



EB-2013-0368
EB-2013-0369

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 Algoma Power
Inc. and Canadian Niagara Power Inc. for an order pursuant
to Section 78 of the *Ontario Energy Board Act, 1998*, to
establish additional deferral and variance accounts.

BEFORE: Marika Hare
Presiding Member

Cathy Spoel
Member

DECISION AND ORDER
December 12, 2013

Algoma Power Inc. ("API") and Canadian Niagara Power Inc. ("CNPI") each filed an application (the "Applications") with the Ontario Energy Board (the "Board") on October 21, 2013 under section 78 of the *Ontario Energy Board Act, 1998* (the "Act"), S.O. 1998, c. 15, (Schedule B), seeking the establishment of specific deferral and variance accounts related to pension and other post-employment benefits ("P&OPEB"). The Board assigned File No. EB-2013-0368 to the API application and File No. EB-2013-0369 to the CNPI application. Pursuant to section 21(5) of the Act, the Board has decided to combine the EB-2013-0368 and EB-2013-0369 proceedings.

The applicants requested that the Board dispose of the proceedings without a hearing in accordance with subsection 21(4)(b) of the Act. To support this request, API and CNPI stated that no person will be adversely affected by the creation of the deferral and

variance accounts. In addition, the applicants stated that the disposition of the deferral and variance accounts will be the subject of a future rates proceeding

The Board has determined that it is appropriate to dispose of the proceeding without a hearing in accordance with subsection 21(4)(b) of the Act.

The Applications

The specific nature of the accounts sought for each of API and CNPI are as follows:

- a) Transitional Changes in Post-Retirement Employee Benefits Liability Deferral Account; and
- b) Changes in P&OPEB Expense Included in 2013 Rates and Actual Costs Variance Account.

API and CNPI are affiliates and subsidiaries of FortisOntario. Both API and CNPI use the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook Part II, Accounting Standards for Private Enterprises (“ASPE”) for financial reporting purposes. The issues presented in the Applications are the same for both API and CNPI – the changes in accounting standards introduced by the issuance of Section 3462, Employee Future Benefits, in Part II of the CPA Canada Handbook in May 2013.

In CNPI’s most recent cost of service review, EB-2012-0112, the Board accepted CNPI’s settlement agreement which established the use of ASPE for regulatory purposes. API has not yet received approval from the Board to use ASPE for regulatory purposes and has been using Canadian GAAP for the purposes of regulatory accounting and reporting.

In the Applications, API and CNPI provided an explanation, in the distributors’ view, as to why the proposed new accounts meet the criteria for establishing new deferral and variance accounts.

a) Proposed Deferral Accounts

As of January 1, 2014, API and CNPI plan to adopt ASPE Section 3462 which requires that unamortized actuarial gains and losses for P&OPEB as of December 31, 2013 be

charged to retained earnings. The 2013 amounts will be restated to reflect the new Section 3462 as of January 1, 2013.

The expected balance of unamortized actuarial gains and losses as of December 31, 2013 for API is projected to be a \$8.1 million debit balance and for CNPI a \$5.2 million debit balance. API and CNPI are requesting to record these amounts in the proposed new deferral accounts as at December 31, 2013, rather than charge these amounts to retained earnings.

b) Proposed Variance Accounts

The adoption of Section 3462 by API and CNPI will also impact P&OPEB expenses charged to the income statement, beginning in 2013. Under the former accounting standard, Section 3461, the corridor method was allowed which smoothed P&OPEB expenses by amortizing these costs over a period of time. With the introduction of Section 3462, API and CNPI may no longer be able to smooth these expenses and may have to recognize certain P&OPEB costs immediately in expense. These charges to current earnings may create volatility in the income statement.

The projected difference of the 2013 P&OPEB expense as reflected under Section 3461 versus the 2013 P&OPEB expense as reflected under Section 3462 is expected to be a (\$0.9 million) credit for API and a (\$0.6 million) credit for CNPI. API and CNPI are requesting to record these credit balances in the proposed new variance accounts as at December 31, 2013, rather than charge these amounts to the 2013 income statement. API and CNPI are requesting that such adjustments to P&OPEB expense be recorded in the variance accounts on an annual basis until the Applicants' next cost of service reviews.

Board Findings

The Board finds that the criteria for establishing the new deferral and variance accounts have been met. Specifically, the Board approves the establishment of the "Transitional Changes in Post-Retirement Employee Benefits Liability Deferral Account" and the "Changes in P&OPEB Expense Included in 2013 Rates and Actual Costs Variance Account." The accounts are subject to the following conditions:

- The accounts are effective January 1, 2013;
- Approval of the establishment of the deferral and variance accounts for API should not be considered to be an approval of API's adoption of ASPE for regulatory accounting and reporting purposes. This matter will be addressed in API's next cost of service rate application; and
- The approval of the establishment of the deferral and variance accounts should not be considered to be a pre-approval of the amounts recorded in the accounts and in any manner or degree predictive of disposition of the accounts. If the applicants choose to seek disposition of the deferral and variance accounts in a future proceeding, these accounts will be subject to a prudence review at that time.

THE BOARD ORDERS THAT:

1. API and CNPI shall each establish a deferral account and variance account, effective January 1, 2013, subject to conditions noted in this Decision and Order. API and CNPI shall file with the Board a draft Accounting Order for each of the new deferral and variance accounts within 10 days of the date of the issuance of this Decision and Order.
2. Board staff shall file any comments on the draft Accounting Order with the Board and forward to API and CNPI within 7 days of the date of filing of the draft Accounting Order.
3. API and CNPI shall file with the Board responses to any comments on its draft Accounting Order within 7 days of the date of receipt of Board staff comments.

All filings to the Board must quote the file numbers, EB-2013-0368 and EB-2013-0369, be made through the Board's web portal at

<https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Applicants must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have

internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

DATED at Toronto, **December 12, 2013**
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary