

1 **UNDERTAKING J11.7**

2
3 **Undertaking**

4
5 In preparation for Panel 7, to calculate, including only the current service cost associated
6 with the direct FTE and allocated FTE, the newly prescribed assets, and working through
7 that requirement work form excluding the additional allocated costs, or the component of
8 costs associated with the current employees.

9
10 **Response**

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12 This undertaking follows questions about the recovery of the newly regulated
13 hydroelectric pension and other post retirement benefit (“OPRB”) costs that relate to plan
14 members who retired or otherwise became inactive prior to these facilities entering
15 regulation.¹ OPG does not have separate pension or benefit plans for different business
16 units. As such, pension and OPRB plan information, including plan membership data
17 and OPG’s obligations and costs, is neither maintained nor calculated separately for the
18 different business units. In developing its proposed revenue requirement, OPG applies
19 a consistent methodology to attribute its company-wide pension and OPRB liabilities and
20 costs to each of the business units, including the newly regulated hydroelectric facilities.²

21
22 Under the above methodology, as noted at Ex. F4-3-1, p. 35, lines 1-8, an estimate of
23 the pension and OPRB costs for current service is charged directly to the business units,
24 while all other components of the costs (e.g., interest costs on the accrued obligation,
25 the expected return on pension plan assets, amounts for actuarial gains and losses) are
26 recorded as centrally-held costs that are assigned or allocated to the business units.³
27 The current service cost is for active pension and OPRB plan members (i.e., current
28 employees). The other cost components relate to both active and inactive members.

29
30 Neither OPG nor its independent actuary calculate or forecast the non-current service
31 portion of the pension and OPRB costs separately for each plan member, or separately
32 for the active and inactive member groups in aggregate. This is not required for
33 business reasons and would require an analysis of thousands of plan member records to
34 determine where employees worked during their service lives with OPG and/or Ontario
35 Hydro, taking into account significant differences in organizational structures. As such,
36 OPG’s allocation methodology assumes that the costs of the service of both active and
37 inactive members relate to the different business units in the same proportion.

38
39 OPG’s independent actuary maintains separately some OPG-wide information for the
40 active and inactive member groups in aggregate with respect to pension and OPRB

¹ As the undertaking arose in the context of retired plan members, the long-term disability benefit plan is not discussed.

² For the attribution of the costs, refer to Ex. F4-3-1 section 6.3.4. For the attribution of the liabilities to the newly regulated hydroelectric facilities, refer to Note 3 at Ex. A2-1-1, Att. 6, p. 4. For the attribution of the liabilities to the nuclear and previously regulated hydroelectric facilities, see Note 10 to the 2012 audited consolidated financial statements for these facilities (Ex. A2-1-1, Att. 2b, p. 41).

³ The methodology for attributing centrally-held pension and OPRB costs was reviewed and found to be appropriate as part of independent cost allocation studies filed in EB-2007-0905 and EB-2010-0008 and has been reflected in the payment amounts set in those proceedings. The methodology was similarly reviewed and found to be appropriate in the EB-2013-0321 independent cost allocation study (Ex. F5-5-1) and is reflected in the proposed payment amounts.

1 obligations. For purposes of this undertaking, OPG requested from its independent
 2 actuary this information as at December 31, 2013, on an accounting basis for each plan,
 3 and applied the resulting proportion to allocate, between the two member groups, the
 4 non-current service portion of the forecast 2014 and 2015 pension and OPRB costs
 5 attributed to the newly regulated hydroelectric facilities (per Ex. N2-2-1, Chart 1). The
 6 results of the calculations, including associated income tax impacts, are as follows:

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 8

Newly Regulated Hydroelectric Pension and OPRB Costs and Income Tax Impacts⁴

Line No.	Description	2014 Plan	2015 Plan	Test Period
1	Current Service Cost ⁵	23.5	24.6	48.1
2	Non-Current Service Cost – Active Plan Members	16.9	14.3	31.2
3	Total Active Plan Member Costs	40.4	38.9	79.2
4	Non-Current Service Cost – Inactive Plan Members	18.1	15.3	33.4
5	Income Tax Impact – Active Plan Members ⁶	5.4	3.5	8.8
6	Income Tax Impact – Inactive Plan ⁷ Members	1.5	0.2	1.7
7	Total Revenue Requirement Impact – Active Plan Members (line 3 + line 5)	45.8	42.3	88.1
8	Total Revenue Requirement Impact – Inactive Plan Members (line 4 + line 6)	19.6	15.5	35.1

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11 All of OPG’s forecast test period pension and OPRB costs for the newly regulated
 12 hydroelectric facilities should be allowed for recovery, without regard to whether they can
 13 be attributed to active or inactive plan members. As explained in Ex. J11.11, section
 14 6(2)11(ii) of O. Reg. 53/05 requires the OEB to accept the values for the assets and
 15 liabilities of the newly regulated hydroelectric facilities as set out in OPG’s most recently
 16 audited financial statements approved by OPG’s Board of Directors before the making of
 17 the OEB’s first payment amounts order in respect of these facilities. This means that the
 18 OEB must ensure recovery of the cost impacts flowing from OPG’s pension and OPRB
 19 obligations (and the funded status of the pension plan) that initially arose prior to

⁴ Numbers may not calculate due to rounding

⁵ As reflected at Ex. J9.7, Att. 1, line 28a, with the difference being due to the exclusion of the long-term disability benefit plan from this undertaking as per footnote 1

⁶ Calculated as: $(25\% / (1-25\%))$ multiplied by the following: line 3, minus \$24.2M in 2014 and \$28.5M in 2015 for the assumed current service cost funding and the estimated portion of assumed deficit-funding payments included in the forecast registered pension plan contribution amounts for the newly regulated hydroelectric facilities (Ex. J11.15, Table 1, line 15) as allocated to active plan members. For simplicity, OPG has estimated the forecast registered pension plan deficit-funding payments allocations between active and inactive members using the proportion applied in the equivalent allocation of the accounting costs discussed above.

⁷ Calculated as: $(25\% / (1-25\%))$ multiplied by the following: line 4, minus \$7.7M in 2014 and \$8.4M in 2015 for the estimated portion of assumed deficit-funding payments included in the forecast registered pension plan contribution amounts for the newly regulated hydroelectric facilities (Ex. J11.15, Table 1, line 15) as allocated to inactive plan members, minus the forecast OPRB benefit payments of \$5.8M in 2014 and \$6.5M in 2015 which are wholly related to inactive members. The allocation of the registered pension plan deficit-funding payments is as described in footnote 6.

1 regulation and are reflected in the financial statement liability values. As these liability
2 values include those for inactive members, the costs associated with these members
3 flow from them.

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5 Consistent with the above, in EB-2007-0905, EB-2010-0008 and EB-2012-0002, the
6 OEB has authorized recovery of pension and OPRB costs for active and inactive
7 members which are subject to the same O. Reg. 53/05 requirements (sections 6(2)5(i)
8 and 6(2)6(ii)) as the newly regulated hydroelectric facilities. There is no reason to treat
9 the newly regulated hydroelectric facilities differently.

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11 Irrespective of the O. Reg. 53/05 requirement, OPG could be denied an opportunity to
12 earn a fair return if the pension and OPRB costs related to inactive members are
13 excluded from recovery, as they represent committed, prudently incurred costs related to
14 OPG's obligations under the existing terms of the pension and OPRB plans and are
15 reflected as current period costs in OPG's financial results.