



EB-2009-0140

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

AND IN THE MATTER OF an application by Veridian Connections Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010;

AND IN THE MATTER OF Veridian Connections Inc.'s request for an Accounting Order to establish a variance account to record the revenue requirement impacts associated with its Ajax Building Expansion Project.

BEFORE: Cynthia Chaplin
Vice-Chair and Presiding Member

Ken Quesnelle
Member

ACCOUNTING ORDER

Veridian Connections Inc. ("Veridian" or the "Applicant") filed an application with the Ontario Energy Board (the "Board"), received on October 2, 2009, under section 78 of the *Ontario Energy Board Act, 1998*, S.O 1998, c. 15 (Schedule B) (the "Act"), seeking approval for changes to the rates that Veridian charges for electricity distribution to be effective May 1, 2010.

On February 16 and 17, 2010, Veridian and the intervenors participated in a Settlement Conference. As a result of the Settlement Conference, the parties prepared a Settlement Proposal which was filed with the Board on March 24, 2010. The Settlement Proposal included the establishment of a variance account to record certain potential cost and timing differences resulting from the intended construction schedule of the Ajax

Building Expansion Project (the “Project”) which is one of Veridian’s 2010 Test Year major capital expenditure items.

On March 31, 2010, the Board issued its Decision on the rates application which included its acceptance of the Settlement Proposal. In the Decision, the Board ordered the Applicant to file a Draft Rate Order reflecting the Board’s findings in the Decision.

On April 19, 2010, Veridian filed a Draft Rate Order. Two intervenors subsequently recommended that an Accounting Order be issued in support of the variance account that was part of the Settlement Agreement.

On May 10, 2010, the Board issued its Rate Order where it stated it would issue an Accounting Order as recommended by the intervenors.

On May 28, 2010, in response to the Board’s Rate Order, Veridian filed a draft Accounting Order requesting the Board’s approval of an Accounting Order to capture in a variance account certain costs associated with the revenue requirement impacts of the Project. Consistent with the Settlement Agreement, the variance account would track the revenue requirement impacts in the Test Year and the subsequent IRM period until Veridian’s next cost of service rebasing, resulting from Veridian’s capital investment and associated OM&A costs for the proposed Project. The total forecast capital expenditures related to the Project in the 2010 Test Year are \$6,000,000. The Project also includes a reduction in normalized OM&A costs of \$163,151. The “as filed” accounting impact of the Project, both capital (including amortization and return on capital) and OM&A, forms the baseline for the variances for the years 2010 through 2013 or until the end of the IRM period.

Pursuant to section 2d and as illustrated in Appendix L of the Settlement Agreement, the variance account will capture the variances outlined below. These variances from the baseline (Scenario 1) are labeled in the Settlement Proposal as Scenarios 2, 3 and 4 which, together with Appendix L of the Settlement Proposal, are attached as Appendix B to this Accounting Order:

- a) Asymmetric revenue requirement variances resulting if the actual capital costs are less than the forecast capital costs. The reduction in revenue requirement would be credited to the variance account for future disposition to ratepayers.
- b) The decrease in revenue requirement for the 2010 Test Year and the change (increase or decrease) in the 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.

THE BOARD THEREFORE ORDERS THAT:

1. Veridian is hereby authorized to capture in a variance account the differences described in section 2d and as illustrated in Appendix L of the Settlement Agreement.
2. The accounting entries shall be in accordance with those listed in the attached Appendix "A".

DATED at Toronto, June 7, 2010

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX "A"

TO ACCOUNTING ORDER

**VERIDIAN CONNECTIONS INC.
(EB-2009-0140)**

DATED: JUNE 7, 2010

**VERIDIAN CONNECTIONS INC.
(EB-2009-0140)**

Accounting Entries

To record the revenue requirement impacts for the specified Scenario:

Debit Account 4080, Distribution Services Revenue

Credit Account 2425, Other Deferred Credits, "Sub-Account Test Year 2010
Project Expansion Revenue Requirement Impact"

To record simple interest on the monthly opening balance in Sub-account 2425
calculated using the Board's prescribed interest rates for the specified Scenario:

Debit Account 6035, Other Interest Expense

Credit Account 2425, Other Deferred Credits, "Sub-Account Test Year 2010
Project Expansion Revenue Requirement Impact"

APPENDIX "B"

TO ACCOUNTING ORDER

**VERIDIAN CONNECTIONS INC.
(EB-2009-0140)**

DATED: JUNE 7, 2010

VERIDIAN CONNECTIONS INC.
(EB-2009-0140)

Description of Scenarios and Appendix L of the Settlement Proposal

(Extract from the Settlement Proposal, page 12)

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

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

Scenario 3 then illustrates the variance account entries if the Project does not come into service until March 31, 2011. 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.

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

Appendix "L" - Ajax Building Expansion Project Variance Account Example

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.

Appendix "L" - Ajax Building Expansion Project Variance Account Example

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							
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
Scenario 3 Completed in 2011, \$6M or more	2010							
	\$ -	\$ (154,190)	\$ (23,129)	\$ (23,129)	\$ (826)	\$ -		\$ (155,016)
	2011							
	\$ 6,000,000	\$ (154,190)	\$ (23,129)	\$ 2,976,871	\$ 212,549	\$ 87,390		\$ 145,749
	2012							
	\$ -	\$ (154,190)	\$ (23,129)	\$ 5,819,560	\$ 415,517	\$ 170,224		\$ 431,550
2013								
\$ -	\$ (154,190)	\$ (23,129)	\$ 5,649,336	\$ 403,363	\$ 161,482		\$ 410,655	
Cumulative to 2013								
								\$ 832,937
Scenario 4 Completed in 2011, \$5.5M	2010							
	\$ -	\$ (154,190)	\$ (23,129)	\$ (23,129)	\$ (826)	\$ -		\$ (155,016)
	2011							
	\$ 5,500,000	\$ (154,190)	\$ (23,129)	\$ 2,726,871	\$ 194,699	\$ 80,108		\$ 120,616
	2012							
	\$ -	\$ (154,190)	\$ (23,129)	\$ 5,332,669	\$ 380,753	\$ 156,039		\$ 382,601
2013								
\$ -	\$ (154,190)	\$ (23,129)	\$ 5,199,759	\$ 371,263	\$ 148,026		\$ 365,098	
Cumulative to 2013								
								\$ 713,299

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.

**Appendix "L" - Ajax Building Expansion Project Variance Account Example
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
	1915 Offc Furn & Equip		\$ -	\$ -	\$ 710,518	\$ (8,280)	\$ 702,238	10	\$ 35,112
		\$ -	\$ -	\$ -	\$ 6,000,000	\$ (69,921)	\$ 5,930,079		\$ 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
	1915 Offc Furn & Equip	\$ 675,406		\$ 675,406	\$ -	\$ 675,406	\$ 675,406	10	\$ 67,541
				\$ -	\$ -	\$ 5,912,610	\$ 5,912,610		\$ 172,285
2012									
	Servc Centre Bldgs-								
	1908 Renos/Add'ns	\$ 5,132,460		\$ 5,132,460		\$ 5,132,460	\$ 5,132,460	50	\$ 102,649
	1915 Offc Furn & 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
	1915 Offc Furn & Equip	\$ 547,079		\$ 547,079		\$ 547,079	\$ 547,079	10	\$ 54,708
				\$ -	\$ -	\$ 5,576,889	\$ 5,576,889		\$ 155,304
Scenario 2									
Completed in 2010, \$5.5M									
2010									
	Servc Centre Bldgs-								
	1908 Renos/Add'ns	\$ -	\$ -	\$ 4,848,692	\$ (56,504)	\$ 4,792,187	\$ 2,396,094	50	\$ 47,922
	1915 Offc Furn & Equip	\$ -	\$ -	\$ -	\$ 651,308	\$ (7,590)	\$ 643,718	10	\$ 32,186
		\$ -	\$ -	\$ -	\$ 5,500,000	\$ (64,095)	\$ 5,435,905		\$ 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
	1915 Offc Furn & Equip	\$ 619,122	\$ -	\$ 619,122	\$ -	\$ 619,122	\$ 619,122	10	\$ 61,912
				\$ 5,500,000		\$ -	\$ 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
	1915 Offc Furn & Equip	\$ 557,210		\$ 557,210	\$ -	\$ 557,210	\$ 557,210	10	\$ 55,721
				\$ 5,500,000		\$ -	\$ 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
	1915 Offc Furn & Equip	\$ 501,489		\$ 501,489	\$ -	\$ 501,489	\$ 501,489	10	\$ 50,149
				\$ 5,500,000		\$ -	\$ 5,112,149		\$ 142,362

Scenario 3**Completed in 2011, \$6M or more**

		2011																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	-	\$	-	\$	-	\$	5,289,482	\$	(61,641)	\$	5,227,841	\$	2,613,920	50	\$	52,278	
1915 Offc Furn & 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																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	5,175,562		\$	5,175,562	\$	-		\$	-	\$	5,175,562		50	\$	103,511		
1915 Offc Furn & Equip	\$	667,126		\$	667,126	\$	-		\$	-	\$	667,126		10	\$	66,713		
								\$	-	\$	-	\$	-	\$	5,842,688		\$	-
																\$	170,224	
		2013																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	5,072,051		\$	5,072,051	\$	-		\$	-	\$	5,072,051		50	\$	101,441		
1915 Offc Furn & Equip	\$	600,413		\$	600,413	\$	-		\$	-	\$	600,413		10	\$	60,041		
								\$	-	\$	-	\$	-	\$	5,672,465		\$	-
																\$	161,482	

Scenario 4**Completed in 2011, \$5.5M or more**

		2011																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	-	\$	-	\$	-	\$	4,848,692	\$	(56,504)	\$	4,792,187	\$	2,396,094	50	\$	47,922	
1915 Offc Furn & 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	
		2012																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	4,744,265		\$	4,744,265	\$	-		\$	-	\$	4,744,265		50	\$	94,885		
1915 Offc Furn & Equip	\$	611,532		\$	611,532	\$	-		\$	-	\$	611,532		10	\$	61,153		
								\$	-	\$	-	\$	-	\$	5,355,798		\$	-
																\$	156,039	
		2013																
Serc Centre Bldgs-																		
1908 Renos/Add'ns	\$	4,649,380		\$	4,649,380	\$	-		\$	-	\$	4,649,380		50	\$	92,988		
1915 Offc Furn & Equip	\$	550,379		\$	550,379	\$	-		\$	-	\$	550,379		10	\$	55,038		
								\$	-	\$	-	\$	-	\$	5,199,759		\$	-
																\$	148,026	

**Appendix "L" - Ajax Building Expansion Project Variance Account Example
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)	
	<u>\$344,375</u>	<u>\$201,000</u>	<u>\$201,000</u>	<u>\$201,000</u>	
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>				
	<u>(\$107,531)</u>				
Less: Avoided lease costs-Metering Facilities	<u>(\$55,620)</u>				
Test Year OM&A Reduction	<u>(\$163,151)</u>				

**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)	
	<u>\$344,375</u>	<u>\$236,844</u>	<u>\$201,000</u>	<u>\$201,000</u>	
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>				
	<u>(\$98,570)</u>				
Less: Avoided lease costs-Metering Facilities	<u>(\$55,620)</u>				
Test Year OM&A Reduction	<u>(\$154,190)</u>				