Ontario Energy Board

P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario

C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

December 10, 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: <u>Rideau St. Lawrence Distribution Inc. - EB-2013-0169 - Audit of Deferral and Variance Accounts 1588, 1589 (Global Adjustment) and 1595</u>

The Ontario Energy Board (the "Board") authorized an audit of Rideau St. Lawrence Distribution Inc.'s ("RSL") Group1[1] deferral and variance accounts 1588, 1589, and 1595 ("DVA"), as per the Board Decision and Order EB-2011-0274. This audit was conducted by the Board's Regulatory Audit and Accounting group ("Regulatory Audit"), and the final audit report ("Audit Report") was issued on November 21, 2013.

On November 1, 2013, Regulatory Audit filed a letter with the Board and stated that pursuant to the Board's direction, Regulatory Audit intends to file the full audit report on the record in the RSL's 2014 IRM rate proceeding EB-2013-0169.

In the Procedural Order 1 ("PO 1") dated November 28, 2013, the Board stated,

> Prior to the filing of the Application, and as authorized by the Board in proceeding EB-2011-0274, the Board's Regulatory Audit and Accounting Group ("Regulatory Audit") conducted an audit of RSL. On November 1, 2013, Regulatory Audit filed a letter with the Board Secretary summarizing the findings of the audit and expressing thanks to RSL for its assistance and support during the audit. The

1 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.

> letter also stated that Regulatory Audit intends to file the full audit report (the "Audit Report") on the record in this proceeding. The Board intends to accept the filing of the Audit Report on the public record of this proceeding, pursuant to section 111(1)(a) of the *Ontario Energy Board Act* (the "Act"), as it is required in connection with the Board's administration of the Act. Pursuant to section 110(3) of the Act, the Board will provide RSL with an opportunity to make representations with respect to the intended introduction of the Audit Report. The Board will respond to any representations as may be required.

Pursuant to PO 1 for proceeding EB-2013-0169, RSL filed a letter with the Board on December 6, 2013, stating that:

> RSL is in agreement with the content of the Audit Report, and has made the required changes to the account balances. RSL has implemented procedural changes in accordance with the report.
>
> RSL understands and agrees that the Audit Report will be filed as part of proceeding EB-2013-0169, and as such will be on the public record.

As per the Board's PO 1 in proceeding EB-2013-0169, Regulatory Audit is filing the Audit Report dated November 21, 2013 on the record.

Yours truly,

D. Babaie

Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting
Ontario Energy Board
Phone: (416) 440-7614
Fax: (416) 440-7656
Daria.Babaie@ontarioenergyboard.ca

cc : John Walsh, CEO, RSL
Peter Soules, CFO, RSL

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
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2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

November 21, 2013

Mr. John Walsh, CEO
Rideau St. Lawrence Distribution Inc.
985 Industrial Road, P.O. Box 699
Prescott, ON K0E 1T0

Dear Mr. Walsh:

Re: Audit of Account 1588 - Power and Account 1589 – Global Adjustment - Board Decision and Order (EB-2011-0274)

The Ontario Energy Board (the "Board") authorized an audit of Rideau St. Lawrence Distribution Inc.'s ("RSL") Group1[1] deferral and variance accounts 1588, 1589, and 1595 ("DVA") as per the Board Decision and Order EB-2011-0274. This audit was conducted by the Board's Regulatory Audit and Accounting group ("Regulatory Audit").

Regulatory Audit issued an engagement letter on June 6, 2013 regarding an audit of RSL's DVA balances as of December 31, 2012. The objective of this audit was to examine RSL's DVA balances as at December 31, 2012 for material accuracy and determine 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. Regulatory Audit examined entries in the DVA accounts from January 1, 2010 to December 31, 2012, as the December 31, 2009 account balances were disposed of on a final basis as per Board Decision and Order EB-2010-0113 dated April 7, 2011.

A final report based on Regulatory Audit's work (the "Report") has now been completed. The Report outlines the audit objective, scope, criteria, procedures used, findings and observations, basis of findings and observations, areas of non-conformity requiring action, areas of concerns, management responses, and management action plans for RSL.

To ensure that the audit findings related to DVAs audited as outlined in the Report are properly and consistently addressed and the required action plans are implemented by RSL, Regulatory Audit will be conducting a follow-up audit in the future.

[1] 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.

The findings in the Report represent the views of Regulatory Audit and are not necessarily the views of the Board as a whole. Regulatory Audit provides no assurances that addressing the areas of non-conformity requiring actions alone will resolve the issues identified in the audit.

On November 1, 2013, Regulatory Audit filed a letter with the Board Secretary under RSL's 2014 IRM proceeding EB-2013-0169, summarizing the findings of the audit. The letter also stated that Regulatory Audit intends to file the full audit report on the record in this proceeding.

We thank the staff of RSL for the assistance and support provided to us during this review.

Yours truly,

D. Babaie

Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting
Phone: (416) 440-7614
Fax: (416) 440-7656
Daria.Babaie@ontarioenergyboard.ca

cc : Scott Bryce, RSL Chairman of Board of Directors
Peter Soules, CFO, RSL

ONTARIO ENERGY BOARD

AUDIT REPORT

CONFIDENTIAL

Audit of Deferral and Variance Accounts 1588, 1589 (GA) and 1595

Rideau St. Lawrence Distribution Inc.

Regulatory Audit and Accounting

November 2013

Audit of Deferral and Variance Accounts 1588, 1589 (GA) and 1595
Rideau St. Lawrence Distribution Inc.
November 2013

Executive Summary

The audit of Rideau St. Lawrence ("RSL") was undertaken by the Regulatory Audit and Accounting department ("Regulatory Audit") of the Ontario Energy Board (the "Board") pursuant to the Board's decision in RSL's 2012 Cost of Service proceeding EB-2011-0274.

The Settlement Agreement accepted by the Board in its entirety in RSL's 2012 Cost of Service proceeding EB-2011-0274 stated the following:

> The parties have agreed that the balance in Account 1588 – RSVA Power + Global Adjustment – currently estimated at approximately ($250,499), will not be disposed of at this time. RSL is currently reviewing its calculation of the account balance, and will request the disposition of that balance at a later date, likely in conjunction with an Incentive Regulation Mechanism ("IRM") rate adjustment application prior to RSL's next cost of service application. Board Staff has recommended that a regulatory audit of account 1588 be conducted to verify the balance and the recurring journal entries. RSL supports this recommendation.

The audit focussed on the account balances in Accounts 1588, RSVA Power, 1589, Global Adjustment ("GA") and 1595, Recoveries as at December 31, 2012.

Regulatory Audit has concluded that the balances of the regulatory accounts audited as of December 31, 2012 were not accurately recorded in RSL's general ledger ("GL") and not accurately reflected in the Board's Reporting and Record Keeping Requirements ("RRR") 2.1.7 (Annual Trial Balance Filing) for 2012. In addition, Regulatory Audit has noted that RSL has not followed some of the accounting procedures as stated in the Accounting Procedures Handbook ("APH") in recording the transactions in the three accounts reviewed.

Regulatory Audit also noted two instances of potential breaches of enforceable provisions[1] as defined in the *Ontario Energy Board Act 1998*, including Section 8[2] of RSL's Electricity Distribution Licence ED-2003-0003. These potential breaches were:

[1] Section 78 Orders by Board, Electricity Rates; (2) Order re: distribution of electricity
[2] Under Section 8.1 of RSL's Licence # ED-2003-0003

- RSL overcharged its non-RPP customers for the period from May 1, 2010 to May 1, 2012 for the GA rate rider. These billing errors occurred when RSL uplifted the non-RPP kWh consumption for the loss factor. The total dollar value of this error was approximately $65,000.
- RSL applied an incorrect rate rider to customers which was different from the rate on the approved tariff sheets. The amount undercharged in this case was a total immaterial amount of approximately $900.

The audit findings and observations of this audit are found in Sections 8, 9 and 10 of this report. Regulatory Audit notes that as a result of the audit, RSL has made a credit adjustment of $456,574 to its Account 1588 and a debit adjustment of $428,484 to its Account 1589 as of December 31, 2012.

Regulatory Audit notes that RSL filed its 2014 IRM rate application EB-2013-0169 on October 25, 2013. Regulatory Audit expects that the RSL's IRM rate application reflects all adjustments that were made by RSL in its regulatory books of accounts as a result of this audit.

Regulatory Audit filed a letter with the Board on November 1, 2013 stating that it completed the audit and that it has an intention to file the full audit report in RSL's 2014 IRM rate proceeding.

Findings Summary

Findings Impacting Group 1 DVA balances

1. The Balance in Account 1588 as of December 31, 2012 is overstated by $456,574 due to incorrect application of the accounting procedures as outlined in the Accounting Procedures Handbook ("APH").
2. The Balance in Account 1589 as of December 31, 2012 is understated by $428,484 due to incorrect application of the accounting procedures as outlined in the APH.

Findings related to Group 1 DVAs' Accounting Procedures

1. For the period from May 1, 2010 to February 28, 2011, the Global Adjustment rate riders were incorrectly recorded in the commodity sales accounts, instead of the recoveries Account 1595. As a result, RSL's balances in Accounts 1588 Power, 1588 GA (Account 1589 effective January 1, 2012), and 1595 were incorrect in 2010 and 2011.
2. Carrying charges were calculated incorrectly. The audit found that Account 1588, Power included an excess amount of approximately $32,000 debit and Account 1589, GA included an excess credit of

approximately $4,000 in the balances for carrying charges as of December 31, 2012.

3. RSL did not calculate the split of GA cost between RPP and non-RPP based on kWh. Instead, it used the dollar value to calculate the split. This treatment is inconsistent with Board guidance which requires the volumetric consumption for the determination of the split.
4. RSL was billing customers the GA rate rider using consumption adjusted for the loss factor. The GA rate rider billed should typically not be adjusted for the loss factor.
5. Entries in Accounts 1588 and 1589 were recorded only at the end of the year. No monthly entries were recorded in the DVAs.
6. Carrying charges are recorded only at the end of the year, and not monthly, as required by the APH.
7. RSL records the unbilled entry and accruals only at the end of the year, and reverses the previous year's unbilled entry and accruals at the same time.

Observations Summary

1. Rate riders approved in Board Decision and Order EB-2009-0248 were incorrectly applied by RSL. The approved rate rider was .0002 as a refund to the customers, and the billed rate rider was .00022 as a refund to the customers.
2. RSL's RRR 2.1.7 with the Board as well as the AFS for December 31, 2012 showed that RSL included a loss of approximately $6,000 in 2012, and $4,000 in 2011 for the differences between energy commodity sales and cost of power.

1. Background

RSL is wholly owned by its four municipal shareholders; the Township of South Dundas, the Township of Edwardsburgh/Cardinal, the village of Westport, and the Town of Prescott and Fortis Ontario. The company serves approximately 6,000 customers located in the Villages of Cardinal, Iroquois, Morrisburg, Westport, Williamsburg and the Town of Prescott.

RSL's most recently approved revenue requirement as determined in its 2012 cost of service proceeding, EB-2012-0274, was approximately $2.6 million.

2. Authority for Audit

To the extent that this audit ("Audit") required RSL to provide documents, records or information, Regulatory Audit acted under its inspection powers under Part VII of the *Ontario Energy Board Act, 1998*.

During the IRM plan term, the Board decided that the revised Group 1 Account balances would be reviewed and that a preset disposition threshold of $0.001/kWh (debit or credit) would trigger their disposition. The Board has decided that at the time of rebasing all account balances should be reviewed and disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guidance.[3]

To assist the Board in discharging its responsibilities related to Deferral and Variance Accounts ("DVAs"), pursuant to the Board Decision and Order EB-2011-0274 Regulatory Audit initiated an audit of RSL's account balances in Accounts 1588 Power, 1589 GA, and 1595, Recoveries, to mitigate the risk associated with the incorrect disposition of these account balances.

3. Reason for Audit

The Board's audit function is a regulatory instrument of the Board to ensure that the regulated licensed entities conform to the APH and the Board's issued regulatory accounting guidelines and policies.

The Board requires electric utilities to report certain information to the Board at specific intervals. The Board relies on this information for industry monitoring, replying to stakeholders' requests, assisting in the review of applications and many other purposes. The DVA balance information is important to the Board, as it assists the Board in ensuring that accurate amounts are cleared through

[3] July 31, 2009 Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) (EB-2008-0046), Executive Summary

rates to customers. It is important that distributors file information that is complete, accurate and on time.

4. Objectives

The objective of this audit is to examine RSL's DVA balances in Accounts 1588 Power, 1589 GA, and 1595 Recoveries as at December 31, 2012 to determine whether regulatory accounting policies and procedures of these accounts are properly and consistently applied in accordance with the APH, related FAQs, and RRR.

5. Scope

This audit covered RSL's Retail Settlement Variance Accounts (RSVAs – Accounts 1588, 1588 Sub-account GA (Account 1589 effective January 1, 2012), and Disposition and Recovery of Regulatory Balances Account – Balances Approved in 2010 and 2011 (Account 1595). These accounts are all part of the Group 1 Accounts.

The balances in the accounts in the audit scope were audited as of December 31, 2012. However, the audit testing of the transactions in these accounts was performed since the last time the balances were disposed (i.e. since January 1, 2010).

6. Criteria

This Audit relied on the following documents to establish the criteria for the purpose of audit testing:

1. APH
2. Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) (EB-2008-0046)
3. APH Frequently Asked Questions ("FAQ") July 2012
4. RSL 2010 IRM Decision and Order EB-2009-0248
5. RSL 2011 IRM Decision and Order EB-2010-0113
6. RSL 2012 Cost of Service Decision and Order EB-2011-0274
7. RSL's Audited Financial Statements ("AFS") for 2011 and 2012

7. Procedures Used

Regulatory Audit used procedures that consisted primarily of enquiry, observation, analytical procedures, and discussion related to information and materials provided by RSL's management or available to the Board from filings made under the Board's Electricity RRR filings for electricity distributors.

8. Findings Impacting Group 1 DVA balances

8.1.1 Finding 1

The Balance in Account 1588 as of December 31, 2012 is overstated by $456,574 due to incorrect application of the accounting procedures as outlined in the APH.

8.1.2 Basis for Finding

RSL reported a debit balance of $410,995 as at December 31, 2012 as part of its annual filing for 2012. The initial information received from RSL[4] as of December 31, 2012 also showed the same balance in Account 1588. However, based on the audit testing and updated information provided from RSL[5], it was determined that the correct balance in this account as of December 31, 2012 should be -$45,579, a difference of -$456,574. Therefore, a credit adjustment for $456,574 must be made before this account is disposed in RSL's 2014 IRM proceeding.

Regulatory Audit found that, in general, RSL did not calculate and record balances in its Power and GA variance accounts as per the APH. Regulatory Audit noted that RSL did not follow the APH properly in splitting the GA properly between RPP and non-RPP, recording the GA rate rider recovery in its books, calculating and recording the carrying charges in accordance with the Board prescribed rates. All of the above factors had an impact on RSL's balance in Account 1588 as of December 31, 2012.

The details of RSL's non-conformity with the APH are provided in the Findings section 9 below.

Regulatory Audit notes that RSL has made the necessary adjustments to its December 31, 2012 balance for Account 1588 and has amended its RRR 2.1.7 information for the account balance as at December 31, 2012 with the Board reflecting the cumulative changes required for all affected prior years.

8.1.3 Area of Non-Conformity Requiring Action

Going forward, RSL should calculate and record balances in its Power variance account as per the APH.

[4] As per file Reg Asset Balances 2012.txt received from RSL on July 2, 2013
[5] As per file Appendix B for 2012 with new RPP GA split and carrying charges.xlsx received from RSL on August 29, 2013

8.1.4 Management Response

RSL agrees with the revised balance for account 1588 as of December 31, 2012.

8.1.5 Management Action Plan

The adjustment to the balance for account 1588 has been done as a 2013 journal entry. RRR 2.1.7 has been revised to reflect the corrected balance as at December 31, 2012.

Effective January 1, 2013, accounting procedures at RSL have been modified so that the split of GA between RPP and non-RPP customers is in accordance with the APH.

8.2.1 Finding 2

The Balance in Account 1589 as of December 31, 2012 is understated by $428,484 due to incorrect application of the accounting procedures as outlined in the APH.

8.2.2 Basis for Finding

The initial information received from RSL[6] indicated that the December 31, 2012 balance in Account 1589 is -$488,343. This number is consistent with RSL's RRR 2.1.7 reporting with the Board for 2012. However, based on the audit testing and updated information provided from RSL[7], it was determined that the correct balance in this account as of December 31, 2012 should be -$59,859, a difference of $428,484. Therefore, a debit adjustment for $428,484 must be made before this account is disposed in RSL's 2014 IRM proceeding.

Regulatory Audit notes that, in general, RSL did not calculate and record balances in its Power and GA variance accounts as per the APH. Regulatory Audit found that RSL did not follow the APH properly in splitting the GA properly between RPP and non-RPP, recording GA rate rider recovery in its books, and calculating and recording the carrying charges in accordance with the Board prescribed rates. All of the above factors had an impact on RSL's balance in Account 1589 as of December 31, 2012.

The details of RSL's non-conformity with the APH are provided in the findings in Section 9 below.

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[6] As per file Reg Asset Balances 2012.txt received from RSL on July 2, 2013
[7] As per file Appendix B for 2012 with new RPP GA split and carrying charges.xlsx received from RSL on August 29, 2013

Regulatory Audit notes that RSL has made the necessary adjustments to its December 31, 2012 balance for Account 1589 and has also corrected its RRR 2.1.7 reporting with the Board for 2012, reflecting the cumulative changes for all affected years.

8.2.3 Area of Non-Conformity Requiring Action

Going forward, RSL should calculate and record balances in its variance Account 1589 as per the APH.

8.2.4 Management Response

RSL agrees with the revised balance for account 1589 as of December 31, 2012.

8.2.5 Management Action Plan

The adjustment to the balance for account 1589 has been done as a 2013 journal entry. RRR 2.1.7 has been revised to reflect the corrected balance as at December 31, 2012.

Effective January 1, 2013, accounting procedures at RSL have been modified so that the split of GA between RPP and non-RPP customers is in accordance with the APH.

9 Findings related to Group 1 DVAs' Accounting Procedures

9.1.1 Finding 1

For the period from May 1, 2010 to February 28, 2011, the GA rate riders were incorrectly recorded in the commodity sales accounts, instead of the recoveries Account 1595. As a result, RSL's balances in Accounts 1588 Power, 1588 GA (Account 1589 effective January 1, 2012), and 1595 were incorrect in 2010 and 2011.

9.1.2 Basis for Finding

In RSL's cost of service proceeding for 2012 (EB-2011-0274), the pre-filed evidence indicated that RSL had an error in its billing system setup in 2010 for the rate rider for GA disposition for non-RPP customers for the period up to March 1, 2011. Instead of recording the funds collected for the RSVA GA under RSL's GL Account 1595, the funds were added back into the GA CoP sub-account, and the cost was claimed back from the IESO on the monthly power bill. This error was discovered in February 2011 as part of year end work. The 2010 monthly revenue GL posting was corrected in 2010 prior to year-end close. The pre-filed evidence indicated that RSL had already settled with IESO for January 2011 power bill; and had returned $237,267 in February 2011 on power bill line 142.

Since the amounts recovered under the rate riders should not impact RSL's income statement, i.e. they should not be included in the sales and cost of power accounts, interrogatories[8] were asked by Board staff during the RSL's rate proceeding to clarify and understand the treatment that was given to the collections of the GA rate rider. It was determined that the amounts requested for disposition of Account 1588 Power, and Sub-account GA did not match the RRR 2.1.7 filings for 2010.

RSL's response to Board staff interrogatories during RSL's 2012 rate proceeding did not produce satisfactory answers, resulting in the parties agreeing to defer the disposition of these accounts, pending an audit by the Regulatory Audit. The Board accepted the settlement on this issue.

The audit testing indicated that RSL discovered the error in February 2011, and adjusted its balances for 2010 for the error.

Therefore, the following entry was made by RSL:

Dr. 1588 GA $157,865

[8] Board staff interrogatory #30, parts (a) to (f)

Cr. 1595 ($157,865)

In addition to the above entry, which was correctly made, RSL also recorded the following entry in its accounts. This entry was made in 2010, but it pertained to the transactions in 2011:

Dr. 1588 GA $53,059
Cr. 1595 $(53,059)

The above entry resulted in Account 1588, Sub-account GA to have an excess debit of $53,059 and Account 1595 to have an equal amount of excess credit in the account.

Over the course of the audit, RSL reconstructed the balances in its accounts based on source documents and reports, and these balances were audited by Regulatory Audit. The recalculated balances as of December 31, 2010, with comparatives from the disposition request in RSL's 2012 Cost of Service filing is set out in the table below.

	1588 Power as of Dec. 31, 2010	**1588 Sub-Account GA As of Dec. 31, 2010**
EB-2011-0274	-$94,603	-$155,896
Balances as Reconstructed by RSL	-$560,322	$353,601
Difference:	-$465,719	$509,497

While the above differences are not solely attributable to the inaccurate treatment of the GA rate rider, the balances are provided here to provide context for the 2010 balances that were requested for disposition. There were many other reasons for the balances to be different than what were presented in RSL's 2012 rate proceeding and are detailed in the following findings.

Regulatory Audit notes that RSL has made the necessary adjustments to its December 31, 2012 balance for Account 1588 and 1589 and has re-filed its RRR 2.1.7 information for the account balance as at December 31, 2012 with the Board reflecting the cumulative changes required for all affected prior years.

9.1.3 Area of Non-Conformity Requiring Action

9.1.4 Management Response

RSL agrees with the revised balances presented above for accounts 1588 Power and 1588 GA. RSL agrees that the journal entry of $53,059, that impacted both accounts 1595 and 1588 GA, should not have been made in 2010, as the transactions pertained to 2011.

9.1.5 Management Action Plan

The adjustment to the balance for accounts 1588 Power and 1588 GA has been done as a 2013 journal entry. RRR 2.1.7 has been revised to reflect the corrected balances as at December 31, 2012.

9.2.1 Finding 2

Carrying charges were calculated incorrectly. The audit found that the carrying charges in Account 1588 included an excess amount of approximately $32,000 debit, and carrying charges in Account 1589 GA included an excess credit of approximately $4,000 in the balance as of December 31, 2012.

The overall adjustment required (and presented in the finding below) to bring the balances in accordance with the requirements of the APH[9] includes the impact of these carrying charges.

9.2.2 Basis for Finding

During the course of this audit, Regulatory Audit noted that RSL had calculated incorrect carrying charges due to inaccurate principals for account balances.

Based on the newly recalculated balances, RSL also recalculated the carrying charges as per the APH requirement and the Board prescribed interest rates. This resulted in RSL revising its total carrying charges for the years 2010 to 2012 in the amount of an additional credit in Account 1588 Power in the amount of approximately $32,000. The carrying charges in Account 1589, GA for the same period were revised by a debit amount of approximately $4,000.

Regulatory Audit notes that RSL has made the necessary adjustments to its December 31, 2012 balance for Accounts 1588 and 1589 and has re-filed its RRR 2.1.7 information for the account balance as at December 31, 2012 with the Board reflecting the cumulative changes required for all affected prior years.

9.2.3 Area of Non-Conformity Requiring Action

Going forward, RSL should follow the APH to ensure that the amounts recorded in the DVAs are in accordance with the APH.

9.2.4 Management Response

[9] APH effective July 2007, Article 490, page 12; APH effective January 1, 2012, Article 490, pages 13 and 20

RSL agrees that the interest to be applied to accounts 1588 and 1589 is to be adjusted based on the revised balances.

9.2.5 Management Action Plan

The adjustment to interest has been made as part of the overall balance correction journal entry recorded in 2013. Effective January 1, 2013, RSL modified its accounting procedures to properly account for interest.

RRR 2.1.7 has been revised. The revised balances have been submitted for disposition in our 2014 IRM Application.

Effective January 1, 2013, RSL has implemented changes, following the relevant Board guidance to ensure that DVA balances are generated in line with the Board guidance.

9.3.1 Finding 3

RSL did not calculate the split of GA cost between RPP and non-RPP based on kWh. Instead, it used the dollar value to calculate the split. This treatment is inconsistent with Board guidance[10] which requires the volumetric consumption for the determination of the split.

9.3.2 Basis for Finding

Regulatory Audit noted that RSL uses the year-to-date dollar value of the GA billings to determine the split between the RPP and non-RPP GA cost. This treatment is not consistent with the various FAQs answered by the Board.

The December 2005 APH – FAQ #15, in part, states the following:

> Therefore, for the purposes of this variance account, and LDC must calculate the volume of electricity for non-RPP customers only x GA rate used on that particular monthly invoice.

The October 2009 APH – FAQ #11, in part states the following:

> The IESO charge type 146 for the Global Adjustment comprises the total kWhs consumption of the distributor (including embedded generation) and hence the distributor must determine the appropriate splits.

In addition, all billings and invoicing of commodity are done based on volumetric load values, and using the dollar values may introduce inaccuracies resulting from timing differences impacting the balances in Accounts 1588 Power and GA.

[10] December 2005 APH – FAQ #15; and October 2009 APH – FAQ #11.

As indicated in the previous findings in this report, RSL recalculated the balances in its Accounts 1588 Power, and GA for the years 2010, 2011 and 2012, using the source documents and reports from its Harris system. These balances were audited by Regulatory Audit.

RSL has recalculated the balances in its Accounts 1588 and GA. The balances, as they currently stand in RSL's GL, and as recalculated are presented below:

Year	Per RSL GL			Balances as Recalculated		
	1588	GA	Total	1588	GA	Total
2010	-225,524.53	24,725.57	-200,798.96	-560,322.36	353,601.48	-206,720.88
2011	161,602.35	-156,440.75	5,161.60	-32,092.00	19,659.50	-12,432.50
2012	410,994.84	-488,343.74	-77,348.90	-45,579.67	-59,859.37	-105,439.04

The focus of this audit was to ensure that the balances that would be brought forward for disposition in RSL's 2014 IRM proceeding contain no material errors. It appears that although on the total basis, the balances were not materially different from what is currently in RSL's GL, the split between Account 1588 and Account 1589 has materially changed, based on the amended balances.

Regulatory Audit notes that RSL has made the necessary adjustments to its December 31, 2012 balance for Accounts 1588 and 1589 has and re-filed its RRR 2.1.7 information for the account balance as at December 31, 2012 with the Board reflecting the cumulative changes required for all affected prior years.

9.3.3 Area of Non-Conformity Requiring Action

Going forward, RSL should follow the APH to ensure that the amounts recorded in the DVAs are in accordance with the APH.

9.3.4 Management Response

RSL agrees that the split of GA between RPP and non-RPP was calculated based on dollars rather than consumption, but only for 2012. Prior years were calculated based on consumption.

9.3.5 Management Action Plan

Effective January 1, 2013, RSL has changed its accounting procedures to properly split GA between RPP and non-RPP customers based on consumption, in line with the APH and Board guidance. Journal entries previously recorded in

2013 for the GA split have been reversed, and new entries, based on consumption, are being created. The revised entries will be completed by December 31, 2013.

Effective January 1, 2013, Journal entries for ongoing transactions are in line with the APH and all other Board guidance.

9.4.1 Finding 4

RSL was billing customers the GA rate rider using consumption adjusted for the loss factor. The GA rate rider billed should typically not be adjusted for the loss factor.

9.4.2 Basis for Finding

Between January 1, 2010, and December 31, 2012, there were two different GA rate riders in place for RSL. These were approved by the Board in EB-2009-0248 and EB-2010-0113. Regulatory Audit notes that RSL was as billing an incorrect GA rate rider to customers who were not on a regulated price plan. RSL was applying the rate rider to the kWh grossed up by the loss factor.

Regulatory Audit is of the view that this practice could be regarded as a potential breach of the Board's Orders.

The total impact of the over-collection on Account 1595 was $64,632, i.e. RSL had over-collected this amount over what was approved by the Board in its 2010 and 2011 IRM proceedings.

Regulatory Audit notes that Section 7.7 of Retail Settlement Code (RSC) outlines actions that a distributor should undertake with respect to Billing Errors. Specifically, Section 7.7.1 sates the following:

> Where a distributor has over billed a customer or retailer by an amount that is equal or exceeds the customer's or retailer's average monthly billing amount, determined in accordance with section 7.7.5, the distributor shall, within 10 days of determination of the error, notify the customer or retailer of the over billing and advise that the customer or retailer may elect to have the full amount credited to their account or repaid in full by cheque, within 11 days of requesting payment by cheque. Where the customer or retailer has not requested payment by cheque within 10 days of notification of the error by the distributor, the distributor may credit the full amount to the account.

Regulatory Audit asked RSL to disclose the issue of over-collection of $64,632 in its 2014 IRM application and bring the matter to the Board's attention. This error, if correctly recorded, would result in RSL's account already reflecting the over-collection in its balance for Account 1595, which would be disposed of at the 2014 IRM proceeding. In this regard, RSL was expected to ensure that its Account 1595 correctly reflects the over-collection, and that the over-collection is addressed during RSL's request for disposition of the accounts in its 2014 IRM proceeding if the correction is not made through the requirement of RSC.

RSL filed its 2014 IRM application on October 25, 2013, in which, it disclosed this issue as follows:

> A regulatory audit was conducted in July and August 2013, and the results of the audit are reflected in the amounts being requested for disposition for accounts 1588 and 1589. In the draft audit report, section 9.4.1, it was determined that RSL mistakenly over-collected a GA rate rider by charging on kWh gross up by the loss factor. The impact of the over-collection was $64,632. This amount is included in the 1595 amounts requested for disposition.
>
> Section 7.7 of the Retail Settlement Code outlines actions that a distributor should undertake with respect to Billing Errors. Specifically:
>
> "Where a distributor has over billed a customer or retailer by an amount that is equal or exceeds the customer's or retailer's average monthly billing amount, determined in accordance with section 7.7.5, the distributor shall, within 10 days of determination of the error, notify the customer or retailer of the over billing and advise that the customer or retailer may elect to have the full amount credited to their account or repaid in full by cheque, within 11 days of requesting payment by cheque. Where the customer or retailer has not requested payment by cheque within 10 days of notification of the error by the distributor, the distributor may credit the full amount to the account."
>
> RSL is requesting permission to refund the over-collection as part of the disposition of account 1595. The over-collection took place in 2010 and 2011, and it would be very costly and time consuming to determine the correct customers impacted by the error. There will also be situations, because of the time gap, where customers no longer have accounts with RSL.
>
> RSL is requesting disposition at this time as the balances of the Group 1 variance accounts collectively exceed the preset disposition threshold of $.001 per kWh (debit or credit). As these rates are being proposed to be updated through this application, failure to not dispose of a material balance could result in a larger than needed balance going forward. We

believe that the variances should be dealt with as close to the time that the variance occurred.

9.4.3 Area of Non-Conformity Requiring Action

Moving forward, RSL is encouraged to strengthen its internal controls regarding its regulatory accounting activities and implementation of the Board Orders.

9.4.4 Management Response

RSL agrees that the GA rate riders were charged to loss-adjusted consumption.

9.4.5 Management Action Plan

The GA rate rider error has been identified in the 2014 IRM Application. RSL has requested that the over-collection of these rate riders be refunded to our customers as part of the overall disposition of our RSVA balances.

RSL indicated in the IRM Application that refunding the over-collection to specific customers would be very difficult due to the amount of time that has passed since the error occurred.

Account 1595 properly includes the over-collection of the rate rider.

Effective January 1, 2013, RSL has modified its internal controls to verify that all Board-approved rate riders are applied against non-loss-adjusted consumption.

9.5.1 Finding 5

Entries in Accounts 1588 and GA are recorded only at the end of the year. No monthly entries recorded in the DVAs.

9.5.2 Basis for Finding

Entries in the RSVA accounts are recorded at the end of the year. However, RSL stated that monthly information is maintained on its spreadsheets. RSL also stated that for the purpose of quarterly reporting to the Board, it reports the balances including the monthly accruals in the accounts.

Per the APH effective July 1, 2007, Article 490 states (at page 20):

> **Mechanics**
> The amounts to be posted to the RSVA Power are determined by comparing the energy cost on the settlement invoice to the energy cost billed to customers.
>
> Recording practices similar to those listed for the RSVA mentioned earlier in this Article apply to the RSVA Power account**.**

At page 21:

Mechanics

> The amounts to be posted to the RSVA Power Sub-account Global Adjustment are determined by comparing the global adjustment amount on the settlement invoice to the global adjustment amount billed to customers

Recording practices similar to those listed for the RSVA mentioned earlier in this Article apply to the RSVA Power account.

At page10:

Mechanics

The RSVA listed above are used to record the net difference between the amount paid in the month (i.e. using the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and retailers in the month based on the Board-approved rates.

To accomplish this, distributors will need to compare related revenue and expense streams and record the difference in the appropriate RSVA by way of **a monthly journal entry**. It will be necessary to perform this comparison and resulting journal entry on a monthly basis since the net monthly opening balance will attract "Carrying Charges" as mentioned below. [Emphasis added]

9.5.3 Area of Non-Conformity Requiring Action

Going forward, RSL should ensure that the amounts recorded in the DVAs are in accordance with the APH.

9.5.4 Management Response

RSL agrees that monthly journal entries are required to record the RSVA adjustments.

9.5.5 Management Action Plan

Effective January 1, 2013, RSL has changed its accounting procedures in line with the APH and Board guidance. RSL is creating monthly entries to record the variance between purchases and sales.

9.6.1 Finding 6

Carrying charges are recorded only at the end of the year, and not monthly, as required by the APH.

9.6.2 Basis for Finding

RSL does not record carrying charges in its RSVA accounts. This practice is not consistent with the APH. Per page 12 of the APH effective July 1, 2007, Article 490 states:

Entry 4: Calculating carrying charges

> In the next month, the opening balance of the RSVA for the month consistent with method used to determine the balance in the account (billed or accrual) will be used for purposes of calculating carrying charges for the **month**. [Emphasis added]

9.6.3 Area of Non-Conformity Requiring Action

Going forward, RSL should ensure that the amounts recorded in the DVAs are in accordance with the APH.

9.6.4 Management Response

RSL calculated the carrying charges on a monthly basis, as per the APH. The difference is that we did not record monthly journal entries, but instead recorded the amounts in spreadsheets. The total carrying charges were entered into the General Ledger at the end of the year.

9.6.5 Management Action Plan

Effective January 1, 2013, RSL has changed its accounting procedures in line with the APH, and is now recording journal entries for the carrying charges monthly.

9.7.1 Finding 7

RSL records the unbilled entry and accruals only at the end of the year, and reverses the previous year's unbilled entry and accruals at the same time.

9.7.2 Basis for Finding

Per page 37 of the APH effective January 1, 2012, Article 220 states[11]:

> **1588 RSVA Power**
> A. This account shall be used monthly to record the net difference between:
> i. the energy amount billed to customers, **including accruals**
>
> AND
> ii. the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator, host distributor or embedded generator, **including accruals**. [Emphasis added]
>
> **1589 RSVAGA**
> A. This account shall be used monthly to record the net difference between:
> i. the global adjustment amount billed to non-Regulated Price Plan consumers, **including accruals**
>
> AND
> i. the global adjustment charge (i.e., under charge types as applicable) to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoice received from the Independent Electricity System Operator ("IESO"), host distributor or embedded generator, **including accruals.** [Emphasis added]

9.7.3 Area of Non-Conformity Requiring Action

Going forward, RSL should ensure that the amounts recorded in the DVAs are in accordance with the APH.

9.7.4 Management Response

RSL has recorded unbilled revenue accruals at year-end because of the complexity of the calculation. RSL has many bi-monthly customers, which greatly extends the amount of time required for an accurate calculation of unbilled revenue. RSL was of the understanding that accruals could be done either monthly or annually, so we chose to record them annually. Through this audit, we have been informed that the option to accrue annually is no longer available to us.

[11] The reason that the 2012 APH is quoted here is because prior to January 1, 2012, the APH allowed the use of Billed or Accrual method, and the APH allowed either treatment accordingly. However, RSL has always used the Accrual method. Therefore the accrual guidance has always applied to them.

9.7.5 Management Action Plan

Effective January 1, 2013, RSL is calculating monthly accruals based on the historical relationship between our power purchases and billings to provide a reasonable estimate. We will continue to calculate a detailed unbilled revenue amount at year-end. The retroactive accrual calculations will be completed by December 31, 3013. Effective January 1, 2013, RSL is recording monthly accruals for IESO costs.

10 Observations

10.1.1 Observation 1

Rate riders approved in Board Decision and Order EB-2009-0248 were incorrectly applied by RSL. The approved rate rider was .0002 as a refund to the customers, and the billed rate rider was .00022 as a refund to the customers.

10.1.2 Basis for Observation

The rate rider applied was not the Board approved rate rider. RSL provided a calculation of this over-refund to the customers as approximately $900, which is not material.

This error, if correctly recorded, would result in RSL's account already reflecting the over-refund in its balance for Account 1595, which would be disposed of at the 2014 IRM proceeding.

10.1.3 Area of Concern

Given that the amount is not material, and the account balance would be naturally reflecting this over-refund, no action is necessary from RSL. RSL is encouraged to review its internal control processes to ensure the rates that are approved by the Board are accurately included in this billing system.

10.1.4 Management Response

RSL agrees that the rate rider applied should have been at a rate of .0002 rather than .00022. RSL used the rate calculated in the model during the rate submission. We agree that the rate as approved by the Board should be used.

10.1.5 Management Action Plan

RSL will use only the rate as approved by the Board. RSL has improved its internal controls with a verification process that confirms that rates in our billing software match the rates approved by the Board.

10.2.1 Observation 2

RSL's RRR 2.1.7 with the Board as well as the AFS for December 31, 2012 showed that RSL included a loss of approximately $6,000 in 2012, and $4,000 in 2011 for the differences between energy commodity sales and cost of power.

10.2.2 Basis for Observation

Regulatory Audit notes that RSL included a loss of $6,000 on its AFS as of December 31, 2012, and $4,000 in 2011, as a result of the inappropriate application of RSVA accounting to its energy sales and cost of power. Although this amount is approximately 4% of RSL's adjusted net income in each year and may not be material, an improper application of RSVA accounting may result in some material implications.

As per APH Article 490 and Chapter 4 of the RSC indicates that all electricity distributors shall settle non-competitive electricity service costs based on rates approved by the Board. Since there will be differences between the amount ultimately owed (i.e. based on the settlement invoice) to the IESO (or host distributor) by a distributor and the amount billed to customers and retailers (i.e. using Board approved rates and calculated under sections 4, 5, and 6 of the RSC), Retail Settlement Variance Accounts shall be used by all distributors to record such differences. As a result, the energy sales and cost of power after the recording of RSVA should be the same.

Regulatory Audit notes that any gain or loss recorded in the distributor's AFS as a result of not properly applying the RSVA accounting, depending on materiality, may result in either over- or under-stated net income. Furthermore, this may result in incorrect balances of regulatory assets and liabilities that are reported in the distributor's balance sheet section of the AFS. Not applying the proper regulatory accounting treatment to RSVA accounts could be problematic given the fact that the Board relies on the distributor's audited financial statements for disposition of the account balances in a rate setting proceeding.[12] As a result

[12] Section 2.12 (Exhibit 9 Deferral and Variance Accounts) of the Filing Requirements For Electricity Distribution Rate Applications Last Revised on July 17, 2013 states that "Explanation if the account balances in the continuity schedule differ from the account balances in the trial balance reported through the Electricity Reporting and Record-keeping Requirements and the Audited Financial Statements".

improper RSVA accounting, inappropriate amounts could be recovered from or returned to customers when account balances are disposed in a rate proceeding.

Furthermore, an over- or under-stated net income may lead to an inaccurate calculation of the actual regulatory return on equity ("ROE") performance. When an entity performs outside a 3% earnings dead band from its approved regulatory ROE, the Board may initiate a regulatory review.[13] The review is conducted based on the utility's actual performance in any given fiscal year. RSL reports its actual ROE as a part of the RRR 2.1.5.6 filing with the Board.

In addition, Regulatory Audit notes that Board uses the information from AFS for a variety of other regulatory purposes including preparation and publication of the annual Statistical Yearbook for Electricity Distributors and monitoring of financial viability of the sector.

Regulatory Audit notes that the error in question was related to a mapping error[14] in RSL's GL, resulting in incorrect grouping of a non-commodity account into a commodity account.

Regulatory Audit notes that RSL investigated the error and provided documentation[15] that the error did not impact any DVA balances.

10.2.3 Area of Concern

Moving forward, RSL should establish appropriate internal controls to ensure the net income shown in the AFS is not either over- or under-stated due to difference between energy sales and costs of power and there is zero gain or loss for the energy commodity.

10.2.4 Management Response

RSL did not make a gain or loss on the sale of energy. A recording error was made in the RRR 2.1.7, classifying an expense in the cost of power when it should have been included in Billing Expenses.

10.2.5 Management Action Plan

RRR 2.1.7 for 2012 data has been corrected for this error. RSL has improved its internal controls, and will verify that the balances in the financial statements and RRR filings do not reflect a profit or loss on energy.

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[13] Per Report of the Board on 3rd Generation Incentive Regulatory for Ontario's Electricity Distributors

[14] Emails from RSL dated Sept. 11/13, Oct. 17/13 and Oct. 21/13

[15] Email from RSL dated Oct. 21, 2013