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

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[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

[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, $RSVA_{WMS}$ 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

[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

[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]

Account 1570 and Account 1571

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.

[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]

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[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.

[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.

[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.