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March 28, 2013

Raymond Tracey
President and CEO
Essex PowerLines Corporation
2730 Highway 3
Oldcastle Ontario
N0R 1L0

Dear Mr. Tracey:

Re: Audit Review of Group 2 Deferral and Variance Accounts

By letter dated January 15, 2013, the Regulatory Audit and Accounting division ("Regulatory Audit") of the Ontario Energy Board (the "Board") notified Essex PowerLines Corporation ("Essex Powerlines") that Regulatory Audit would review Essex Powerlines' Group 2¹ Deferral and Variance Accounts ("DVAs"), specifically Account 1525 Miscellaneous Deferred Debits and Account 1572 Extraordinary Event Costs as at December 31, 2012.

A final report based on Regulatory Audit's review (the "Report") has now been completed. The Report outlines the review's objective, scope, criteria, procedures used, findings and observation, basis of finding and basis of observation, areas of non-conformity requiring action and area of concern, management responses, and management action plans for Essex Powerlines.

To ensure that the audit review findings related to Group 2 DVAs as outlined in the Report are properly and consistently addressed and the required action plans are implemented by Essex Powerlines, Regulatory Audit will be conducting a follow-up audit review in the future.

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 review.

The findings of the audit review will be reported to the Board and may also ultimately be used as evidence in a future Essex Powerlines proceeding before the Board.

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 2 accounts.

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

Yours truly,

A handwritten signature in black ink, appearing to read 'D. Babaie', with a stylized, cursive script.

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Cc: Richard Dimmel, General Manager
Wayne Hurst, Chair
Michelle Soucie, Operations & Regulatory Accounting Analyst

**Audit Review of Group 2 Deferral and Variance Accounts
Essex Powerlines Corporation
March 2013**

Executive Summary

The Ontario Energy Board (the "Board") authorized an audit review ("Audit Review") of Essex Powerlines Corporation ("Essex Powerlines") Group 2 deferral and variance accounts (each a "DVA"), specifically Account 1525, Miscellaneous Deferred Debits and Account 1572, Extraordinary Event Costs. This review was conducted by the Board's Regulatory Audit and Accounting division ("Regulatory Audit") commencing January 2013.

In Essex's Powerlines' 2010 cost of service rate application (EB-2009-0143), Account 1572 balance¹ as at December 31, 2008 was disposed and Account 1525 was not requested for disposition by Essex Powerlines². Per review of the RRR filed balance for Account 1525, there was nominal balance for Account 1525 before 2008. As a result, Regulatory Audit focused on transactions incurred from 2009 to 2012 for Account 1572 and focused on transactions incurred from 2008 to 2012 for Account 1525. Essex Powerlines is scheduled to file a cost of service rate application for rates effective May 1, 2014. However, Essex Powerlines has requested to defer its cost of service rate application to January 1, 2015.

The Audit Review focuses on the balances in the Uniform System of Accounts ("USoAs") for Account 1525 and Account 1572 as at December 31, 2012. Regulatory Audit has concluded that some of the balances of the regulatory accounts as of December 31, 2012 were not accurately recorded in Essex Powerlines' general ledgers and not accurately reflected in the USoAs. In addition, Regulatory Audit has noted that Essex Powerlines has not followed some of the accounting procedures as stated in the Accounting Procedures Handbook ("APH") and its related guidance in recording the transactions in certain of its DVAs.

The audit findings and the observation of this Audit Review are found in Sections 8 and 9 of this audit review report (the "Report"). Regulatory Audit expects that Essex Powerlines will make necessary adjustments in its DVA balances as at December 31, 2012 and file the correct balances in its 2012 Reporting & Record-Keeping Requirements ("RRR") filing.

¹ Per Essex Powerlines' 2010 CoS Decision EB-2009-0143, Account 1572 balance as at December 31, 2008 of \$48,453 was disposed for the costs incurred in 2005, representing the costs incurred to restore power after a wind storm in September 2005.

² Per Essex Powerlines' response to Board staff filed Dec 14, 2009 in its 2010 CoS rate application EB-2009-0143, Essex Powerlines stated that Essex Powerlines was not proposing any disposition of this account since these items are not regulatory assets.