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February 21, 2012

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

Dear Ms. Walli:

**Re: Audit Review of Algoma's 2010 Deferral and Variance Account Balances -  
Algoma 2012 IRM Rate Application EB-2011-0152 - Notice of Motion and  
Procedural Order No. 1; EB-2011-0152**

The Regulatory Audit and Accounting group (the "Regulatory Audit") of the Ontario Energy Board (the "Board") issued an engagement letter on July 11, 2011 regarding an audit review of Algoma Power Inc.'s ("Algoma") deferral and variance account (DVA) balances. The objective of the audit review was to determine whether accounting policies and procedures related to these accounts are properly and consistently applied and the balances reported to the Board are calculated in accordance with the Accounting Procedures Handbook (APH), Reporting and Record-keeping Requirements (RRR), and related guidelines.

Algoma filed its 2012 IRM rate application with the Board on September 15, 2011. On December 7, 2011, as a result of the audit review of the DVA balances, Algoma filed a letter to the Board disclosing the audit findings and the resulting impacts on and adjustments to the Group 1 DVA balances that were included in the 2012 IRM rate application. The updated Group 1 DVA balances were included<sup>1</sup> in Algoma's 2012 rate application EB-2011-0152. In the Decision EB-2011-0152 issued on January 20, 2012, the Group 1 DVA balances except Account 1588 sub-account Global Adjustment were

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<sup>1</sup> Decision EB-2011-0152, Page 12, Note 5 states that "During the course of the proceeding Algoma updated its Group 1 D/V account balances, including the Global Adjustment sub-account, in light of the findings of a regulatory audit of the Group 1 Accounts. The amounts noted in this Decision are the updated amounts."

approved by the Board for disposition on a final basis in rates from January 1, 2012 to December 31, 2012.

On February 1, 2012, Algoma informed Regulatory Audit that Algoma discovered an error related to the IESO Form 1598 for the period of January 1, 2012 to December 31, 2010, which is used to include adjustments as part of the settlement of monthly IESO invoices. Algoma indicated that the error in Form 1598 resulted from the energy sales to retail customers erroneously being included as RPP sales instead of non-RPP sales.

On February 2, 2012 Algoma filed a letter to the Board for a Motion to Review and Vary the Board's Decision ("Motion"). Algoma explained the nature of the error to the Board and stated that the ground for the Motion is an error in fact. Specifically, Algoma stated that the error pertains to the balances for the year ended December 31, 2010 for account 1588 RSVA Power excluding the Sub-account Global Adjustment ("1588 Power") and account 1588 RSVA Power Sub-account Global Adjustment ("1588 Global Adjustment"). In the letter, Algoma re-iterated what it had explained to Regulatory Audit and stated that the error was related to a significant error in the IESO Form 1598 which was presented in the audit. Algoma requested that the Board review and vary its Decision to reflect certain corrections to the deferral and variance account balances upon which the Decision was based. Algoma indicated that it will work with Regulatory Audit for the updated balances.

On February 3, 2012, the Board issued Notice of Motion and Procedural Order No. 1 in which it directed Algoma to file the revised balances for the year ended December 31, 2010 for account 1588 Power and account 1588 Global Adjustment on or before February 15, 2012 and, to file any other supporting material on the Motion and a revised Draft Rate Order reflecting the relief sought by the Motion on or before February 15, 2012.

Regulatory Audit worked with Algoma staff to examine the reasons for the difference between the balances disposed in Algoma's EB-2011-0152 rate application and the updated balances resulting from the Motion. Regulatory Audit confirms that the error is related to a significant error in the IESO Form 1598 which Algoma had submitted to IESO for the settlement of its monthly IESO invoice. Algoma filed its adjustments with IESO on February 7, 2012 and the IESO has accepted Algoma's adjustments. It should be noted that the IESO invoice is a third party invoice for electricity market transactions between the IESO and the distributor that Regulatory Audit relies on for performing its audit.

On February 15, 2012, Algoma filed with the Board its revised balances and revised Draft Rate Order.

Regulatory Audit has now completed its review of Algoma's updated 1588 Power and 1588 Global Adjustment balances resulting from the Motion. This review has found no issues from Regulatory Audit's perspective that would materially impact the updated 2010 balances for these two accounts that Algoma filed with the Board on February 15,

2012.

The observations discussed in this letter represent the views of Regulatory Audit and are not binding on the Board.

I wish to thank the Algoma's staff for the assistance and support provided to us during this audit review.

Please forward this letter to Algoma and all parties in this proceeding.

Yours truly,

*Original signed by*

Daria Babaie  
Manager, Regulatory Audit & Accounting