



**EB-2008-0248**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** applications by West Coast  
Huron Inc. for an order approving just and reasonable rates  
and other charges for electricity distribution to be effective  
May 1, 2009.

**BEFORE:** Cathy Spoel  
Presiding Member

Pamela Nowina  
Member and Vice-Chair

## **DECISION AND ORDER**

December 7, 2009

## **INTRODUCTION**

West Coast Huron Energy Inc. (“West Coast Huron” or the “Applicant”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on September 11, 2008, under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), seeking approval for changes to the rates that it charges for electricity distribution to be effective May 1, 2009. West Coast Huron is the licensed electricity distributor serving the Town of Goderich.

In its Decision and Order dated June 17, 2009 the Board disallowed a claim of \$150,000 for an Accrued Benefits Obligation (“ABO”) for post retirement non-pension benefits (“PRNPB”), and found the total Operations & Management budget in the Application for the test year was \$1,544,350. The Board also declared the rates interim and allowed West Coast Huron three months in which to submit supplemental evidence (the “Supplemental Evidence”) in support of the ABO claim. West Coast Huron filed that evidence on September 17, 2009. Board staff and the School Energy Coalition (“SEC”) submitted interrogatories by September 25, 2009. Responses to interrogatories were filed with the Board on October 5, 2009. Board staff, SEC and the Vulnerable Energy Consumers Coalition (“VECC”) made submissions. Reply argument was received on October 16, 2009.

In considering this Decision, the Board has reviewed all the evidence and submissions pertaining to the ABO.

## **BACKGROUND**

Canadian Institute of Chartered Accountants (“CICA”) Section 3461 requires a company’s obligation for future benefits in a defined benefits plan be disclosed on its financial statements. An ABO is determined by an actuary using a standard methodology and a number of estimates provided by the company. These estimates are for variables such as future health care cost increases, Consumers’ Price Index, average remaining working years of the employees, and other financial and demographic factors regarding the work force.

West Coast Huron recorded an ABO of \$150,000 on their 2007 financial statements, and in the 2009 COS rate application, claimed this amount as an expense. No actuarial report was filed with the Board in support of this claim.

## THE ISSUES

In the Supplemental Evidence, West Coast Huron submitted an actuarial report prepared by Dion Durrell + Associates Inc. (the “Actuary”). The Actuary estimated the ABO as of January 1, 2008 to be \$342,877 and suggested that the difference between the \$342,877 and the \$150,000 already recognized in the 2007 statements, which is \$192,877, be amortized over 9 years at \$21,431 per year. In the original proceeding, West Coast Huron applied to amortize the \$150,000 claim from 2007 over a four year period.

In the Supplemental Evidence West Coast Huron applied to amortize \$150,000 of the \$342,877 over four years and to amortize the remaining \$192,877 over 9 years. This proposal would result in an expense of \$58,931 per year for the first four years and \$21,931 per year from year five to year nine.

It appears that of the \$342,877, \$191,000 was for retirees who were no longer serving West Coast Huron’s customers, while the remainder relates to current employees<sup>1</sup>.

There are two issues concerning the ABO proposal;

- the amount and cost impacts of the ABO, if any, to be recovered in rates, and
- an adjustment to the Working Capital Allowance.

### **The Amount to be Recovered in Rates**

Both SEC and VECC pointed out that the original amount requested for the ABO was \$150,000, and that the current amount requested by West Coast Huron is \$342,877. Both SEC and VECC argued that the \$192,877 increase should not be allowed.

Staff argued that West Coast Huron should have been accounting for the ABO since 2000, which was the year that CICA Section 3461 came into effect. Board staff also notes that the 2006 EDR Handbook addressed ABOs. The Handbook specifically addressed CICA Section 3461.

In its reply argument, West Coast Huron admitted that the delay applying CICA Section 3461 resulted in an undercollection of the obligation for retired employees. West Coast also pointed out that in the years following the implementation of CICA Section 3461 rates were frozen, and it was not until 2006 EDR that utilities could set rates based on updated financial information. West Coast requested that one half of the \$191,000 be allowed.

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<sup>1</sup> Key Results Table on page 2 of the actuarial report by Dion Durrell + Associates Inc., February 9, 2009

## **Working Capital Allowance**

West Coast Huron proposed to adjust the working capital allowance to reflect the increase in costs. In response to Board staff interrogatory 2 C), West Coast Huron stated that there are no cash outlays for an ABO. In the end, all parties agreed that the Working Capital Allowance should not be adjusted for the amortized ABO.

## **Board Findings**

The actuarial report filed by West Coast Huron indicates that West Coast Huron is using accrual accounting to recognize PRNPB costs for the first time in 2009. Previously West Coast Huron forecast and expensed benefits costs as they occurred on a cash basis. The Board is concerned that costs from past periods are included in the Actuary's valuation that establishes the ABO and does not accept West Coast Huron's arbitrary determination that one half of the \$191,000 costs be removed to reflect out of period costs. Future benefits for current and past employees would have been recognized and expensed in prior rate periods if the valuation had been performed and recognized and amortized as an expense in prior rate periods. There is no compelling evidence substantiating the proposed adjustment. The Board does not agree that West Coast Huron should change to the accrual accounting method for the purpose of recovering these costs at this time, and denies the inclusion of the costs of the ABO.

The Board finds that \$21,000 is a reasonable post retirement benefit cost to recover in this application<sup>2</sup>.

The Board wishes to make clear that it is not approving an increase of an additional \$21,000 to the PRNPB costs underpinning the current interim rates, but rather is approving the total allowed, which is to take into account any amount already included in the revenue requirement. In preparing its draft rate order, West Coast Huron should ensure that only the incremental amount above what was included in rates approved in the Board's June 17, 2009 decision is to be added to the 2009 test year revenue requirement.

The parties argued and West Coast concurred that the annual estimate for the ABO is not a cash item, and as such the working cash should not be adjusted. However, as the Board has allowed a forecast for a cash item, the working cash is to be adjusted accordingly.

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<sup>2</sup> 2009 Benefit Payments, C. Calculation of Component Items, attachment to the transmittal letter of Dion Durrell + Associates Inc., February 9, 2009

## **IMPLEMENTATION AND COST AWARDS**

### **Implementation**

The adjusted rates are to be effective as of May 1, 2009. West Coast Huron is allowed to calculate the foregone revenue from May 1, 2009 to the date that the new rate is implemented. This calculated foregone revenue is to be collected over the remaining billing months of the 2009 rate year using a volumetric rate rider. The monthly volumes underpinning the 2009 forecast are to be used to determine the foregone revenue and the rate rider.

### **Costs Awards**

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

### **THE BOARD ORDERS THAT:**

1. West Coast Huron shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 21 days of the date of this Decision.
2. Intervenors shall file any comments on the Draft Rate Order with the Board and forward to West Coast Huron within 7 days of the date of filing of the Draft Rate Order.
3. West Coast Huron shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

4. SEC and VECC shall file with the Board and forward to West Coast Huron their respective cost claims within 26 days from the date of this Decision.
5. West Coast Huron shall file with the Board and forward to SEC and VECC any objections to the claimed costs within 40 days from the date of this Decision.
6. SEC and VECC shall file with the Board and forward to West Coast any responses to any objections for the cost claims within 47 days of the date of this Decision.

All filings with the Board must quote the file number EB-2008-0227, and be made through the Board's web portal at [www.errr.oeb.gov.on.ca](http://www.errr.oeb.gov.on.ca), and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca). If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at [BoardSec@oeb.gov.on.ca](mailto:BoardSec@oeb.gov.on.ca). All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

**DATED** at Toronto, December 7, 2009

**ONTARIO ENERGY BOARD**

*Original Signed By*

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Cathy Spoel  
Presiding Member

*Original Signed By*

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Pamela Nowina  
Member and Vice-Chair