

# **ONTARIO ENERGY BOARD**



## **Inspection Report**

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**Lakefront Utilities Inc.**

**Follow-Up Inspection of Group 1 Deferral and Variance  
Accounts 1588 and 1589**

**February 2025**

## Table of Contents

<b>1.</b>	<b><i>SUMMARY .....</i></b>	<b><i>1</i></b>
<b>2.</b>	<b><i>REASON AND AUTHORITY FOR INSPECTION .....</i></b>	<b><i>3</i></b>
<b>3.</b>	<b><i>OBJECTIVE AND SCOPE .....</i></b>	<b><i>3</i></b>
<b>4.</b>	<b><i>METHODOLOGY .....</i></b>	<b><i>4</i></b>
	<b><i>APPENDIX 1.....</i></b>	<b><i>5</i></b>
	<b><i>APPENDIX 2.....</i></b>	<b><i>6</i></b>
	<b><i>APPENDIX 3.....</i></b>	<b><i>7</i></b>
<b>1.</b>	<b><i>FINDING 1.....</i></b>	<b><i>7</i></b>
<b>2.</b>	<b><i>FINDING 2.....</i></b>	<b><i>8</i></b>
<b>3.</b>	<b><i>FINDING 3.....</i></b>	<b><i>9</i></b>

## 1. SUMMARY

The Ontario Energy Board's (OEB) Inspection and Enforcement department (staff) conducted a follow-up inspection of Lakefront Utilities Inc.'s (Lakefront Utilities) Group 1 deferral and variance accounts (DVA) 1588 (RSVA Power) and 1589 (RSVA Global Adjustment). The follow-up inspection was conducted to review Lakefront Utilities' actions to address the findings from OEB staff's December 2022 inspection of the same DVA accounts.

As a result of OEB staff's December 2022 inspection, Lakefront Utilities acknowledged it had made numerous errors in the accounting of its DVA balances and settlement of Regulated Price Plan (RPP) variances with the Independent Electricity System Operator (IESO) over the 2016-2019 period. In implementing the required actions to address these errors, Lakefront Utilities updated its regulatory accounting processes and applied the updated processes for the 2016-2023 period to calculate revised RPP settlements and DVA balances as of December 31, 2023.

OEB staff's follow-up inspection examined Lakefront Utilities' adjusted balances as of December 31, 2023 to determine whether they were calculated in compliance with applicable enforceable provisions under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, and related regulations, as well as in conformity with the OEB's Accounting Procedures Handbook and related guidelines.

OEB staff have concluded that due to regulatory accounting and settlement errors over the 2016-2023 period that were originally identified in the December 2022 inspection:

- Lakefront Utilities misstated the balances in Accounts 1588 and 1589 by \$439,597 and \$1,468,853 respectively as of December 31, 2023; and
- Lakefront Utilities underpaid \$1,590,418 to the IESO.

The misstated balances in Accounts 1588 and 1589 relate to the amounts Lakefront Utilities reported to the OEB between 2016 to 2023. The OEB has not approved the disposition of these amounts in Accounts 1588 and 1589 due to concerns over their accuracy, which led to the decision by OEB staff to undertake an inspection. The fact that these account balances have not been disposed of means that, subject to the OEB's approval, customers may be charged for the accumulated balances in Accounts 1588 and 1589 from 2016-2023.

Lakefront Utilities did not correctly settle RPP variances in accordance with O. Reg. 430/04<sup>1</sup> made under the *Electricity Act, 1998*, resulting in the underpayment of settlement amounts to the IESO over the 2016-2023 period. This underpayment represents non-compliance with O. Reg. 430/04.

A summary of the adjustments to the balances of Accounts 1588 and 1589 as of December 31, 2023 is provided in **Appendix 1**. A summary of the adjustments to the RPP settlement with the IESO is provided in **Appendix 2**.

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<sup>1</sup> Section 5(1) outlines the amounts to be included in the calculation of the settlements with the IESO.

As highlighted in OEB staff's December 2022 inspection, errors in the calculation of DVA balances and RPP settlements were due to inaccurate consumption data, absence of accrual accounting, and numerous control weaknesses in the regulatory accounting process. As part of the assessment of the accuracy of the adjusted RPP settlements and DVA balances in the follow-up inspection, OEB staff evaluated the status of the actions taken to address each of the findings from the December 2022 inspection. The results of OEB staff's evaluation are summarized as follows:

#	Finding from December 2022 inspection	Expected Action from December 2022 inspection	Status of actions taken
1	Lakefront Utilities did not use actual consumption volumes when recording GA charges for RPP and non-RPP customers.	Lakefront Utilities is expected to reallocate GA costs using RPP and non-RPP actual consumption volumes and percentages for the period from 2016 to 2019 before bringing forward balances in Accounts 1588 and 1589 for disposition.	<b>Fully implemented</b> in determination of adjusted balances for 2016-2023.
2	Lakefront Utilities did not apply the accrual method of accounting as required by regulation for the period 2016 to 2019 inspected.	For the years from 2016 to 2019, Lakefront Utilities is expected to adjust Accounts 1588 and 1589 to reflect the correct balances based on accrual accounting before bringing the accounts forward for disposition in its next rate proceeding.	<b>Fully implemented</b> in determination of adjusted balances for 2016-2023.
3	Lakefront Utilities had numerous internal control weaknesses and discrepancies in its regulatory accounting processes.	Lakefront Utilities should review and implement additional internal control measures, including management review prior to submissions to IESO/reporting to OEB and for accuracy of DVA balances 1588 and 1589.	<b>Partially implemented.</b>  Discrepancies were resolved in the determination of adjusted balances for 2016-2023.

Although the findings from the December 2022 inspection were mostly addressed, OEB staff found additional discrepancies due to persisting control weaknesses. For example, the use of incorrect GA rates, discrepancies between data used for calculations and underlying source documentation, and other data inconsistencies resulted in the need for further revisions to account balances.

Further details of the status of actions taken and additional control weaknesses identified are provided in **Appendix 3**.

At the conclusion of this follow-up inspection, OEB staff verified that Lakefront Utilities has taken steps to resolve identified discrepancies and reflected all the appropriate adjustments in the final proposed RPP settlements and DVA balances as of December 31, 2023. As a result, OEB staff expects Lakefront Utilities to make the necessary adjustments to the DVAs in 2025. In addition, OEB staff expects Lakefront Utilities to include and provide explanation for all the corrective adjustments in the balances brought forward for disposition in Lakefront Utilities' 2025 incentive rate-setting mechanism (IRM) application.<sup>2</sup>

## **2. REASON AND AUTHORITY FOR INSPECTION**

In December 2022, OEB staff completed an inspection of Lakefront Utilities' DVAs for the 2016-2019 period. OEB staff's conclusions from that inspection identified that Lakefront Utilities was required to make adjustments to its balances and processes prior to submitting the DVA balances for disposition in its subsequent rate proceeding. In its subsequent 2024 IRM proceeding, Lakefront Utilities acknowledged that the necessary adjustments had yet to be made and the OEB decided that the DVA balances would not be disposed of until its 2025 IRM proceeding.<sup>3</sup>

In July 2024, Lakefront Utilities provided OEB staff with the results of implementing the action items from OEB staff's December 2022 inspection. Lakefront Utilities stated that it had conducted a full review of its processes over the 2016-2023 period and applied updated processes to calculate adjusted RPP settlements and DVA balances as of December 31, 2023. Due to the extent of Lakefront Utilities' review and subsequent adjustments, OEB staff initiated a follow-up inspection in August 2024 to assess the accuracy of Lakefront Utilities' revised DVA balances and reassess Lakefront Utilities' compliance with its regulatory requirements over the full 2016-2023 period.

The inspection was conducted under the authority of Part VII of the *Ontario Energy Board Act, 1998* by staff appointed as inspectors under section 106 of the Act.

## **3. OBJECTIVE AND SCOPE**

The objectives of the inspection were to examine the balances of Lakefront Utilities' Accounts 1588 and 1589 and determine whether:

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<sup>2</sup> EB-2024-0038.

<sup>3</sup> EB-2023-0035, Decision and Order, pg. 9.

- 1) Lakefront Utilities had implemented the expected actions from OEB staff's December 2022 inspection;
- 2) the revised RPP variance settlements with the IESO for the period between 2016 and 2023 comply with enforceable provisions under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, and related regulations; and
- 3) the revised balances recorded in Accounts 1588 and 1589 for the period from January 1, 2016 to December 31, 2023, were accounted for in conformity with the OEB's Accounting Procedures Handbook and related guidelines.

#### **4. METHODOLOGY**

OEB staff reviewed Lakefront Utilities' procedures, systems and controls with respect to the tracking, recording, calculating and reporting of the Account 1588 and 1589 balances.

OEB staff interviewed key Lakefront Utilities staff and reviewed supporting documents such as IESO invoices, customer billing data, settlement calculations and procedures and accounting records.

**APPENDIX 1**  
**SUMMARY OF ADJUSTMENTS TO BALANCES AS OF**  
**DECEMBER 31, 2023**

		<b>Account 1588</b>	<b>Account 1589</b>
<b>Principal</b>	Revised annual transactions		
	2016	(347,841)	(412,501)
	2017	16,556	261,036
	2018	158,035	(123,556)
	2019	91,275	123,474
	2020	95,666	385,034
	2021	149,079	(308,934)
	2022	238,892	7,677
	2023	175,125	242,454
	<b>Revised Principal Balance as of Dec 31, 2023</b>	<b>576,786</b>	<b>174,683</b>
	Balance as of Dec 31, 2023 per GL	171,775	(1,217,915)
	<b>Adjustment Required to Principal Balance</b>	<b>405,011</b>	<b>1,392,598</b>
<b>Interest</b>	<b>Revised Interest Balance as of Dec 31, 2023</b>	<b>46,208</b>	<b>(75,727)</b>
	Balance as of Dec 31, 2023 per GL	11,623	(151,982)
	<b>Adjustment Required to Interest Balance</b>	<b>34,585</b>	<b>76,255</b>
<b>Total Principal and Interest Adjustments</b>		<b>439,597</b>	<b>1,468,853</b>

**APPENDIX 2**  
**SUMMARY OF ADJUSTMENT SETTLEMENTS WITH THE IESO**

	<b>Original RPP variance settled with IESO</b>	<b>Revised RPP settlement with IESO</b>	<b>Adjustment required to RPP settlement with IESO</b>
2016	223,239	53,616	<b>(169,622)</b>
2017	1,866,904	2,171,952	<b>305,048</b>
2018	4,238,716	3,708,105	<b>(530,611)</b>
2019	4,245,947	3,953,159	<b>(292,788)</b>
2020	854,955	761,642	<b>(93,313)</b>
2021	508,307	<b>(180,477)</b>	<b>(688,785)</b>
2022	<b>(76,850)</b>	<b>(77,908)</b>	<b>(1,057)</b>
2023	990,621	871,332	<b>(119,290)</b>
<b>Total</b>	<b>12,851,840</b>	<b>11,261,421</b>	<b>(1,590,418)</b>
	Amount received from IESO	Amount should have received from IESO	Amount over- received from IESO

In summary, Lakefront Utilities over-received from (i.e. underpaid to) the IESO **\$1,590,418** for settlement of RPP variances from 2016-2023. In settling incorrect amounts with the IESO over this period, Lakefront Utilities was in non-compliance with O. Reg. 430/04.



**APPENDIX 3**  
**DETAILED STATUS OF ACTIONS TAKEN ON**  
**FINDINGS FROM OEB STAFF'S DECEMBER 2022 INSPECTION**

**1. FINDING 1**

**Lakefront Utilities used billed rather than actual consumption volumes when recording GA charges for RPP and non-RPP customers. As a result, Lakefront Utilities did not accurately settle RPP variances with the IESO resulting in inaccurate accounts 1588 and 1589 balances.**

**1.1 Background**

During the December 2022 inspection, OEB staff found that Lakefront Utilities allocated monthly IESO GA charges between RPP and non-RPP customers based on billed consumption data rather than actual consumption data. Furthermore, Lakefront Utilities extracted incomplete customer consumption data from its billing system, resulting in incorrect proration percentages used to allocate GA charges and incorrect RPP settlements with the IESO.

**1.2 Expected Action from December 2022 inspection**

Lakefront Utilities is expected to reallocate GA costs using RPP and non-RPP actual consumption volumes and percentages for the period from 2016 to 2019 before bringing forward balances in accounts 1588 and 1589 for disposition.

**1.3 Status of actions taken**

***Fully implemented***

In the follow-up inspection, OEB staff verified that Lakefront Utilities updated its monthly billing, accounting, and settlement processes and applied the updated processes to recalculate the RPP settlements and balances in Accounts 1588 and 1589 from 2016-2023.

OEB staff conducted sample testing of various months during 2016-2023 and reviewed source documentation of actual consumption data for each month. OEB staff found that Lakefront Utilities had updated its process to incorporate prorated billing data to accurately arrive at actual consumption data for each calendar month. As a result, Lakefront Utilities accurately allocated monthly GA costs between RPP and non-RPP customers as required by the OEB's Accounting Procedures Handbook and related guidelines.<sup>4</sup> This in turn provided OEB staff with assurance that Lakefront Utilities' proposed adjustments to RPP settlements and balances in Accounts 1588 and 1589 for 2016-2023 were calculated in conformity with regulatory requirements.

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<sup>4</sup> Distributors are expected to follow the guidance issued by the OEB in February 2019 which standardized accounting procedures for Accounts 1588 and 1589.

Beginning in 2024, Lakefront Utilities switched to calendar month billing cycles. OEB staff noted that this change improved efficiency of the monthly settlement and reporting process and reduced the risk of inconsistent, inaccurate data. OEB staff expects Lakefront Utilities to continue monitoring and reviewing its monthly settlement processes to ensure ongoing compliance with its regulatory requirements.

## **2. FINDING 2**

**Lakefront Utilities did not apply the accrual method of accounting during the inspection period and as a result, Lakefront Utilities reported inaccurate Accounts 1588 and 1589 balances and incorrect carrying charges.**

### **2.1 Background**

During the December 2022 inspection, OEB staff found that Lakefront Utilities did not include estimates of unbilled revenue in the monthly RPP settlement claims with the IESO. Furthermore, although Lakefront Utilities included an accrual for unbilled revenue at year-end, this accrual did not get captured in the year-end RPP settlement with the IESO.

### **2.2 Expected Action from December 2022 inspection**

For the years from 2016 to 2019 Lakefront Utilities is expected to adjust Accounts 1588 and 1589 to reflect the correct balances based on accrual accounting before bringing the accounts forward for disposition in its next rate proceeding.

### **2.3 Status of actions taken**

#### ***Fully implemented***

As noted in the previous finding, OEB staff verified during the follow-up inspection that Lakefront Utilities updated its monthly billing, accounting, and settlement processes and applied the updated processes to recalculate the RPP settlements and balances in Accounts 1588 and 1589 from 2016-2023.

Since all the actual revenue amounts were known for 2016-2023, no estimates of unbilled revenue amounts were necessary when recalculating the proposed adjustments to the DVA balances. However, as part of the follow-up inspection OEB staff reviewed Lakefront Utilities' process in 2024 for preparing its monthly settlements including the estimates for unbilled revenue to assess its ongoing conformity with regulatory requirements. OEB staff found that Lakefront Utilities prepared its monthly settlements using the worksheet issued by the OEB in its February 2019 Accounting Guidance. The worksheet includes accruals for unbilled revenue which Lakefront Utilities estimated based on the prior month's data. OEB staff also verified that subsequent months' settlements included the appropriate true-ups of previously estimated amounts to actual amounts. As a result, OEB staff confirmed that Lakefront Utilities was recording its monthly settlements on an accrual basis as required.

OEB staff expects Lakefront Utilities to continue reviewing its monthly settlement processes and monitoring for any updated guidance issued by the OEB to ensure ongoing conformance with the OEB's Accounting Procedures Handbook.

### **3. FINDING 3**

**Lakefront Utilities had numerous internal control weaknesses and discrepancies in its regulatory accounting processes.**

#### **3.1 Background**

During the December 2022 inspection, OEB staff noted several internal control weaknesses in Lakefront Utilities' processes for accounting and reporting on its Accounts 1588 and 1589 balances, which resulted in inaccurate reporting to the OEB and IESO.

#### **3.2 Expected Action from December 2022 inspection**

Going forward, Lakefront Utilities should review and implement additional internal control measures, including management review prior to submissions to IESO/reporting to OEB and for accuracy of DVA balances 1588 and 1589 reported to the OEB.

#### **3.3 Status of actions taken**

##### ***Partially implemented***

In a walkthrough of Lakefront Utilities' updated regulatory accounting and settlement processes, OEB staff found that Lakefront Utilities had successfully implemented new controls to improve the accuracy of monthly reported data. For example, preparing monthly settlements using the worksheet issued by the OEB in its February 2019 Accounting Guidance provides greater assurance that Lakefront Utilities' processes are in conformity with the OEB's Accounting Procedures Handbook and related guidelines. Standardizing the regulatory accounting processes as well as implementing additional monthly checks and reconciliations have also improved the accuracy of accounting and reporting of both DVA balances and RPP, GA, and embedded generation settlements with the IESO.

However, OEB staff still noted some errors when reviewing Lakefront Utilities' calculation of its revised settlements and DVA balances for the 2016-2023 period:

- Lakefront Utilities did not use the correct GA rate when calculating the GA costs to allocate between RPP and non-RPP customers, resulting in inaccurate calculation of the RPP settlement and DVA balances for the 2016-2023 period.
- As also previously identified in the December 2022 inspection, OEB staff continued to find discrepancies when verifying calculated balances against source documentation. For example,

billed amounts used in RPP settlement calculations did not match to underlying data from the billing system, raising concerns as to the accuracy of the data.

- OEB staff noted several instances of data inconsistencies such as negative billing amounts and incorrect formulas in worksheets, leading to incorrectly calculated RPP settlement and DVA balances.

These errors resulted in Lakefront Utilities having to further revise the initial adjustments provided to OEB staff in July 2024 in response to the December 2022 inspection as follows:

	<b>Initial adjustments proposed at beginning of inspection</b>	<b>Final adjustments agreed upon at end of inspection</b>	<b>Difference</b>
Adjustment to RPP settlement with IESO	(1,906,608)	(1,590,418)	316,189
Adjusted Account 1588 balance	722,989	576,786	(146,203)
Adjusted Account 1589 balance	198,941	174,683	(24,258)

While the noted discrepancies were resolved in the calculation of the final revised RPP settlements and DVA balances for 2016-2023 at the conclusion of the follow up inspection, the lack of adequate controls continues to raise concerns about the ongoing accuracy of Lakefront Utilities' reported balances.

OEB staff expects Lakefront Utilities to continue implementing effective controls, such as additional management review, to ensure accuracy of its settlements and DVA balances and to ensure continued compliance with its regulatory requirements.