EXHIBIT 9 - DEFERRAL

AND

VARIANCE ACCOUNTS

EB-2014-0080

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Status and Disposition of Deferral and Variance Accounts

Ex.9/Tab 1/Sch.1 - Overview

HPDC proposes to dispose of a credit of $491,834 related to Group 1 and Group 2 Variance/Deferral Accounts. This credit includes carrying charges up to and including April 30, 2015. HPDC also proposes to dispose of the following;

- a net debit balance of $16,009 recorded in account 1568 being the Lost Revenue Adjustment Mechanism Variance Account and
- a credit of $41,479 being the balance of account 1576 for accounting changes under CGAAP,
- to dispose of a debit of $51,087 for the Net Book Value of Stranded Meters

Group 1 and Group 2 DVA balances are proposed to be disposed of over 1 years. Both Stranded Meters Rate Rider and Smart Meter Disposition riders are proposed to be disposed over 4 years to minimize their effects on the bill impacts.

The purpose of this exhibit is to identify the variance/deferral accounts that have been used, provide the principal balance recorded in each variance/deferral account and derive the carrying charges on each account's balance up to and including April 30, 2015. The exhibit also describe the methodology proposed to allocate account balances to customer classes, describe the rationale supporting the proposed disposition period, describe the proposed charge parameters and quantify the proposed rate riders that will dispose of the recorded balances.

HPDC has followed the OEB's guidance as provided in the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

HPDC follows and is in compliance with the OEB's Uniform System of Accounts for electricity distributors. All accounts are used in accordance with the Accounting Procedures Handbook. HPDC used the cash method to calculate carrying charges. Effective July 1, 2012 HPDC has transitioned to the accrual method in accordance with the Board's directive. The Board prescribed interest rates are used to calculate the carrying charges and the interest is recorded in a sub-account.

The 2015_EDDVAR_Continuity_Schedule_CoS_v2_20130706 detailing each account is being filed in conjunction with this application.

As of December 31, 2013, HPDC recorded principal balances in the following Board-approved deferral and variance accounts:

Group 1 Accounts

- 1550 – LV Variance Account
- 1551 – Smart Meter entity Charge Variance Account
- 1580 – Retail Settlement Variance Account 1 – Wholesale Market Service Charges ("RSVAWMS")
- 1584 – Retail Settlement Variance Account – Retail Transmission Network Charges ("RSVANW")
- 1586 – Retail Settlement Variance Account – Retail Transmission Connection Charges ("RSVACN")
- 1588 – Retail Settlement Variance Account– Power ("RSVAPOWER")
- 1589– Retail Settlement Variance Account – Global Adjustment ("RSVAGA")
- 1595 – Disposition and Recovery/Refund of Regulatory Balances

Group 2 Accounts

- 1508 – Deferred IFRS Costs
- 1508 – Other Regulatory Assets – Sub Account
- 1525 – Misc. Deferred Debits

Ex.9/Tab 1/Sch.2 - Balances of Deferral and Variance Account

Table 9.0 below presents the list of deferral and variance accounts, with the proposed selection of balances for disposition. All account balances selected for disposition are as at December 31, 2013 being the most recent date the balances was subject to audit.

Board policy states: at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. In accordance with the above statement, HPDC proposes to dispose of all its balances. Each account is described at Ex.9/Tab 1/Sch.3 which follows the table.

Table 9.0 - Account and Balances sought for disposition/recovery

		Amounts from Sheet 2
LV Variance Account	1550	29,891
Smart Metering Entity Charge Variance Account	1551	2,738
RSVA - Wholesale Market Service Charge	1580	(133,451)
RSVA - Retail Transmission Network Charge	1584	154,454
RSVA - Retail Transmission Connection Charge	1586	70,257
RSVA - Power (excluding Global Adjustment)	1588	(145,007)
RSVA - Global Adjustment	1589	14,598
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	(152,852)
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	(324,681)
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	(49,637)
Total of Group 1 Accounts (excluding 1589)		**(548,288)**

Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	35,936
Other Regulatory Assets - Sub-Account - Other [4]	1508	1,696
Retail Cost Variance Account - Retail	1518	0
Misc. Deferred Debits	1525	4,223
Total of Group 2 Accounts		**41,855**

LRAM Variance Account	1568	16,009

Total Balance Allocated to each class (excluding 1589 and 1586)	**(506,432)**
Total Balance Allocated to each class from Account 1589	**14,598**
Total Balance Allocated to each class (including 1589 and excluding 1586)	**(491,834)**

Accounting Changes Under CGAAP Balance + Return Component	1576	(42,905)
Total Balance Allocated to each class for Accounts 1575 and 1576		**(42,905)**

The 2015_EDDVAR_Continuity_Schedule_CoS_v2 which shows a continuity schedule for the period following the last disposition to the present, showing separate itemization of opening balances, annual adjustments, transactions, interest and closing balances is being filed in conjunction with this application.

Ex.9/Tab 1/Sch.3 - Description of DVA used by the Applicant

Group 1 Accounts

All accounts in Group 1 are used in accordance with the Accounting Procedure Handbook. For definitions of each account listed below, please refer to the Accounting Procedure Handbook using the following link;

http://www.ontarioenergyboard.ca/oeb/_Documents/Regulatory/Accounting_Procedures_Handbook_Elec_Distributors.pdf

1550 – LV Variance Account

For account 1550, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The December 31, 2013 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $29,891.

1551 – Smart Metering Entity Charge Variance Account

For account 1551, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015 for. The December 31, 2013 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $2,738.

1580 – Retail Settlement Variance Account 1 – Wholesale Market Service Charges (“RSVAWMS”)

For account 1580, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The December 31, 2013 audited reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $(133,451).

1584 – Retail Settlement Variance Account – Retail Transmission Network Charges (“RSVANW”)

For account 1584, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $154,454.

1586 – Retail Settlement Variance Account – Retail Transmission Connection Charges (“RSVACN”)

RSVACN is used to record the difference between the amount of retail transmission connection costs paid to the IESO or host distributor and the amounts billed to customers for retail transmission connection costs. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

For account 1586, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $70,257

1588 – Retail Settlement Variance Account– Power (“RSVAPOWER”)

The RSVAPOWER account is to be used to record the net differences in energy costs using the settlement invoice received from the IESO, host distributor, or embedded generator and the amounts billed to customers for energy. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

The RSVA power account is designed to capture variances due to billing timing differences (i.e. electricity charged by IESO to LDCs vs. electricity billed by LDCs to their customers), price and quantity differences (i.e. arising from final vs. preliminary IESO settlement invoices), and line loss differences (i.e. actual vs. estimated line loss factors).

This account is not designed to capture any price differences between the regulated price plan (RPP) and spot prices applicable to RPP customers. This is the function of the Ontario Power Authority (OPA) RPP variance account which is trued-up in accordance with the terms established by the Board for the RPP.

Accordingly, since the RSVA power account is generic to all customers of an LDC, disposition of the account balance in rates is attributable to all its customers.

For account 1588 RSVA, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of $154,454

1589– Retail Settlement Variance Account – Global Adjustment (“RSVAGA”)

The RSVAGA account is used to record the net differences between the global adjustment amount billed, to non-RPP consumers and the global adjustment charge to a distributor for non-RPP consumers, using the settlement invoice received from the IESO, host distributor or embedded generator. These amounts are calculated on an accrual basis, as are the carrying charges, which are assessed on the monthly opening principal balance of this RSVA account.

The 1588 RSVA power - Sub-account Global Adjustments is designed for the global adjustments applicable to non-RPP customers. Hence, the disposition of the account balance should be attributable to non-RPP customers.

For account 1588GA, HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015 for. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a debit of $14,598.

1595 – Recovery/Disposition of Regulatory Asset Balances (Recovery or Refund Period completed)

This account includes the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers. Separate sub-accounts are maintained for expenses, interest, and recovery amounts for each Board-approved recovery. Since disposal/recovery of 1595 is only eligible once the rate rider has expired, only 2008 has been included in this application.

1595 - Disposition and Recovery/Refund of Regulatory Balances (2010)

HPDC is requesting disposition of the December 31, 2013 audited balance. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $(152,852)

1595 - Disposition and Recovery/Refund of Regulatory Balances (2011)

HPDC is requesting disposition of the December 31, 2013 audited balance. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $(324,681)

1595 - Disposition and Recovery/Refund of Regulatory Balances (2012)

HPDC is requesting disposition of the December 31, 2013 audited balance. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

The balance requested for disposal, including carrying charges is a credit of $(49,637)

The total balance of Group 1 is a credit of $(548,288)

Group 2 Accounts

1508 – Other Regulatory Assets – Sub-Account - Deferred IFRS Transition Costs.

The OEB approved a deferral account for distributors to record one-time administrative incremental IFRS transition costs which were not already approved and included for recovery in distribution rates. These incremental costs were to be recorded in a sub-account of account 1508 – Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs.

HPDC has recorded its incremental costs in this account beginning in 2009. HPDC's application for 2015 rates is being filed under IFRS and as such, the utility has completed almost all of its transition to IFRS with the exception of official financial statements using IFRS.

HPDC has an audited balance in its IFRS transition cost account of $35,936. All costs included in the account are fully incremental and HPDC does not have any IFRS transition costs approved in its current rate structure. All costs in the account are one-time costs related directly to the IFRS project.

The one-time costs associated with the transition to IFRS where in relation to a preliminary analysis performed by BDO back in 2009.

The analysis which was performed for many other utilities included the following services;

Hands on Assistance: Property, Plant & Equipment Analysis

- Identify material PP&E accounts and perform the following analysis:
- Identification of any components which require separate accounting
- Analysis of original cost and accumulated depreciation under CGAAP vs. IFRS
- Establish estimates for assets in field on January 1, 2011
- Assess the remaining useful lives of assets
- Analyze depreciation under CGAAP vs IFRS
- Develop a Fixed Asset Listing/Sub-Ledger for the account
- Analyze any required changes to the work order system to track additions and disposals into the account
- Estimate additions and disposals for 2011
- Present the analysis to the external auditor for input and feedback
- Assistance with changes to existing PP&E processes
- Changes to tracking work orders and projects and setting up new PP&E items including components
- Assistance with communicating changes to your operations staff and consultants

- Update the PP&E Analysis for 2011 & 2012 activity including depreciation, additions, disposals and impact on contributed capital (Optional)

Analysis of accounting for the following additional items;

- Regulatory Assets & Liabilities
- Overhead & Burdens
- Borrowing Costs
- Customer Contributions
- AROs
- Computer Software/Land Rights
- Impairment of Assets

Contributed Assets;

Detailed analysis of Contributed Assets based on finalized PP&E changes to determine likely adjustments and create a continuity schedule to maintain these records (additions/disposals)

HPDC attests that no “one-time” administrative incremental IFRS transition costs are embedded in the proposed 2015 revenue requirement.

The October 2009 APH FAQ #3 regarding costs that are permitted to be recorded in the Account 1508 Other Regulatory Assets, sub-account Deferred IFRS Transition Costs Account and Account 1508 Other Regulatory Assets, sub-account IFRS Transition Costs Variance Account, states the following;

> “The costs authorized for recording in the deferral or variance account referenced in the answers to questions 1 and 2 above shall be incremental one-time administrative costs caused by the transition of accounting policies, procedures, systems and processes to IFRS. The incremental costs eligible for inclusion in these accounts may include professional accounting and legal fees, salaries, wages and benefits of staff added to support the transition to IFRS and associated staff training and development costs.
>
> These accounts are exclusively for necessary, incremental transition costs and shall not include ongoing IFRS compliance costs or impacts arising from adopting accounting policy changes that reflect changes in the timing of the recognition of income. The incremental costs in these accounts shall not include costs related to system upgrades, or

> replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.
>
> The costs recorded in these accounts will be subject to a prudence review before disposition. The criteria of materiality, causation and prudence will be considered at the time of proposed disposition. Only costs that are clearly driven by the necessity of transitioning to IFRS and are genuinely incremental to costs that would have been otherwise incurred will be considered for approval for recovery in rates.
>
> The transition to IFRS is effective for fiscal year-ends beginning on or after January 1, 2011. Accordingly, incremental transition costs incurred after the beginning of the year of adoption are expected to be minimal."

HPDC's costs associated to the conversion to IFRS relate solely to professional accounting and legal fees and as such meet the criterions of the APH. The position papers report by BDO are filed at Appendix A of this Exhibit.

HPDC notes that no material variances in excess of the materiality threshold that have been recorded in 1508 Other Regulatory Assets, sub-account IFRS Transition Costs Variance account. HPDC also notes that no capital costs, ongoing IFRS compliance costs, or impacts arising from adopting accounting policy changes are recorded in Account 1508 Other Regulatory Assets, sub-account Deferred IFRS Transition Costs Account or Account 1508 Other Regulatory Assets, sub-account IFRS Transition Costs Variance Account.

With the adoption of MIFRS in 2015, HDPCL is not planning on using this account once its disposition is complete. This statement is based on the utility's best known information at the time of the application.

Appendix 2-U of the OEB 2015_Filing_Requirements_Chapter2_Appendices is presented at the next page.

Appendix 2-U - One-Time Incremental IFRS Transition Costs

ollowing table should be completed based on the information requested below. An explanation should be provided for any blank entries. The entries should include one-time incremental IFRS transition costs that are currently included in Account 1508, Other Regulatory Assets, sub-ac
atory Assets, sub-account IFRS Transition Costs Variance Account.

e of One-Time Incremental IFRS Transition Costs [1]	Audited Actual Costs Incurred 2009	Audited Actual Costs Incurred 2010	Audited Actual Costs Incurred 2011	Audited Actual Costs Incurred 2012	Audited Actual Costs Incurred 2013	Audited Carrying Charges to Dec 31, 2013	Forecasted Costs 2014	Forecasted Costs 2015	Total Costs Excluding Carrying Charges	Carrying Charges January 1, 2014 to April 30, 2015
ssional accounting fees				$ 25,500	$ 10,000	$ 436			$ 35,500	
ssional legal fees									$ -	
es, wages and benefits of staff added to support the transition to IFRS									$ -	
iated staff training and development costs									$ -	
related to system upgrades, or replacements or changes where IFRS was ajor reason for conversion									$ -	
									$ -	
									$ -	
									$ -	
									$ -	
nts, if any, included in previous Board approved rates (amounts should be ive) [3]									$ -	
									$ -	
description of additional item(s) and new rows if needed.									$ -	
	$ -	$ -	$ -	$ 25,500	$ 10,000	$ 436	$ -	$ -	$ 35,500	

The Deferred IFRS Transition Costs Account and the IFRS Transition Costs Variance Account are exclusively for necessary, incremental transition costs and shall not include ongoing IFRS compliance costs or impacts arising from adopting accounting policy changes that reflect char
these accounts shall not include costs related to system upgrades, or replacements or changes where IFRS was not the major reason for conversion. In addition, incremental IFRS costs shall not include capital assets or expenditures.

If there were any amounts approved in previous Board approved rates, please state the EB #:

1508 - Other Regulatory Assets - Sub-Account - Other

HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The balance requested for disposal, including carrying charges is a credit of $1,696. The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

HDPCL is not planning on using this account past approval of this disposition. This statement is based on the utility's best known information at the time of the application.

1525 - Misc. Deferred Debits

HPDC is requesting disposition of the December 31, 2013 audited balance, plus the forecasted interest through April 30, 2015. The balance requested for disposal, including carrying charges is a credit of $4,223 The December 31, 2013 audited balance reconciles with filing 2.1.7 of the RRR.

HDPCL is not planning on using this account past approval of this disposition. This statement is based on the utility's best known information at the time of the application.

Ex.9/Tab 1/Sch.4 - Account 1575 and 1576 Accounting Changes;

HPDC has only recently complied with the Board's letter issued July 17, 2012 which state that utilities must change their depreciation expense and capitalization policies. The changes did not occur until mid-year 2014 shortly after the new management was hired and an internal regulatory review was conducted. HPDC changed the estimated useful lives of its assets to be consistent with the guidelines in the HPDC utility specific Kinectrics Report. The utility has also changed its manner of accounting for overhead costs associated with capital work as clarified by the Board in its letter dated February 24, 2010.

On July 17, 2012, the OEB issued a letter to all LDCs authorizing the use of Account 1576, Accounting Changes Under CGAAP, for recording the financial differences arising as a result of an LDCs election to use revised depreciation expense and capitalization policies effective January 1, 2012. However effective from January 01, 2013 these changes are required by all LDCs.

HPDC's thoughts on disposition periods is that if the balance is a credit to the customer, the utility should make every effort to refund it back to the customer as quickly as possible. Accordingly, HPDC has recorded balances in account 1576 for the year ending 2013 payable to its customers over a one year period.

HPDC is requesting disposition of the balance of $41,479. No carrying charges are included in this balance. The calculation of the balances followed the methodology provided in the OEBs FAQ issued July 2012. The OEB Appendix entitled 2-EE Account 1576 is presented at the next page.

For the year 2013, the difference in the net fixed assets between the MIFRS and OldCGAAP is calculated as $38,956. This amount plus $2,523 in return on Rate Base, was booked into account 1576 as a payable to customers. The Return on Rate Base Associated with Account 1576 balance at the Weighted Average Cost of Capital ("WACC") is shown below. The WACC is consistent with the rate shown in Exhibit 5.

Table 9.1 – Return on Rate Base associated with account 1576

Effect on Deferral and Variance Account Rate Riders						
Closing balance in Account 1576			- 38,956		**WACC**	6.48%
Return on Rate Base Associated with Account 1576 balance at WACC - Note 2			- 2,523	**# of years of rate rider disposition period**		
Amount included in Deferral and Variance Account Rate Rider Calculation			- 41,479			1

The total balance sought for disposition is $41,479. The offset to this entry is account 4305 – Regulatory Debits - booked as an offset to revenue in the year 2013.

Table 9.2 – Accounting Changes from transition to IFRS

	2010	2011	2012	2013	2014	2015 Rebasing Year
Reporting Basis	CGAAP	IRM	IRM	IRM	IRM	MIFRS
	Forecast	Actual	Actual	Actual	Forecast	Forecast
					$	$
PP&E Values under former CGAAP						
Opening net PP&E - Note 1				818,172	760,100	
Net Additions - Note 4				58,962	151,195	
Net Depreciation (amounts should be negative) - Note 4				**-117,034**	**-79,528**	
Closing net PP&E (1)				760,100	831,767	
PP&E Values under revised CGAAP (Starts from 2013)						
Opening net PP&E - Note 1				818,172	799,056	
Net Additions - Note 4				58,962	151,195	
Net Depreciation (amounts should be negative) - Note 4				**-78,078**	**-79,528**	
Closing net PP&E (2)				799,056	870,723	
Difference in Closing net PP&E, former CGAAP vs. revised CGAAP				-38,956	-38,956	

The main drivers behind the change in net PP&E is the adoption of new depreciation rates based on the Kinetrics report. Since the utility has never capitalized burdens, not other changes have impacted the difference in closing net PP&E, former CGAAP vs. revised CGAAP. Capitalization policies and changes in depreciation rate are detailed in Exhibit 2.

HPDC has recorded its 2014 balances under CGAAP and under MIFRS in the OEB Appendix e-EE Account 1575 however there were no accounting changes resulting from the adoption to MIFRS and as such, the difference in closing net PP&E is nil.

HPDC seeks to dispose of this balance over a period of 1 year. The rate rider is presented in the OEB Appendices at the next page. Note that this balance was calculated as part of this application and therefore, the balance is not reflected in the utility's December 31, 2013 audited balance nor with filing 2.1.7 of the RRR. The utility does not anticipate using this account once the disposition period has expired.

Account 1576 - Accounting Changes under CGAAP

2013 Changes in Accounting Policies under CGAAP

For applicants that made capitalization and depreciation expense accounting policy changes under CGAAP effective January 1, 2013

	2010	2011	2012	2013	2014	2015 Rebasing Year
Reporting Basis	CGAAP	IRM	IRM	IRM	IRM	MIFRS
	Forecast	Actual	Actual	Actual	Forecast	Forecast
					$	$
PP&E Values under former CGAAP						
Opening net PP&E - Note 1				818,172	760,100	
Net Additions - Note 4				58,962	151,195	
Net Depreciation (amounts should be negative) - Note 4				-117,034	-84,146	
Closing net PP&E (1)				760,100	827,149	
PP&E Values under revised CGAAP (Starts from 2013)						
Opening net PP&E - Note 1				818,172	799,056	
Net Additions - Note 4				58,962	151,195	
Net Depreciation (amounts should be negative) - Note 4				-78,078	-84,146	
Closing net PP&E (2)				799,056	866,105	
Difference in Closing net PP&E, former CGAAP vs. revised CGAAP				-38,956	-38,956	

Effect on Deferral and Variance Account Rate Riders

Closing balance in Account 1576	-	38,956
Return on Rate Base Associated with Account 1576 balance at WACC - Note 2	-	2,523
Amount included in Deferral and Variance Account Rate Rider Calculation	-	41,479

WACC	6.48%
# of years of rate rider disposition period	1

Notes:

CGAAP should be the same.

2 Return on rate base associated with Account 1576 balance is calculated as:
the variance account opening balance as of 2015 rebasing year x WACC X # of years of rate rider disposition period
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.

3 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.

4 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.

Account 1575 - IFRS-CGAAP Transitional PP&E Amounts

2015 Adopters of IFRS for Financial Reporting Purposes

For applicants that will adopt IFRS on January 1, 2015 for financial reporting purposes

	#N/A	2011	2012	2013	2014	2015 Rebasing Year
Reporting Basis	CGAAP	IRM	IRM	IRM	IRM	MIFRS
	Forecast	Actual	Actual	Actual	Forecast	Forecast
					$	$
PP&E Values under CGAAP						
Opening net PP&E - Note 1					4,170,487	
Net Additions - Note 4					151,195	
Net Depreciation (amounts should be negative) - Note 4					-84,146	
Closing net PP&E (1)					4,237,536	
PP&E Values under MIFRS (Starts from 2014, the transition year)						
Opening net PP&E - Note 1					4,170,487	
Net Additions - Note 4					151,195	
Net Depreciation (amounts should be negative) - Note 4					-84,146	
Closing net PP&E (2)					4,237,536	
Difference in Closing net PP&E, CGAAP vs. MIFRS					0	

Effect on Deferral and Variance Account Rate Riders

Closing balance in deferral account	-	**WACC**	
Return on Rate Base Associated with deferred PP&E balance at WACC - Note 2	-	**# of years of rate rider disposition period**	
Amount included in Deferral and Variance Account Rate Rider Calculation	-		

Notes:

1 For an applicant that adopts IFRS on January 1, 2015, the PP&E values as of January 1, 2014 under both CGAAP and MIFRS should be the same.

2 Return on rate base associated with deferred balance is calculated as:

the deferral account opening balance as of 2015 rebasing year x WACC X # of years of rate rider disposition period

* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.

3 The PP&E deferral account is cleared by including the total balance in the deferral and variance account rate rider calculation.

4 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.

Ex.9/Tab 1/Sch.5 - LRAMVA

Lost Revenue Adjustment Mechanism ("LRAM") for 2011-2014

On March 31, 2010, the Minister of Energy and Infrastructure issued a directive (the "Directive") to the Board regarding electricity CDM targets to be met by licensed electricity distributors. The Directive required that the Board amend the licenses of distributors to add, as a condition of licence, the requirement for distributors to achieve reductions in electricity demand through the delivery of CDM programs over a four-year period beginning January 1, 2011. Section 12 of the Directive required that the Board have regard to the objective that lost revenues that result from CDM Programs should not act as a disincentive to a distributor. On April 26, 2012, the Board issued Guidelines for Electricity Distributor Conservation and Demand Management ("CDM Guidelines"). In keeping with the Directive, the Board adopted a mechanism to capture the difference between the results of actual, verified impacts of authorized CDM activities undertaken by distributors between 2011 and 2014 and the level of activities embedded into rates through the distributors load forecast in an LRAM variance account. Note that HPDC is not requesting recovery of lost revenue resulting from any pre-2011 CDM activities or legacy programs.

Table 9.3 – Summary of Requested LRAM Amounts

	2011 LRAMVA	2012 LRAMVA	2013 LRAMVA	Total
Total LRAMVA - Pre 2011 Programs Completed in 2011	1.75	2.01	2.02	5.78
Total LRAMVA - 2011 OPA Program Results	1323.08	1283.07	1292.9	3899.05
Total LRAMVA - 2012 OPA Program Results		1670.71	1681.11	3351.82
Total LRAMVA - 2013 OPA Program Results			3368.36	3368.36
	1324.83	2955.79	6344.39	10625.01

HPDC has used the most recent input assumptions when calculating lost revenue and has relied on the most recent final evaluation report from the Ontario Power Authority in support of its LRAM calculation for its contracted province-wide CDM programs ("OPA Programs") for 2011-2013. Lost revenues are based on Board approved variable charges and carrying charges through to April 30, 2015 are requested.

HPDC is not currently requesting recovery of lost revenue resulting from Board-approved programs. The OPA-Contracted Province-Wide CDM Programs Final 2013 Results are provided Ex.4/Tab 6/Sch.2.

None of the estimated CDM load reductions were factored into the load forecast underpinning HPDC's 2011, 2012, and 2013 rates. HPDC has calculated carrying charges for the period January 1, 2011 to April 30, 2015 using the quarterly rates prescribed by the Board.

Details of HPDC’s LRAM calculations and supporting evidence can be found in the third party report prepared by Burman Energy Consulting Group Inc. and provided as Ex.4/Tab 6/Sch.2. Information provided in the Burman Energy Consulting Group Inc. report includes the CDM programs/initiatives applicable to each rate class as well as the energy savings (kWh) and peak demand (kW) assigned to each of the programs/initiatives.

For further details, please refer to the report from Burman Energy Report

Note that this balance was calculated as part of this application and therefore, the balance is not reflected in the utility’s December 31, 2013 audited balance nor with filing 2.1.7 of the RRR.

Ex.9/Tab 1/Sch.6 - Interest Rate Applied

Table 9.4 below provides the interest rates by quarter that are applied to calculate actual and forecast carrying charges for each regulatory and variance account.

Table 9.4 - Interest Rates Applied to Deferral and Variance Accounts (%)

Q4 2014	1.47		Q3 2010	0.89
Q3 2014	1.47		Q2 2010	0.55
Q2 2014	1.47		Q1 2010	0.55
Q1 2014	1.47		Q4 2009	0.55
Q4 2013	1.47		Q3 2009	0.55
Q3 2013	1.47		Q2 2009	1
Q2 2013	1.47		Q1 2009	2.45
Q1 2013	1.47		Q3 2008	3.35
Q4 2012	1.47		Q4 2008	3.35
Q3 2012	1.47		Q2 2008	4.08
Q2 2012	1.47		Q1 2008	5.14
Q1 2012	1.47		Q4 2007	5.14
Q4 2011	1.47		Q3 2007	4.59
Q3 2011	1.47		Q2 2007	4.59
Q2 2011	1.47		Q1 2007	4.59
Q1 2011	1.47		Q4 2006	4.59
Q4 2010	1.2		Q3 2006	4.59

Note that HPDC has used the latest OEB prescribed interest rates as published on the website at:

http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms/Prescribed+Interest+Rates

Closing Interest Balances as of Dec 31-13 Adjusted for Dispositions during 2014 are detailed in the table below.

1 **Table 9.5 - Closing Interest Balances as of Dec 31-13 Adjusted for Dispositions during**
2 **2014**

Account Descriptions	Account Number	Closing Principal Balances as of Dec 31-13 Adjusted for Dispositions during 2014	Closing Interest Balances as of Dec 31-13 Adjusted for Dispositions during 2014	Projected Interest from Jan 1, 2014 to December 31, 2014 on Dec 31 -13 balance adjusted for disposition during 2014 6	Projected Interest from January 1, 2015 to April 30, 2015 on Dec 31 - 13 balance adjusted for disposition during 2014 6	Total Claim
Group 1 Accounts						
LV Variance Account	1550	$27,826.74	$2,064.40			$29,891.14
Smart Metering Entity Charge Variance Account	1551	$2,714.00	$24.00			$2,738.00
RSVA - Wholesale Market Service Charge	1580	-$131,226.97	-$2,223.73			-$133,450.70
RSVA - Retail Transmission Network Charge	1584	$153,346.48	$1,107.65			$154,454.13
RSVA - Retail Transmission Connection Charge	1586	$65,364.47	$4,892.14			$70,256.61
RSVA - Power (excluding Global Adjustment)	1588	-$140,513.63	-$4,493.20			-$145,006.83
RSVA - Global Adjustment	1589	$13,495.02	$1,103.37			$14,598.39
Disposition and Recovery/Refund of Regulatory Balances (2008)	1595	$0.00	$0.00			$0.00
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	$0.00	$0.00			$0.00
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	-$87,290.78	-$65,561.00			-$152,851.78
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	-$207,528.00	-$117,153.16			-$324,681.16
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	-$47,736.00	-$1,901.00			-$49,637.00
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		**-$351,548.67**	**-$182,140.53**			**-$533,689.20**
Group 1 Sub-Total (excluding Account 1589 - Global Adjustment)		**-$365,043.69**	**-$183,243.90**			**-$548,287.59**
RSVA - Global Adjustment	**1589**	**$13,495.02**	**$1,103.37**			**$14,598.39**
Group 2 Accounts						
Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	$35,500.00	$436.00			$35,936.00
Other Regulatory Assets - Sub-Account - Incremental Capital Charges	1508	$0.00	$0.00			$0.00
Other Regulatory Assets - Sub-Account - Financial Assistance Payment and Recovery Variance - Ontario Clean Energy Benefit Act8	1508	$0.00	$0.00			$0.00
Other Regulatory Assets - Sub-Account - Financial Assistance Payment and Recovery Carrying Charges	1508	$0.00	$0.00			$0.00
Other Regulatory Assets - Sub-Account - Other 4	1508	-$542.40	$2,238.17			$1,695.77

Retail Cost Variance Account - Retail	1518	$0.00	$0.00			$0.00
Misc. Deferred Debits	1525	$4,007.18	$215.94			$4,223.12
Renewable Generation Connection Capital Deferral Account	1531	$0.00	$0.00			$0.00
Renewable Generation Connection OM&A Deferral Account	1532	$0.00	$0.00			$0.00
Renewable Generation Connection Funding Adder Deferral Account	1533	$0.00	$0.00			$0.00
Smart Grid Capital Deferral Account	1534	$0.00	$0.00			$0.00
Smart Grid OM&A Deferral Account	1535	$0.00	$0.00			$0.00
Smart Grid Funding Adder Deferral Account	1536	$0.00	$0.00			$0.00
Retail Cost Variance Account - STR	1548	$0.00	$0.00			$0.00
Board-Approved CDM Variance Account	1567	$0.00	$0.00			$0.00
Extra-Ordinary Event Costs	1572	$0.00	$0.00			$0.00
Deferred Rate Impact Amounts	1574	$0.00	$0.00			$0.00
RSVA - One-time	1582	$0.00	$0.00			$0.00
Other Deferred Credits	2425	$0.00	$0.00			$0.00
Group 2 Sub-Total		$38,964.78	$2,890.11			$41,854.89
Deferred Payments in Lieu of Taxes	1562	$0.38	-$0.39			-$0.01
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592	-$0.06	$0.14			$0.08
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592	$0.27	$0.00			$0.27
Total of Group 1 and Group 2 Accounts (including 1562 and 1592)		-$312,583.30	-$179,250.67			-$491,833.97
LRAM Variance Account	1568	$5,026.98	$201.23	$10,625.00	$156.18	$16,009.39
Total including Account 1568		-$307,556.32	-$179,049.44	$10,625.00	$156.18	-$475,824.58
Smart Meter Capital and Recovery Offset Variance - Sub-Account - Capital10	1555	$606,418.78	$30,216.86			$636,635.64
Smart Meter Capital and Recovery Offset Variance - Sub-Account - Recoveries10	1555	-$171,620.20	-$8,515.75			-$180,135.95
Smart Meter Capital and Recovery Offset Variance - Sub-Account - Stranded Meter Costs10	1555	$45,081.00	$0.00			$45,081.00
Smart Meter OM&A Variance10	1556	$236,751.59	$12,940.65			$249,692.24
IFRS-CGAAP Transition PP&E Amounts Balance + Return Component9	1575	$0.00	$0.00			$0.00
Accounting Changes Under CGAAP Balance + Return Component9	1576	-$42,905.00	$0.00			-$42,905.00

Ex.9/Tab 1/Sch.7 - Departure from Board Approved Balances.

HPDC has not made any adjustments to deferral and variance account balances that were previously approved by the Board on a final basis in either cost of service or IRM proceedings.

Ex.9/Tab 1/Sch.8 - Reconciliation of Energy Sales and Cost of Power Expenses to Financial Statements

The filing requirements state that a breakdown of energy sales and cost of power expenses, as reported in the 2013 audited financial statements is requested.

Please note that the Financial Statements and RRR fillings 2.1.7 for historical years 2011 and 2012 do not reconcile, the reason being that the utility was asked to re-file its Trial Balances in accordance with the audit results.

Please refer to Table 9.6 below for a reconciliation of the 2013 RRR 2.1.7 with the 2013 Financial Statements.

Table 9.6 - Energy Sales and Cost of Power Expenses from Financial Statements

Hearst Power Distribution Company Limited/ Corporation de Distribution Électrique de Hearst
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2013

	ACCOUNT	$	2,013
SERVICE REVENUE			
ELECTRICITY			
Residential Energy Sales - COP - First 750 kwh	4006	$	2,038,271
Street Lighting Energy Sales - COP - Interval Mete	4025	$	85,327
Sentinel Lighting Energy Sales - COP - First 750 k	4030	$	1,725
General Energy Sales - GS < 50 - COP - First 750 k	4035	$	4,900,680
Revenue adjustments	4050	$	-
Energy Sales for Retailers -Residential-COP	4055	$	168,704
		$	**7,194,707**
WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION			
Billed WMS - Residential	4062	$	386,988
BILLED - RRA	4063	$	72,930
Billed NW - Residential	4066	$	519,482
Billed CN - Residential	4068	$	406,838
Billed - LV	4075	$	50,510
Billed - Smart Metering Entity Charge	4076	$	16,962
		$	**1,453,710**
		$	**8,648,417**
COST OF SALES			
ELECTRICITY			
Power Purchased	4705	$	4,565,032
Power Purchased - Global Adjustment	4706	$	2,629,675
		$	**7,194,707**
WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION			
Charges - Wholesale Market Services (WMS)	4708	$	386,988
Charges - Network Services (NW)	4714	$	519,482
Charges - Connections (CN)	4716	$	406,838
Rural Rate Assistance Expense	4730	$	72,930
Charges - Smart Metering Entity Charge	4751	$	16,962
Shared LV Line	4750	$	50,510
		$	**1,453,710**
		$	**8,648,417**

Table 9.7 - 2.1.7 Trial Balance – Power Supply Expense

	2013
4705-Power Purchased	$4,565,032
4707-Global Adjustment	$2,629,675
4708-Charges-WMS	$386,988
4710-Cost of Power Adjustments	$0
4712-Charges-One-Time	$0
4714-Charges-NW	$519,482
4715-System Control and Load Dispatching	$0
4716-Charges-CN	$479,767
4720-Other Expenses	$0
4725-Competition Transition Expense	$0
4730-Rural Rate Assistance Expense	$0
4750-Charges - LV	$50,510
4751-IESO Smart Meter Entity Expenses	$16,963
Total	**$8,648,417**

As can be seen in the comparison above, there is no difference between energy sales and cost of power expense reported numbers.

Ex.9/Tab 1/Sch.9 - Pro-Rata of Global Adjustment into RPP/non-RPP

HPDC confirms that it pro-rated the IESO Global Adjustment Charge into the RPP and non-RPP portions and that Global Adjustment is only being applied to customers that are non-RPP.

Ex.9/Tab 1/Sch.10 - Request for New Variance Account

The applicant is not requesting any new accounts or sub-accounts at this time. HPDC will continue to monitor OEB directives and implement new accounts as set out by the OEB and identified in the Accounting Procedures Handbook or other sources of information as required complying with regulation.

Ex.9/Tab 1/Sch.11 - Proposed Charge Parameters

HPDC proposes to return the balances recorded in variance/deferral accounts through a volumetric rate rider and will follow the Board's guidance as provided in its Decision on the disposition of Regulatory Assets. Table 9.8 below summarizes the proposed charge parameters by customer class.

Table 9.8 - Summary of Proposed Charge Parameters

Rate Class (Enter Rate Classes in cells below)	**Units**
Residential	kWh
General Service Less Than 50 kW	kWh
General Service Greater Than 50 kW	kW
Sentinel Light	kW
Unmetered Scattered Load	kW
Street Lighting	kW

Retail Service Charge

Ex.9/Tab 2/Sch.1 - Overview

HPDC does not have any balances in accounts 1518 and 1548. HPDC attests that it has followed Article 490 of the Accounting Procedure Handbook. HPDC also notes that account 1518 and 1548 were subject to audit in 2012. Below are the Audit Group's finding on the treatment of these accounts.

9.4.1 Finding 4

Hearst Power did not record variances in Account 1518 and Account 1548. Though the impact may be immaterial, this practice is not in conformity with the APH.

9.4.2 Basis for Finding

With respect to Account 1518, APH Article 220 states:

1518 RCVA Retail

A. This account shall be used monthly to record the net of:

i) Revenues derived, including accruals, from the following services:

a. Establishing Service Agreements;
b. Distributor-Consolidated Billing; and
c. Retailer-Consolidated Billing.

AND

ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (c) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing, including accruals. [Emphasis added]

With respect to Account 1548, APH Article 220 states:

1548 RCVASTR

A. This account shall be used monthly to record the net of:

i) Revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, as prescribed, in the form of

a. Request fee;
b. Processing fee;
c. Information Request fee;
d. Default fee; and
e. Other Associated Costs fee;

AND

ii) The incremental cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.

Audit noted that there were no balances in Hearst Power's RCVAs as at December 31, 2012. Upon further inquiry, Hearst Power confirmed that it does not record amounts in Accounts 1518 and 1548. However, preliminary investigation by Hearst Power indicated that the balances are likely to be insignificant.

The report of the Board outlining the audit's finding is discussed and presented at the next schedule.

DVA Audit Results

Ex.9/Tab 3/Sch.1 - Results of Audit of DVAs

An audit of Hearst Power Distribution Company (“Hearst Power”) was undertaken by the Audit and Performance Assessment department (“Audit”) of the Ontario Energy Board (the “Board”) pursuant to the Board’s Decision and Order in Hearst Power’s 2013 IRM proceeding EB-2012-0131, dated April 4, 2013. The audit focused on the account balances in Hearst Power’s Group 1 deferral and variance accounts (“DVAs”) as at December 31, 2011 and Group 2 DVAs as at December 31, 2012. The utility has complied with all finding listed in the report and made the necessary adjustments to the regulatory balances in its Group1 DVA as at December 31, 2011 as a result of the audit findings. The revised Group 1 DVA balances that were approved for disposition on an interim basis were as follows:

Group 1 DVAs for Disposition	Account	Approved Interim Balance	Revised Audited Balance
LV Variance Account	1550	-$34,263	-$31,607
RSVA - Wholesale Market Service Charge	1580	-$13,762	-$77,030
RSVA - Retail Transmission Network Charge*	1584	-$33,069	$36,340
RSVA - Retail Transmission Connection Charge*	1586	-$10,549	-$3,497
RSVA - Power (excluding Global Adjustment)	1588	-$73,765	-$102,622
RSVA - Global Adjustment Sub-Account	1588	$72,567	$69,058
Recovery of Regulatory Asset Balances	1590	$3,037	-$993
Disposition of Regulatory Balances (2008)	1595	$0	$0
Disposition of Regulatory Account Balances (2009)	1595	$0	$0
Total Group 1 Excluding Global Adjustment Sub-Account		**-$162,371**	**-$179,409**
Total Group 1		**-$89,804**	**-$110,351**

It was noted in the decision and order that the revised Group 1 DVA balances for disposition as at December 31, 2011 was a credit of $110,351.

For further details on the audit and its findings, please refer to the final audit report presented at the next page.

Audit of Group 1 and Group 2 Deferral and Variance Accounts
Hearst Power Distribution Company
March 2014

Executive Summary

An audit of Hearst Power Distribution Company ("Hearst Power") was undertaken by the Audit and Performance Assessment department ("Audit") of the Ontario Energy Board (the "Board") pursuant to the Board's Decision and Order in Hearst Power's 2013 IRM proceeding EB-2012-0131, dated April 4, 2013.

The Board Decision and Order EB-2012-0131 noted the following:

> I note the correction of multiple errors during the evidentiary base of this proceeding. As a result, I will approve, on an interim basis, the disposition of a credit balance of $89,804 as of December 31, 2011, including interest as of April 30, 2013 for Group 1 accounts subject to an audit review by the Board's Regulatory Accounting Group.

The audit focussed on the account balances in Hearst Power's Group 1 deferral and variance accounts ("DVAs") as at December 31, 2011 and Group 2 DVAs[1] as at December 31, 2012.

Audit has completed the audit and concluded that the balances in Hearst Power's Group 1 DVAs as at December 31, 2011 and Group 2 DVAs as at December 31, 2012 were not accurately recorded in Hearst Power's general ledger and not accurately reflected in the Board's Reporting and Record Keeping Requirements ("RRR") 2.1.7 (Annual Trial Balance Filing) for 2011 and 2012. In addition, Audit noted that Hearst Power has not followed some of the accounting procedures as prescribed in the Accounting Procedures Handbook ("APH") and its related guidance in recording the transactions in the DVAs.

During the course of the audit, Hearst Power submitted an application proceeding (EB-2013-0270) to disclose an over-collection of rate riders from certain classes of RPP customers. The Board denied Hearst Power's application and found that it would not be prudent to approve any remedy on a final basis until such time as Audit has completed its audit. As such, Audit expanded its scope of the audit to include the over-collection of rate riders. The audit identified an over-collection of approximately $206k for RPP Residential, GS<50, GS>50 and Sentinel customers. Hearst Power has refunded this amount to affected customers in February 2014.

Note that the Board also authorized an audit of Hearst Power's regulatory return on equity. The audit on the regulatory return on equity was completed. In a

[1] All Group 2 DVA references in this report exclude Accounts 1555, 1556

letter dated February 14, 2014, the Board indicated that a detailed regulatory review confirmed that Hearst Power was earning well in excess of 300 basis points above the Board-approved ROE. The review also confirmed that the drivers for the overearnings were not expected to substantially change.

During this audit process, when Audit used the information provided by Hearst Power's management, Audit relied on Hearst Power's management representation, where appropriate as audit evidence in performing the audit and arriving at its conclusions and findings.

The findings and observations of the DVA and over-collection of rate riders audits are found in Sections 8, 9, and 10 of this audit report. Audit notes that Hearst Power has made the necessary adjustments to the regulatory balances in its Group 1 DVAs as at December 31, 2011 and Group 2 DVAs as at December 31, 2012. The revised Group 1 DVA balances for disposition as at December 31, 2011 is a credit balance of $138,957 after a net credit adjustment of $49,153.

Group 1 DVAs for Disposition	**Account**	**Approved Interim Balance**	**Revised Audited Balance**
LV Variance Account	1550	-$34,263	-$30,860
RSVA - Wholesale Market Service Charge	1580	-$13,762	-$92,166
RSVA - Retail Transmission Network Charge*	1584	-$33,069	$43,371
RSVA - Retail Transmission Connection Charge*	1586	-$10,549	-$10,537
RSVA - Power (excluding Global Adjustment)	1588	-$73,765	-$120,553
RSVA - Global Adjustment Sub-Account	1588	$72,567	$72,782
Recovery of Regulatory Asset Balances	1590	$3,037	-$993
Disposition of Regulatory Balances (2008)	1595	$0	$0
Disposition of Regulatory Account Balances (2009)	1595	$0	$0
Total Group 1 Excluding Global Adjustment Sub-Account		-$162,371	-$211,739
Total Group 1		-$89,804	-$138,957

*Note: Account 1595 was also adjusted; however, it was not requested for disposition nor approved for disposition on an interim basis in Hearst Power's 2013 IRM.

The net Group 1 and Group 2 DVA balance as at December 31, 2011 is a credit balance of $813,215, after a net credit adjustment of $50,852.

The revised Group 2 DVA balances as at December 31, 2012 is a debit balance of $26,704 after a net credit audit adjustment of $32,440. The net Group 1 and Group 2 DVA balance as at December 31, 2012 is a credit balance of $1,080,558, after a net debit adjustment of $9,839 from Group 2 DVA findings and applying the applicable Group 1 DVA findings to 2012 Group 1 DVA balances.

A finding applicable to Group 1 DVA balances in 2013 also resulted in an adjustment of $206,544 for 2013.

Even though the scope of the audit for Group 1 and Group 2 DVAs was for 2011 and 2012 respectively, Audit expects Hearst Power management to apply the applicable findings as outlined in this audit report and make the applicable adjustments to the 2012 and 2013 DVA balances. Hearst Power has indicated that its external auditors will work with Hearst Power to ensure that the appropriate adjustments are made to its 2012 and 2013 DVA balances. Audit also expects that Hearst Power will re-file RRR 2.1.7 for 2012 as appropriate for Group 1 DVAs and file RRR 2.1.7 for 2013 in accordance with the APH.

Hearst Power was expected to file a cost of service application for 2014 rates. On February 1, 2013, Hearst Power sent a letter to the Board requesting a one year deferral of its cost of service application. By letter dated April 3, 2013, the Board concluded that it will not require Hearst Power's 2014 rates to be set on a cost of service basis. The Board indicated that if Hearst Power intends to seek a rate adjustment for 2014 rates, the Board expected Hearst Power to adhere to the process for 4th generation IR distribution rate applications for the 2014 rate year as may be determined by the Board. Via a letter dated October 18, 2013, Hearst Power advised the Board that it has decided not to apply for a rate adjustment for the 2014 rate year. On February 14, 2014, the Board sent a letter to Hearst Power noting that a review of Hearst Power's 2012 ROE indicated that it was earning an ROE well in excess of 300 points above the Board-approved ROE. It was further noted that Hearst Power would be added to the list of distributors scheduled to file a 2015 cost of service rate application for 2015 rates and no further deferral will be granted.

Audit expects Hearst Power to disclose this audit in its 2015 cost of service application and outline the adjustments that it made to its DVAs including the audit adjustments made to both Group 1 and Group 2 DVA balances as at December 31, 2013.

Findings Summary

Findings Impacting Group 1 DVA balances

1. Hearst Power did not record the December 2011 RSVA for Accounts 1550 LV Variance Account, 1580 RSVA Wholesale Market Services, 1584 RSVA Network, 1586 RSVA Connection, 1588 RSVA Power and 1588 Power sub-account Global Adjustment for a net total of approximately -$52k. As a result, Hearst Power did not follow the APH in moving to the accrued method of accounting for 2012.
2. Hearst Power over-collected due to a billing error, an amount of approximately $206k on the Global Adjustment rate rider for the period of

May 1, 2011 to April 30, 2013. Hearst Power charged both RPP and non-RPP customers the Global Adjustment rate rider when the Global Adjustment rate rider is only applicable to non-RPP customers.

3. There was a difference with regards to the opening balance of January 1, 2011 of approximately $56k for Account 1550 and approximately ($5k) for Account 1590, Recovery of Regulatory Asset Balances between the balances in the DVA continuity schedule approved in Hearst Power's 2012 IRM EB-2011-0171 and Hearst Power's general ledger. As a result of this difference, the Board-approved amounts as at December 31, 2010 for these accounts did not agree to the balance in Hearst Power's general ledger. Subsequently, Hearst Power did not transfer the Board-approved amounts for these accounts to Account 1595. Instead, Hearst Power transferred the balances in the general ledgers for these accounts to Account 1595. As a result, Accounts 1550, 1590 and 1595 may be misstated as at December 31, 2012.
4. Hearst Power recorded the collection of the rate riders of approximately $31k for Recovery of Foregone Revenue and Late Payment Penalty Litigation Costs ("LPP") in Account 1595 when there was no basis to do so. This may result in a misstatement of Account 1595 as at December 31, 2011.
5. Hearst Power incorrectly recorded the Rural or Remote Electricity Rate Protection ("RRRP") Charge year end permanent entry for approximately ($77k) in Account 1584 instead of Account 1580. As a result, the balance for both Accounts 1580 and 1584 may be misstated as at December 31, 2011.

Findings Impacting Group 2 DVA balances

6. Hearst Power has been inappropriately maintaining residual balances in a number of accounts that were discontinued by the Board in the past. Account 1508 Other Regulatory Assets Sub-account OEB Cost Assessment, Account 1508 Other Regulatory Assets Sub-Account Pension Contributions, Account 1521 Special Purpose Charge Assessment Variance Account, Account 1562 Deferred Payments in Lieu of Taxes, Account 1563 Contra Asset - Deferred Payments in Lieu of Taxes, Account 1565 Conservation and Demand Management Expenditures and Recoveries, Account 1566 CDM Contra, Account 1570 Qualifying Transition Costs, and Account 1571 Market Opening Variance included residual balances when these accounts should have no balance as at December 31, 2012.

Findings Related to DVAs' Accounting Procedures

1. In calculating the carrying charges for Accounts 1580, 1584, 1586, 1588 and 1588 sub-account Global Adjustment, Hearst Power incorrectly used the number of days of the previous month for the current month

calculation. Furthermore, Hearst Power used incorrect interest rate due to a typo in the formula in calculating the carrying charges for Accounts 1550 and 1590. As a result, carrying charges may be immaterially misstated.

2. The monthly RSVA entries in Account 1550 are not reversed in the following month, and no permanent entry is made at year-end, i.e. the monthly entries are made on permanent basis.

3. Hearst Power did not record the payment of the electricity for Feed in Tariff ("FIT") contract and charge type 1412 on the IESO invoices in the cost of power Account 4705, Power Purchased. Therefore, these charges were not reflected in Account 1588. Instead, Hearst Power recorded these charges as a liability. In addition, it was noted that the full payment for electricity under a FIT contract is settled with the IESO, not just the difference between the amount it pays to the supplier at the contract price and the amount calculated at wholesale market prices. As a result, there was no net impact to Account 4705 and Account 1588.

Observation Summary

1. There appears to be a control weakness with regards to the implementation of Hearst Power's review controls in its regulatory accounting function.
2. Hearst Power did not perform any spot to fixed price energy true up. As a result, no adjustments resulting from the true ups were reflected in Account 1588.

1. Background

Hearst Power owns all the electrical distribution system in the territory of the Corporation of the Town of Hearst and is responsible for the distribution of the electrical power on this territory. In 2012, Hearst Power had approximately 2,288 customers.[2]

Hearst Power's most recent approved base revenue requirement was approximately $1.1 million in its 2010 cost of service proceeding EB-2009-0266.

2. Authority for review

To the extent that the audit required Hearst Power to provide documents, records or information, 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 the DVAs, pursuant to the Board Decision and Order EB-2012-0131, Audit initiated an audit of Hearst Power's account balances in Group 1 and Group 2 DVAs as of December 31, 2011 and December 31, 2012, respectively, 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

[2] Yearbook of Electricity Distributors 2012

[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.

The Board Decision and Order EB-2012-0131 approved Hearst Power's 2013 rates on an interim basis subject to an audit of Hearst Power's Group 1 DVAs to be conducted by Audit.

4. Objectives

The objectives of the audit are to determine whether the Group 1 DVA account balances as at December 31, 2011 that were approved for disposition in Hearst Power's 2013 rate proceeding on an interim basis and Group 2 DVA account balance as at December 31, 2012 are reasonable. The audit was conducted to determine whether regulatory accounting policies and procedures of these accounts were properly and consistently applied in accordance with the APH, RRR and Board Orders.

5. Scope

The audit covered the testing for the accumulation of the balances in Hearst Power's Group 1 DVAs from January 1, 2011[4] to December 31, 2011. The audit of Hearst Power's Group 2 balances included audit testing in these accounts since the last time these account balances were disposed to the most recent period from January 1, 2009[5] to December 31, 2012.

The Table below provides the details of Hearst Power's Group 1 DVAs as at December 31, 2011, which the Board-approved on an interim basis:

	Account	Principal Balance	Interest Balance	Total Claim
LV Variance Account	1550	-$30,992	-$3,271	-$34,263
RSVA - Wholesale Market Service Charge	1580	-$15,568	$1,806	-$13,762
RSVA - Retail Transmission Network Charge*	1584	-$32,951	-$188	-$33,069
RSVA - Retail Transmission Connection Charge*	1586	-$13,074	-$2,525	-$10,549
RSVA - Power (excluding Global Adjustment)	1588	-$76,433	$2,668	-$73,765
RSVA - Global Adjustment Sub-Account	1588	$72,298	$269	$72,567
Recovery of Regulatory Asset Balances	1590	-$180	$3,217	$3,037
Disposition of Regulatory Balances (2008)	1595	$0	$0	$0
Disposition of Regulatory Account Balances (2009)	1595	$0	$0	$0
Total Group 1 Excluding Global Adjustment Sub-Account		-$169,198	$1,707	-$162,371

[4] 2010 balances were last disposed in Hearst Power's 2012 IRM proceeding EB-2011-0171.
[5] 2009 balances were last disposed in Hearst Power's 2010 cost of service proceeding EB-2009-0266.

Total Group 1	-$96,900	$1,976	-$89,804

*Audit noted that interest balance for Accounts 1584 and 1586 should have been ($118) and $2,525, respectively. However, the total claim amounts in the table are correct and include the appropriate interest amounts. The total claim amounts have been used in the calculation of the related rate riders.

Also, as previously noted, during the course of the audit, the scope was expanded to include the over-collection of the rate riders from certain classes of RPP customers.

6. Criteria

The audit relied on the following documents to establish the criteria to perform the audit testing:

1) APH effective January 1, 2012 and APH effective July 31, 2007
2) July 2012 APH FAQ
3) Board Decision and Order EB-2012-0131, April 4, 2013
4) Board Decision and Order EB-2011-0171, April 4, 2012
5) Board Decision and Order EB-2009-0266, February 15, 2011
6) Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) EB-2008-0046
7) Board's RRR guidelines
8) Retail Settlement Code dated October 1, 2011, Section 7.7

7. Procedures Used

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

8. Findings Impacting DVA Balances

Findings Impacting Group 1 DVA Balances

8.1.1 Finding 1

Hearst Power did not record the December 2011 RSVA for Accounts 1550 LV Variance Account, 1580 RSVA Wholesale Market Services, 1584 RSVA Network, 1586 RSVA Connection, 1588 RSVA Power and 1588 Power sub-account Global Adjustment for a net total of approximately -$52k. As a result, Hearst Power did not follow the APH in moving to the accrued method of accounting for 2012.

8.1.2 Basis for Finding

APH Article 490 states:

> Effective January 1, 2012, where a distributor has to make a change to the accrual method from a previous method ("billed" method/cash accounting), such change is permitted only on a prospective basis.
>
> In moving from the "billed" method/cash accounting in order to apply the accrual basis of accounting for the calculation of RSVA balances effective January 1, 2012, **a distributor shall record the first set of accrual adjustments at the end of the previous period (i.e. in December 2011)**. This may result in the distributor effectively accounting for 13 periods of IESO, host distributor or embedded generator charges in 2011 (12 periods as normally would have been recorded under the cash basis of accounting, as well as an accrual for the December 2011 settlement invoice, which would have otherwise been recorded in January 2012). Additionally, where billing cycles do not correspond with the 2011 year-end, the distributor will have to account for an additional unbilled revenue "stub" period related to customer billings from the day after the last billing cycle in 2011 through to December 31, 2011. These additional 2011 entries will allow for a prospective transition to comply with the requirements of the accrual basis of accounting, as all 2011 related charges and billings will have been recorded in 2011. The opening January 2012 RSVA balances (which will include the accruals recorded in December as described here) will be subject to carrying charges in accordance with the discussion below. [Emphasis Added]

In 2011, Hearst Power was using the billed method to account for its RSVA balances. Per Article 490 of the APH, effective January 1, 2012, Hearst Power should have recorded the first set of accrual adjustments for its RSVA accounts in December 2011. However, Audit noted that Hearst Power only recorded the reduction of the higher of revenues and expenses and the related RSVAs for December 2011 in January 2012 for Accounts 1550, 1580, 1584, 1586, 1588 and 1588 sub-account Global Adjustment.[6]

As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2011 regulatory accounts and refilled the 2011 RRR 2.1.7 with the Board.

[6] Per email between Hearst Power and Audit dated January 20, 2014

8.1.3 Area of Non-Conformity Requiring Action

Hearst Power should have followed the APH to record the December RSVA for Accounts 1550, 1580, 1584, 1586, 1588 and 1588 sub-account Global Adjustment in 2011.

Hearst Power indicated that it continued its 2011 accounting practices in 2012.[7] However, Hearst Power should apply the accrual method to record RSVAs effective January 1, 2012. Please refer to Article 490 of the APH effective January 1, 2012 for guidance on the accounting for RSVAs on the accrual basis.

8.1.4 Management Responses

Hearst Power agrees with finding number 1.

8.1.5 Management Action Plan

Hearst Power will make necessary journal entries for the required changes. Hearst Power will also re-file the RRR to reflect the changes.

8.2.1 Finding 2

Hearst Power over-collected approximately $206k due to a billing error, on the Global Adjustment rate rider for the period of May 1, 2011 to April 30, 2013. Hearst Power charged both RPP and non-RPP customers the Global Adjustment rate rider when the Global Adjustment rate rider is only applicable to non-RPP customers.

8.2.2 Basis for Finding

On July 15, 2013, Hearst Power submitted an application under EB-2013-0270 to disclose an over-collection of $268k from RPP customers in the Residential, GS<50 and Sentinel rate classes for the period of April 1, 2011 to May 1, 2012 as it had inappropriately charged these customers the Global Adjustment rate rider approved in its 2010 IRM application EB-2009-0266. In the Board's Decision with Reasons dated September 12, 2013, the Board denied Hearst's Power application. The Board found that it would not be prudent to approve any remedy on a final basis until such time as the Audit group has completed its audit.

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 states 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

[7] Per webcast conference between Hearst Power and Audit dated January 10, 2014

> 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.

In the testing of supporting documents during the audit, Audit noted that the over-collection details were different than that disclosed in Hearst Power's application. The over-collection period for RPP Residential and GS<50 customers extended from May 1, 2011 to April 30, 2013. The over-collection period for RPP Sentinel customers was from May 1, 2011 to April 30, 2012. In addition, over-collection occurred for RPP GS>50 customers for May 1, 2011 to April 30, 2012 as well. The total over-collection was approximately $206k[8].

Audit noted that Hearst Power processed the bill adjustments to correct for the over-collection in February 2014.[9] The over-collection also impacted Account 1595 as the Global Adjustment rate rider collected is recorded in Account 1595. As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2013 regulatory accounts.

8.2.3 Area of Non-Conformity Requiring Action

Hearst Power should have followed Section 7.7 Billing Errors of the RSC in processing the billing errors. Hearst Power is encouraged to enhance and strengthen its internal systems and processes regarding customer bills and billing accuracy given billing accuracy is a measure of utility's scorecard performance

8.2.4 Management Responses

Hearst Power agrees with finding number 2.

8.2.5 Management Action Plan

Hearst Power has refunded its customers in 2014 for the over-collected amount.

8.3.1 Finding 3

There was a difference with regards to the opening balance of January 1, 2011 of approximately $56k for Account 1550 and approximately ($5k) for

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[8] Per emails between Hearst Power and Audit dated January 23, 2014
[9] Per emails between Hearst Power and Audit dated March 6, 28, 2014

Account 1590, Recovery of Regulatory Asset Balances between the balances in the DVA continuity schedule approved in Hearst Power's 2012 IRM EB-2011-0171 and Hearst Power's general ledger. As a result of this difference, the Board-approved amounts as at December 31, 2010 for these accounts did not agree to the balance in Hearst Power's general ledger. Subsequently, Hearst Power did not transfer the Board-approved amounts for these accounts to Account 1595. Instead, Hearst Power transferred the balances in the general ledgers for these accounts to Account 1595. As a result, Accounts 1550, 1590 and 1595 may be misstated as at December 31, 2012.

8.3.2 Basis for Finding

In reviewing Hearst Power's general ledger for Account 1550 and Account 1590, Audit noted differences in the balance between the opening January 1, 2011 balance in Hearst Power's general ledger and the December 31, 2010 ending balance in Hearst Power's DVA continuity schedule approved in its 2012 IRM. Per Hearst Power, the differences are due to errors in its 2012 IRM DVA continuity schedule. For Account 1550, Hearst Power did not remove the Board-approved disposition of the December 31, 2008 balance approved in its 2010 cost of service proceeding when calculating the net claim amount for disposition as at December 31, 2010.[10] For Account 1590, there was an inputting error in the DVA continuity schedule in its 2012 IRM.[11] As a result, the December 31, 2010 balance approved for disposition in Hearst Power's 2012 IRM did not correspond to the actual balance in its general ledger. The differences are as follows:

	Account 1550		**Account 1590**		
Balance Dec. 31, 2010/Jan. 1, 2011	Principal	Interest	Principal	Interest	Total
Approved in 2012 IRM	65,877	4,578	- 13,351	9,318	
GL	13,534	1,154	-	- 673	
Difference	52,343	3,424	- 13,351	8,645	51,061
	Approved a greater collection amount	Approved a greater collection amount	Approved a greater refund amount	Approved a greater collection amount	Approved a greater collection amount

In review of Hearst Power's 2012 journal entries to transfer DVA balances approved in its 2012 IRM to Account 1595, Audit noted that Hearst Power did not transfer the Board-approved amount but transferred the general ledger balance as at December 31, 2010 for Account 1550. In addition, Hearst Power transferred the general ledger balance as at December 31, 2010 for the principal

[10] Per email between Hearst Power and Audit dated October 7, 2013
[11] Per email between Hearst Power and Audit dated October 7, 2013

of Account 1590 and the general ledger balance as at December 31, 2011 for the interest of Account 1590 to clear the account balance to $0.[12]

As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2012 regulatory accounts and refilled the 2012 RRR 2.1.7 with the Board.

8.3.3 Area of Non-Conformity Requiring Action

Hearst Power should have transferred the Board-approved amounts per its 2012 IRM Decision for Account 1550 and Account 1590 to Account 1595 as the Board approved these amounts on a final basis. However, effective May 1, 2008, the Board-approved Account 1595 to record the disposition and recoveries of DVA balances for electricity distributors receiving approval to recover or refund account balances starting in the 2008 rate year. In fact, Account 1590 has been discontinued in the APH effective January 1, 2012. As such, Account 1590 pertains to DVA balances prior to the 2008 rate year and any Account 1590 balance requested for disposition in Hearst Power's next rate application may be considered out of period. Therefore, Hearst Power should have written off the remaining amount in Account 1590 after transferring the Board-approved amount for Account 1590 to Account 1595.

It is noted however, that the over-collection relating to Account 1550 will rectify itself in Hearst Power's next rate application to dispose of Accounts 1550 and 1595.

8.3.4 Management Responses

Hearst Power agrees with finding number 3.

8.3.5 Management Action Plan

Hearst Power will make necessary journal entries for the required changes.

8.4.1 Finding 4

Hearst Power recorded the collection of the rate riders of approximately $31k for Recovery of Foregone Revenue and Late Payment Penalty Litigation Costs ("LPP") in Account 1595 when there was no basis to do so. This may result in a misstatement of Account 1595 as at December 31, 2011.

8.4.2 Basis for Finding

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[12] Per email between Hearst Power and Audit dated October 7, 2013

Article 220 of the APH defines Account 1595 as follows:

> This account shall be used to record the approved principal account balances on the transfer to Account 1595 **of the Board-approved deferral or variance account balances**. This account shall also include the amounts recovered (or refunded) in rates through regulatory asset or deferral and variance accounts rate riders. [Emphasis Added]

Per review of Hearst Power's breakdown of Account 1595, Audit noted that Hearst Power recorded approximately $31k for the collection of the Foregone Revenue and LPP rate riders effective May 1, 2011 as per its 2010 cost of service Board Decision EB-2009-0266 in Account 1595 for 2011.[13] Per the Board Decision, the Foregone Revenue rate rider was for forgone distribution revenue from February 1, 2011 to March 31, 2011. There is no associated Board-approved deferral or variance account balance.

Similarly, the Board did not authorize a variance account in its generic Decision and Order regarding LPP costs. This is subsequently further clarified in the Q8 APH July 2012 FAQ, that states:

> The revenues derived from the associated rate rider for the recovery of the approved LPP costs should be recorded in Account 4080, Distribution Services Revenue. **Note that the Board's generic Decision and Order did not approve a variance account** for the affected distributors to record any differences between the LPP cost and related revenue recovered in rates through the rate rider. [Emphasis Added]

As a result, Account 1595 may be misstated as at December 31, 2011.

As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2011 regulatory accounts and refilled the 2011 RRR 2.1.7 with the Board.

[13] Per email between Hearst Power and Audit dated September 18, 2013

8.4.3 Area of Non-Conformity Requiring Action

Hearst Power should not have recorded the Foregone Revenue and LPP rate riders in Account 1595. Audit noted that Hearst Power continued to record the Foregone Revenue and LPP rate riders in Account 1595 in 2012 as the rate riders were effective until April 30, 2012. Hearst Power should make the necessary adjustments for 2012 DVA balances and re-file the 2012 RRR 2.1.7.

Going forward, Hearst Power should only record amounts in Account 1595 that are in accordance with the APH or Board direction.

8.4.4 Management Responses

Hearst Power agrees with finding number 4.

8.4.5 Management Action Plan

Hearst Power will make necessary journal entries for the required changes. Hearst Power will also re-file the RRR to reflect the changes

8.5.1 Finding 5

Hearst Power incorrectly recorded the Rural or Remote Electricity Rate Protection ("RRRP") Charge year end permanent entry for approximately ($77k) in Account 1584 instead of Account 1580. As a result, the balance for both Accounts 1580 and 1584 may be misstated as at December 31, 2011.

8.5.2 Basis for Finding

APH Article 220 states:

> The RRRP is classified by the IESO as a wholesale market service and is charged to distributors on their monthly IESO settlement invoice. The 1580, RSVAWMS and related 4062 and 4708 accounts are designated for use with respect to the RRRP charges.

Hearst Power incorrectly recorded approximately ($77k) representing the cumulative difference between RRRP revenues and expenses for 2011 in Account 1584 instead of Account 1580.[14] However, the monthly entries for RRRP charges were correctly captured in Account 1580.

Per discussion with Hearst Power, it has been aware of the correct RSVA account to record the RRRP charges. However, Hearst Power did not use the

[14] Per email between Hearst Power and Audit dated Jan 4, 2014

applicable RSVA account appropriately and thus the error made in recording the RRRP charges was unnoticed and uncorrected at year end.

As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2011 regulatory accounts and refilled the 2011 RRR 2.1.7 with the Board.

8.5.3 Area of Non-Conformity Requiring Action

Hearst Power should have recorded the RRRP charge in Account 1580. Going forward, Hearst Power should ensure consistency in its monthly and year end journal entries.

8.5.4 Management Responses

Hearst Power agrees with finding number 5.

8.5.5 Management Action Plan

Hearst Power will make necessary journal entries for the required changes.

Findings Impacting Group 2 DVA Balances

8.6.1 Finding 6

Hearst Power has been inappropriately maintaining residual balances in a number of accounts that were discontinued by the Board in the past. Account 1508 Other Regulatory Assets Sub-account OEB Cost Assessment, Account 1508 Other Regulatory Assets Sub-Account Pension Contributions, Account 1521 Special Purpose Charge Assessment Variance Account[15], Account 1562 Deferred Payments in Lieu of Taxes, Account 1563 Contra Asset - Deferred Payments in Lieu of Taxes, Account 1565 Conservation and Demand Management Expenditures and Recoveries, Account 1566 CDM Contra, Account 1570 Qualifying Transition Costs, and Account 1571 Market Opening Variance included residual balances when these accounts should have no balance as at December 31, 2012.

8.6.2 Basis for Finding

The following account balances were noted in Hearst Power's general ledger as at December 31, 2012

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[15] While this account was not a part of the scope of the initial audit, Audit made this finding during the course of the audit.

Account	Balance
1508 Other Regulatory Assets Sub-account OEB Cost Assessment and Sub-account Pension Contributions	$542
Account 1521 Special Purpose Charge Assessment Variance Account	($599)
1562 Deferred Payments in Lieu of Taxes	$7,379
1563 Deferred PILS Contra Account	($7,379)
Account 1565 Conservation and Demand Management Expenditures and Recoveries	($2,246)
Account 1566 CDM Contra	$1,914
1570 Qualifying Transition Costs Account	$32,433
1571 Market Opening Variance Account	$396

Account 1508

Regarding Account 1508 Other Regulatory Assets, Sub-account OEB Cost Assessment and Sub-account Pension Contributions, Article 220 of the APH effective July 31, 2007 indicates that effective May 1, 2006, OEB cost assessments and pension contributions to OMERS were incorporated in the distribution rates of distributors that filed rate applications for the 2006-2007 rate year. Where OEB cost assessments and pension contributions to OMERS were incorporated in the distribution rates, the distributor was to cease recordings in this account after April 30, 2006, or the day prior to the date when new rates were otherwise implemented. These two accounts have been discontinued in the APH effective January 1, 2012.

In Hearst Power's 2010 cost of service application, the Board-approved the disposition of Account 1508 Other Regulatory Assets Sub-account OEB Cost Assessment and Sub-account Pension Contributions. Hearst Power transferred the approved amount from Account 1508 to Account 1595 in 2011.[16] No further amounts should be recorded in the sub-accounts subsequent to May 1, 2006. However, an immaterial residual balance remained in Account 1508 Sub-accounts OEB Cost Assessment and Pension Contributions as at December 31, 2012.[17]

Account 1521

In Hearst Power's 2012 IRM, the Board-approved Account 1521 for disposition on a final basis as at April 30, 2012. The Board directed Hearst Power to close Account 1521 effective May 1, 2012 .[18] However, in review of Hearst Power's records, it was noted that an immaterial residual balance remained in Account 1521 as at December 31, 2012.

[16] Per email between Hearst Power and Audit dated Jan. 23, 2014
[17] Per email between Hearst Power and Audit dated Feb. 25, 2014
[18] EB-2011-0171 Decision and Order, page 10

Account 1562 and Account 1563

Regarding Account 1562, Article 220 of the APH effective January 1, 2012 states:

> Account 1562 relates to the rate periods that ended on or before April 30, 2006. For rate periods starting on or after May 1, 2006, the distributor must apply the requirements of Chapter 7 of the Board's 2006 Electricity Distribution Rate Handbook, Report of the Board, applicable accounting guidance (e.g. Frequently Asked Questions) and other requirements the Board may specify.

In Hearst Power's 2012 IRM, the Board-approved $2,185 ($1,495 principal and $689 carrying charges) in Account 1562 for disposition as at April 30, 2012. In its Decision and Order for Hearst Power's 2012 IRM, the Board indicated that the journal entry to transfer the approved account balance to the sub-accounts of Account 1595 should be completed on a timely basis to ensure that the adjustments are included in the June 30, 2012 RRR data reported.[19] However, in review of Hearst Power's records, it was noted that Hearst Power transferred $2,874 ($2,185 principal and $689 carrying charges) from Accounts 1562 and 1563 to Account 1595 instead of the Board-approved amount of $2,185, an immaterial difference of $689. In addition, the journal entry was recorded on October 1, 2012, after the June 30, 2012 date directed by the Board. Furthermore, no further amounts should be recorded in Account 1562 and Account 1563 after May 1, 2006. However, immaterial residual balances remained in Accounts 1562 and 1563 as at December 31, 2012.[20]

Account 1565 and Account 1566

Hearst Power should have completed its third tranche of conservation and demand activities and expenditures. In Hearst Power's 2010 cost of service application, Accounts 1565 and 1566 as at December 30, 2008 were addressed. In review of Hearst Power's journal entries to write off the majority of the amounts in Accounts 1565 and 1566, Audit noted that the entry impacted Account 4080 Distribution Services Revenue. Upon inquiry, Hearst indicated that prior to the write off entries, it did not have or use Account 1566 in its general ledger until December 2011.[21] This was not in accordance with APH guidance that required Account 1566 to be used to record the offsetting entry for amounts recorded in Account 1565.[22] Regardless, Hearst Power's entry to write off amounts in Account 1565 and 1566 should not impact revenues. In addition, no balance should be remaining in Accounts 1565 and 1566. These two accounts have been discontinued in the APH effective January 1, 2012. However, in review of

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[19] EB-2011-0171 Decision and Order, page 12

[20] Per email between Hearst Power and Audit dated Feb. 25, 2014

[21] Per email between Hearst Power and Audit dated Feb. 25, 2014

[22] Per APH effective July 31, 2007, Article 220 – Account 1566

Hearst Power's records, it was noted that residual balances remained in Accounts 1565 and 1566 as at December 31, 2012.[23]

<u>Account 1570 and Account 1571</u>
Regarding Account 1570, Article 480 of the APH effective July 31, 2007 states that any un-cleared amounts are to be charged to shareholder expense:

> In the 2006 rate application process, the Board reviewed and approved eligible transition costs for distributors that filed applications. Inappropriately recorded or disallowed amounts were required to be written off.

Regarding Account 1571, Article 220 of the APH effective July 31, 2007 states that:

> Amounts recorded in this account shall be restricted to the period starting January 1, 2001 and ending on the date prior to the opening of the electricity market in Ontario.

Furthermore, these two accounts have been discontinued in the APH effective January 1, 2012. In review of Hearst Power's records, a balance of $32,433 and $396 remained in Accounts 1570 and 1571 respectively as at December 31, 2012. Hearst Power indicated that it had been approved to dispose of the accounts as at May 1, 2006. However, Hearst Power did not correctly transfer the approved amounts for the accounts to Account 1590.[24]

As a result, Accounts 1508, 1521, 1562, 1563, 1565, 1566, 1570, and 1571 had residual balances when they should not have. Though the amounts may not be material in some instances, the residual balances may impact the integrity of the accounts.

As a part of the audit, Audit noted that Hearst Power has made the necessary adjustments to its 2012 regulatory accounts and refilled the 2012 RRR 2.1.7 with the Board.

8.6.3 Area of Non-Conformity Requiring Action

Hearst Power should not have balances in accounts 1508 sub-accounts Other Regulatory Assets Sub-account OEB Cost Assessment and Sub-account Pension Contributions, Accounts 1521, 1562, 1563, 1565, 1566, 1570 and 1571 as at December 31, 2012.

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[23] Per email between Hearst Power and Audit dated Feb. 25, 2014
[24] Per email between Hearst Power and Audit dated Feb. 25, 2014

Going forward, Hearst should also only dispose of Board-approved amounts for DVA balances in accordance with Board direction.

8.6.4 Management Responses

Hearst Power agrees with finding number 6

8.6.5 Management Action Plan

Going forward, Hearst Power will only dispose of Board approved amounts.

9 Findings related to DVAs' Accounting Procedures

9.1.1 Finding 1

In calculating the carrying charges for Accounts 1580, 1584, 1586, 1588 and 1588 sub-account Global Adjustment, Hearst Power incorrectly used the number of days of the previous month for the current month calculation. Furthermore, Hearst Power used incorrect interest rate due to a typo in the formula in calculating the carrying charges for Accounts 1550 and 1590. As a result, carrying charges may be immaterially misstated.

9.1.2 Basis for Finding

APH Article 490 states in calculating the carrying charges that,

> In the next month, the opening balance of the RSVA for the month will be used for purposes of calculating carrying charges **for the month**. The carrying charges will be recorded in a sub-account of the appropriate RSVA. [Emphasis Added]

Audit noted that in calculating the carrying charges, Hearst Power used the number of days in the previous month, rather than the number of days in the current month for the current month calculation.[25] Although the impact to the RSVA balances is immaterial, the accounting procedure is inconsistent with the APH and the general understanding of the carrying charges calculation.

Audit also noted that in the calculation of carrying charges for Accounts 1550 and 1590, in entering the prescribed interest rate of 1.47%, Hearst Power used 1.47 divided by 110, instead of 100. The impact to RSVA account balances is immaterial.[26]

[25] Per email between Hearst Power and Audit dated Sep 26, 2013
[26] Per email between Hearst Power and Audit dated Sep 18, 2013

9.1.3 Area of Non-Conformity Requiring Action

Hearst Power did not follow the APH in the calculation of carrying charges for the DVAs. Hearst Power should follow the APH to calculate the carrying charges using the number of days in the current month and apply the correct interest rate on a going forward basis.

9.1.4 Management Responses

Hearst Power agrees with finding number 1.

9.1.5 Management Action Plan

Hearst Power will follow APH to calculate the carrying charges using the number of days in the current month.

9.2.1 Finding 2

The monthly RSVA entries in Account 1550 are not reversed in the following month, and no permanent entry is made at year-end, i.e. the monthly entries are made on permanent basis.

9.2.2 Basis for Finding

APH Article 490 states:

> At the end of the next period, the entry made in the previous period will be reversed in order to preserve the integrity of the revenue and expense accounts. Then, another comparison of the balances of the revenue accounts to the amounts in the relevant expense accounts (i.e. incremental costs to provide those services) will be performed and a new journal entry similar to that above will be posted for that period. Note that in the last month of the fiscal period the cumulative difference between the revenue and expense accounts will be booked to the relevant RCVA and this amount will be carried forward to the next fiscal period.

APH Article 490 also states that:

> In the last month of the fiscal period the RSVA will need to represent the cumulative net differences between the revenue/ “Billed” and expense/ “Charges” accounts and include carrying charges. Consequently, in the last month of the fiscal period, the utility will book the cumulative difference for the fiscal period between these accounts and the cumulative differences will be rolled forward into the RSVA for the next fiscal period (subject to distributor/ Board review and request for disposition).

Audit noted that on a monthly basis Hearst Power compared revenues and expenses, reduced the higher of the two, and recorded the difference in Account 1550. However, this entry was not reversed in the following month, this affects the integrity of the revenue and expense accounts.

Audit also noted that Hearst Power records entries each month and leaves them as permanent entries. Therefore, the year-end entry does not represent the cumulative difference for the fiscal period.

There was no net impact on the Account 1550 balance as a result of this finding. However, the related revenue and expense account balances may be misclassified. It is important that the cost of power expense is accurately stated for regulatory purposes as it forms part of the working capital allowance included in Hearst Power's revenue requirement. It is also important that the APH is followed to ensure integrity of information reported to the Board.

9.2.3 Area of Non-Conformity Requiring Action

Hearst Power should have reversed the monthly RSVA entries in Account 1550 in the following month and should have made the permanent entry at year-end representing the cumulative difference for the fiscal period.

Moving forward, Hearst Power should follow the APH to ensure that the integrity of its revenue and expense accounts is maintained through the year. Hearst Power should also accurately state the related revenue and expense accounts in RRR 2.1.7 and other filings with the Board.

9.2.4 Management Responses

Hearst Power agrees with finding number 2.

9.2.5 Management Action Plan

Going forward, Hearst Power will follow APH to ensure integrity of its revenue and expense accounts is maintained through the year.

9.3.1 Finding 3

Hearst Power did not record the payment of the electricity for Feed in Tariff ("FIT") contract and charge type 1412 on the IESO invoices in the cost of power Account 4705, Power Purchased. Therefore, these charges were not reflected in Account 1588. Instead, Hearst Power recorded these charges as a liability. In addition, it was noted that the full payment for electricity under a FIT contract is settled with the IESO, not just the difference

between the amount it pays to the supplier at the contract price and the amount calculated at wholesale market prices. As a result, there was no net impact to Account 4705 and Account 1588.

9.3.2 Basis for Finding

APH Article 220 states that Account 1588 RSVA Power shall be used monthly to record the net difference between:

> i) the energy amount charged to customers, including accruals,
> AND
> ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator, including accruals.

In addition, further clarification was provided in Q16 of the APH July 2012 FAQ regarding the payment of electricity for a FIT contract and the settlement of a FIT contract. Specifically,

> The payment for the electricity at the contract price is recorded in Account 4705, Power Purchased…
>
> In addition, the distributor is required to settle the difference between the amounts it pays to the supplier (or embedded generator) under a FIT contract at the contract price and the amount calculated at wholesale market prices. In the IESO settlement invoice process, this difference results in an electricity commodity adjustment that is charged or paid to the distributor via Charge Type 1412 "Feed-In Tariff Program Settlement Amount". Electricity distributors should record amounts attributable to Charge Type 1412 in Account 4705.

Audit noted from a sample testing of IESO invoices that charge type 1412 on the IESO invoices was not recorded in Account 4705 and reflected in Account 1588. Instead, the charge type was recorded in a liability account.[27] Per Hearst Power, the full payment for electricity under a FIT contract is settled with the IESO, not just the difference between the amount it pays to the supplier at the contract price and the amount calculated at wholesale market prices.[28] As such, there was no net impact to Account 4705 and Account 1588.

9.3.3 Area of Non-Conformity Requiring Action

Hearst Power should have recorded the payment of electricity at the contract price and charge type 1412 on the IESO invoices in the Account 4705 and reflected the charges in Account 1588.

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[27] Per email between Hearst Power and Audit dated Oct. 10, 2013
[28] Per email between Hearst Power and Audit dated March 7, 2014

Hearst Power is encouraged to investigate the appropriate calculation of the settlement amount for FIT contracts via charge type 1412 with the IESO. Any adjustments that are made should be reflected in Account 4705 and Account 1588 as appropriate.

9.3.4 Management Responses

9.3.5 Management Action Plan

9.4.1 Finding 4

Hearst Power did not record variances in Account 1518 and Account 1548. Though the impact may be immaterial, this practice is not in conformity with the APH.

9.4.2 Basis for Finding

With respect to Account 1518, APH Article 220 states:

1518 RCVA Retail
A. This account shall be used monthly to record the net of:

i) revenues derived, including accruals, from the following services:
   a. Establishing Service Agreements;
   b. Distributor-Consolidated Billing; and
   c. Retailer-Consolidated Billing.

AND

ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as **the incremental costs incurred to provide the services** in (b) and (c) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing, including accruals. [Emphasis added]

With respect to Account 1548, APH Article 220 states:

1548 RCVASTR
A. This account shall be used monthly to record the net of:

i) revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, as prescribed, in the form of
   a. Request fee;
   b. Processing fee;
   c. Information Request fee;
   d. Default fee; and
   e. Other Associated Costs fee;

AND

ii) **the incremental cost of** labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items. [Emphasis added]

Audit noted that there were no balances in Hearst Power's RCVAs as at December 31, 2012. Upon further inquiry, Hearst Power confirmed that it does not record amounts in Accounts 1518 and 1548.[29] However, preliminary investigation by Hearst Power indicated that the balances are likely to be insignificant.[30]

9.4.3 Area of Non-Conformity Requiring Action

Hearst Power should have recorded variances in Account 1518 and Account 1548 per requirements set out in the APH.

Going forward, Hearst Power should maintain sufficient records to identify the amounts related to retailer costs. Hearst Power should also record variances in Accounts 1518 and 1548.

9.4.4 Management Responses

9.4.5 Management Action Plan

10. Observations

10.1.1 Observation 1

There appears to be a control weakness with regards to the implementation of Hearst Power's review controls in its regulatory accounting function.

10.1.2 Basis for Observation

There appears to be a control weakness with regards to the implementation of timely review controls. During the course of the audit, multiple instances of the control weakness, among others, were observed including:

1. Billing error for the over-collection of rate riders due to the incorrect application of the Global Adjustment rate rider to RPP customers as noted in Finding 8.2.

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[29] Per email between Hearst Power and Audit dated Feb 25, 2014

[30] Per email between Hearst Power and Audit dated March 26, 2014

2. RRRP Charges were incorrectly booked in Account 1584 instead of Account 1580 as noted in Finding 8.5.
3. Although immaterial, there was a $3k difference noted between the January 2011 IESO and Hydro One invoice amounts and the amount booked in Account 4708 and thus affecting Account 1580.[31]
4. Although immaterial, there was a $2k difference noted between the January 2011 IESO and Hydro One invoice amounts and the amount booked in Account 4716 and thus affecting Account 1586.[32]
5. Although immaterial, there was a $604 difference noted between the January 2011 Hydro One invoice amount and the amount booked in Account 4075 and thus affecting Account 1550.[33]
6. Although immaterial, a typo was noted in the prescribed interest rate for the calculation of the carrying charges for Account 1550 and Account 1590 as noted in Finding 9.1.
7. The use of discontinued accounts with residual balances that should no longer have balances as noted in Finding 8.6.
8. The lack of usage of Account 1566 in the past as noted in Finding 8.6.
9. Error in its 2010 cost of service application where the amounts requested for disposition for Accounts 1550 and 1590 did not correspond to its general ledger as noted in Finding 8.3

10.1.3 Area of Concern

Hearst Power is encouraged to review and strengthen its internal control regarding its regulatory accounting activities and implement timely review controls with respect to its regulatory books.

10.1.4 Management Response

Hearst Power agrees with the observation number 1.

10.1.5 Management Action Plan

Hearst Power will review and strengthen its internal control regarding its regulatory accounting and review controls.

10.2.1 Observation 2

Hearst Power did not perform any spot to fixed price energy true up. As a result, no adjustments resulting from the true ups were reflected in Account 1588.

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[31] Per email between Hearst Power and Audit dated Jan 24, 2014
[32] Per phone confirmation between Hearst Power and Audit regarding email dated Feb 12, 2014
[33] Ditto

10.2.2 Basis for Finding

Q12 of APH FAQs issued October 2009 provides guidance on the accounting for adjustments arising from true ups to be reflected in the RSVA power:

> Electricity commodity power related adjustments to IESO charges (filed via forms with the IESO) are reflected in charge type 142. Charge type 142 is the difference between RPP rates and the cost of power including the Global Adjustment. Accordingly, charge type 142 includes true-up adjustments for both the cost of power purchase attributable to RPP customers included in charge type 101 and the global adjustment attributable to RPP customers included in charge type 146.
>
> Since the distributor will recover through charge type 142 the global adjustment portion attributable to the RPP customers paid on the IESO settlement invoices, a journal entry for the charge type 142 amount should be posted to account 4705, Power Purchased. As a result, this journal entry would have an offsetting effect on the global adjustment (attributable to the RPP customers) amount that was included and paid under charge type 146 also posted to account 4705 (as discussed in A.11 above).
>
> It should be noted that **any ongoing variance related to charge types 101 and 146 attributable to RPP customers, will be of a temporal nature as ongoing true-ups continue to be submitted to the IESO and recovered through charge type 142.** (Emphasis Added)

Audit noted that Hearst Power did not establish any internal process to perform true ups on the IESO former form 1598. As a result, there was no “ongoing” variance, which is perceived as a variance of temporary nature, related to charge types 101 and 146 attributable to RPP customers. The variance related to charge types 101 and 146 attributable to RPP customers, if not included in the requested balance of Account 1588, may become a permanent variance that cannot be recovered from RPP customers if Account 1588 were disposed of on a final basis in Hearst Power’s next rate application.

10.2.3 Area of Non-Conformity Requiring Action

Hearst Power should have established an internal process to perform the ongoing true ups in terms of charge types 101 and 146 attributable to RPP customers.

Audit encourages Hearst Power to perform the true ups and submit the true ups to IESO as soon as possible. These true up amounts, once agreed by the IESO, should be recorded in Account 4705 and then reflected in Account 1588.

Moving forward, Hearst Power is encouraged to establish an ongoing true up process with the IESO for the ongoing variances related to the spot to fixed price energy true up for RPP customers.

10.2.4 Management Response

Hearst Power agrees with observation number 2.

10.2.5 Management Action Plan

Going forward, Hearst Power will establish ongoing true-up process with the IESO for ongoing variances related to the spot to fixed price energy true-up for RPP customers.

Clearance of Deferral and Variance Account

Ex.9/Tab 4/Sch.1 - DVA Balances and Continuity Schedule

Table 9.9 below presents the list of deferral and variance accounts, with the proposed selection of balances for disposition. All account balances selected for disposition are as at December 31, 2013 being the most recent date the balances was subject to audit.

Board policy states: at the time of rebasing, all Account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. In accordance with the above statement, HPDC proposes to dispose of all its balances listed in the table below.

The 2015_EDDVAR_Continuity_Schedule_CoS_v2_20130706 detailing each account is being filed in conjunction with this application

Table 9.9 - DVA Balances sought for disposition

		Amounts from Sheet 2
LV Variance Account	1550	29,891
Smart Metering Entity Charge Variance Account	1551	2,738
RSVA - Wholesale Market Service Charge	1580	(133,451)
RSVA - Retail Transmission Network Charge	1584	154,454
RSVA - Retail Transmission Connection Charge	1586	70,257
RSVA - Power (excluding Global Adjustment)	1588	(145,007)
RSVA - Global Adjustment	1589	14,598
Disposition and Recovery/Refund of Regulatory Balances (2008)	1595	0
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	0
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	(152,852)
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	(324,681)
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	(49,637)
Total of Group 1 Accounts (excluding 1589)		**(548,288)**

Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	35,936
Other Regulatory Assets - Sub-Account - Incremental Capital Charges	1508	0
Other Regulatory Assets - Sub-Account - Financial Assistance Payment and Recovery Variance - Ontario Clean Energy Benefit Act[8]	1508	0
Other Regulatory Assets - Sub-Account - Financial Assistance Payment and Recovery Carrying Charges	1508	0
Other Regulatory Assets - Sub-Account - Other [4]	1508	1,696

Retail Cost Variance Account - Retail	1518	0
Misc. Deferred Debits	1525	4,223
Renewable Generation Connection Capital Deferral Account	1531	0
Renewable Generation Connection OM&A Deferral Account	1532	0
Renewable Generation Connection Funding Adder Deferral Account	1533	0
Smart Grid Capital Deferral Account	1534	0
Smart Grid OM&A Deferral Account	1535	0
Smart Grid Funding Adder Deferral Account	1536	0
Retail Cost Variance Account - STR	1548	0
Board-Approved CDM Variance Account	1567	0
Extra-Ordinary Event Costs	1572	0
Deferred Rate Impact Amounts	1574	0
RSVA - One-time	1582	0
Other Deferred Credits	2425	0
Total of Group 2 Accounts		**41,855**

Deferred Payments in Lieu of Taxes	1562	(0)
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account)	1592	0
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592	0
Total of Account 1562 and Account 1592		**0**

LRAM Variance Account	1568	16,009
(Account 1568 - total amount allocated to classes)		16,008
Variance		1

Total Balance Allocated to each class (excluding 1589 and 1586)	**(506,432)**
Total Balance Allocated to each class from Account 1589	**14,598**
Total Balance Allocated to each class (including 1589 and excluding 1586)	**(491,834)**

IFRS-CGAAP Transition PP&E Amounts Balance + Return Component	1575	0
Accounting Changes Under CGAAP Balance + Return Component	1576	(42,905)
Total Balance Allocated to each class for Accounts 1575 and 1576		**(42,905)**

This table below shows balances proposed for disposition before forecasted interest that are not consistent with the last Audited Financial Statements. Explanations for any variances are presented in the table.

Table 9.10 - Balances Not Consistent with Last Audited Financial Statements

Account Descriptions	Account Number	Variance RRR vs. 2013 Balance (Principal + Interest)	Explanation
LV Variance Account	1550	(2,064.14)	In the past, the utility has inadvertently booked the interest for LV in account 1550 instead of 1551.This entry is to rectify the error.
Smart Metering Entity Charge Variance Account	1551	2,064.00	Reverse entry (see above)
Smart Meter Capital and Recovery Offset Variance - Sub-Account - Capital	1555	(162,512.64)	This account includes the accumulated depreciation entry in this account represents the accumulated depreciation for account 1556.
Smart Meter OM&A Variance	1556	162,512.76	Reverse entry of the above
Accounting Changes Under CGAAP Balance + Return Component	1576	41,479.00	calculated as part of cost of service application

1

Ex.9/Tab 4/Sch.2 - Calculation of Rate Rider

HPDC notes that all relevant calculations are embedded in the 2015_EDDVAR_Continuity_Schedule_CoS_v2 OEB provided model.

The utility did not propose a billing determinants that is different that the OEB standards. HPDC does not need to establish separate rate riders to recover the balances in the RSVAs from Market Participants ("MPs") who must not be allocated the RSVA account balances related to charges for which the MPs settle directly with the IESO (e.g. wholesale energy, wholesale market services).

HPDC is proposing to dispose of these balances over a period one year. The rate rider calculations are calculated in the OEB's EDDVAR model. The rate riders are reproduced at the next page.

Table 9.11: Deferral and Variance Rate Riders

Please indicate the Rate Rider Recovery Period (in years) | 1 |

Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.)

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts
Residential	kWh	24,798,981	-$ 154,014	- 0.0062
General Service < 50 kW	kWh	11,134,727	-$ 69,152	- 0.0062
General Service > 50 to 1499 kW	kW	65,160	-$141,338	- 2.1691
Intermediate	kW	61,716	-$ 135,422	- 2.1943
Sentinel Lighting	kW	72	-$ 132	- 1.8352
Street Lighting	kW	11,288	-$ 6,374	- 0.5647
Total			-$ 506,432	

Rate Rider Calculation for RSVA - Power - Global Adjustment

Rate Class (Enter Rate Classes in cells below)	Units	Non-RPP kW / kWh / # of Customers	Balance of RSVA - Power - Global Adjustment	Rate Rider for RSVA - Power - Global Adjustment
Residential	kWh	506,210	$ -	-
General Service < 50 kW	kWh	750,587	$ -	-
General Service > 50 to 1499 kW	kW	57,625	$ 6,881	0.1194
Intermediate	kW	61,716	$ 6,518	0.1056
Sentinel Lighting	kW	72	$8	0.1056
Street Lighting	kW	11,288	$1,192	0.1056
		-	$-	-
Total			$14,598	

Rate Rider Calculation for Accounts 1575 and 1576

Please indicate the Rate Rider Recovery Period (in years) 1

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Balance of Accounts 1575 and 1576	Rate Rider for Accounts 1575 and 1576
Residential	kWh	24,798,981	-$12,614	- 0.0005
General Service < 50 kW	kWh	11,134,727	-$5,664	- 0.0005
General Service > 50 to 1499 kW	kW	65,160	-$11,576	- 0.1777
Intermediate	kW	61,716	-$11,092	- 0.1797
Sentinel Lighting	kW	72	-$11	- 0.1503
Street Lighting	kW	11,288	-$ 522	- 0.0463
Total			-$41,479	

Rate Rider Calculation for Accounts 1568

Please indicate the Rate Rider Recovery Period (in years) 1

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Balance of Account 1568	Rate Rider for Account 1568
Residential	kWh	24,798,981	$ 8,972	0.0004
General Service < 50 kW	kWh	11,134,727	$ 2,603	0.0002
General Service > 50 to 1499 kW	kW	65,160	$ 2,294	0.0352
Intermediate	kW	61,716	$ 466	0.0075
Sentinel Lighting	kW	72	$ 10	0.1423
Street Lighting	kW	11,288	$ 1,663	0.1474
Total			$ 16,008	

Other Rate Riders

Ex.9/Tab 5/Sch.1 - Stranded Meter Rate Rider

In the Minimum Filing Requirements, the Board states that the Smart Meter Funding and Cost Recovery (G-2008-0002) provides two options regarding the accounting treatment for Stranded Meters related to the installation of smart meters:

- Option A: transfer the Stranded Meter costs to "Sub-account Stranded Meter Costs" of Account 1555; or
- Option B: continue to record Stranded Meter costs in Account 1860.

HPDC has acted in accordance with Option A; effective as of 2010 the net book value of HPDC's Stranded Meters had been transferred to the "Sub-account Stranded Meter Costs" of Account 1555. The table below (excerpt from Appendix 2-R of the Board's Appendices) shows the net book value of HPDC's stranded smart meters.

Table 9.12 – Residential and GS<50 Disposed on or before 2009

Stranded Meter Treatment

Year	Notes	Gross Asset Value	Accumulated Amortization	Contributed Capital (Net of Amortization)	Net Asset	Proceeds on Disposition	Residual Net Book Value
		(A)	(B)	(C)	(D) = (A) - (B) - (C)	(E)	(F) = (D) - (E)
2006		$226,442.00	$167,255.00		$59,187.00		$59,187.00
2007		$226,442.00	$172,898.00		$53,544.00		$53,544.00
2008		$226,442.00	$178,540.00		$47,902.00		$47,902.00
2009		$226,442.00	$181,361.00		$45,081.00		$45,081.00
2010		$45,081.00			$45,081.00		$45,081.00
2011		$45,081.00			$45,081.00		$45,081.00
2012		$45,081.00			$45,081.00		$45,081.00
2013		$45,081.00			$45,081.00		$45,081.00
2014		$45,081.00			$45,081.00		$45,081.00

Table 9.13 – Intermediate and GS>50 Disposed from 2010-2013

Stranded Meter Treatment

Year	Notes	Gross Asset Value	Accumulated Amortization	Contributed Capital (Net of Amortization)	Net Asset	Proceeds on Disposition	Residual Net Book Value
		(A)	(B)	(C)	(D) = (A) - (B) - (C)	(E)	(F) = (D) - (E)
2006		$96,809.00	$71,505.00		$25,304.00		$25,304.00
2007		$96,809.00	$73,918.00		$22,891.00		$22,891.00
2008		$96,809.00	$76,330.00		$20,479.00		$20,479.00
2009		$96,809.00	$78,742.00		$18,067.00		$18,067.00
2010		$96,809.00	$81,154.00		$15,655.00		$15,655.00
2011		$96,809.00	$83,566.00		$13,243.00		$13,243.00
2012		$96,809.00	$85,978.00		$10,831.00		$10,831.00
2013		$96,809.00	$88,391.00		$8,418.00		$8,418.00
2014		$96,809.00	$90,803.00		$6,006.00		$6,006.00

In accordance with the guidance and directions that have been provided by the Board to date. HPDC is requesting recovery of the Stranded Meter Costs balances through class-specific rate riders from the applicable customer classes. Stranded meter costs are based on the net book value of the conventional meters that became stranded due to being replaced with smart meters during the Smart Meter Initiative. Annual amortization was calculated using the 25 year service life estimated for the asset prior to implementation of MIFRS. Depreciation was calculated using the straight line method of depreciation.

HPDC did not receive any proceeds on its scrapped meters and did not collect contributed capital on its conventional meters for the affected rate classes.

Based on the amortization schedule of these particular conventional meters, HPDC has furcated the NBV to be in the amount of $51,087 ($45,081.00 + $6,006).

Note that the 2015 revenue requirement does not include a cost of capital return or depreciation expense associated with the stranded meter costs removed from rate base. No carrying charges were recorded on the stranded meter costs in the 1555 account.

In accordance with the guidance and directions that have been provided by the Board to date, HPDC is requesting recovery of the Stranded Meter Costs balances through class-specific rate riders from the applicable customer classes.

HPDC has allocated the costs of the stranded conventional meters by using the allocation calculated in its 2009 Cost Allocation Informational Filing, Sheet 17.1 Meter Capital (attached as Appendix C).

Table 9-14 below shows the breakdown of stranded meter costs by rate class. Note the total Stranded Meters by Class (C) is the net book value as of December 31, 2014.

Using data from HPDC's 2015 load forecast, the following class-specific rate riders are requested or final disposition of HPDC's stranded meter costs.

Table 9.14 - Calculation of Stranded Meter Rate Rider

Customer Class Name	Net Book Value	% share	Annual $	Customer	Rate	per month
Residential	$25,901.11	50.70%	6475.28	2273	$2.85	$0.24
General Service < 50 kW	$13,849.69	27.11%	3462.42	467	$7.41	$0.62
General Service > 50 to 4999 kW	$4,480.33	8.77%	1120.08	40	$28.08	$2.34
Intermediate	$6,850.77	13.41%	1712.69	2	$937.09	$78.09
	TOTAL					
Total for Recovery			**51,087**			
Recovery Period (years)		**4**				
Annual Recovery			**12,772**			

Ex.9/Tab 5/Sch.2 - Smart Meter Disposition Riders

HPDC is applying for the disposition of the smart meter costs incurred to completion through a Smart Meter Disposition Rider (SMDR). The SMDR is intended to recover or refund the net deferred revenue requirement of smart meter capital and incremental operating expenses to December 31, 2014, offset by the Smart Meter Funding Adder revenues recovered from May 1, 2016 to when the SMFA ceased (May 1, 2012 for many distributors), and taking into account the carrying charges/interest at the prescribed rates. The SMDR is calculated in the 2015 Smart Meter Model, which is being filed in conjunctions with this application.

Derivation of Cost of Power

Ex.9/Tab 6/Sch.1 - Stranded Meter Rate Rider

HPDC calculated the cost of power for the 2014 Bridge Year and the 2015 Test Year based on the results of the load forecast discussed in detail in Exhibit 3. The commodity prices used in the calculation were prices published in the Board's Regulated Price Plan Report – May 1, 2014 to April 30, 2015, issued April 16, 2014. Should the Board publish a revised Regulated Price Plan Report prior to the Board's Decision in the application, HPDC will update the electricity prices in the forecast.

The sale of energy is a flow through revenue and the cost of power is a flow through expense. Energy sales and the cost of power expense by component are presented in Table 9.15 below. HPDC records no profit or loss resulting from the flow through energy revenues and expenses. Any temporary variances are included in the RSVA account balances.

The components of HPDC's cost of power are;

Table 9.15 - Commodity

Determination of Commodity

	Last Actual kWh's		
Customer Class Name	**Last Actual kWh's**	**non-RPP**	**RPP**
Residential	25,300,382	506,210	24,794,172
General Service < 50 kW	11,359,856	750,587	10,609,269
General Service > 50 to 1499 kW	23,218,142	20,126,523	3,091,619
Intermediate	21,805,339	21,805,339	0
Sentinel Lighting	21,276	21,276	0
Street Lighting	1,026,377	1,026,377	0
TOTAL	**82,731,372**	**43,209,935**	**39,521,437**
%	*100.00%*	*52.23%*	*47.77%*

Forecast Price

HOEP ($/MWh)			$22.52	
Global Adjustment ($/MWh)			$74.88	
Adjustments				
TOTAL ($/MWh)			**$97.40**	**$94.96**
$/kWh			***$0.09740***	***$0.09496***
%			52.23%	47.77%
WEIGHTED AVERAGE PRICE	**$0.0962**		**$0.0509**	**$0.0454**

Electricity Projections
(loss adjusted)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**						
Class Name		USA #	USA #	Volume	rate ($/kWh):	Amount	Volume	rate ($/kWh):	Amount
Residential	kWh	4006	4705	25,681,979	0.0796	$2,044,285	24,997,909	$0.09623	$2,405,659
General Service < 50 kW	kWh	4010	4705	11,531,193	0.0796	$917,883	11,224,046	$0.09623	$1,080,139
General Service > 50 to 1499 kW	kWh	4035	4705	23,568,333	0.0796	$1,876,039	22,940,563	$0.09623	$2,207,671
Intermediate	kWh			21,734,287	0.0796	$1,730,049	21,193,267	$0.09623	$2,039,521
Sentinel Lighting	kWh	4010	4705	19,709	0.0796	$1,569	17,125	$0.09623	$1,648
Street Lighting	kWh	4025	4705	1,131,659	0.0796	$90,080	443,750	$0.09623	$42,704
TOTAL				**83,667,159**		**$6,659,906**	**80,816,661**		**$7,777,342**

The Commodity share of the Cost of Power is calculated in the same manner as has been previously approved by the OEB in HPDC's previous Cost of Service application as well as other applications. The utility used Table ES-1: Average RPP Supply Cost Summary from the Regulated Price Plan Price Report - November 1, 2014 to October 31, 2015 issued by the Ontario Energy Board on October 16, 2014.

Table ES-1: Average RPP Supply Cost Summary (for the 12 months from November 1, 2014)

RPP Supply Cost Summary
for the period from November 1, 2014 through October 31, 2015

		Current
Forecast Wholesale Electricity Price		$20.64
Load-Weighted Price for RPP Consumers ($ / MWh)		$22.52
Impact of the Global Adjustment ($ / MWh)	+	$74.88
Adjustment to Address Bias Towards Unfavourable Variance ($ / MWh)	+	$1.00
Adjustment to Clear Existing Variance ($ / MWh)	+	($3.45)
Average Supply Cost for RPP Consumers ($ / MWh)	=	**$94.96**

The utility uses the split between the RPP and Non-RPP to determine the weighted average price. The weighted average price is applied to the projected 2015 Load Forecast to determine the commodity to be included in the Cost of Power. The commodity for 2015 is projected at $7,777,342.

Transmission Network

Transmission - Network
(loss adjusted)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**						
Class Name		USA #	USA #	Volume	Rate	Amount	Volume	Rate	Amount
Residential	kWh	4066	4714	25,681,979	0.0061	$156,660	24,997,909	0.0064	$159,987
General Service < 50 kW	kWh	4066	4714	11,531,193	0.0056	$64,575	11,224,046	0.0059	$66,222
General Service > 50 to 1499 kW	kW	4066	4714	64,980	2.3025	$149,617	63,249	2.4291	$153,639
Intermediate	kW	4066	4714	62,109	2.5753	$159,948	60,563	2.7169	$164,542
Sentinel Lighting	kW	4066	4714	58	1.7453	$101	50	1.8413	$92
Street Lighting	kW	4066	4714	11,350	1.7364	$19,708	4,451	1.8319	$8,154
TOTAL				**37,351,668**		**$550,609**	**36,350,268**		**$552,635**

The Transmission Network charges are calculated in the OEB's RTSR model. The Rates are applied to the 2015 Load Forecast to determine the amount to be included in the Cost of Power. The RTSR model is filed in conjunction with this application.

Transmission Connection

Transmission - Connection
(loss adjusted)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**						
Class Name		USA #	USA #	Volume	Rate	Amount	Volume	Rate	Amount
Residential	kWh	4068	4716	25,681,979	0.0048	$123,273	24,997,909	0.0050	$124,990
General Service < 50 kW	kWh	4068	4716	11,531,193	0.0042	$48,431	11,224,046	0.0044	$49,386
General Service > 50 to 1499 kW	kW	4068	4716	64,980	1.7025	$110,629	63,249	1.7847	$112,881
Intermediate	kW	4068	4716	62,109	2.0081	$124,720	60,563	2.1051	$127,490
Sentinel Lighting	kW	4068	4716	58	1.3314	$77	50	1.3957	$69
Street Lighting	kW	4068	4716	11,350	1.3043	$14,804	4,451	1.3673	$6,086
TOTAL		**0**	**0**	**37,351,668**		**$421,934**	**36,350,268**		**$420,902**

The Transmission Connection charges are also calculated in the OEB's RTSR model. The Rates are applied to the 2015 Load Forecast to determine the amount to be included in the Cost of Power. The RTSR model is filed in conjunction with this application.

Wholesale Market

Wholesale Market Service
(loss adjusted)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**		**rate ($/kWh):**	**0.0052**		**rate ($/kWh):**	**0.0052**
Class Name		USA #	USA #	Volume		Amount	Volume		Amount
Residential	kWh	4062	4708	25,681,979	0.00440	$113,001	24,997,909	0.00440	$109,991
General Service < 50 kW	kWh	4062	4708	11,531,193	0.00440	$50,737	11,224,046	0.00440	$49,386
General Service > 50 to 1499 kW	kW	4062	4708	64,980	0.00440	$286	63,249	0.00440	$278
Intermediate	kW	4062	4708	62,109	0.00440	$273	60,563	0.00440	$266
Sentinel Lighting	kW	4062	4708	58	0.00440	$0	50	0.00440	$0
Street Lighting	kW	4062	4708	11,350	0.00440	$50	4,451	0.00440	$20
TOTAL		**0**	**0**	**37,351,668**		**$164,347**	**36,350,268**		**$159,941**

On December 19, 2014 the OEB released Decision and Order for the Wholesale Market Service (WMS) for 2015. The Board's decision is summarized as follows:

- The WMS rate used by regulated distributors to bill their customers shall continue to be 0.44 cents per kilowatt-hour, effective January 1, 2015. This unit rate shall apply to a customer's metered energy consumption adjusted by the distributor's Board-approved Total Loss Factor.

In compliance with this order, HPDC has applied the Board Approved $0.0044/kWh to its 2015 Load Forecast in order to include $159,941 in its Cost of Power.

Rural Rate

Rural Rate Protection
(loss adjusted)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**		**rate ($/kWh):**			**rate ($/kWh):**	
Class Name		USA #	USA #	Volume		Amount	Volume		Amount
Residential	kWh	4062	4730	25,681,979	0.00120	$30,818	24,997,909	0.00120	$29,997
General Service < 50 kW	kWh	4062	4730	11,531,193	0.00120	$13,837	11,224,046	0.00120	$13,469
General Service > 50 to 1499 kW	kW	4062	4730	64,980	0.00120	$78	63,249	0.00120	$76
Intermediate	kW	4062	4730	62,109	0.00120	$75	60,563	0.00120	$73
Sentinel Lighting	kW	4062	4730	58	0.00120	$0	50	0.00120	$0
Street Lighting	kW	4062	4730	11,350	0.00120	$14	4,451	0.00120	$5
TOTAL		**0**	**0**	**37,351,668**		**$44,822**	**36,350,268**		**$43,620**

On December 19, 2014 the OEB released Decision and Order for the Rural or Remote Electricity Rate Protection (RRRP) for 2015. The Board's decision is summarized as follows:

• The RRRP charge used by rate regulated distributors to bill their customers shall continue to be 0.13 cents per kilowatt-hour, effective January 1, 2015. This unit rate shall apply to a customer's metered energy consumption adjusted by the distributor's Board-approved Total Loss Factor.

Smart Meter Entity

Smart Meter Entity Charge
(per customer)

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**		**rate ($/kWh):**			**rate ($/kWh):**	
Class Name		USA #	USA #	Volume		Amount	Volume		Amount
Residential	Cust			2,273	0.79000	$1,796	2,273	0.79000	$21,549
General Service < 50 kW	Cust			467	0.79000	$369	467	0.79000	$4,430
General Service > 50 to 1499 kW	Cust			40	0.79000	$32	40	0.79000	$378
Intermediate	Cust				0.79000			0.79000	
Sentinel Lighting	Cust			13	0.79000	$10	13	0.79000	$123
Street Lighting	Cust			951	0.79000	$751	951	0.79000	$9,016
TOTAL		**0**	**0**	**3,744**		**$2,958**	**3,744**		**$35,496**

Low Voltage Charges

Table 1 below presents the derivation of proposed retail rates for Low Voltage ("LV") service. The 2015 estimates of total LV charges were calculated based on an average of the last 2 years. The projections were allocated to customer classes, according to each class' share of projected Transmission-Connection revenue, in accordance with Board policy. The resulting allocated LV charges for each class were divided by the applicable 2015 volumes from the load forecast, as presented in Exhibit 3. Current LV revenues are recovered through a separate rate adder and therefore are not embedded within the approved Distribution Volumetric rate. 2015 LV rates appear on a distinct line item on the proposed schedule of rates.

Table 9.16 - Low Voltage Charges

Low Voltage Charges

	Current Low Voltage Rates		2015 PROJECTED TRANSMISSION-CONNECTION REVENUE				
Customer Class Name	**Rate**	**per**	**Rate**	**per**	**Uplifted**	**Revenue**	**%**
Residential	$0.0007	kWh	**$0.0050**	kWh	24,997,909	$124,990	29.70%
General Service < 50 kW	$0.0006	kWh	**$0.0044**	kWh	11,224,046	$49,386	11.73%
General Service > 50 to 1499 kW	$0.2270	kW	**$1.7847**	kW	63,249	$112,881	26.82%
Intermediate	$0.2677	kW	**$2.1051**	kW	60,563	$127,490	30.29%
Sentinel Lighting	$0.1791	kW	**$1.3957**	kW	50	$69	0.02%
Street Lighting	$0.1755	kW	**$1.3673**	kW	4,451	$6,086	1.45%
TOTAL	**0**	**0**		**$0**	**36,350,268**	**$420,902**	**100%**

Low Voltage Charges
(not loss adjusted)

	2015 PROPOSED LOW VOLTAGE CHARGES & RATES				
Customer Class Name	**% Allocation**	**Charges**	**Not Uplifted**	**Rate**	**per**
Residential	29.70%	16,610	24,257,123	$0.0007	kWh
General Service < 50 kW	11.73%	6,563	10,891,433	$0.0006	kWh
General Service > 50 to 1499 kW	26.82%	15,001	63,249	$0.2372	kW
Intermediate	30.29%	16,943	60,563	$0.2798	kW
Sentinel Lighting	0.02%	9	50	$0.1855	kW
Street Lighting	1.45%	809	4,451	$0.1817	kW
TOTAL	**100.00%**	**55,936**	**35,276,869**	**0**	

				Bridge Year 2014			Test Year 2015		
Customer		**Revenue**	**Expense**		**2014**			**2015**	
Class Name		USA #	USA #	Volume	Rate	Amount	Volume	Rate	Amount
Residential	kWh	4075	4750	24,920,921	$0.0007	$17,445	24,257,123	$0.0007	$16,979.99
General Service < 50 kW	kWh	4075	4750	11,189,478	$0.0006	$6,714	10,891,433	$0.0006	$6,534.86
General Service > 50 to 1499 kW	kW	4075	4750	64,980	$0.2270	$14,750	63,249	$0.2372	$15,002.72
Intermediate	kW	4075	4750	62,109	$0.2677	$16,626	60,563	$0.2798	$16,945.40
Sentinel Lighting	kW	4075	4750	58	$0.1791	$10	50	$0.1855	$9.23
Street Lighting	kW	4075	4750	11,350	$0.1755	$1,992	4,451	$0.1817	$808.75
TOTAL		**0**	**0**	**36,248,896**		**$57,538**	**35,276,869**		**$56,280.95**