EB-2016-0061

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 Canadian Niagara Power Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2017.

Canadian Niagara Power Inc.

Argument-In-Chief

January 12, 2017

This is the Argument-in-Chief of Canadian Niagara Power Inc. ("CNPI") in regard to the following unsettled issues in this proceeding:

1. Is the manner in which CNPI accounted for pension and OPEB costs in rates (i.e. cash vs. accrual) appropriate?
2. Should CNPI be required to use a new variance account in regard to any changes in the manner in which CNPI accounts for pension and OPEB costs in rates?
3. Is it appropriate to recognize and, if so, how to recognize in revenue requirement or rates any deferential between CNPI's cost of long term debt and current market rates for long term debt, or any change in the cost of long-term debt in 2018?
4. Is CNPI's proposed 2017 OM&A budget appropriate?
5. What is the appropriate effective date for CNPI's rates?

Each of these issues is addressed below.

1. Is the manner in which CNPI accounted for pension and OPEB costs in rates (i.e. cash vs. accrual) appropriate?

CNPI submits that the Board should reject the intervenors position that CNPI should be required to switch from the accrual to cash methodology for the following reasons:

i. This is a generic issue currently under review:

CNPI submits that the issue of whether an LDC should account for pension and OPEB costs in rates is a generic issue that is currently under review by the OEB in EB-2015-0040. On May 14, 2015, the Board issued a letter to all rate regulated electricity distributors and transmitters, gas distributors, Ontario Power Generation and other interested parties in which it initiated a consultation on the regulatory treatment of pensions and other post-employment benefit costs (the "Consultation Letter").

The Consultation Letter included a list of questions and invited stakeholders to file written submissions on the issues. In regard to the issue of cash vs. accrual regulatory accounting for pension and OPEB costs, the Board posed a number of questions, including the following:

Accounting and Recovery in Rates

5. a) Should the OEB establish accounting and recovery methods for both the electricity and gas sectors?
b) What criteria should be considered to determine the appropriate approach?
c) If one method is adopted, what should it be: cash (pay-as-you-go) basis, funding contribution basis, accrual (accounting cost) basis or another method? (please provide details)...

d) Should the method for recovering costs relating to registered pension plans be different from that used for unregistered pension plans and OPEB plans?

6. *a) Should the OEB take into account impacts on financial reporting (US GAAP, ASPE and IFRS), legal, and tax matters? b) If so, what are the issues that should be considered when determining the appropriate approach?*
b) If so, what are the issues that should be considered when determining the appropriate approach?

Both CNPI and SEC are participants in that proceeding and have filed written submissions. By raising the issue of cash vs. accrual accounting in this proceeding, the intervenors are requesting that two different Board panels adjudicate the same issue. As such, it would be redundant and inappropriate for the Board in this proceeding to decide on the issue, especially since the generic proceeding is well underway and is a fulsome consultation involving numerous parties on this complex issue. For this reasons, CNPI requests the Board in this proceeding to abstain from deciding on this issue.

ii. CNPI's use of the accrual method was approved by the Board in its last COS rate application:

The Board approved CNPI's use of the accrual accounting methodology for its pension and OPEB regulatory costs in CNPI's last cost of service rate application (EB-2012-0112). In the current application, CNPI has continued to use the accrual methodology. The intervenors are now proposing that CNPI change from an accrual to cash methodology, despite the fact that no direction has come from the Board to suggest that CNPI should depart from the Board approved status quo. As such, CNPI submits that the onus should be on the intervenors to justify why

CNPI should change from the accrual to the cash methodology, especially in light of the following:

- as discussed above, the Board is currently considering the issue in EB-2015-0040;
- the intervenors did not oppose CNPI's use of the accrual methodology in CNPI's last cost of service rate application; and
- the intervenors have not provided any evidence to support their position.

2. Should CNPI be required to use a new variance account in regard to any changes in the manner in which CNPI accounts for pension and OPEB costs in rates?

CNPI questions the need for a variance account given that the Board will be issuing a decision in the near future in EB-2015-0040. CNPI presumes that the decision in that proceeding will address implementation.

Further, while there was some discussion at the oral hearing about a variance account being used in regard to cash vs. accrual accounting for pension and OPEB costs, the intervenors provided little information on the specifics of what the variance account would record and the mechanics of the account. As such, in the absence of such details, CNPI is unable to comment on this issue.

3. Is it appropriate to recognize and, if so, how to recognize in revenue requirement or rates any deferential between CNPI's cost of long term debt and current market rates for long term debt, or any change in the cost of long-term debt in 2018?

CNPI submits that it would be inappropriate for the Board to consider potential changes to CNPI's cost of long-term debt beyond the 2017 Test Year since it filed its cost of service rate application on a single Test Year basis, not on a Custom IR basis. Therefore any potential reduction in actual cost of capital in future years should not be reflected in 2017 rates.

4. Is CNPI's proposed 2017 OM&A budget appropriate?

CNPI submits that its proposed 2017 OM&A budget is appropriate. It has provided detailed explanations for all of its material OM&A programs, cost drivers and annual variances since 2013 in accordance with the Board's filing requirements. CNPI has also provided summaries that highlight:

- the fact that its OM&A programs satisfy the RRFE objectives and provide value to ratepayers [Tab 5 of CNPI's Hearing Materials (K1.1)]; and
- that CNPI has undertaken and will continue to undertake numerous programs that improve its productivity [Tab 7 of CNPI's Hearing Materials (K1.1)].

CNPI has also demonstrated that, although it appears to be relatively unproductive based on PEG's econometric model, when adjusted to address the impact of CNPI's atypically high Other Revenues, CNPI is actually a reasonably productive utility [Tabs 8 and 9 of CNPI's Hearing Materials (K1.1)].

5. What is the appropriate effective date for CNPI's rates?

CNPI submits that it met all deadlines prescribed and ordered by the Board, so the effective date should be January 1, 2017.

All of which is respectfully submitted. January 12, 2017

Canadian Niagara Power Inc.

By its Counsel: Andrew Taylor
The Energy Boutique