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Ontario

BY E-MAIL

November 11, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: St. Thomas Energy Inc.
2015 Electricity Distribution Rates
Board Staff Submission
Board File No. EB-2014-0113

Please find attached Board staff's submission on the filed settlement proposal for St. Thomas Energy Inc.'s 2015 cost of service rate application. This document is also being forwarded to St. Thomas Energy Inc. and to the Vulnerable Energy Consumers Coalition, Energy Probe and School Energy Coalition.

Yours truly,

Original Signed

Stephen Vetsis
Analyst – Electricity Rates and Prices

Encl.

2015 ELECTRICITY DISTRIBUTION RATES

St. Thomas Energy Inc.

EB-2014-0113

BOARD STAFF SUBMISSION

November 11, 2014

INTRODUCTION

St. Thomas Energy Inc. (“STEI”) filed a complete application (“the Application”) with the Ontario Energy Board (the “Board”) on June 26, 2014 seeking approval for changes to the rates that STEI charges for electricity distribution, to be effective January 1, 2015.

This submission reflects observations which arise from Board staff’s review of the evidence and the Settlement Proposal and is intended to assist the Board in deciding upon STEI’s application with respect to the issues laid out in the Settlement Proposal and in setting just and reasonable rates.

Board staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of STEI’s Settlement Proposal.

Settlement Proposal

Board staff has reviewed the Settlement Proposal in the context of the objectives of the *Renewed Regulatory Framework for Electricity*, other applicable Board policies, relevant Board decisions, and the Board’s statutory obligations. While the parties considered the issues established by the Board and STEI’s planning in the limited context of the test year, Board staff is of the view that the Settlement Proposal reflects a reasonable evaluation of the distributor’s planned outcomes in this proceeding, appropriate consideration of the relevant issues and sufficient resources to allow STEI to achieve its identified outcomes in the four Incentive Regulation years that will follow.

Board staff submits that the Board’s approval of the Settlement Proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

Due to the complexity of Account 1576 - Accounting Changes under CGAAP as it applies to this application, and to provide background and context for the Board’s consideration, Board staff’s submission below provides further discussion of the reasons for Board staff’s support for the outcome proposed.

According to the Accounting Procedures Handbook FAQ July 2012 - FAQ #2, Account 1576 is to record the financial differences arising as a result of changes to accounting depreciation or capitalization policies permitted by the Board under CGAAP in 2012 or as mandated by the Board in 2013.

In the Settlement Proposal, STEI updated its calculation of the balance in Account 1576 to show a collection of $43,589 from customers. STEI updated the calculation of the balance in Account 1576 to remove the mark-up on assets transferred from its affiliate at Fair Market Value. Settlement Table 13 from the Settlement Proposal, showing the calculations is reproduced below.

Settlement Table 13, Account 1576 Summary

Account 1576

	2012	2013	2014	Total
Amortization change	(812,124)	(806,836)	(809,804)	(2,428,764)
OM&A Increase	661,071	588,867	665,125	1,915,063
Additional OM&A	283,778	273,078	318,932	875,789
Deduct FMV	(459,496)	93,032	47,965	(318,499)
Account 1576	**(326,771)**	**148,141**	**222,218**	**43,589**

Parties agreed that the amount in Account 1576 should be considered as zero with no balance owing to STEI, as proposed in the original Application.

The amount recorded in Account 1576 is complicated by STEI's restructuring, which coincided with STEI's implementation of revised capitalization policies and the revision of asset useful lives under CGAAP. On January 1, 2012, the company restructured to change from a “virtual utility” to a self-sufficient operating utility. Prior to the restructuring, STEI owned distribution assets, land, buildings and related working capital. However, STEI had no staff and purchased management services and capital assets from an affiliated company under a Master Service Agreement (“MSA”).

In the transcript from the Technical Conference, convened on September 22, 2014, Mr. Farrow of STEI indicated that STEI's calculation of the balance in Account 1576 was intended to capture changes in the capitalization of costs as compared to the "same basis as [STEI's] last cost-of-service application."[1] Mr. Farrow indicated that, prior to restructuring, capital assets were purchased from STEI's affiliate, St. Thomas Energy Services Inc. ("STESI"). The purchase price of those assets included "all overheads applied to the OM&A labour that was [completed] to build [the assets], plus a charge to offset the PILs for the assets that were physically in STESI, which would be the rolling stock, the office equipment"[2], among other things. Mr. Farrow stated that the calculation "best reflects the difference between then and now in terms of how [STEI] capitalized our OM&A from our staff, the same staff that originally was in STESI."[3]

A matter explored during the course of the proceeding was whether Account 1576 was used by STEI to record amounts related to restructuring changes, in addition to amounts related to capitalization policy changes. In Board staff's view, it would be challenging to clearly differentiate between these amounts. However, Board staff is of the view that the difference between the amounts that would have been capitalized under the MSA using CGAAP policies and the actual amounts capitalized after the restructuring using revised CGAAP policies, should be reflected in Account 1576.

STEI indicated that prior to restructuring, capital assets were purchased from its affiliate under an MSA and the invoiced amount, which included overhead, was capitalized. Even though STEI did not directly capitalize overhead but indirectly capitalized it as a part of the amount invoiced by STESI, the substance and nature of the circumstances have not changed operationally in that the amounts capitalized pertained to the same staff before and after the restructuring. As such, if the restructuring and MSA was removed from consideration, the underlying changes in capitalized amounts would be mainly due to changes in capitalization of overhead. Hence, it could be argued that the amount STEI recorded in Account 1576 can be mostly attributed to changes in capitalization policy that were required by the Board.

Board staff notes that a portion of Account 1576 included capitalized amounts for a charge to offset the PILs for rolling stock and office equipment that were

[1] EB-2014-0113, Transcript Technical Conference vol. 1, page 27
[2] EB-2014-0113, Transcript Technical Conference vol. 1, page 30
[3] EB-2014-0113, Transcript Technical Conference vol. 1, page 29

physically in STESI. The inclusion of the nature of these costs in Account 1576 may be questionable and STEI's approach to the calculation of the balance of Account 1576 may include some items that are beyond the scope of what was intended for the account. However, taken as a part of the complete settlement provided, Board staff submits that the agreement by the parties that the balance in Account 1576 should be zero is reasonable i.e. that nothing is recoverable from customers.

Board staff also notes that the increased regulatory transparency afforded by the restructuring and dissolution of the MSA will assist the Board in approving just and reasonable rates for STEI's customers in the future.

- All of which is respectfully submitted -