

**2015 ELECTRICITY DISTRIBUTION RATES
Niagara Peninsula Energy Inc.**

EB-2014-0096

STAFF SUBMISSION

May 26, 2015

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INTRODUCTION

Pursuant to the Decision and Order, Niagara Peninsula Energy Inc. (Niagara Peninsula) filed its draft Rate Order on May 21 2015. The following is OEB staff's submission.

OEB staff has reviewed the Tariff of Rates and Charges, Excel models and calculations provided in Niagara Peninsula's draft Rate Order. OEB staff also reviewed the partial settlement agreement and its appendices between the intervenors¹ and Niagara Peninsula. The partial settlement proposal was accepted by the Board on March 17, 2015. OEB staff believes that Niagara Peninsula has correctly reflected the Board's decision and the Proposal with exceptions noted below.

Deferral and Variance Accounts Riders

OEB staff reviewed the EDDVAR spreadsheet filed in support of the draft rate order and found the customer counts and volumes were not those used in the 2015 forecast. Niagara Peninsula stated it used the volumes and customer counts from its last cost of service application, as stated in the EDDVAR instructions. The EDDVAR instructions state:

“In the green shaded cells enter the most recent Board Approved volumetric forecast. If there is a material difference between the latest Board-approved volumetric forecast and the most recent 12-month actual volumetric data, use the most recent 12-month actual data.”

These options are available because the EDDVAR model is also used in Price Cap IR applications where there is no current forecast. Niagara Peninsula has a current forecast for the 2015 rate year that has been approved. OEB staff submits that Niagara Peninsula use the approved forecast for 2015 because doing so will result in rate riders calculated from the same volumes and customer counts as the distribution rates.

¹ Energy Probe Research Foundation (Energy Probe), the Vulnerable Energy Consumers Coalition (VECC) and the School Energy Coalition (SEC)

Accounting Orders

Niagara Peninsula submitted three draft accounting orders for approval. The settlement proposal allowed Niagara Peninsula to set up two accounts: i) to record a payable to customers of \$1,570,621 related to their other post-employment benefits (OPEB) incurred on transition to international financial reporting standards (IFRS), and ii) to record incremental costs that would occur in future price cap rate years related to the installation and operation of interval meters (known as MIST meters) for customers with a monthly demand above 50 kW. In its decision, the OEB ordered Niagara Peninsula to perform a lead-lag study, which was an unbudgeted item. The OEB directed NPEI to record incremental costs in a deferral account.

OEB staff reviewed the draft accounting orders and found errors or inconsistencies. OEB staff notes that the MIST meter variance account was proposed as a sub-account to account 1508 – Other Regulatory Assets. In March 2015, the OEB issued its *Accounting Procedures Handbook – Guidance* in which it stated that Account 1557 – Meter Cost Deferral Account is to be used to capture prudently incurred incremental costs that are material and are associated with MIST meters. OEB staff submits that Niagara Peninsula is to record its MIST meter cost variances in that account.

Furthermore, OEB staff proposes wording that would make the accounting orders more consistent with other accounting orders, attached as Appendix A.

All of which is respectfully submitted -

Appendix A

Draft Accounting Orders

NPEI Draft Accounting Order

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OPEB Deferral Account

NPEI shall establish the following deferral account effective January 1, 2015:

**Account 1508 Other Regulatory Assets, Subaccount – Other
Post- Employment Benefits Deferral Account**

NPEI shall establish the Other Post-Employment Benefits (“OPEB”) Deferral Account to record the cumulative actuarial gains or losses with respect to NPEI’s post-retirement benefits in Account 1508, Other Regulatory Assets, Sub-account OPEB Deferral Account.

Upon rebasing on a MIFRS basis, effective from 2015 to the next time NPEI’s rates are rebased, the deferral account shall be adjusted as required to record changes in the cumulative actuarial gains or losses in NPEI’s post-employment benefits as supported by updated actuarial valuations prepared for NPEI.

The adjustments that will be recorded in this account shall be supported by actuarial valuations when disposition of the deferral account is sought by NPEI.

No carrying charges shall be recorded in this account.

Sample Journal Entry

The following is an example of the journal entry that will be made by NPEI.

As per the OEB approved settlement proposal, for NPEI’s OPEB actuarial gain of \$1,570,621 as of January 1, 2015, NPEI shall record the unrecognized actuarial gain relating to Other Post-Employment Benefits upon transition to IFRS as follows:

	\$	
	<u>Dr.</u>	<u>Cr.</u>
OPEB liability (balance sheet)	1,570,621	
:		
Account 1508 - Subaccount OPEB Deferral Account		1,570,621

**NPEI Draft Accounting Order
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MIST Meters Variance Account

NPEI shall establish the following deferral and variance accounts effective January 1, 2015:

Account 1557 – MIST Meters Deferral and Variance Account

As per the OEB's Accounting Procedures Handbook – Guidance document issued in March 2015, this account shall track incremental capital and OM&A costs. NPEI shall open a sub-account to record incremental OM&A costs and carrying charges.

The MIST Meters Variance Account - Sub-account OM&A shall be used to record the variance in costs above or below \$43,760 which is the amount included in the 2015 Test Year meter reading expense, relating to the implementation of MIST meters between 2015 and 2019, that may be incurred as a result of the amendment to section 5.1.3 of the Distribution System Code.

Disposition of the account is proposed to occur in NPEI's next cost of service rate application and will be subject to the Board's prudence review.

NPEI shall record carrying charges on the balances in the Capital and OM&A Sub-accounts using the interest rates set by the Board from time to time pursuant to the Board's interest rate policy.

Sample Journal Entry

The following is an example of the journal entry that will be made by NPEI.

The example assumes that incremental MIST meter reading costs are higher than the amount included in the 2015 Test Year by \$50,000. This amount is assumed for illustration purposes only.

	\$	
	Dr.	Cr.
Account 1557 Subaccount MIST Meters Variance Account OM&A Account	50,000	
Accounts Payable		50,000

**NPEI Draft Accounting Order
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Working Capital Allowance Lead-lag Study

NPEI shall establish the following deferral account effective May 14, 2015:

Account 1508 Other Regulatory Assets, Subaccount Working Capital Allowance Lead-lag Study Deferral Account

NPEI shall establish a deferral account to record all incremental costs, both internal and external, associated with conducting a lead/lag study.

NPEI shall record carrying charges on the balances in the sub-account using the interest rates set by the OEB from time to time pursuant to the OEB's interest rate policy.

Sample Journal Entry

The following are examples of the journal entries that will be made by NPEI. The amounts assumed in the examples are for illustration purposes only.

To record incremental external costs relating to the lead/lag study.

	\$	
	<u>Dr.</u>	<u>Cr.</u>
1508 – Sub-account Working Capital Allowance Lead-lag Study Deferral Account	30,000	
2205 - Accounts Payable		30,000

To record incremental internal costs relating to the lead/lag study.

	\$	
	<u>Dr.</u>	<u>Cr.</u>
1508 - Sub-account Working Capital Allowance Lead-lag Study Deferral Account	15,000	
1005 – Cash		10,000
2292 – Payroll Deductions/Expenses Payable		5,000