

**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



March 21, 2017

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 (OEB) issued an engagement letter on January 15, 2016 informing Essex Powerlines Corporation (Essex Powerlines) that it was conducting an audit of its Group 1 and Group 2<sup>1</sup> deferral and variance accounts (DVA) and the associated regulatory accounting procedures, controls, and oversight.

The audit was ordered by the OEB in its Decision and Order<sup>2</sup> (Decision) which stated:

“...the OEB orders that a complete audit of all DVA accounts, procedures and controls be undertaken. The only exceptions are the smart meter Accounts 1555 and 1556 which have undergone a final review in this proceeding. The audit will ensure all DVA entries and balances, not just those associated with Group 1 variance accounts, are accurate for 2013 and on a go forward basis.”<sup>3</sup>

The audit, undertaken by OEB staff<sup>4</sup> (Staff) had two key objectives.

**Objective 1 - Regulatory accounting procedures, controls, and oversight**

Staff issued its audit report to Essex Powerlines on April 22, 2016 with respect to Objective 1 (First Report) following an examination of Essex Powerlines' processes, systems, and procedures for the tracking, recording, calculating, and reporting of the DVAs. The covering letter noted that a separate audit report would be prepared to document Staff's findings with respect to Objective 2.

<sup>1</sup> 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.

<sup>2</sup> Essex Powerlines Corporation combined proceeding EB-2014-0301 and EB-2014-0072 issued June 9, 2015

<sup>3</sup> Ibid, page 13

<sup>4</sup> Including external third party auditor(s) acting under the direction of the OEB

## Objective 2 - Audit Essex Powerlines' Group 1 and Group 2 DVA balances

Essex Powerlines' DVA balances were audited to ensure entries and balances were accurate. In particular, Staff examined the following:

- a) Group 1 DVAs for fiscal years 2013, 2014, and 2015 and, in some cases, from 2009 and forward.
- b) Group 2 DVAs (except for the smart meter accounts 1555 and 1556) from the most recent date of disposition or date of last regulatory audit to December 31, 2015.

As outlined in the engagement letter, Staff also examined the Group 1 account balances that were approved in the Decision on an interim basis.

Staff has now concluded its audit with respect to Objective 2, the results of which are included in the attached audit report (Second Report). The Second Report includes Essex Powerlines' management responses and management action plans to address the findings set out in the report.

Essex Powerlines has agreed with all of the findings and observations outlined in the Second Report with the exception of Finding 10.1 which is addressed below. Essex Powerlines has made necessary adjustments, consistent with the findings and observations with which it agrees, to balances in its Group 1 and Group 2 DVAs as of December 31, 2015. Essex Powerlines has applied the audit findings to the rest of the months within the scope of the audit. Staff expects that Essex Powerlines will continue to apply these findings in 2016 and going forward.

As noted above, Essex Powerlines does not agree with Finding 10.1 for reasons set out in its management response, and consequently has not made adjustments to the DVA balances proposed by Staff. To resolve this matter, the stated Action Required is, in part, that Essex Powerlines should bring it forward in a future rate application.

The findings in the Second Report represent the views of Staff and are not necessarily the views of the OEB as a whole. Staff provides no assurances that addressing the findings requiring action alone will resolve the issues identified in the Second Report.

Staff notes that Essex Powerlines has agreed to re-file its RRR 2.1.7 for 2015 for Group 1 and Group 2 DVAs in accordance with the Accounting Procedures Handbook.

The OEB has now completed its audit with respect to the objectives set out in the engagement letter. A follow-up audit may be conducted to ensure that the required action plans in the First and Second Report are implemented by Essex Powerlines.

The Decision<sup>5</sup> states that, upon completion of the audit and issuance of the audit report, the OEB will invoice Essex Powerlines for the costs of the audit, which are to be borne by the shareholder. In making this determination the OEB noted that the audit was ordered as a result of the quality of evidence in the proceeding, and acknowledged that the required audit extended beyond the OEB's typical oversight responsibility. In accordance with the Decision,

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<sup>5</sup> op. cit. pages 13 and 14

the OEB will be issuing an invoice under separate cover for the cost of the external third party audit done at the direction of the OEB. Although significant internal OEB resources have been required to complete the audit, these costs will not be invoiced separately.

We acknowledge that significant Essex Powerlines resources were also required. We thank the staff of Essex Powerlines for the assistance and support provided during this audit.

Yours truly,



Barbara Robertson  
Acting Manager, Audit & Performance Assessment  
Phone: (416) 440-7718  
Fax: (416) 440-7656  
Email address: [Barbara.Robertson@ontarioenergyboard.ca](mailto:Barbara.Robertson@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