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BY EMAIL

June 3, 2025

Ritchie Murray
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Ritchie Murray:

**Re: Ontario Energy Board (OEB) Staff Submission
Lakefront Utilities Inc. (Lakefront Utilities)
2025 Distribution Rate Application – Phase 2
OEB File Number: EB-2024-0038**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 3. This document is also being forwarded to Lakefront Utilities and intervenors.

Yours truly,

Harshleen Kaur
Advisor, Incentive Rate-setting

Encl.

cc: All parties in EB-2024-0038



ONTARIO ENERGY BOARD

OEB Staff Submission

Lakefront Utilities Inc.

Application for 2025 Rates – Phase 2

EB-2024-0038

June 3, 2025

Introduction

Lakefront Utilities Inc. (Lakefront Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on September 9, 2024, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2025.

A Decision and Order on Phase 1, addressing Lakefront Utilities' request for incremental capital funding, was issued on March 27, 2025. The scope of Phase 2 includes Lakefront Utilities' request for the disposition of the 2016 to 2023 Group 1 deferral and variance account (DVA) balances. Lakefront Utilities filed responses (including an updated IRM Rate Generator Model) to written interrogatories for Phase 2 on May 20, 2025.

Lakefront Utilities' application is based on a Price Cap Incentive Rate-setting (Price Cap IR) option. Consistent with Chapter 3 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications*, Lakefront Utilities applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. An inflation factor of 3.60% applies to all IRM applications for the 2025 rate year.¹ The stretch factor assigned to Lakefront Utilities is 0.00%,² resulting in a rate adjustment of 3.60% based on the Price Cap adjustment formula. OEB staff has no concerns with Lakefront Utilities' proposed price cap adjustment.

Lakefront Utilities also requested approval for updating the Retail Transmission Service Rates. OEB staff has no concerns with this request.

Accompanying this submission, OEB staff has included an IRM Rate Generator Model. The IRM Rate Generator Model reflects an update on Tab 18 to the Rural or Remote Electricity Rate Protection Charge. OEB staff requests that Lakefront Utilities verify the update made in its reply submission.

In this document, OEB staff makes detailed submissions on the following:

1. Disposition of the 2016 to 2023 Group 1 DVAs balances
2. Error identified in the last approved rate riders in the 2024 IRM proceeding

¹ OEB Letter, 2025 Inflation Parameters, issued June 20, 2024

² Empirical Research in Support of Incentive Rate-Setting: 2023 Benchmarking Update, Report to the Ontario Energy Board, July 2024, p. 23, Table 5

1. Group 1 Deferral and Variance Accounts

Lakefront Utilities is requesting the disposition of its December 31, 2023 Group 1 DVAs in the debit amount of \$364,803 (inclusive of interest up to December 31, 2024) on a final basis over 12 months. The Group 1 DVA disposition balances, excluding Accounts 1588 and 1589, pertain to variances accumulated during the 2023 period. The disposition balances for Accounts 1588 and 1589, in debit amounts of \$652,670 and \$107,944, respectively, pertain to variances accumulated during the 2016 to 2023 period inclusive of interest up to December 31, 2024. The total Group 1 account balances exceed the OEB's \$0.001/kWh threshold.

The OEB most recently approved disposition of Lakefront Utilities' Group 1 account balances (excluding Accounts 1588 and 1589) as of December 31, 2022 on a final basis, as part of Lakefront Utilities' 2024 IRM proceeding.³ Additionally, the OEB last approved disposition of Lakefront Utilities' Accounts 1588 and 1589 balances on a final basis, as of December 31, 2015, as part of Lakefront Utilities' 2017 Cost of Service proceeding.⁴

Below is a summary of Lakefront Utilities' recent prior rate applications:

- 2018 IRM application:⁵ The OEB accepted Lakefront Utilities' proposal to withdraw the disposition of the Group 1 DVAs 2016 balances. The OEB required Lakefront Utilities to have a third-party audit of December 31, 2017 balances in Accounts 1588 and 1589, and of the settlement process Lakefront Utilities had used for these accounts. The OEB further directed Lakefront Utilities to file the external audit report in its next rate application.
- 2019 IRM application:⁶ Lakefront Utilities was denied disposition of its 2017 Group 1 balances consisting of the cumulative 2016 and 2017 balances. The OEB noted that it was concerned with the corrections made by Lakefront Utilities to the 2017 balances in Accounts 1588 and 1589 as they occurred after the completion of a third-party audit on those balances. The OEB concluded that it could not rely on the audit report as filed, and ordered an updated audit report relating to the December 31, 2017 balances to be filed as part of Lakefront Utilities' 2020 IRM application.
- 2020 IRM application:⁷ The OEB did not approve the disposition of Lakefront

³ EB-2023-0035, Decision and Rate Order, December 14, 2023

⁴ EB-2016-0089, Decision and Order, December 8, 2016

⁵ EB-2017-0057, Decision and Rate Order, December 14, 2017

⁶ EB-2018-0049, Decision and Order, December 20, 2018

⁷ EB-2019-0050, Decision and Rate Order, December 12, 2019

Utilities' Group 1 account balances from January 1, 2016 to December 31, 2018 due to concerns with Accounts 1588 and 1589 balances. The OEB referred the matter to the OEB's Inspection and Enforcement department for the consideration of Lakefront Utilities' processes regarding Regulated Price Plan (RPP) settlement claims with the Independent Electricity System Operator (IESO).

- 2021 IRM application:⁸ The disposition of Lakefront Utilities' Group 1 DVA balances was not required because the Group 1 DVA balance did not exceed the disposition threshold.
- 2022 Cost of Service application:⁹ The OEB accepted the settlement proposal to dispose of Lakefront Utilities' Group 1 account balances as of December 31, 2020, excluding Accounts 1588 and 1589 and to dispose of the balances in Accounts 1588 and 1589 in the next IRM application subsequent to the completion of the OEB's audit.
- 2023 IRM application:¹⁰ The OEB approved disposition on a final basis of Group 1 DVA balances, excluding Accounts 1588 and 1589. Furthermore, the OEB directed the disposal of Accounts 1588 and 1589 in the subsequent rate application following the completion of the OEB's audit.
- 2024 IRM application:¹¹ The OEB approved disposition on a final basis of Group 1 account balances, excluding Accounts 1588 and 1589. The OEB accepted Lakefront Utilities' request to defer the disposition of these accounts due to workforce constraints which prevented the utility from assessing the OEB's inspection findings in the 2022 OEB Inspection Report and the resulting adjustments related to Accounts 1588 and 1589 prior to the completion of its 2022-year end financial statements.

In this application, Lakefront Utilities originally requested an interim disposition of Accounts 1588 and 1589 to allow time for OEB's Inspection and Enforcement team to complete its review of eight years of balances in these two accounts. Lakefront Utilities confirmed that it is following the OEB's Accounting Guidance regarding commodity pass-through accounts for Accounts 1588 and 1589.¹²

⁸ EB-2020-0036, Decision and Rate Order, December 10, 2020

⁹ EB-2021-0039, Decision and Order, October 28, 2021

¹⁰ EB-2022-0046, Decision and Rate Order, December 8, 2022

¹¹ EB-2023-0035, Decision and Rate Order, December 14, 2023

¹² Manager's Summary, S.3.2.6.3, p. 38

As part of its response to Procedural Order No. 3,¹³ Lakefront Utilities confirmed that OEB Inspection and Enforcement team has completed the review of Accounts 1588 and 1589. Lakefront Utilities confirmed that it has fully implemented corrective actions by reallocating Global Adjustment (GA) costs based on actual RPP and non-RPP consumption volumes, as identified in the OEB Follow-up Inspection Report dated February 2025. Lakefront Utilities further confirmed that it has made necessary corrections and final adjustments to Accounts 1588 and 1589 following the OEB's *Accounting Procedures Handbook* and related guidelines. The disposition balances for these accounts in the updated IRM Rate Generator Model reflect the OEB Inspection and Enforcement findings.

In response to interrogatories,¹⁴ Lakefront Utilities corrected its statements made in the application that a customer transitioned from Class B to Class A in July 2022. Lakefront Utilities confirmed that there have been no transitions between Class A and Class B during the period in which the balances in Accounts 1589 and 1580 accumulated. Lakefront Utilities also provided an updated IRM Rate Generator Model reflecting the corrected Class A consumption data.

IESO Adjustments

In this application,¹⁵ Lakefront Utilities stated that, following its review of Accounts 1588 and 1589, it identified a payable to the IESO related to RPP settlement adjustments in the amount of \$1.9 million. Lakefront Utilities confirmed that the impact of this RPP settlement adjustment – debit amounts of \$722k in Accounts 1588 and \$198K in Account 1589 – has been incorporated into its 2025 IRM Rate Generator Model.

The OEB Follow-up Inspection Report¹⁶ on commodity Accounts 1588 and 1589 indicated that additional calculation errors and data inconsistencies were identified in Lakefront Utilities' revised settlements and DVA balances, following the implementation of new controls intended to improve the accuracy of monthly reported data. These findings led to further revision to Lakefront Utilities' initially proposed adjustments to RPP settlement with the IESO, which had been submitted to the OEB Inspection and Enforcement in July 2024 in response to the December 2022 inspection. A summary of the revisions provided in the OEB Follow-up Inspection Report is presented in Table 1 below:

¹³ EB-2024-0038, Response to Procedural Order No. 3, April 28, 2025

¹⁴ Responses to Phase 2 Interrogatories, Staff Interrogatories – 4, May 20, 2025

¹⁵ Manager's Summary, p. 41

¹⁶ EB-2024-0038, OEB Inspection Report, May 5, 2025, pp. 9-10

Table 1: Summary of Adjustments in the OEB Follow-up Inspection Report

	Initial adjustments proposed at beginning of inspection	Final adjustments agreed upon at end of inspection	Difference
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)

In response to Phase 2 interrogatories,¹⁷ Lakefront Utilities provided a breakdown of the revised RPP settlement adjustment amount of \$1,590,418 owing to the IESO in Table 2 below.

Table 2: Summary of Proposed RPP Settlement with the IESO

RPP Revenue Prices	2016	2017	2018	2019	2020	2021	2022	2023	Total
RPPT1	\$ 18,675.07	-\$ 14,617.68	\$ 26,359.36	\$ 5,587.61	\$11,657.07	\$ 57,110.92	\$2,701.57	\$ 9,095.07	\$ 116,568.99
RPPT2	\$ 2,733.42	\$ 10,113.93	\$ 39,293.58	\$ 10,487.13	\$ 1,948.70	\$ 21,809.28	\$3,801.02	\$ 4,822.19	\$ 95,009.24
RPPTOUMID	\$ 29,729.32	-\$ 74,241.93	\$ 84,813.91	\$ 56,960.08	\$16,473.72	\$102,550.20	\$1,005.00	\$ 25,701.31	\$ 242,991.60
RPPTOUFF	\$ 76,684.33	-\$ 94,644.56	\$250,911.16	\$ 95,259.11	\$59,395.34	\$399,791.74	-\$9,708.33	\$ 24,475.65	\$ 802,164.44
RPPTOON	\$ 41,800.10	-\$131,657.48	\$129,232.54	\$124,494.26	\$ 3,838.40	\$107,522.57	\$3,258.10	\$ 54,770.96	\$ 333,259.45
RPPULOMID	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52.84	\$ 52.84
RPPULOFF	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-\$ 42.86	-\$ 42.86
RPPULON	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 313.10	\$ 313.10
RPPULOVN	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101.74	\$ 101.74
Total RPP For Settlement	\$169,622.24	-\$305,047.72	\$530,610.55	\$292,788.20	\$93,313.23	\$688,784.71	\$1,057.35	\$119,290.00	\$1,590,418.55

Lakefront Utilities confirmed that it has not settled with the IESO and that it has been waiting to confirm the final balances approved by the OEB. Lakefront Utilities will approach the IESO for settlement instructions once these final balances are confirmed.¹⁸

Submission

OEB staff submits that it supports Lakefront Utilities' requested disposition of its December 31, 2023, Group 1 DVA balances. OEB staff submits that the requested disposition balances, including balances in Accounts 1588 and 1589, should be granted on a final basis rather than interim disposition as proposed by Lakefront Utilities. OEB staff has reviewed the proposed Group 1 DVA disposition balances and the supporting evidence substantiating these balances. OEB staff notes that the proposed disposition balances for Accounts 1588 and 1589, as part of the total proposed 2023 Group 1 DVAs, align with the revised balances as of December 31, 2023, as provided in the OEB Follow-up Inspection Report.¹⁹

OEB staff has no concern regarding the fact that the balances in Accounts 1588 and

¹⁷ Responses to Phase 2 Interrogatories, Staff Interrogatories – 3 a), May 20, 2025

¹⁸ Responses to Phase 2 Interrogatories, Staff Interrogatories – 3 b) c), May 20, 2025

¹⁹ EB-2024-0038, OEB Inspection Report, May 5, 2025

1589 have accumulated for eight years since 2016. OEB staff recognizes that the delay in disposition was due to Lakefront Utilities undergoing an external audit review, an OEB inspection review, and an OEB follow-up inspection of these accounts.

OEB staff notes that the OEB Follow-up Inspection Report indicated Lakefront Utilities has fully implemented actions to address two of the three findings from the 2022 inspection. The actions related to the third finding have been partially implemented as additional calculation errors and data inconsistencies were identified, following the implementation of new controls intended to improve the accuracy of monthly reported data. The Follow-up Inspection Report stated that the lack of adequate controls continues to raise concerns about the ongoing accuracy of Lakefront Utilities' reported balances.²⁰

OEB staff is of the view that, although Lakefront Utilities has aligned its methodology with the OEB's Accounting Guidance and made necessary adjustments to Accounts 1588 and 1589 for the period of 2016 to 2023, Lakefront Utilities should continue implementing effective and adequate controls, as highlighted in the OEB Follow-up Inspection Report.²¹

IESO Adjustments

As noted above, OEB staff is satisfied with the balances proposed for disposition, and that they should be disposed of on a final basis. However, OEB staff offers an additional comment on the settlements between Lakefront Utilities and the IESO. As mentioned previously, Lakefront Utilities asserts that it has not settled with the IESO as it has been waiting to confirm the final balances approved by the OEB in this proceeding. OEB staff submits that Lakefront Utilities should contact the IESO and settle the RPP adjustments as soon as possible. In this case, OEB staff is satisfied with the settlement amounts incorporated into the Group 1 DVA balances based on the results of the Inspection and Enforcement team's follow-up inspection, but in the normal course, the onus is on the utility to ensure timely and accurate settlements with IESO to avoid the accumulation of payables or receivables (including carrying charges). Accordingly, Lakefront Utilities should not continue to wait indefinitely to complete its settlements with the IESO. Lakefront Utilities should have approached the IESO regarding the RPP settlement adjustment once the OEB Inspection and Enforcement team's follow-up inspection, completed in February 2025, had confirmed the final RPP settlement adjustments.

2. Error Identified in the Last Approved Rate Riders in the 2024 IRM Proceeding

²⁰ *Ibid.*, pp. 8-10

²¹ EB-2024-0038, OEB Inspection Report, May 5, 2025, p. 10

In its application,²² Lakefront Utilities stated that it notified the OEB on April 12, 2024, that it discovered an error in the 2024 Continuity Schedule as part of the 2024 IRM Rate Generator Model. The error resulted from the omission of the 2023 OEB-approved Group 1 DVA disposition amounts in the continuity schedule (Tab 3 of the 2024 IRM Rate Generator Model). Due to this input error, Lakefront Utilities was over-collecting. As a result, Lakefront Utilities requested an early sunset of July 1, 2024 for the 2024 DVA Rate Riders. This request was approved by the OEB in the errata letter issued on May 28, 2024.

In the May 28, 2024 OEB errata letter,²³ the OEB agreed with Lakefront Utilities' proposed approach of truing up the discrepancy through sub-account 2024 under Account 1595, with eligibility for disposition in the 2026 rate year. The OEB noted that, by changing the sunset date to June 30, 2024, as requested by Lakefront Utilities, the estimated over-refund would be \$80,762 under the Tariff item designated "Rate Rider for Disposition of Deferral/Variance Accounts (2024) – effective until December 31, 2024", along with an estimated under-refund of \$2,646 under the Tariff item designated "Rate Rider for Disposition of Capacity Based Recovery Account (2024) – effective until December 31, 2024, Applicable only for Class B Customers". The errata letter also indicated that it did not change the OEB's findings, with the exception of the change of the sunset date to June 30, 2024 for both rate riders (2024 DVA rate riders and CBR rate riders).

In this application,²⁴ Lakefront Utilities proposed a modified calculation to true up this error. Lakefront Utilities stated that the difference of \$67,915 (i.e., over-collection) between the actual amount collected through the incorrect 2024 DVA rate riders (\$811,317) and the corrected 2024 DVAs disposition amount of \$743,403, will be addressed through the disposition of Account 1595, Sub-Account 2024 in its 2027 Cost of Service application. In response to Phase 2 interrogatories,²⁵ Lakefront Utilities provided a detailed calculation supporting the \$811,317 collected, broken down by rate class and by month.

Submission

OEB staff accepts Lakefront Utilities' proposed modified true-up amount, which is based on the actual amount collected. OEB staff supports Lakefront Utilities' request to dispose of the resulting true-up amount in Sub-Account 2024 under Account 1595 when the sub-account becomes eligible for disposition in the 2027 rate application, rather than

²² Manager's Summary, pp. 18-19

²³ EB-2023-0035, [OEB Letter: Errata for December 14, 2023 Decision and Rate Order, May 28, 2024](#)

²⁴ Manager's Summary, pp. 18-21

²⁵ Responses to Phase 2 Interrogatories, Staff Interrogatories – 1 b), May 20, 2025

in the originally proposed 2026 rate application.

Section 3.2.6.3 of Chapter 3 of the Filing Requirements states:²⁶

Distributors are expected to request disposition of residual balances in Account 1595 sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider. During the two years after the expiry of the rate rider, distributors may still make billing corrections as per the Retail Settlement Code and should record the related transactions in the associated Account 1595 sub-account. The eligibility criteria for disposition of Account 1595 sub-accounts depends on the distributor's rate year.

OEB staff notes that Lakefront Utilities suspended the 2024 rate riders on July 1, 2024 following the directions given by the OEB in the May 28, 2024 errata letter. According to the Chapter 3 Filing Requirements, the balance of sub-account 1595 (2024) will be eligible to be disposed of after the account balances as of December 31, 2026 have been audited. Therefore, sub-account 1595 (2024) would be eligible for disposition in the 2027 rate year as proposed by Lakefront Utilities.

~All of which is respectfully submitted~

²⁶ [OEB Chapter 3 Filing Requirements](#) for Electricity Distribution Rate Applications Filed in 2024 for Rates Taking Effect in 2025, June 2024, p. 14