergency:  
7

8 On March 25, 2020 the OEB released an accounting order to establish deferral accounts to  
9 record impacts arising from the COVID-19 Emergency. This deferral account includes three  
10 sub-accounts:

- 11 1. Billing and System Changes for Electricity Distributors as a Result of the  
12 Emergency Order Regarding Time-of-Use Pricing.
- 13 2. Lost Revenues Arising from the COVID-19 Emergency for Electricity  
14 Distributors.
- 15 3. Other Incremental Costs for Electricity Distributors.

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20 • 1518 Retail Cost Variance Account – Retail Service Charges (RCVA Retail Service Charges):  
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22 This account is used to record the difference between the amount billed and the  
23 incremental costs of providing retail services other than those related to a Service  
24 Transaction Request (STR).  
25

26 • 1548 Retail Cost Variance Account – Service Transaction Request Charges (RCVA STR):  
27

28 This account is used to record the difference between the amount billed in relation to a STR  
29 and the incremental costs of providing the initial screening and the actual processing  
30 services for the STR.  
31

32 • 1592 PILs and Tax Variances – CCA Changes  
33

34 On July 25, 2019 the OEB released a letter *“Accounting Direction Regarding Bill C-97 and*  
35 *Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance”* stating that  
36 for the purposes of increased transparency, the OEB is establishing a separate sub-account  
37 specifically for the purposes of tracking the impact of changes in CCA rules. Electricity  
38 distributors are to use this sub-account for the impact of the Bill C-97 CCA rule changes as  
39 well as any future CCA changes instituted by relevant regulatory or taxation bodies.  
40  
41

**DVA CONTINUITY SCHEDULE**

Table 9.0 is a summary of the completed DVA continuity schedule for the period following last disposition (December 31, 2016) to present (December 31, 2020). The completed DVA continuity schedule is filed with this Application in live Excel format.

**Table 9.0: DVA Continuity Schedule**

Deferral and Variance Account	USoA	Principal	Interest	Total Claim
LV Variance Account	1550	2,423,988	93,037	2,517,025
Smart Metering Entity Charge Variance Account	1551	(12,356)	(759)	(13,116)
RSVA - Wholesale Market Service Charge	1580	(866,846)	(52,063)	(918,909)
RSVA - Wholesale Market Service Charge - Sub-account CBR Class B	1580	53,914	6,139	60,053
RSVA - Retail Transmission Network Charge	1584	209,081	5,035	214,116
RSVA - Retail Transmission Connection Charge	1586	256,533	10,144	266,678
RSVA - Power (excluding Global Adjustment)	1588	(84,188)	(3,612)	(87,800)
RSVA - Power - Sub-account - Global Adjustment	1589	(1,026,647)	(57,864)	(1,084,511)
Recovery of Regulatory Asset Balances (2012)	1595	173,177	(70,462)	102,715
Recovery of Regulatory Asset Balances (2015)	1595	(760,575)	703,885	(56,690)
Recovery of Regulatory Asset Balances (2016)	1595	(17,697)	(63,082)	(80,779)
Recovery of Regulatory Asset Balances (2017)	1595	166,524	(171,045)	(4,521)
<b>Group 1 Sub-Total</b>		<b>514,908</b>	<b>399,354</b>	<b>914,261</b>
Other Regulatory Assets	1508	(74,511)	1,074	(73,436)
Other Regulatory Assets - Impacts Arising from the COVID-19 Emergency	1509	23,224	187	23,411
Retail Cost Variance Account	1518	15,151	(937)	14,214
Retail Cost Variance Account	1548	23,734	(3,463)	20,272
LRAM Variance Account	1568	13,796	366	14,162
PILs and Tax Variance for 2006 and Subsequent Years	1592	(67,713)	(836)	(68,549)
<b>Group 2 Sub-Total</b>		<b>(66,318)</b>	<b>(3,609)</b>	<b>(69,927)</b>
<b>Total</b>		<b>448,590</b>	<b>395,744</b>	<b>844,334</b>

Lakefront confirms that the DVA continuity schedule shows separate itemization of opening balances, annual adjustments, transactions, dispositions, interest, and closing balances for all outstanding deferral and variance accounts. This includes all Account 1508 sub-accounts.

As noted in Table 9.0, Lakefront’s balance in Account 1550 LV Variance Account is \$2,517,025. Lakefront confirms that the balance consists of actual charges billed to customers and low voltage charges paid to Hydro One from 2017 to 2020. Table 9.1 includes an analysis of the actual charges billed to customers and low voltage charges paid to Hydro One.

**Table 9.1: Analysis of Low Voltage Charges**

Year	Actual Charges Billed to Customers	Low Voltage Charges Paid to Hydro One	Variance
2017	\$308,676	\$700,226	\$391,550
2018	\$335,983	\$601,305	\$265,322
2019	\$304,521	\$837,849	\$533,328
2020	\$312,010	\$1,129,800	\$817,790



1 Lakefront notes that the amount included in Lakefront’s 2017 Cost of Service filing (EB-2016-0089)  
 2 to calculate the low voltage charge was \$313,004 due to a miscalculation when preparing the filing.  
 3 Consequently, the difference between the amount billed to customers and the actual amount paid to  
 4 Hydro One has created a significant variance.

5 Further, the total balance at December 31, 2020 of \$2,517,025 is an accumulation from 2016 to  
 6 2020, resulting in balances not being disposed of during the IRM period, as summarized below.

7 **Table 9.2: Summary of IRM Filings**

Year End Balances	IRM Filing	Details
December 31, 2016	EB-2017-0057	Based on issuance of GA Analysis Workform, Lakefront determined that the consumption data to prepare the split between RPP and non-RPP was incorrect. OEB staff recommended a third-party audit.
December 31, 2017	EB-2018-0049	Balances not disposed because OEB staff were concerned with the corrections made by Lakefront to Accounts 1588 and 1589 after the third-party audit was conducted in 2018. OEB recommended that Lakefront should confirm that the scope of work for its updated audit, included a review of the IESO settlement process for Accounts 1588 and 1589. In addition, the updated audit report should indicate whether IESO debits or credits received after the respective December 31 year end, were considered.
December 31, 2018	EB-2019-0050	Lakefront provided an updated audit report, however the OEB had concerns with the balances in Accounts 1588 and 1589. The OEB referred the matter to the OEB's Audit and Investigations department for consideration of Lakefront's processes regarding RPP settlement claims with the IESO.
December 31, 2019	EB-2020-0036	Audit and Investigations department had not initiated audit, therefore Lakefront did not dispose of balances. Further, total balance was below the threshold.

8  
 9 As a result of the inability to dispose of Accounts 1588/1589, the total Group 1 balances (including  
 10 Account 1550) were not disposed, creating a significant balance in Account 1550.

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1 **INTEREST RATES**

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3 Lakefront confirms that it has used the rates established by the OEB by month or by quarter for  
4 each year. Table 9.3 provides the interest rates that have been used to calculate actual and  
5 forecasted carrying charges on the accounts in accordance with the methodology approved by the  
6 Board in EB-2007-0117 on November 28, 2007.

7 **Table 9.3: Interest Rates Applied to Deferral and Variance Accounts**

Beginning Period	Ending Period	Prescribed Interest Rate
January 1, 2016	September 30, 2017	1.10%
October 1, 2017	March 31, 2018	1.50%
April 1, 2018	September 30, 2018	1.89%
October 1, 2018	December 31, 2018	2.17%
January 1, 2019	March 31, 2019	2.45%
April 1, 2019	June 30, 2020	2.18%
September 1, 2020	December 31, 2020	0.57%

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9 In accordance with the filing requirements, the most recent posted interest rate (0.57%) has been  
10 used to forecast carrying to charges on December 31, 2020 principal balances and the forecasted  
11 Group 2 2020 balances.

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**RECONCILIATION TO RRR AND FINANCIAL STATEMENT**

LUI confirms that it has used the DVAs in the same manner described in the APH, and the account balance in Table 9.4 reconciles with the Electricity Reporting and Record Keeping Requirements (RRR) 2.1.7 Trial Balance that has been submitted and LUI’s Audited Financial Statements.

**Table 9.4: Reconciliation to Financial Statement and RRR**

Group 1 Accounts	USoA	Principal	Interest	Total	Balance per 2020 FS	Difference	Balance per RRR 2.1.7	Difference
LV Variance Account	1550	2,423,988	79,221	2,503,209	2,503,210	(2)	2,503,210	(2)
Smart Metering Entity Charge Variance Account	1551	(12,356)	(689)	(13,045)	(13,047)	2	(13,047)	2
RSVA - Wholesale Market Service Charge	1580	(866,846)	(47,114)	(913,960)	(913,959)	(1)	(913,959)	(1)
RSVA - Wholesale Market Service Charge - Sub-account CBR Class B	1580	53,914	5,832	59,746	59,747	(1)	59,747	(1)
RSVA - Retail Transmission Network Charge	1584	209,081	3,843	212,924	212,923	1	212,923	1
RSVA - Retail Transmission Connection Charge	1586	256,533	8,682	265,215	265,216	(1)	265,216	(1)
RSVA - Power (excluding Global Adjustment)	1588	(84,188)	(3,132)	(87,320)	(87,320)	(0)	(87,320)	(0)
RSVA - Power - Sub-account - Global Adjustment	1589	(1,026,647)	(52,012)	(1,078,659)	(1,078,659)	(0)	(1,078,659)	(0)
Recovery of Regulatory Asset Balances (2012)	1595	173,177	(71,449)	101,728	101,727	1	101,727	1
Recovery of Regulatory Asset Balances (2015)	1595	(760,575)	708,220	(52,355)	(52,355)	0	(52,355)	0
Recovery of Regulatory Asset Balances (2016)	1595	(17,697)	(62,981)	(80,678)	(80,679)	1	(80,679)	1
Recovery of Regulatory Asset Balances (2017)	1595	166,524	(171,994)	(5,470)	(5,471)	0	(5,471)	0
<b>Group 1 Sub-Total</b>		<b>514,908</b>	<b>396,427</b>	<b>911,334</b>	<b>911,334</b>	<b>1</b>	<b>911,334</b>	<b>1</b>
Other Regulatory Assets	1508	(74,511)	1,499	(73,012)	(73,010)	(1)	(73,010)	(1)
Other Regulatory Assets - Impacts Arising from the COVID-19 Emergency	1509	23,224	54	23,278	23,278	0	23,278	0
Retail Cost Variance Account	1518	15,151	(1,024)	14,128	14,128	0	14,128	0
Retail Cost Variance Account	1548	23,734	(3,598)	20,136	20,136	(0)	20,136	(0)
LRAM Variance Account	1568	13,796	366	14,162	0	14,162	0	14,162
PILs and Tax Variance for 2006 and Subsequent Years	1592	(67,713)	(450)	(68,163)	(68,164)	1	(68,164)	1
<b>Group 2 Sub-Total</b>		<b>(66,318)</b>	<b>(3,153)</b>	<b>(69,470)</b>	<b>(83,632)</b>	<b>14,161</b>	<b>(83,632)</b>	<b>14,161</b>
<b>Total</b>		<b>448,590</b>	<b>393,274</b>	<b>841,864</b>	<b>827,702</b>	<b>14,162</b>	<b>827,702</b>	<b>14,162</b>

Lakefront notes the only variance is related to Account 1568 which has not been recorded at December 31, 2020.

**GROUP 2 ACCOUNTS**

Lakefront has included a list of Group 2 accounts to continue or discontinue in Table 9.5 below.

**Table 9.5: Group 2 Accounts**

Account Description	USoA	Continue/Discontinue	Explanation
Other Regulatory Assets	1508	Continue	Use if needed
COVID-19 Loss Revenue	1509	Continue	Use if needed
Retail Cost Variance Account - Retail	1518	Continue	Ongoing use
Retail Cost 1 Variance Account - STR	1548	Continue	Ongoing use
PILS and Tax Savings	1592	Continue	Use if needed

**IDENTIFICATION OF NEW ACCOUNTS**

LUI is requesting the following new deferral/variance account:

- Account 1595 – Sub-account 2022

Rate Rider for Disposition of Deferral/Variance Accounts (2022) – effective until December 31, 2022. Upon approval of disposition, LUI is requesting Board approval to establish 1595-Sub-account 2022 to track costs, revenues and interest for amounts disposed of in LUI’s 2021 Application.

**ADJUSTMENTS TO PREVIOUSLY APPROVED ACCOUNT BALANCES**

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Lakefront has not made any adjustments to the deferral and variance accounts that were previously approved by the OEB on a final basis.

**ENERGY SALES AND COST OF POWER EXPENSES**

A breakdown of energy sales and cost of power expense balances, as reported in the audited financial statements, mapped to USoA account numbers is provided in the table below.

The sale of energy is a flow through revenue and the cost of power is a flow through expense. Energy sales and the cost of power expenses by component are presented in Table 9.6 as reported in the Audited Financial Statements and the USoA within the RRR filing 2.1.7 Filing. LUI has no profit or loss resulting from the flow through of energy revenues and expenses.

**Table 9.6: Energy Revenue and Cost of Power Expenses**

		2017	2018	2019	2020
<b>Energy Sales</b>					
4006	Residential Energy Sales	7,025,704	4,554,016	6,718,460	9,978,774
4010	Commercial Energy Sales	3,278,806	2,449,766	3,489,945	4,151,648
4015	Industrial Energy Sales	1,228,090	455,577	329,212	266,815
4025	Street Lighting Energy Sales	121,633	122,221	133,254	137,242
4030	Sentinel Lighting Energy Sales	4,240	3,705	4,034	5,535
4035	General Energy Sales	12,651,226	12,966,674	14,132,520	13,957,447
4055	Energy Sales for Retailers/Others	766,461	1,246,158	976,586	719,828
4062	Billed - WMS	1,003,541	944,303	917,741	833,225
4066	Billed - NW	1,423,623	1,529,550	1,369,526	1,470,622
4068	Billed - CN	1,123,826	1,207,540	1,086,696	1,248,454
4075	Billed - LV	308,676	335,983	304,521	312,010
4076	Billed - Smart Meter Entity	94,551	66,942	69,140	70,755
<b>Total Energy Sales</b>		<b>29,030,376</b>	<b>25,882,435</b>	<b>29,531,634</b>	<b>33,152,355</b>
As per RRR 2.1.7		29,030,376	25,882,435	29,531,634	33,152,355
As per Audited Financial Statement		29,030,376	25,882,435	29,531,634	33,152,355
<b>Cost of Power</b>					
4705	Power Purchased	12,802,250	11,215,248	12,678,047	16,205,224
4707	Charges - Global Adjustment	12,273,909	10,582,869	13,105,964	13,012,065
4708	Charges - WMS	1,003,541	944,303	917,741	833,225
4714	Charges - NW	1,423,623	1,529,550	1,369,526	1,470,622
4716	Charges - CN	1,123,826	1,207,540	1,086,696	1,248,454
4750	Charges - LV	308,676	335,983	304,521	312,010
4751	Charges - Smart Meter Entity	94,551	66,942	69,140	70,755
<b>Total Cost of Power</b>		<b>29,030,376</b>	<b>25,882,435</b>	<b>29,531,634</b>	<b>33,152,355</b>
As per RRR 2.1.7		29,030,376	25,882,435	29,531,634	33,152,355
As per Audited Financial Statement		29,030,376	25,882,435	29,531,634	33,152,355

\*\*\*includes net movement in regulatory deferral accounts

**GA ANALYSIS WORKFORM**

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The GA Analysis Workform has been completed and submitted.



**ACCOUNTS 1588 AND 1589**

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LUI confirms that the Global Adjustment charge is prorated into the RPP and non-RPP portions.

LUI is in compliance with the OEB’s February 21, 2019 guidance on the account for Accounts 1588 – RSVA Power and 1589 – RSVA Global Adjustment which is further described in Section 2.9.3.2.

**1595 ANALYSIS WORKFORM**

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A completed 1595 Analysis Workform has been filed for all balances, regardless of whether they meet the eligibility requirements.

2.9.1 ACCOUNT 1575, IFRS-CGAAP TRANSITIONAL PP&E AMOUNTS

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LUI completed its transition to IFRS in its 2017 COS Application and did not have any material transactions upon that transition, thus has not completed Appendix 2-EA.

## 2.9.2 RETAIL SERVICE CHARGES

Retail services refer to services provided by a distributor to a retailer or retailer customer related to the supply of competitive electricity as set out in the Retail Settlement Code (RSC).

Lakefront records revenues received from retailers for retail-related services in two accounts:

- a. 4082 – Retailer Services Revenues which contain the revenues derived from establishing service agreements, distributor-consolidated billing and retailer-consolidated billing.
- b. 4084 – STR Revenues which contain the revenues derived from the Service Transaction Request services such as request fee, processing fee, information request fee, default fee, and other associated costs fee.

As per the Filing Requirements:

1. Lakefront records its costs associated with providing these services in various accounts, most notably customer service business units. LUI confirms that all costs incorporated into the variances reported are incremental to providing the retail services.
2. The driver of these costs is due to customers contracted with retailers.
3. Table 9.7 below provides a schedule identifying all revenue and expenses listed by USoA account numbers that are incorporated into the variances recorded in Account 1518 and 1548
4. Lakefront has followed the provisions of Article 490, Retail Services and Settlement Variances of the APH for Accounts 1518 and 1548. In order to keep LDC's whole, the OEB has authorized the use of USoA accounts 1518 and 1548 to record the differences between the revenues collected from retailers for services provided and the incremental costs of providing those services.

In the Chapter 2 Filing Requirements it states “Distributors can forecast a balance up to December 31, 2020 or April 30, 2021 and the OEB may consider disposing of the forecasted amount”. LUI has forecasted 2021 and is requesting that it be disposed of as part of this Application.

1 **Table 9.7: Account 1518 and Account 1548 Detail**

Year	1518 - RCVA - Retail			1548 - RCVA - STR		
	Revenue	Expenses	Variance	Revenue	Expenses	Variance
2017	7,043	11,400	4,357	2,124	6,300	4,176
2018	6,572	11,400	4,828	1,866	6,300	4,434
2019	9,909	11,400	1,491	2,616	6,300	3,684
2020	12,574	11,400	(1,174)	3,538	6,300	2,762

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**2.9.3 DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS**

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Lakefront requests \$844,334 as detailed in Table 9.8 for disposition in this Application, to be disposed of over a period of two years.

Table 9.8 below summarizes the account balances for all Deferral and Variance Accounts for disposition. Carrying charges have been calculated using the current OEB approved interest rates. LUI last cleared its Group 1 and Group 2 balances in its 2017 Cost of Service Application.

**ACCOUNTS REQUESTED/NOT REQUESTD FOR DISPOSTION**

Lakefront is proposing to dispose of all Group 1 and Group 2 balances listed in Table 9.8.

**Table 9.8: Deferral and Variance Account Balances**

<b>Deferral and Variance Account</b>	<b>USoA</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Claim</b>
LV Variance Account	1550	2,423,988	93,037	2,517,025
Smart Metering Entity Charge Variance Account	1551	(12,356)	(759)	(13,116)
RSVA - Wholesale Market Service Charge	1580	(866,846)	(52,063)	(918,909)
RSVA - Wholesale Market Service Charge - Sub-account CBR Class B	1580	53,914	6,139	60,053
RSVA - Retail Transmission Network Charge	1584	209,081	5,035	214,116
RSVA - Retail Transmission Connection Charge	1586	256,533	10,144	266,678
RSVA - Power (excluding Global Adjustment)	1588	(84,188)	(3,612)	(87,800)
RSVA - Power - Sub-account - Global Adjustment	1589	(1,026,647)	(57,864)	(1,084,511)
Recovery of Regulatory Asset Balances (2012)	1595	173,177	(70,462)	102,715
Recovery of Regulatory Asset Balances (2015)	1595	(760,575)	703,885	(56,690)
Recovery of Regulatory Asset Balances (2016)	1595	(17,697)	(63,082)	(80,779)
Recovery of Regulatory Asset Balances (2017)	1595	166,524	(171,045)	(4,521)
<b>Group 1 Sub-Total</b>		<b>514,908</b>	<b>399,354</b>	<b>914,261</b>
Other Regulatory Assets	1508	(74,511)	1,074	(73,436)
Other Regulatory Assets - Impacts Arising from the COVID-19 Emergency	1509	23,224	187	23,411
Retail Cost Variance Account	1518	15,151	(937)	14,214
Retail Cost Variance Account	1548	23,734	(3,463)	20,272
LRAM Variance Account	1568	13,796	366	14,162
PILs and Tax Variance for 2006 and Subsequent Years	1592	(67,713)	(836)	(68,549)
<b>Group 2 Sub-Total</b>		<b>(66,318)</b>	<b>(3,609)</b>	<b>(69,927)</b>
<b>Total</b>		<b>448,590</b>	<b>395,744</b>	<b>844,334</b>

**RECONCILIATION TO AUDITED FINANCIAL STATEMENT AND RRR FILING**

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The balances requested for disposition agree with the most recently issued Audited Financial Statement and Lakefront's 2020 RRR filing.



**DISPOSITION OF ACCOUNT 1595**

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Lakefront is requesting disposition of the following 1595 Accounts:

1. Disposition and Recovery/Refund of Regulatory Balances (2012)
2. Disposition and Recovery/Refund of Regulatory Balances (2015)
3. Disposition and Recovery/Refund of Regulatory Balances (2016)
4. Disposition and Recovery/Refund of Regulatory Balances (2017)

**PROPOSED MECHANISM FOR DISPOSITION AND RATE RIDERS**

For the calculation of proposed rate riders, LUI has utilized the billing determinants and allocators arising from the 2022 Load Forecast as presented in Table 9.9 to Table 9.13 below. In all cases, LUI is proposing a two-year disposition period.

Lakefront Utilities Inc. notes that all relevant calculations are embedded in the 2022\_EDDVAR\_Continuity\_Schedule OEB provided model.

The utility did not propose a billing determinant 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 RSVAs account balances related to charges for which the MPs settle directly with the IESO (e.g., wholesale energy, wholesale market services).

The Group 1 accounts are allocated to the customer classes as follows:

**Table 9.9: Allocators for Rate Rider Allocations – Accounts 1550, 1551, 1584, 1586**

Account	Account #	Claim	Allocator
LV Variance Account	1550	2,517,025	kWh
Smart Metering Entity Charge Variance Account	1551	(13,116)	# Customers
RSVA - Retail Transmission Network Charge	1584	214,116	kWh
RSVA - Retail Transmission Connection Charge	1586	266,678	kWh
RSVA - Wholesale Market Service Charge	1580	(918,909)	kWh
RSVA - Wholesale Market Service Charge - Sub-account CBR Class B	1580	60,053	kWh
RSVA - Power (excluding Global Adjustment)	1588	(87,800)	kWh
Recovery of Regulatory Asset Balances (2012)	1595	102,715	Percentage
Recovery of Regulatory Asset Balances (2015)	1595	(56,690)	Percentage
Recovery of Regulatory Asset Balances (2016)	1595	(80,779)	Percentage
Recovery of Regulatory Asset Balances (2017)	1595	(4,521)	Percentage
<b>Total</b>		<b>1,998,772</b>	

Customer Class	Mechanism				Allocation	Rate Rider
	kWh	kW	# Customers	Percentage for 1595 Allocation		
Residential	74,590,807		9,611	29.59%	636,984	\$0.0043
GS<50 kW	32,535,249		1,148	14.13%	281,073	\$0.0043
GS 50-2999 kW	103,964,876	274,141		47.02%	901,892	\$1.6449
GS 3000-4999 kW	18,909,096	48,547		8.38%	164,103	\$1.6901
Street Lighting	1,059,150	2,831		0.56%	9,156	\$1.6170
Sentinel Lights	43,344	130		0.02%	376	\$1.4473
Unmetered Scattered Load	599,285			0.30%	5,187	\$0.0043
<b>Total</b>	<b>231,701,807</b>	<b>325,649</b>	<b>10,758</b>	<b>100.00%</b>	<b>1,998,772</b>	

1 The balance for disposition for Account 1580 Class B is as follows:

2 **Table 9.10: Allocators for Rate Rider Allocations – Account 1580 Class B**

Account	Account #	Claim	Allocator
RSVA - Wholesale Market Service Charge - Sub-account CBR Class B	1580	43,320	kWh

Customer Class	Mechanism		Allocation	Rate Rider
	kWh	kW		
Residential	74,590,807		20,117	\$0.0000
GS<50 kW	32,535,249		8,775	\$0.0000
GS 50-2999 kW	50,895,522	159,627	13,726	\$0.0036
GS 3000-4999 kW	899,728	10,100	243	\$0.0010
Street Lighting	1,059,150	2,831	286	\$0.0042
Sentinel Lights	43,344	130	12	\$0.0038
Unmetered Scattered Load	599,285		162	\$0.0000
<b>Total</b>	<b>160,623,085</b>	<b>172,688</b>	<b>43,320</b>	

5 Group 1 accounts for Accounts 1589 (Global Adjustment) are as follows:

6 **Table 9.11: Allocators for Rate Rider Allocations – Account 1589**

Account	Account #	Claim	Allocator
RSVA - Power - Sub-account - Global Adjustment	1589	(782,314)	kWh

Customer Class	Mechanism	Allocation	Rate Rider
	kWh		
Residential	2,037,880	(28,408)	(\$0.0070)
GS<50 kW	5,841,581	(81,433)	(\$0.0070)
GS 50-2999 kW	48,146,180	(671,166)	(\$0.0070)
GS 3000-4999 kW	(0)	0	(\$0.0070)
Street Lighting	44,028	(614)	(\$0.0070)
Sentinel Lights	5,736	(80)	(\$0.0070)
Unmetered Scattered Load	44,028	(614)	(\$0.0070)
<b>Total</b>	<b>56,119,432</b>	<b>(782,314)</b>	

9 Lakefront confirms that as of December 31, 2020, Lakefront had Class A customers. LUI has  
 10 therefore completed Tab 6 Class A Consumption Data and Tab 6.1 GA Allocation in the DVA  
 11 Continuity Schedule.

12 The Group 2 accounts are allocated to the customer classes as follows:

13 **Table 9.12: Allocators for Rate Rider Allocations – Group 2 Accounts**

Account	Account #	Claim	Allocator
Other Regulatory Assets	1508	(73,436)	# Customers
Other Regulatory Assets - Impacts Arising from the COVID-19 Emergency	1509	23,411	kWh
Retail Cost Variance Account	1518	14,214	kWh
Retail Cost Variance Account	1548	20,272	kWh
PILs and Tax Variance for 2006 and Subsequent Years	1592	(68,549)	kWh
<b>Total</b>		<b>(84,089)</b>	

Customer Class	Mechanism			Allocation	Rate Rider
	kWh	# Customers	kW		
Residential	74,590,807	9,653		(14,753)	(\$0.06)
GS<50 kW	32,535,249	1,153		(13,854)	(\$0.0002)
GS 50-2999 kW	103,964,876	106	274,141	(52,948)	(\$0.0966)
GS 3000-4999 kW	18,909,096	1	48,547	(9,674)	(\$0.0996)
Street Lighting	1,059,150	3,173	2,831	7,155	\$1.2636
Sentinel Lights	43,344	50	130	98	\$0.3777
Unmetered Scattered Load	599,285	80		(112)	(\$0.0001)
<b>Total</b>	<b>231,701,807</b>	<b>14,214</b>	<b>325,649</b>	<b>(84,089)</b>	

The LRAM Variance account are allocated to the customer classes as follows:

**Table 9.13: Allocators for Rate Rider Allocations - LRAM Variance Account**

Account	Account #	Claim	Allocator
LRAM Variance Account	1568	14,162	kWh

Customer Class	Mechanism		Allocation	Rate Rider
	kWh	kW		
Residential	74,590,807		(5,513)	(\$0.0000)
GS<50 kW	32,535,249		11,916	\$0.0002
GS 50-2999 kW	103,964,876	274,141	7,759	\$0.0142
GS 3000-4999 kW				
Street Lighting				
Sentinel Lights				
Unmetered Scattered Load				
<b>Total</b>	<b>211,090,931</b>	<b>274,141</b>	<b>14,162</b>	

### 2.9.3.2 GLOBAL ADJUSTMENT

Lakefront notes the following:

1. Lakefront has established a separate rate rider that applies to non-RPP Class B customers. LUI has not allocated any GA variance to Class A customers as described in the Filing Requirements. LUI has also allocated a portion of Account 1589 GA to customers who transitioned between Class A and Class B based on customer specific consumption levels as calculated in the DVA Continuity Schedule.
2. Lakefront has completed the GA Analysis Workform for 2020 for each year that has not been previously approved by the OEB for disposition and has been included in live Excel formal.
3. Included in Note 5 in the GA Analysis Workform is a reconciliation of any discrepancy between the actual and expected balance.

Lakefront notes that its discrepancies are below the +/- 1% variance.

4. Lakefront Utilities confirms that it follows the OEB's letter dated May 23, 2017 – Guidance on the Disposition of Accounts 1588 and 1589:
  - RPP settlement true-up claims are conducted monthly.
  - The balances in Lakefront's RSVA Power (1588) and Global Adjustment (1589) variance accounts that are requested for disposition reflect RPP settlement amounts pertaining to the period that is being requested for disposition.

Lakefront also confirms that it has appropriate controls, processes, and systems in place in order to:

- Accurately and on a timely basis calculate RPP transactions and claims to the IESO.
- Provide reasonable assurance of the validity and accuracy of RPP claims.
- Accurately describe the processes conducted to submit RPP claims to the IESO if requested.
- Determine the amount of the settlement claims that pertain to RPP true-up adjustments for the previous fiscal year.

Lakefront confirms that it has implemented the new accounting guidance (related to Accounts 1588 and 1589 – February 21, 2019). A review of historical balances, results of the review, and adjustments occurred in 2017 during Lakefront's special purpose audit, included in Appendix A.

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5. Lakefront confirms that it has not received approval for interim disposition of historical accounts balances.
6. Lakefront Utilities Inc.'s President certifies that Lakefront Utilities Inc. has robust processes and internal controls in place for the preparation, review, verification, and oversight of the account balances being disposed.



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Dereck Paul  
President and CEO  
Lakefront Utilities Inc.

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A high-level overview of Lakefront's process for business billing practices, customer consumptions (splits between the RPP and Non-RPP customers), rate classes (with respect to the RPP and Non-RPP customers).

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***Billing of Class A and Class B Customers***

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Customers (both Class A and Class B) are billed on a one-month billing lag (i.e: January consumption would be billed to customers in February). Class B non-RPP customers are billed using the 1<sup>st</sup> GA estimate. Class A customers are billed using their peak demand factor (PDF) multiplied by the actual total monthly Global Adjustment published by the IESO. Since the IESO bills are based on the same methodology, the amount billed to Class A customers is equal to the amount charged by the IESO for Class A Global Adjustment (charge type 147). A monthly check is done to ensure that the amount billed to Class A customers equals the amount billed by the IESO for Class A Global Adjustment.

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Class B customers are billed using the 1<sup>st</sup> GA estimate and the GA rate used is applied consistently for all billed and unbilled revenue transactions for non-RPP Class B customers in each customer class.

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Lakefront Utilities bills consumption on a calendar month basis (i.e. first of month to the last day of the month) for a small portion of interval metered customers classified as General Service Greater than 50kW. All customers are billed monthly, averaging a 30-day consumption period mostly overlapping between months.

1 The process for determining unbilled revenue is completed using data processed from Lakefront's  
2 Lakefront Utilities' CIS, NorthStar to Lakefront's general ledger, Great Plains (GP). The data for all  
3 revenue and expense GL accounts are pulled for the most recent and available billing cycle posted  
4 in both GP and NorthStar. The data also contains time periods which are variable by billing cycle  
5 (i.e. Nov 15 – Dec 15, Nov 25 – Dec 25, etc.). Based on the variable time periods corresponding  
6 formulas are used to accrue unbilled activities by each GL account within each billing cycle.  
7

### 8 ***RPP Settlement Process (consumption estimates)***

9

10 The consumption amounts provided to the IESO as part of Lakefront's settlement process is from  
11 our CIS Northstar billing system. Similarly, consumption data from CIS Northstar is used to  
12 determine the RPP customers on TOU or the Tier 1 and Tier 2 blocks. A true-up calculation is  
13 completed every month for the previous months and is then added/subtracted from the next  
14 month's IESO submission.  
15

16 The finance staff obtain kWh generation for each generation price tier and enter it into a  
17 spreadsheet. This information is accumulated as part of the setup required to complete the Feed In  
18 Tariff Program information. For a generator putting energy into the system, LUI pays the generator  
19 based on the OPA contracted price, therefore the IESO owes LUI reimbursement for the generation  
20 amount paid to the generation customer. This reimbursement is made via a credit to Lakefront's  
21 monthly IESO bill.  
22

### 23 ***Description of Accounting Methods***

24

25 Lakefront Utilities Inc. follows the Ontario Energy Board (OEB) description and guidance listed in  
26 the Accounting Procedure Handbook (APH) for accounts 1588 and 1589 and applicable revenue  
27 and expense accounts, as follows:

#### 28 ***Account 1588***

29 Revenue associated with account 1588 consists of customers that pay Time-of-Use (TOU) rates and  
30 two-tiered rates. TOU rates are based on rates prescribed by the OEB. Account 1588 expenses  
31 primarily consist of the allocation of Global Adjustment based on the IESO invoice and is allocated  
32 based on total usage less usage associated with customers paying Class B Global Adjustment. Other  
33 charges consist of TOU and two-tiered charges.

34 Although the OEB has not developed an analysis Workform for account 1588 (similar to account  
35 1589), Lakefront staff have developed its own account 1588 Analysis Workform. The Workform  
36 summarizes the rates charged and consumption by month for each rate class and recalculates the  
37 total revenue and compares to the actual revenue summarized in Account 1588. The Workform also  
38 compares the IESO charges allocated to Account 1588 and determines reasonability based on the  
39 total system load per Utilismart to determine if the revenue summarized in Account 1588 is  
40 reasonable.

1 **Account 1589**

2 Revenue associated with account 1589 consists of customers that pay Class B Global Adjustment.  
3 The revenue primarily (approximately 85%) consists of GS>50 kW customers with annual usage  
4 over 250,000 kWh and demand greater than 50 kW for five consecutive months.

5 Customers are charged the Class B GA rate as per the IESO website (first estimate), which is  
6 updated by the Customer Service Supervisor each month in Northstar. Lakefront prepares monthly  
7 testing for each category of bill code, ensuring that the correct GA rate and GL are applied.

8 Account 1589 expenses are based on the allocation of Global Adjustment as per the monthly IESO  
9 invoice. Lakefront staff download usage data from Northstar for the month and allocate Global  
10 Adjustment based on the usage of Class B customers as compared to the total usage. Further,  
11 Lakefront prepares the OEB's Global Adjustment Analysis Workform to verify that revenue and  
12 expenses have been allocated appropriately. As Lakefront's process for allocating the Global  
13 Adjustment is based on usage data from Northstar, Lakefront also prepares an annual true-up in  
14 February once all prior year billings are complete. The true-up process ensures the monthly  
15 allocation is accurate and if any adjustments are required, are properly reflected in the correct  
16 fiscal year.

17 The following controls are in place to ensure the balances reported in Accounts 1588 and 1589 are  
18 accurate:

19  
20 1. A monthly reconciliation is prepared to ensure Class A customers and Generation  
21 consumption is filed correctly and the applicable IESO rate and dollar amount per the IESO  
22 invoice are accurate.

23  
24 The Regulatory and Billing Supervisor prepares the monthly Class A filing, which is  
25 reviewed by the Director of Regulatory Finance.

26  
27 2. Monthly bill testing for each class of customer, recalculates the various charges based on  
28 approved rates and ensures all correct GL accounts are used.

29  
30 3. Lakefront staff have developed its own account 1588 Analysis Workform. The Workform  
31 verifies that account 1588 is correctly reconciled.

32  
33 4. Account 1589 expenses are based on the allocation of Global Adjustment as per the monthly  
34 IESO invoice. Lakefront staff download usage data from Northstar for the month and  
35 allocate Global Adjustment based on the usage of Class B customers as compared to the total  
36 usage. Further, Lakefront prepares the OEB's Global Adjustment Analysis Workform on a  
37 monthly basis to verify that revenue and expenses have been allocated appropriately.

38  
39 5. The monthly 1598 form reconciles to the billing stats from CIS Northstar, therefore any  
40 discrepancies are flagged for review. The Finance Assistant prepares the monthly 1598  
41 form and for review purposes, the Director of Regulatory Finance prepares the 1598 form  
42 as well to ensure the filing is accurate.

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6. The monthly journal entry to record the IESO invoice and is prepared by the Finance Assistant and reviewed by the Director of Regulatory Finance.
7. The monthly MicroFIT settlement with the IESO is prepared by the Finance Assistant, along with the appropriate backup and is reviewed by the Director of Regulatory Finance.

2.9.4 ESTABLISHMENT OF NEW DEFERRAL AND VARIANCE ACCOUNTS

LUI is requesting the following new deferral/variance account:

- Account 1595 – Sub-account 2022

Rate Rider for Disposition of Deferral/Variance Accounts (2022) – effective until December 31, 2022. Upon approval of disposition, LUI is requesting Board approval to establish 1595-Sub-account 2022 to track costs, revenues and interest for amounts disposed of in LUI’s 2022 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.

**APPENDIX**

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Appendix A	Independent Auditor’s Report

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1 **APPENDIX A - INDEPENDENT AUDITOR'S REPORT**

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July 31<sup>st</sup>, 2019

MS. Kirsten Walli  
Ontario Energy Board  
P.O. Box 2319 27<sup>th</sup> Floor  
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**Regarding: Decision and Rate Order – EB-2018-0049**

Dear Ms. Walli

Please find attached accompanying response to OEB findings associated with Lakefront Utilities Inc.'s 2019 IRM filing – EB-2018-0049, dated December 20, 2018.

Should the board have questions regarding this matter please contact me at [jtaylor@bakertilly.ca](mailto:jtaylor@bakertilly.ca).

Respectfully Submitted,

*Baker Tilly KDN LLP*

Jeff Taylor, CPA CA  
Partner  
Baker Tilly KDN LLP

Cc: Dereck C. Paul  
CEO/President  
Lakefront Utilities Inc.

Cc: Adam Giddings, CPA, CA  
Manager of Regulatory Compliance and Finance  
Lakefront Utilities Inc.

Below is a summary of the findings indicated in Lakefront Utilities Inc.'s EB-2018-0049 Decision and Rate Order dated December 20, 2018. Baker Tilly addresses the following topics in this submission:

1. Updated Audit Report;
2. Scope of Audit Work.

As indicated in the Decision and Rate Order:

“The OEB cannot rely on the audit report that was filed on August 23, 2018 and agrees with OEB staff that an updated audit report related to the December 31, 2017 balances should be filed with Lakefront Utilities’ 2020 IRM application.”<sup>1</sup>

“In its 2020 IRM application, Lakefront Utilities should confirm that the scope of work for its updated audit, included a review of the IESO settlement process for Accounts 1588 and 1589. In addition, the updated audit report should indicate whether IESO debits or credits received after the respective December 31 year end, were considered.”<sup>2</sup>

### **Baker Tilly Response**

Baker Tilly has updated the audit report related to the December 31, 2017 balances. The updated audit report has been included as Appendix A.

Baker Tilly further revised the notes to the 2018 audited financial statements indicated that there was a reclass between cost of power purchased and net movement in regulatory deferral accounts.

Further, Baker Tilly and Lakefront Utilities confirm that the scope of audit work for the 2018 year end audit included a thorough review of the IESO settlement process, including additional audit procedures associated with the monthly submissions for the 1598, MicroFIT, Ontario Energy Support Payments, and Ontario Fair Hydro Plan. Baker Tilly review year end cut-off procedures to ensure that IESO debits or credits received after the December 31 year end were properly accounted.

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<sup>1</sup> EB-2018-0049, Page 9

<sup>2</sup> EB-2018-0049, Page 9

## **Appendix A**

### **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Lakefront Utilities Inc.

#### *Opinion*

We have audited the accompanying schedule of variance accounts 1588 and 1589 of Lakefront Utilities Inc., for the period from January 1st, 2016 to December 31st, 2017, and a summary of significant accounting policies and other explanatory information, hereby referred to as “the financial schedule”. The financial schedule has been prepared by management in accordance with Article 490 of the Accounting Procedures Handbook for Electricity Distributors as published by the Ontario Energy Board effective January 1, 2012 and Guidance, and Frequently Asked Questions issued by the Ontario Energy Board from time to time.

In our opinion, the financial schedule of Lakefront Utilities Inc., for the period from January 1st, 2016 to December 31st, 2017 is prepared, in all material respects in accordance with Article 490 of the Accounting Procedures Handbook for Electricity Distributors as published by the Ontario Energy Board effective January 1, 2012 and Guidance and Frequently Asked Questions issued by the Ontario Energy Board from time to time.

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedule section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial schedule in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Emphasis of Matter – Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note 1 to the financial schedule, which describes the basis of accounting. This financial schedule is prepared Lakefront Utilities Inc. in order to comply with the financial reporting provisions of the Ontario Energy Board, in accordance with Article 490 of the Accounting Procedures Handbook for Electricity Distributors. As a result, this financial schedule may not be suitable for another purpose and should not be distributed to parties other than Lakefront Utilities Inc. or the Ontario Energy Board.

#### *Emphasis of Matter – Amendment to the Financial Schedule*

We draw attention to Note 6 to the financial schedule, which explains the amendment to the financial schedule issued August 23rd, 2018. Our opinion is not modified in respect of this matter.

As part of our audit of the financial schedule for the period from January 1st, 2016 to December 31st, 2017 we also audited the adjustments applied and detailed in Note 3 to the financial schedule. In our opinion, such adjustments are appropriate and have been properly applied.

### *Other Information*

The financial schedule issued August 23rd, 2018 of Lakefront Utilities Inc. for the period from January 1st, 2016 to December 31st, 2017 was audited by Collins Barrow Kawarthas LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

### *Responsibilities of Management and Those Charged with Governance for the Financial Schedule*

Management is responsible for the preparation and fair presentation of the financial schedule of Lakefront Utilities Inc. in accordance with Article 490 of the Accounting Procedures Handbook for Electricity Distributors as published by the Ontario Energy Board effective January 1, 2012 and Guidance, and Frequently Asked Questions issued by the Ontario Energy Board from time to time, and for such internal control as management determines is necessary to enable the preparation of the financial schedule of Lakefront Utilities Inc. that are free from material misstatement, whether due to fraud or error.

In preparing the financial schedule, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Schedule*

Our objectives are to obtain reasonable assurance about whether the financial schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial schedule. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up



to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial schedule, including the disclosures, and whether the financial schedule represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants  
Licensed Public Accountants

*Baker Tilly KDN LLP*

Peterborough, Ontario

July 31<sup>st</sup>, 2019

1588 - RSVA Power				
Details	Principal	Interest	Total	
Balance at December 31, 2015	896,631	(17,601)	879,030	
Note 1 OEB-Approved Disposition during 2016	(500,795)	9,700	(491,095)	
Note 2 Transactions - 2016	680,894	11,543	692,437	
Note 3 Principal Adjustments	(1,390,293)	(7,753)	(1,398,046)	
2016 Balance	(313,563)	(4,111)	(317,674)	
Note 4 OEB-Approved Disposition during 2017	(395,836)	(1,962)	(397,798)	
Note 2 Transactions - 2017	(41,928)	6,655	(35,273)	
Note 3 Principal Adjustments	2,373,485	(12,409)	2,361,076	
Note 5 Class A Adjustment	(1,125,148)	0	(1,125,148)	
2017 Balance	497,010	(11,827)	485,183	
Note 2 Transactions - 2018	(518,028)	12,125	(505,903)	
2018 Balance	(21,018)	298	(20,720)	
RRR 2.1.7	(21,018)	298	(20,719)	
Difference	(0)	(0)	(0)	

1589 - RSVA Global Adjustment				
Details	Principal	Interest	Total	
Balance at December 31, 2015	(1,539,387)	(11,597)	(1,550,984)	
OEB-Approved Disposition during 2016	774,846	7,359	782,205	
Transactions - 2016	(1,576,125)	(19,121)	(1,595,246)	
Principal Adjustments	1,390,293	7,753	1,398,046	
2016 Balance	(950,373)	(15,606)	(965,979)	
OEB-Approved Disposition during 2017	764,541	21,171	785,712	
Transactions - 2017	2,441,748	(15,642)	2,426,106	
Principal Adjustments	(2,373,485)	12,409	(2,361,076)	
Class A Adjustment	(974,452)	0	(974,452)	
2017 Balance	(1,092,021)	2,332	(1,089,689)	
Transactions - 2018	(108,473)	(18,295)	(126,768)	
2018 Balance	(1,200,494)	(15,963)	(1,216,457)	
RRR 2.1.7	(1,200,494)	(15,963)	(1,216,457)	
Difference	0	(0)	0	

#### Basis of Accounting - Significant Accounting Policies

The Schedule of variance accounts 1588 and 1589 of Lakefront Utilities Inc. have been prepared in accordance with Modified International Financial Reporting Standards ("MIFRS").

The Company is licensed and regulated by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board, 1988. Per the Ontario Energy Board Accounting Procedures Handbook (APH) for Electricity Distributors Issued December 2011:

"The accounting procedures and requirements set out in this APH apply to a distributor that prepares its financial accounting records and reporting on the basis of CICA Handbook Part I - International Financial Reporting Standards. The Board generally requires regulatory filing and reporting under IFRS, as modified for regulatory purposes by the Board (modified IFRS or MIFRS)."

- Note 1 Disposition approved in 2016 IRM - EB-2015-0085. The amounts consist of balances as at December 31, 2014
- Note 2 Total of Cost of Power true-up transactions during the year. Amount is the original transaction recorded, before principal as per Note 3.
- Note 3 Management identified issues with the split of charge type 148 for the Cost of Power from the IESO. The balances were corrected and audited as part of the special purpose conducted in 2018.
- Note 4 Disposition approved in 2017 COS - EB-2016-0089. The amounts consist of balances as at December 31, 2015.
- Note 5 When Lakefront Utilities adopted Class A customers for the first time, the reporting of Class A kWh was not submitted for the 2017 consumption months of July, August, September, and December 2017. Consequently, Lakefront was overcharged for Class B Global Adjustment, which affected its 1588 and 1589 balances.