

**Ontario Energy
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**Commission de l'énergie
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BY EMAIL

October 31, 2013

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

Dear Ms. Walli:

**Re: EB-2013-0123 - Audit of Group 1 and Group 2 Deferral and Variance
Accounts - Board Decision and Order (EB-2011-0099)**

In its Decision and Order EB-2011-0099 for the E.L.K. Energy Inc.'s ("E.L.K") electricity rates effective May 1, 2013, the Ontario Energy Board (the "Board") stated that:

The Settlement Agreement under issue 10.1 asks the Board to direct the Regulatory Amounting and Audit Branch of the Board to conduct an audit of E.L.K.'s Group 1 and Group 2 account balances. In light of this request, the Board will conduct an audit of E.L.K.'s Group 1 and Group 2 account balances. Upon completion of the audit, the Board will determine whether further action is required.¹

In the Settlement Agreement, which the Board accepted, parties agreed to the interim disposition of 50% of all E.L.K. Group 1 and Group 2 deferral and variance account ("DVA")² balances including account 1562. The Parties also agreed to an audit and final disposition of all Group 1 and Group 2 balances in E.L.K.'s 2014 IRM proceeding. The final disposition is pending the verification of the balances by the Board's Regulatory Audit department.

¹ ELK Board Decision and Order EB-2011-0099 dated May 2, 2013, page 4.

² Please refer to the July 31, 2009 *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)* [EB-2008-0046] for classification and descriptions of Group 1 and Group 2 accounts.

As per the Board Decision and Order EB-2011-0099, the Board's Regulatory Audit and Accounting group ("Regulatory Audit") issued an audit engagement letter on June 19, 2013 and conducted an audit of E.L.K.'s Group 1 and Group 2 DVA balances. The audit was performed to assist the Board in determining the appropriate amount for final disposition of E.L.K.'s 2011 balances in E.L.K.'s 2014 IRM rate proceeding. The scope of this audit was limited to examining E.L.K.'s DVA balances as at December 31, 2011. In addition, the audit examined whether accounting policies and procedures for these accounts were properly and consistently applied and reported to the Board in accordance with Accounting Procedures Handbook ("APH"), Reporting and Record-keeping Requirements ("RRR"), and related guidelines. The audit focused on the DVAs in the 1500 series of account numbers in the Uniform System of Accounts. Regulatory Audit examined entries in these accounts since the last time these account balances were disposed on a final basis.

Regulatory Audit has completed its audit. As a result, E.L.K. has made adjustments to its Group 1 and Group 2 balances as of December 31, 2011 for a total credit amount of approximately (\$168,000)³. Regulatory Audit notes that the revised total balance of (\$751,938) in Account 1562 as at April 30, 2012 is consistent with the balance approved on an interim basis in the EB-2011-0099 proceeding.

Regulatory Audit notes that nothing has come to its attention during this audit to lead it to believe that the account balances, as adjusted based on the results of this audit are materially misstated.

Pursuant to the Board's direction, Regulatory Audit intends to file the full audit report on the record in the E.L.K.'s 2014 IRM rate proceeding.

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

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

Please forward this letter to E.L.K.

Yours truly,

Original Signed By

Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting

Cc: Michael Audet, CEO – E.L.K.
Mark Denelon, Manager, Finance and Regulatory Affairs

³ E.L.K. made audit adjustments to balances of Group 1 Account 1580, Account 1584, Account 1586, Account 1588 – Power, Account 1588 – GA, and Account 1595, and Group 2 Account 1518.