



Ontario  
Energy  
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**BY EMAIL**

May 17, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Synergy North Corporation  
Application for the Disposal of Accounts 1588 and 1589  
OEB File Number: EB-2023-0106**

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Please find attached OEB staff's submission in the above-referenced proceeding, filed pursuant to Procedural Order No. 1.

Yours truly,

Katherine Wang  
Incentive Rate-Setting & Regulatory Accounting

Encl.

cc: All parties in EB-2023-0106



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Synergy North Corporation**

**Application for the Disposal of Accounts 1588 and 1589**

**EB-2023-0106**

**May 17, 2023**

## Background

On March 13, 2023, Synergy North Corporation (Synergy North) filed an application with the OEB under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval to dispose of the principal balances as at December 31, 2021, plus the interest until April 30, 2023, in two deferral and variance accounts (DVAs), Account 1588 – Retail Settlement Variance Account (RSVA) Power and Account 1589 - RSVA Global Adjustment (GA), for both Thunder Bay and Kenora rate zones, over a 12-month period, effective May 1, 2023.<sup>1</sup>

This request was originally included in Synergy North's 2023 Incentive Rate Mechanism (IRM) proceeding.<sup>2</sup> However, due to concerns about potential retroactive rate adjustments, Synergy North subsequently withdrew its request to dispose of these two accounts in the 2023 IRM application after it discovered an accounting error that impacted those accounts.

OEB staff's submission in this proceeding can be summarized as follows:

Subject to one proposed modification to the treatment of the accounting error, OEB staff supports Synergy North's request for the disposal of the 2021 balances in Account 1588 and Account 1589 in both rate zones. OEB staff's proposed modification to Synergy North's request is that the proposed retroactive adjustments for the Thunder Bay rate zone of \$442,963 in 2020 and \$236,071 in 2019, as well as any associated interest, should be denied.

Based on the proposed modification mentioned above, OEB staff is of the view that Synergy North should provide updated rate rider calculations, proposed tariff and bill impact<sup>3</sup> in its reply submission.

## This Application

In this application, Synergy North requested approval to dispose of balances in Account 1588 and Account 1589 for both rate zones. Synergy North populated the relevant sections in the IRM rate generator model pertaining to the DVA disposition request.

### *Thunder Bay rate zone*

Synergy North is requesting to dispose of the 2021 balances of \$603,990 in Account 1588 and \$(1,018,658) in Account 1589 as shown in Table 1. The total claim includes the principal balances as of December 31, 2021, interest up to April 30, 2023, and

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<sup>1</sup> EB-2023-0106, 2023 Electricity Distribution Rate Application, Disposal of Accounts 1588 & 1589 bifurcated from EB-2022-0063, March 13, 2023

<sup>2</sup> EB-2022-0063, 2023 IRM application

<sup>3</sup> Based on Synergy North's proposed July 1, 2023 effective date, the bill impact should reflect the difference in billing amounts between July 1, 2023 and June 30, 2023.

proposed adjustments for the accounting error. The error has impacted the balances of Account 1588 for the years 2016 to 2021. Synergy North stated that it would not propose retroactive adjustments for 2016 to 2018 since the amounts involved were not material and fell below the materiality threshold of the 2017 distribution revenue requirement.<sup>4</sup> However, Synergy North seeks to dispose of the 2021 amount as principal adjustments, and the 2019 to 2020 amounts as retroactive adjustments.<sup>5</sup> Account 1588's 2019 and 2020 balances had previously been approved for final disposition in Synergy North's 2021 and 2022 rate applications, respectively.<sup>6</sup> Synergy North noted that there is no impact on Account 1589 because claims and true-ups for Account 1588 and Account 1589 are handled separately in monthly true-ups.<sup>7</sup>

Synergy North stated that once this issue is resolved in this application, it will remit the 2019 to 2021 adjustments to the Independent Electricity System Operator (IESO); however, it will not seek settlement with the IESO for the adjustments between 2016 to 2018.<sup>8</sup>

**Table 1 – Correction and Balances Requested for Disposition – Thunder Bay Rate Zone**

Account	2016 to 2021 Error (\$)	Proposed Adjustments to be Written-Off 2016 ~ 2018 (\$)	Proposed Retroactive Adjustments 2019 & 2020 (\$)	Principal Adjustment in 2021 (\$)	Total Proposed Adjustments 2019 ~ 2021 (\$)	Balance Requested for Disposition (\$)*
1588, RSVA Power	(1,673,005)	129,731	679,034	864,240	1,543,274	603,990
1589, RSVA Global Adjustment	0	0	0	0	0	(1,018,658)
<b>Total</b>	<b>(1,673,005)</b>	<b>129,731</b>	<b>679,034</b>	<b>864,240</b>	<b>1,543,274</b>	<b>(414,668)</b>

\* Included total proposed Adjustments for 2019 to 2021 errors

<sup>4</sup> EB-2022-0063, Response to Staff Interrogatories #8

<sup>5</sup> EB-2022-0063, Response to Staff Interrogatories #8

<sup>6</sup> EB-2021-0058, Decision and Rate Order, March 24, 2022 & EB-2020-0055 Decision and Rate Order, March 25, 2021

<sup>7</sup> EB-2022-0063, Response to OEB staff follow-up questions #3

<sup>8</sup> EB-2022-0063, Response to Staff Interrogatories #8

*Disposition Period*

Table 2 below depicts the Global Adjustment (GA) rate riders and updated Group 1 DVA rate riders resulting from the disposition of updated Accounts 1588 and 1589 balances over a 12-month period.

**Table 2 – Proposed DVA Rate Riders Over 12 Month**

<b>Thunder Rate Zone – Rate Class</b>	<b>GA Rate Rider Per kWh</b>	<b>Deferral/Variance Account Rate Rider Per kWh</b>
Residential	\$(0.0042)	\$0.0007
GS<50 kW	\$(0.0042)	\$0.0007

In response to OEB staff's interrogatories,<sup>9</sup> Synergy North provided alternatives for the disposition period for Account 1588 and Account 1589 balances over a 10-month period. OEB staff has no concern with the new proposed July 1, 2023 effective date with a 10-month disposition period.

*Kenora rate zone*

Synergy North is requesting to dispose of the 2021 balances of \$67,334 in Account 1588 and \$(108,096) in Account 1589 shown in Table 3. The total claim includes the principal balances as of December 31, 2021, and interest up to April 30, 2023. The accounting error impacts the balance of Account 1588 from 2020 to 2021. Synergy North did not propose adjustments for 2020 because the amounts involved were immaterial. Synergy North seeks to record 2021 amount as principal adjustment and dispose of the adjustment as part of the 2021 Account 1588 balance. Synergy North further stated that it will not seek settlement with the IESO for the 2020 amount.<sup>10</sup>

**Table 3 – Correction and Balances Requested for Disposition - Kenora Rate Zone**

<b>Account</b>	<b>2020 to 2021 Error (\$)</b>	<b>Proposed Adj to be Written-Off 2020 (\$)</b>	<b>Proposed Principal Adjustments in 2021 (\$)</b>	<b>Balance Requested for Disposition (\$)*</b>
1588, RSVA Power	(167,868)	31,084	136,784	67,334
1589, RSVA Global Adjustment	0	0	0	(108,096)
<b>Total</b>	<b>(167,868)</b>	<b>31,084</b>	<b>136,784</b>	<b>(40,762)</b>

<sup>9</sup> EB-2023-0106, Responses to Staff Interrogatories, #2

<sup>10</sup> EB-2022-0063, Responses to Staff Interrogatories, #8

\* Included proposed adjustments for 2021 errors

### *Disposition Period*

Table 4 below depicts the GA rate riders and updated Group 1 DVA rate riders resulting from the disposition of updated Account 1588 and Account 1589 balances over a 12-month period.

**Table 4 – Proposed DVA Rate Riders Over 12 Month**

<b>Kenora Rate Zone – Rate Class</b>	<b>GA Rate Rider Per kWh</b>	<b>Deferral/Variance Account Rate Rider Per kWh</b>
Residential	\$(0.0031)	\$0.0007
GS<50 kW	\$(0.0031)	\$0.0007

In response to OEB staff interrogatories,<sup>11</sup> Synergy North provided alternatives for the disposition period for Account 1588 and Account 1589 balances over a 10-month period. OEB staff has no concern with the new proposed July 1, 2023 effective date with a 10-month disposition period.

### *Accounting Error for both rate zones*

In Synergy North's 2023 IRM application, OEB staff asked a question about the high variance in the Thunder Bay rate zone GA Analysis Workform. In its reply,<sup>12</sup> Synergy North disclosed that it discovered a billing code error for one group of customers in the GS>50 rate class, which started in 2016 when this group of customers transitioned from non-interval meters to real-time meters. There are differences in the billing components of customer accounts between non-interval and real-time meters. During the transition to real-time meters, extra components for the latter were added to accounts, but those for non-interval meters were not removed. As a result, price-protected accounts with real-time meters showed two debits recorded to the IESO settlement general ledger account (one from real-time metering and the other from non-interval meters). These additional billing components have caused underpayments in the monthly Regulated Price Plan (RPP) settlements with the IESO because of the overstated costs for this group of customers since 2016. As a result, the commodity variances that are recorded in Account 1588 have been over credited in a total amount of \$1,673,005, from 2016 to 2021, for the Thunder Bay rate zone, and a total amount of \$167,868, from 2020 to 2021, for the Kenora rate zone. Synergy North further said that the error had previously gone undetected because historically, not many customers in this class had transitioned to real-time meters.<sup>13</sup>

<sup>11</sup> EB-2023-0106, Responses to Staff Interrogatories, #2

<sup>12</sup> EB-2022-0063, Response to OEB staff question #8

<sup>13</sup> EB-2022-0063, Response to OEB staff question #8

In its response to OEB staff follow-up questions,<sup>14</sup> Synergy North confirmed that there is no impact on Account 1589 because claims and true-ups for Account 1588 and Account 1589 are handled separately in monthly true-ups. In its response to an OEB staff question,<sup>15</sup> Synergy North further stated that the duplication of components had no effect on the total amounts charged on any bill to any customer class.

In this application, Synergy North proposed to adjust its Account 1588 balances for the Thunder Bay rate zone for 2021 with principal adjustments, as well as retroactively adjust for 2019 and 2020, which were disposed of on a final basis in the 2022 and 2021 proceedings respectively.<sup>16</sup> However, Synergy North stated that for the Thunder Bay rate zone, it will not pursue retroactive adjustments for years prior to 2019 due to the requested amount being below the materiality level.<sup>17</sup> Similarly, Synergy North stated that it will not seek any retroactive recovery for 2020 Account 1588 balances in the Kenora rate zone, based on the same reasoning.

OEB staff notes that the proposed corrections to Account 1588 are retroactive in nature. In the OEB's letter *Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition*,<sup>18</sup> (OEB Guidance Letter) the OEB provided guidance on adjustments to commodity accounts resulting from errors after final disposition and indicated that an asymmetrical approach to the correction of the error may be appropriate in some circumstances. The OEB Guidance Letter also provided an example of this where, if a distributor repeats an error, and if correcting the error is solely to the benefit of the distributor, the OEB may not approve a part or all of the correction and of any associated carrying charges.

In its response to an OEB staff question,<sup>19</sup> regarding the four factors in the OEB Guidance letter, Synergy North described the error as follows:

- The error was within their control but was unintentional and not easily noticeable due to the small variance.
- It was the first occurrence of such an error for Synergy North.
- The error was inadvertent and not a result of a lack of guidance from the OEB.
- Other distributors make similar errors in 1588 given the accounting complexities to calculate the accounting entries.

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<sup>14</sup> EB-2022-0063, Response to OEB staff follow-up questions #3

<sup>15</sup> EB-2022-0063, Response to OEB staff question #8

<sup>16</sup> EB-2021-0058 Decision and Rate Order, March 24, 2022 & EB-2020-0055, Decision and Rate Order, March 25, 2021

<sup>17</sup> EB-2022-0063, Response to OEB staff interrogatory #8

<sup>18</sup> Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition, October 31, 2019

<sup>19</sup> EB-2023-0106, Response to OEB staff interrogatory #1

## Submission

OEB staff supports Synergy North's request for the disposal of the 2021 balances of Account 1588 and Account 1589 in both rate zones. OEB staff has no issue with the 2021 principal adjustments made by Synergy North for the accounting error because these adjustments are recorded in the current period to correct the billing code error.

Additionally, Synergy North has confirmed its compliance with the Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 and related Illustrative Model (Accounting Guidance) issued by the OEB in February 2019.<sup>20</sup> In its 2022 IRM proceeding, Synergy North advised that it had complied with the Accounting Guidance with the exception of the monthly true-up settlement with the IESO, which was implemented as of July 2021.<sup>21</sup>

However, OEB staff is of the view that the OEB should deny Synergy North's proposed retroactive adjustment of \$442,963 in 2020 and \$236,071 in 2019 for the Thunder Bay rate zone, including the associated interest. The OEB staff submits that Synergy North should provide updated rate rider calculations, proposed tariff and bill impact<sup>22</sup> in its reply submission that incorporates the possible denial of the total \$679,034 retroactive adjustment, including the associated interest.

OEB staff notes that commodity accounts are "pass-through" accounts, where distributors are not supposed to gain or lose from the pass-through of electricity commodity. However, permitting the retroactive adjustment sought by Synergy North would be at the expense of Synergy North's current customers. Some of Synergy North's current customers are not responsible for the 2019 and 2020 balances in which the error pertained to. These customers should not be held accountable for Synergy North's error.

Retroactive adjustments have been approved in previous cases<sup>23</sup> using the asymmetrical approach when they were in favor of ratepayers. For example, in Enova Power's 2023 IRM decision and order,<sup>24</sup> the OEB approved the utility's proposal to correct the balances in Accounts 1588 and 1589 from prior years since the OEB determined that these corrections benefited customers. In Hydro Hawkesbury's 2011 IRM decision and order,<sup>25</sup> the OEB approved corrections for Account 1588 and Account 1589 to ensure appropriate disposition and to prevent allocation issues among different

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<sup>20</sup> [Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 \(February 21, 2019\) \(oeb.ca\)](https://oeb.ca)

<sup>21</sup> EB-2021-0058, 2022 IRM application, p22

<sup>22</sup> Based on Synergy North's proposed July 1, 2023 effective date, the bill impact should reflect the difference in billing amounts between July 1, 2023 and June 30, 2023.

<sup>23</sup> EB-2022-0067, Decision and Rate Order, December 8, 2022; EB-2016-0090, Decision and Rate Order, December 8, 2016; EB-2016-0075, Decision and Rate Order, December 8, 2016; EB-2013-0150, Decision and Rate Order, March 13, 2014; EB-2009-0113, Decision and Order, September 9, 2009

<sup>24</sup> EB-2022-0067, Decision and Rate Order, December 8, 2022

<sup>25</sup> EB-2010-0090, Supplemental Partial Decision and Order, July 6, 2011



customer groups. However, it is important to note that the coding error in this application only impacted Account 1588 and had no impact on Account 1589.<sup>26</sup>

Synergy North acknowledged that the error was within its control but was unintentional. Synergy North further argued that the error was not easily noticeable due to the small variance in Account 1588. While that may have been true when the error first arose in 2016, OEB staff submits that Synergy North should have had controls in place to uncover this error far earlier - and on its own. The error initially amounted to less than \$100k before 2019, increased to approximately \$200k in 2019, further escalated to \$400k in 2020, and currently stands at \$800k in 2021. In fact, this error was only uncovered because of an OEB staff question that was posed to Synergy North in the 2023 IRM proceeding regarding the high percentage (%) variance observed in Account 1588 for the Thunder Bay rate zone.<sup>27</sup>

Synergy North acknowledged that it did not detect two errors amounting to \$442,963 (2020 year) and \$236,071 (2019 year) in its 2022 IRM application. Synergy North stated that this oversight was due to the fact that the Account 1588 reasonability test in 2022 IRM proceeding was met (i.e., less than 1%), which led Synergy North to conclude that no further investigation was required.<sup>28</sup> However, OEB staff does not agree with that assertion. Synergy North should have sufficient internal controls to ensure the accuracy of Account 1588 balance, the reasonability test for Account 1588 provides a generic check for the reasonableness of the balance. Meeting the reasonability test itself does not indicate that the balance in the account is accurate.

OEB staff anticipates that Synergy North's reply argument may raise the potential of financial hardship. In response to OEB staff interrogatories,<sup>29</sup> Synergy North stated that if the requested retroactive adjustment of \$679,034 is denied, it will have a significant impact on both the utility's cash flow and Return of Equity (ROE). OEB staff agrees that if Synergy North is denied a retroactive adjustment of \$679,034, there will be a negative impact on its ROE. However, it is important to note that (a) this is the result of Synergy North's own error which persisted for many years; and (b) such a result is a one-time impact which will not impair its ability to earn a reasonable rate of return in future years. Fluctuations in ROE can happen year to year. For example, Synergy North's 2022 ROE was noticeably lower than in prior years, mainly due to the implementation of a significant forestry plan that resulted in an additional \$1.35 million in maintenance costs during that year.<sup>30</sup> Given the historic volatility in achieved ROE,<sup>31</sup> there is no evidence to suggest that the \$679,034 retroactive adjustment is needed to ensure the long-term

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<sup>26</sup> EB-2022-0063, Response to OEB staff follow-up questions #3; EB-2023-0106, Responses to Staff

<sup>27</sup> EB-2022-0063, Response to OEB staff interrogatory #8

<sup>28</sup> EB-2023-0106, Response to OEB staff interrogatory #1

<sup>29</sup> EB-2023-0106, Responses to Staff Interrogatories #1

<sup>30</sup> Synergy North Fiscal 2022 ROE Filing RRR 2.1.5.6

<sup>31</sup> [Electricity Distributor Performance - Distributor Custom Report View Synergy North Corporation \(oeb.ca\)](https://www.oeb.ca/electricity-distributor-performance-distributor-custom-report-view-synergy-north-corporation)

financial viability of Synergy North going forward.

As a final matter, OEB staff wishes to address one further issue as part of its submission. In its application, Synergy North indicated that it has not remitted the 2021 principal adjustments for both rate zones, as well as the 2019 to 2020 retroactive adjustments for the Thunder Bay rate zone to the IESO. Rather, it said that it would do so once a decision is issued in this case. Synergy North further stated that it will not seek settlements with the IESO for the 2016 to 2018 adjustments for the Thunder Bay rate zone, as well as the 2020 adjustment for the Kenora rate zone as those amounts are immaterial.<sup>32</sup> OEB staff does not agree with this wait and see approach. Rather, this application and the settlement with the IESO are two separate matters. As noted in the OEB's Decision and Order on Canadian Niagara Power's 2023 IRM application, it is the obligation of a utility:

to settle RPP accurately with the IESO. Correcting settlement errors with the IESO should not wait for the OEB to provide direction. It is a separate matter for the OEB to consider the appropriate disposition of amounts recorded in deferral and variance accounts...The OEB expects the settlement error to be corrected at the first opportunity to do so.<sup>33</sup>

Consistent with this prior direction of the OEB, OEB staff submits that Synergy North should contact the IESO to correct all prior period settlements, to the extent it has not already done so.

~All of which is respectfully submitted~

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<sup>32</sup> EB-2022-0063, Responses to Staff Interrogatories, #8

<sup>33</sup> EB-2022-0019, Decision and Rate Order, December 8, 2022, pp. 8-9