

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. V6Z 2N3 CANADA  
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-53-07

TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

**IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

**and**

**An Application by British Columbia Transmission Corporation  
for Approval of an Accounting Order  
to Defer Future Severance Costs Associated with the  
System Control Modernization Project**

**BEFORE:** L.F. Kelsey, Commissioner

May 17, 2007

**O R D E R**

**WHEREAS:**

- A. In a letter dated April 30, 2007, British Columbia Transmission Corporation ("BCTC") applied to the Commission for an accounting order to vary from a requirement of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3461-Employee Future Benefits to accrue employee severance payments in F2007 ("the Application"); and
- B. The Application requests approval to record the estimated \$896,000 of employee severance costs resulting from the System Control Modernization Project ("SCMP") in a non-interest bearing deferral account and proposes to expense the deferred employee severance costs in F2009; and
- C. Under Generally Accepted Accounting Principles ("GAAP"), a company is required to accrue employee future benefits, including termination benefits, when it is probable that the event will occur and the amount can be reasonably estimated; and
- D. By Order No. C-1-05, the Commission approved a BCTC Certificate of Public Convenience and Necessity ("CPCN") Application for SCMP to restructure BCTC's various regional control centres into a system control centre and a back-up control centre with an expected in-service date in F2009; and

- E. BCTC determined that the estimated employee severance costs related to SCMP would meet the requirements of Section 3461 of the CICA Handbook which requires the estimated severance costs as a liability and a corresponding expense in its accounting records in F2007, unless an order from the Commission permits deferral of the expense to the in-service date contemplated under Commission Order No. C-1-05; and
- F. BCTC considers that a non-interest bearing deferral account is appropriate because no cash severance payments have been made at this time, no cash payments are expected to be paid until F2009 and no financing costs have been incurred; and
- G. On May 11, 2007 BCTC filed its response to Commission Information Request (“IR”) No. 1 both confidential and non-confidential portions. The confidential response includes employment details of specific positions for estimated termination benefits and preliminary F2007 financial information; and
- H. BCTC provides a timeline on how management estimated the termination costs (IR 4.2). On March 15, 2007 BCTC reviewed issues with its independent advisor to determine BCTC’s requirements, if any, to account for SCMP costs and in which fiscal year. In the week of March 19, 2007 BCTC reached a tentative conclusion that only severance/termination costs would have to be accrued in F2007. On March 23, 2007 BCTC made an initial calculation for estimated costs. On April 3, 2007 BCTC management confirmed the estimate of \$896,000 was appropriate and on April 19, 2007 the external auditors confirmed BCTC’s conclusion on the accounting treatment required for the severance costs. Previously at the end of F2006 BCTC discussed with the union plans for consolidation of the control centres; and
- I. BCTC indicates that it included in the SCMP CPCN Application severance/relocation costs of \$2.0 million in F2008 (IR 2.1). In the latest March 31, 2007 SCMP Quarterly Report BCTC shows that it included severance costs in the F2009 OM&A forecast of \$2.167 million (IR 3.2); and
- J. On March 20, 2007 BCTC filed its Financial Information Filing for the period April 1, 2007 to March 31, 2009 (F2008) as Exhibit B-1 in the AFUDC Treatment and F2008 Revenue Sufficiency Application

(“AFUDC Application”). In the AFUDC Application BCTC filed its F2007 Outlook and F2008 Forecast and did not include termination costs (IR 5.1 and 5.2); and

K. BCTC states that except for the impact of approved deferral accounts, BCTC is at risk for favourable and unfavourable realized return on equity and is generally at risk for cost omissions from its revenue requirements applications (IR 5.6 and 5.7). However, BCTC maintains that no error or omission has occurred. BCTC had forecast severance costs associated with SCMP in its CPCN Application for the project. BCTC did not, at the time of filing either of the CPCN Application, the F2007 Revenue Requirement Application or the F2008 Financial Forecast filing, believe that the then available cost estimate would trigger the “reasonably estimable” provision of GAAP accounting (IR 5.7); and

L. The Commission has reviewed the Application and considers that a determination is warranted.

**NOW THEREFORE** the Commission finds that BCTC should have known that when filing its F2007 Revenue Requirement and the March 20, 2007 AFUDC Application that SCMP termination costs may impact the F2007 results but BCTC did not include an estimate of SCMP termination expenses that would impact the F2007 Outlook or the F2008 Forecast, and the Commission denies BCTC’s Application.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 22<sup>nd</sup> day of May 2007.

**BY ORDER**

*Original signed by*

L.F. Kelsey  
Commissioner