



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Great Lakes Power Transmission LLP

EB-2014-0238

November 13, 2014

Background

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP (“GLPT”) filed a complete cost of service application with the Ontario Energy Board (the “Board”) on July 14, 2014 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to its electricity transmission revenue requirements for 2015 and 2016 to be effective January 1, 2015 and January 1, 2016. GLPT recovers its Board-approved revenue requirement through Ontario’s Uniform Transmission Rates.

The parties to the settlement proposal are GLPT and the following Board-approved intervenors in the proceeding: the Vulnerable Energy Consumers Coalition, the School Energy Coalition, and Energy Probe Research Foundation. Two Board-approved intervenors, Upper Canada Transmission Inc. and the Independent Electricity System Operator, did not participate in the Settlement Conference nor are they a party to the settlement.

The settlement proposal represents a comprehensive settlement on all issues.

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 GLPT’s Application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

Submission

Board staff has reviewed the settlement proposal in the context of applicable Board policies, relevant Board decisions and the Board’s statutory obligations. Board staff is of the view that the settlement proposal reflects an appropriate consideration of relevant issues. Board staff submits that the Board’s approval of the proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

Notwithstanding the above, Board staff’s submission below provides further discussion of a proposal agreed to by parties for the continuation of the sub-account, titled as IFRS Gains and Losses, within deferral account 1508. At Exhibit 6 Tab1 Schedule 1 p.7 GLPT describes the sub-account as follows:

As part of the EB-2012-0300 settlement agreement approved by the Board on October 18, 2012, the Board authorized GLPT

to maintain a deferral account to record costs in respect of IFRS gains and losses resulting from premature asset component retirements, subject to a depreciation credit that would be calculated based on the amount of depreciation that will not be incurred as a result of the premature retirement of the asset.

At the response to Board staff interrogatory 6-Staff-30, GLPT clarified that the “IFRS” reference was used to highlight the relationship with adopting the new accounting standards. GLPT indicated that it would be amenable to changing the name to “Gains and Losses on Asset Disposition” to reduce the possible misinterpretation that the sub-account is to record only one-time impacts upon the adoption of IFRS. GLPT adopted IFRS in 2013.

The Board in the past has disallowed the establishment of a deferral account to capture gains or losses on the disposal of pooled assets. In the Hydro Ottawa decision in EB-2011-0054 at p.30 the Board denied the request for a deferral account, noting that:

The Addendum to the Board Report on IFRS considered the matter of a variance account for gains and losses arising from early retirement of in-service assets to mitigate volatility of the expense that may arise from the application of IFRS rules. The Addendum did not consider a deferral account. Utilities need to provide a forecast and demonstrate probability of volatility in order for the Board to consider the matter of a variance account. Hydro Ottawa has requested a deferral account, and provided no evidence except that it was unable to provide a forecast for the current proceeding. The Board does not consider the applicant’s inability to provide a forecast to be, in and of itself, sufficient grounds to justify the account.

The Settlement Proposal indicates that GLPT recorded \$450,000 and \$210,000 in the IFRS Gains and Losses sub-account in 2013 and 2014 respectively¹ and is forecasting losses of \$500,000 and \$300,000 in 2015 and 2016 respectively.² Board staff notes that the impact of the forecasted losses is not captured in the revenue requirement proposed for the test years. To do so, say for 2015, the forecasted \$500,000 loss would be shown as an offset (reduction) in Other Revenue, the net plant would be

¹ The Settlement Proposal proposes the recovery of the 2013 and 2014 losses over three years commencing January 1, 2015.

² EB-2014-0238 Settlement Proposal p.30.

credited (reduction) and rate base would decrease, as would the amounts for the associated return on investment and depreciation expense. A prerequisite for this treatment is the transmitter's ability to forecast retirement losses with sufficient precision to justify the inclusion of the losses in the forecasted revenue requirement.

Board staff is of the view that the requested continuation of the IFRS Gains and Losses sub-account for 2015 and 2016 is reasonable given GLPT's recent history and the expectation that material losses will be experienced in the test years. The alternative of closing the existing sub-account and requiring GLPT to apply separately during 2015-16 for the re-establishment of the sub-account could be viewed as an inefficient way of proceeding. Going forward, however, Board staff anticipates that the manner in which the impact of gains and losses on asset dispositions are to be reflected in the revenue requirement proposed for the test year will continue to evolve. Board staff would expect GLPT in its next application to reflect the treatment in place at that time.

-All of which is respectfully submitted-