

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

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



April 22, 2016

Mr. Joe Barile
General Manager
Essex Powerlines Corporation
2730 Highway #3
Oldcastle, ON N0R 1L0

Dear Mr. Barile:

Re: Audit of Deferral and Variance Accounts and the Associated Regulatory Accounting Procedures, Controls, and Oversight

The Ontario Energy Board issued an engagement letter to Essex Powerlines Corporation (Essex Powerlines) on January 15, 2016, informing Essex Powerlines that it was conducting an audit of Essex Powerlines Corporation (Essex Powerlines) Group 1 and Group 2¹ deferral and variance accounts (DVA) and the associated regulatory accounting procedures, controls, and oversight.

The audit was undertaken by the OEB Audit and Performance Assessment department (Audit) based on the concerns raised by the OEB Decision and Order (the Decision and Order)² dated June 9, 2015 regarding Essex Powerlines and its DVAs. Specifically, in the Decision and Order the OEB stated that it "is very concerned about the regulatory accounting controls in place".

The audit had two key objectives. The first objective was to audit Essex Powerlines' regulatory accounting procedures, controls, and oversight. An examination of Essex Powerlines' processes, systems, and procedures was required with respect to the tracking, recording, calculating, and reporting of the DVAs.

Regarding the first objective, Audit has now concluded its audit and a final audit report based on Audit's work (the Report) has now been completed and is attached to this closing letter. The Report outlines the findings from the audit of Essex Powerlines' regulatory accounting procedures, controls, and oversight. The Report also includes Essex Powerlines' management responses and management action plans to address the findings. Please note that a follow-up audit with respect to this objective will be conducted in 2016-2017 to ensure

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

² Essex Powerlines Corporation combined proceeding for its final smart meter installation costs application (EB-2014-0301, the Smart Meter application) and for its annual Price Cap Incentive Rate-Setting adjustment application relating to rates for the 2015 rate year (EB-2014-0072, the Price Cap IR application).

that the required action plans are implemented by Essex Powerlines.

The findings in the Report represent the views of Audit and are not necessarily the views of the OEB as a whole. Audit provides no assurances that addressing the findings requiring action alone will resolve the issues identified in the Report. Per the Decision and Order, Audit will use the Report as evidence in Essex Powerlines future proceedings before the OEB.

The second objective was to audit Essex Powerlines' Group 1 and Group 2 DVA balances, as outlined in the engagement letter, and ensure DVA entries and balances were accurate. The scope of this part of the audit was to determine whether accounting policies and procedures for the DVAs were properly and consistently applied and reported to the OEB in accordance with the Accounting Procedures Handbook (APH), Reporting and Record-keeping Requirements, and related guidelines.

By way of letter dated March 28, 2016, Essex Powerlines requested an extension beyond the planned date of March 31, 2016 for the completion of Essex Powerlines' DVA audit. The extension request was as a result of some unforeseen delays in information being provided to Audit, as well as the impact of staff vacations, Essex Powerlines' IRM filing and other commitments such as its annual external third party audit of financial statements.

Audit agreed with the request for an extension. A separate audit report will be prepared to document Audit's findings with respect to the second objective.

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

Yours truly,

A handwritten signature in black ink, appearing to read "D. Babaie". The signature is fluid and cursive, with the first letter "D" being particularly large and stylized.

Daria Babaie, *P. Eng., CPA, CMA*
Manager, Audit & Performance Assessment
Phone: (416) 440-7614
Fax: (416) 440-7656
Email address: Daria.Babaie@ontarioenergyboard.ca

Cc. Mr. Ken Antaya, Chair, Board of Directors, Essex Powerlines Corporation
Mr. Joe Graziano, Chair, Audit Committee, Essex Powerlines Corporation
Mr. Gilbert Iovino, Corporate Controller, Essex Power Corporation