



May 28, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: 2010 Electricity Distribution Rate Application - Veridian Connections Inc.
Revised Draft Accounting Order**

Further to the Board's Rate Order dated May 10th 2010, Veridian is pleased to file the enclosed draft Accounting Order relating to a test year capital expenditure.

Veridian hereby seeks the Board's approval of this version of the Accounting Order.

Yours truly,

Original signed by

George Armstrong
Manager of Regulatory Affairs and Key Projects

cc Stephen Shields, Ontario Energy Board
Intervenors of Record

55 Taunton Road East

Ajax, ON L1T 3V3

TEL (905) 427-9870

TEL 1-888-445-2881

FAX (905) 619-0210

www.veridian.on.ca

The power to make your community better.

Veridian Connections is a wholly owned subsidiary of Veridian Corporation



Draft Accounting Order – Test Year Capital Expenditure Variance Account

Request for Establishment of a Variance Account

Veridian requests Board approval for the establishment of a variance account related to the Test Year Capital expenditure known as the Ajax Building Expansion Project (the “Project”). Establishment of the variance account was agreed upon during settlement and is referenced on page 6 of the Draft Rate Order. In particular Veridian seeks approval to establish the following variance account

Revenue Requirement Variance Account – Ajax Building Expansion Project – Account number to be established by the Board.

Details of the purpose of the variance account and example entries and descriptions of the manner in which this account would be used are provided here.

As outlined on page 6 of the Draft Rate Order, “a variance account will be established to be in effect for the Test Year and the subsequent IRM period until Veridian’s next cost of service rebasing period. The purpose of the variance account will be to track the revenue requirement impacts in the test year and subsequent IRM period. This variance account was agreed upon in light of concern of the intervenors that the required capital spending may be less than the forecast, or that the in-service date will not be in 2010.”

Purpose and General Mechanics of the Variance Account

The following description of the mechanics of the variance account is as set out in the Settlement Proposal on pages 11 and 12:

The purpose of the variance account will be to track the revenue requirement impacts in the test year and subsequent IRM period resulting from Veridian’s capital investment and associated OM&A costs for its proposed Ajax Building Expansion Project. The total capital expenditures related to that project in the Test Year have been forecast at \$6,000,000 and a reduction in normalized OM&A costs of \$163,151. The “as-filed” accounting impact of the Project, both OM&A and capital (including amortization and return on capital) forms the baseline for variances for the years 2010 through 2013 or the end of the IRM period. The baseline includes the expected accounting entries related to the Project for each of those years, including the initial test year under cost of service, and the subsequent three years where rates are expected to be set under the IRM formula. Actuals will then be compared to that baseline, and entries to the variance account will reflect the difference between actuals and baseline each year.

The variance account will capture the following:

- a) Asymmetric revenue requirement variances resulting if the actual capital costs are less than forecast capital costs. The reduction in revenue requirement would be credited to the variance account for future distribution to ratepayers.
- b) The decrease in revenue requirement for the Test Year, and the change (increase or decrease) in revenue requirement for each of the subsequent IRM years, due to a change of in-service date of the Ajax Building Expansion Project from 2010 or beyond. The annual increase or decrease in revenue requirement would be recorded in the variance account. The cumulative balance would be distributed to ratepayers in the future.

Illustration of Proposed Accounting Entries

An appendix was included in the Settlement Agreement which outlined numerical examples showing the hypothetical calculation of the variance account in different scenarios. The Appendix set out four scenarios.

Scenario 1 is the agreed baseline, i.e. the amounts that are assumed to be the accounting costs and savings each year for the Project on an “as-filed” basis. Accounting variations from this baseline are to be captured through entries to the variance account.

Scenario 2 illustrates the same calculation for each year, but with a lower total cost of the Project in 2010, and identifies the variance account entries that would reflect that lower cost in that scenario.

Scenario 3 illustrates the variance account entries if the Project does not come into service until March 31, 2011 (used as a hypothetical date beyond the 2010 Test Year). In that scenario, the capital costs are delayed, so amortization and return on capital are lower in years 2010 and 2011, but the OM&A savings are also delayed, increasing OM&A in 2011 to partially offset the delay in the capital cost.

Similar 4 is similar to Scenario 3, but with a lower total cost of the Project as well.

Detailed accounting entries for the variance scenarios listed above follow. These were originally filed as Appendix “L” to the Settlement Agreement. In the Settlement Agreement, all parties agreed that Appendix “L” correctly described the operation of the variance account in the specific examples and agreed that the actual entries in the variance account should be consistent with the rules underlying those calculations.

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project

Scenario Summaries - Annual Entries to Variance Account and YE Variance Account Balances

	2010			2011			2012			2013		
	Revenue Requirement	Entries to Variance Account	YE Balance Variance Account	Revenue Requirement	Entries to Variance Account	YE Balance Variance Account	Revenue Requirement	Entries to Variance Account	YE Balance Variance Account	Revenue Requirement	Entries to Variance Account	YE Balance Variance Account
Scenario 1 - As Filed Completed in 2010, \$6M or more	\$ 136,692	\$ -	\$ -	\$ 431,294	\$ -	\$ -	\$ 410,144	\$ -	\$ -	\$ 390,343	\$ -	\$ -
Scenario 2 Completed in 2010, \$5.5M	\$ 111,559	\$ (25,133)	\$ (25,133)	\$ 381,757	\$ (49,537)	\$ (74,670)	\$ 362,369	\$ (47,775)	\$ (122,445)	\$ 344,218	\$ (46,125)	\$ (168,570)
Scenario 3 Completed in 2011, \$6M or more	\$ (155,016)	\$ (291,708)	\$ (291,708)	\$ 145,749	\$ (236,008)	\$ (527,716)	\$ 431,550	\$ 21,406	\$ (506,310)	\$ 410,655	\$ 20,312	\$ (485,998)
Scenario 4 Completed in 2011, \$5.5M	\$ (155,016)	\$ (291,708)	\$ (291,708)	\$ 120,616	\$ (310,678)	\$ (602,386)	\$ 382,601	\$ (27,543)	\$ (629,929)	\$ 365,098	\$ (25,245)	\$ (655,174)

Note: For simplicity in calculations, PILs impacts have not been included in these examples. It is understood that PILs impacts would be calculated and included in the entries to the variance account.

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project

Working Capital Allowance 15.0% Before Tax Weighted Average Cost of Capital 7.14%

Components of Revenue Requirement

Capex Related OM&A WCA Rate Base Return Amortization PILs impact Rev Req't

Scenario 1 - As Filed Completed in 2010, \$6M or more	2010							
	\$ 6,000,000	\$ (163,151)	\$ (24,473)	\$ 2,975,527	\$ 212,453	\$ 87,390		\$ 136,692
2011								
\$ 6,000,000	\$ (163,151)	\$ (24,473)	\$ 5,912,610	\$ 422,160	\$ 172,285		\$ 431,294	
2012								
\$ 6,000,000	\$ (163,151)	\$ (24,473)	\$ 5,740,325	\$ 409,859	\$ 163,436		\$ 410,144	
2013								
\$ 6,000,000	\$ (163,151)	\$ (24,473)	\$ 5,576,889	\$ 398,190	\$ 155,304		\$ 390,343	
Cumulative to 2013							\$ 1,368,473	

Scenario 2 Completed in 2010, \$5.5M	2010							
	\$ 5,500,000	\$ (163,151)	\$ (24,473)	\$ 2,725,527	\$ 194,603	\$ 80,108		\$ 111,559
2011								
\$ 5,500,000	\$ (163,151)	\$ (24,473)	\$ 5,419,892	\$ 386,980	\$ 157,928	\$ -	\$ 381,757	
2012								
\$ 5,500,000	\$ (163,151)	\$ (24,473)	\$ 5,261,965	\$ 375,704	\$ 149,816	\$ -	\$ 362,369	
2013								
\$ 5,500,000	\$ (163,151)	\$ (24,473)	\$ 5,112,149	\$ 365,007	\$ 142,362	\$ -	\$ 344,218	
Cumulative to 2013							\$ 1,199,903	

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project
Amortization Calculations

Account	Description	Opening Balance	Less Fully Depreciated	Net for Depreciation	Additions	Net Additions	Total for Depreciation	Years	Depreciation Expense
Scenario 1 - As Filed									
Completed in 2010, \$6M or more									
2010									
	Servc Centre Bldgs-								
	1908 Renos/Add'ns				\$ 5,289,482	\$ (61,641)	\$ 5,227,841	\$ 2,613,920	50 \$ 52,278
	Offc Furn & 1915 Equip			\$ -	\$ 710,518	\$ (8,280)	\$ 702,238	\$ 351,119	10 \$ 35,112
		\$ -	\$ -	\$ -	\$ 6,000,000	\$ (69,921)	\$ 5,930,079	\$ 2,965,039	\$ 87,390
2011									
	Servc Centre Bldgs-								
	1908 Renos/Add'ns	\$ 5,237,204		\$ 5,237,204	\$ -	\$ 5,237,204	\$ 5,237,204	50	\$ 104,744
	Offc Furn & 1915 Equip	\$ 675,406		\$ 675,406	\$ -	\$ 675,406	\$ 675,406	10	\$ 67,541
					\$ -	\$ -	\$ 5,912,610	\$ 5,912,610	\$ 172,285
	Servc Centre Bldgs-								
	1908 Renos/Add'ns	\$ 5,132,460		\$ 5,132,460		\$ 5,132,460	\$ 5,132,460	50	\$ 102,649
	Offc Furn & 1915 Equip	\$ 607,865		\$ 607,865		\$ 607,865	\$ 607,865	10	\$ 60,787
					\$ -	\$ -	\$ 5,740,325	\$ 5,740,325	\$ 163,436
2013									
	Servc Centre Bldgs-								
	1908 Renos/Add'ns	\$ 5,029,810		\$ 5,029,810		\$ 5,029,810	\$ 5,029,810	50	\$ 100,596
	Offc Furn & 1915 Equip	\$ 547,079		\$ 547,079		\$ 547,079	\$ 547,079	10	\$ 54,708
					\$ -	\$ -	\$ 5,576,889	\$ 5,576,889	\$ 155,304

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project
Amortization Calculations

Account	Description	Opening Balance	Less Fully Depreciated	Net for Depreciation	Additions	Net Additions	Total for Depreciation	Years	Depreciation Expense	
Scenario 2		2010								
Completed in 2010, \$5.5M										
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ -	\$ -		\$ 4,848,692	\$ (56,504)	\$ 4,792,187	\$ 2,396,094	50	\$ 47,922
	Offc Furn &									
1915	Equip	\$ -	\$ -	\$ -	\$ 651,308	\$ (7,590)	\$ 643,718	\$ 321,859	10	\$ 32,186
		\$ -	\$ -	\$ -	\$ 5,500,000	\$ (64,095)	\$ 5,435,905	\$ 2,717,953		\$ -
										\$ 80,108
		2011								
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ 4,800,770	\$ -	\$ 4,800,770	\$ -		\$ 4,800,770	\$ 4,800,770	50	\$ 96,015
	Offc Furn &									
1915	Equip	\$ 619,122	\$ -	\$ 619,122	\$ -		\$ 619,122	\$ 619,122	10	\$ 61,912
					\$ 5,500,000	\$ -	\$ 5,419,892	\$ 5,419,892		\$ 157,928
		2012								
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ 4,704,755		\$ 4,704,755	\$ -		\$ 4,704,755	\$ 4,704,755	50	\$ 94,095
	Offc Furn &									
1915	Equip	\$ 557,210		\$ 557,210	\$ -		\$ 557,210	\$ 557,210	10	\$ 55,721
					\$ 5,500,000	\$ -	\$ 5,261,965	\$ 5,261,965		\$ 149,816
		2013								
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ 4,610,659		\$ 4,610,659	\$ -		\$ 4,610,659	\$ 4,610,659	50	\$ 92,213
	Offc Furn &									
1915	Equip	\$ 501,489		\$ 501,489	\$ -		\$ 501,489	\$ 501,489	10	\$ 50,149
					\$ 5,500,000	\$ -	\$ 5,112,149	\$ 5,112,149		\$ 142,362

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project
Amortization Calculations

Account	Description	Opening Balance	Less Fully Depreciated	Net for Depreciation	Additions	Net Additions	Total for Depreciation	Years	Depreciation Expense	
Scenario 3										
Completed in 2011, \$6M or more										
2011										
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ -	\$ -	\$ -	\$ 5,289,482	\$ (61,641)	\$ 5,227,841	\$ 2,613,920	50	\$ 52,278
	Offc Furn &									
1915	Equip	\$ -	\$ -	\$ -	\$ 710,518	\$ (8,280)	\$ 702,238	\$ 351,119	10	\$ 35,112
					\$ 6,000,000	\$ (69,921)	\$ 5,930,079	\$ 2,965,039		\$ -
										\$ 87,390
2012										
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ 5,175,562		\$ 5,175,562	\$ -	\$ -	\$ 5,175,562		50	\$ 103,511
	Offc Furn &									
1915	Equip	\$ 667,126		\$ 667,126	\$ -	\$ -	\$ 667,126		10	\$ 66,713
					\$ -	\$ -	\$ -			\$ -
							\$ 5,842,688			\$ 170,224
2013										
	Servc Centre Bldgs-									
1908	Renos/Add'ns	\$ 5,072,051		\$ 5,072,051	\$ -	\$ -	\$ 5,072,051		50	\$ 101,441
	Offc Furn &									
1915	Equip	\$ 600,413		\$ 600,413	\$ -	\$ -	\$ 600,413		10	\$ 60,041
					\$ -	\$ -	\$ -			\$ -
							\$ 5,672,465			\$ 161,482

**Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project
OM&A Calculations**

Scenario 1 - As Filed

Calculation of 2010 OM&A cost reduction	2010	2011	2012	2013	
Base Lease Costs-Pickering Parkway	\$213,875				
Taxes, Maintenance Insurance - Pickering Parkway	\$130,500				
Incremental Maintenance expenses-building expansion		\$234,000	\$234,000	\$234,000	
Operational Efficiencies		(\$33,000)	(\$33,000)	(\$33,000)	
	\$344,375	\$201,000	\$201,000	\$201,000	
Four year Total					\$947,375
Total costs amortized over 4 year period					\$236,844
New OM&A requirements for space	\$236,844				
Less:Original OM&A levels in revenue requirement (as above)	<u>(\$344,375)</u>				
	(\$107,531)				
Less: Avoided lease costs-Metering Facilities	<u>(\$55,620)</u>				
Test Year OM&A Reduction	(\$163,151)				

Scenario 3 - Building Completion in 2011 - assume March 31st

Calculation of 2010 OM&A cost reduction	2010	2011	2012	2013	
Base Lease Costs-Pickering Parkway	\$213,875	\$53,469			
Taxes, Maintenance Insurance - Pickering Parkway	\$130,500	\$32,625			
Incremental Maintenance expenses-building expansion		\$175,500	\$234,000	\$234,000	
Operational Efficiencies		(\$24,750)	(\$33,000)	(\$33,000)	
	\$344,375	\$236,844	\$201,000	\$201,000	
Four year Total					\$983,219
Total costs amortized over 4 year period					\$245,805
New OM&A requirements for space	\$245,805				
Less:Original OM&A levels in revenue requirement (as above)	<u>(\$344,375)</u>				
	(\$98,570)				
Less: Avoided lease costs-Metering Facilities	<u>(\$55,620)</u>				
Test Year OM&A Reduction	(\$154,190)				

Proposed Accounting Entries for Example Scenarios - Revenue Requirement Variance Account - Ajax Building Expansion Project

Illustrative Journal Entries under the various scenarios

Scenario 2	DR	CR
Year 2010		
Debit Account 4080, Distribution Services Revenue	\$ 25,133	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 25,133
Year 2011		
Debit Account 4080, Distribution Services Revenue	\$ 49,537	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 49,537
Year 2012		
Debit Account 4080, Distribution Services Revenue	\$ 47,775	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 47,775
Year 2013		
Debit Account 4080, Distribution Services Revenue	\$ 46,125	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 46,125
Scenario 4		
Year 2010		
Debit Account 4080, Distribution Services Revenue	\$ 291,708	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 291,708
Year 2011		
Debit Account 4080, Distribution Services Revenue	\$ 310,678	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 310,678
Year 2012		
Debit Account 4080, Distribution Services Revenue	\$ 27,543	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 27,543
Year 2013		
Debit Account 4080, Distribution Services Revenue	\$ 25,245	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 25,245

Scenario 3	DR	CR
Year 2010		
Debit Account 4080, Distribution Services Revenue	\$ 291,708	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 291,708
Year 2011		
Debit Account 4080, Distribution Services Revenue	\$ 236,008	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		\$ 236,008
Year 2012		
Debit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact	\$ 21,406	
Credit Account 4080, Distribution Services Revenue		\$ 21,406
Year 2013		
Debit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact	\$ 20,312	
Credit Account 4080, Distribution Services Revenue		\$ 20,312

Note: For each year and each scenario, interest and carrying charges would be recorded

Debit Account 6035 - Other Interest Expense	XX,XXX	
Credit Account 2425, Other Deferred Credits, Sub-Account Project Expansion Revenue Requirement Impact		XX,XXX