



CANADIAN NIAGARA POWER INC.
A FORTIS ONTARIO
Company



September 22, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: CONSULTATION ON THE REGULATORY TREATMENT OF PENSIONS
AND OTHER POST EMPLOYMENT BENEFIT COSTS (EB-2015-0040)**

In response to the Board's letter of August 10, 2016, please find accompanying this letter, the submissions of Canadian Niagara Power Inc. ("CNPI") and Algoma Power Inc. ("API"). In addition to the general submissions requested in the August 10 letter, CNPI and API have provided additional submissions relating to their respective unique circumstances and prior proceedings before the Board in relation to Pension and Other Post Employment Benefit Costs.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 871-0330 extension 3278.

Yours truly,

Original Signed by

Gregory Beharriell
Manager, Regulatory Affairs

Enclosure

Comments Specific to CNPI and API

Pension and OPEB History - CNPI

Prior to July 1999, all CNPI employees were eligible for participation in the CNPI Defined Pension Plan (the “DB Plan”). Beginning in July 1999, the DB Plan was closed to new entrants and remained available for only those active employees that, at that time, elected to remain in the DB Plan. All employees hired post July 1999 and those employees that elected to exit the DB plan are eligible for participation in the CNPI Defined Contribution Plan (the “DC Plan”).

With the inception of the Port Colborne Hydro lease arrangement in April 2002, CNPI acquired employees who were active participants in the Ontario Municipal Employees Retirement System (“OMERS”). At that time, CNPI became an Associated Employer within OMERS accommodating the continued participation of the “acquired employees” in OMERS as well as recruited employees from an OMERS Employer. Otherwise, new employees are not eligible for OMERS enrolment.

CNPI also provides certain extended health and dental benefits, (“OPEB”), on behalf of its retired employees.

Pension and OPEB History - API

Effective July 1, 2009, employees of the distribution division of Great Lakes Power Limited (“GLPL”) were transferred to a separate company, Algoma Power Inc. (formerly Great Lakes Power Distribution Inc.). These employees were members of the Retirement Plan of GLPL prior to July 1, 2009. The Retirement Fund of Algoma Power Inc. (the “DB Plan”) was established for the employees transferred to Great Lakes Power Distribution and for future eligible employees. On January 27, 2011, the Financial Services Commission of Ontario approved the transfer of assets from the GLPL Plan to the DB Plan. Full time unionized employees are eligible to participate in the DB Plan. All full-time, permanent, non-unionized employees are eligible for participation in the API Defined Contribution Plan (the “DC Plan”).

API provides certain extended health and dental benefits, (“OPEB”), on behalf of its retired employees.

Uniqueness of CNPI and API

As detailed in the previous section, CNPI currently administers three forms of pension and post-employment plans for its employees, namely the DB Plan, the DC Plan, and OMERS. Likewise, API administers both a DB Plan and a DC Plan.

In addition to administering multiple types of pension plans, CNPI’s and API’s treatment of their DB Plans and OPEB’s is complicated by reporting under a different accounting standard, namely Part II of the CPA Canada Handbook – Accounting standards for private enterprises (“ASPE”), on an accrual basis. Impacts arising from differences in accounting standards have been discussed in the KPMG report and multiple stakeholder submissions. This has resulted in most stakeholders emphasizing recommendations that the Board retain the flexibility to decide on the appropriate treatment of pension and OPEB costs on a case-by-case basis. CNPI and API agree with this recommendation and further submit that in its circumstances, the OEB has already turned its attention to this issue as a result of the EB-2013-0368 and EB-2013-0369 proceedings, as summarized below.

The EB-2013-0369 (CNPI) and EB-2013-0368 (API) Proceedings

On October 21, 2013, both CNPI and API submitted applications to the Board for Deferral and Variance Accounts for Transitional & Annual Adjustments to its Pension and Other Post-Employment Benefits. The basis for these applications was the impact that would have been caused by the Canadian Accounting Standards Board’s May 2013 issuance of Section 3462, Employee Future Benefits, in Part II of the CPA Canada Handbook, replacing Section 3461, effective January 1, 2014.

Section 3461 permitted the use of a “corridor approach” to allow the deferral of actuarial and other re-measurement gains and losses to future periods through the amortization of these costs over the remaining service life of current active employees. This approach provided a

mechanism for smoothing pension and post-retirement expense that would otherwise be volatile. Section 3462 requires all re-measurement gains and losses be recognized immediately, resulting in significant volatility in the income statement. Other accounting standards (e.g. legacy Canadian GAAP, US GAAP, and IFRS) allow the re-measurement gains and losses to be amortized over multiple years, or recognized in Other Comprehensive Income.

CNPI and API requested to continue to use the corridor approach permitted under Section 3461, and to establish DVA's to track any differences between the Section 3461 and Section 3462 approaches. The Board's decision in these proceedings established the requested accounts, retroactive to January 1, 2013. CNPI expects that in the fullness of time, the account balances should work back to zero, as the amounts recorded simply reflect a timing difference between Section 3461 and Section 3462 accounting.

It should be noted that these proceedings apply only to the DB Plans and OPEB's. The DC and OMERS plans are recorded on an accrual basis based on actual contributions made.

General Submissions of CNPI and API

In its letter of August 10, 2016, the Board provided guidance with respect to the focus of stakeholder submissions. In particular, the Board expressed an interest in parties' views on principles for assessing costs, options for cost recovery, and views on whether a set-aside mechanism is necessary. The views of CNPI and API are summarized below.

Principles that the OEB Should Adopt for Assessing Pension and OPEB Costs in Rate Applications

CNPI and API submit that in considering the appropriate rate mechanism for cost recovery, the OEB should be guided by the principles of intergenerational equity, rate stability, predictability, and fairness.

CNPI and API believe that current filing requirements provide for sufficient information to be filed in support of cost of service or custom-IR rate applications to allow the OEB to assess the reasonability of an individual LDC's request for recovery of pension and OPEB related costs. CNPI and API appreciate the Board's desire to be able to benchmark LDC's, but re-iterate the significant concerns that have been brought forward regarding the fact that pensions and OPEB's represent only a portion of overall compensation. CNPI and API also submit that any proposal to benchmark these costs through changes to accounting methods and/or changes to filing requirements are likely to be administratively burdensome, and likely of limited value without consideration of the inherent difference in overall compensation. In short, it is quite likely that the costs to ratepayers of such an exercise will exceed the benefits.

Options for Rate Mechanisms for Cost Recovery

CNPI and API submit that the accrual basis currently in use by a majority of stakeholders is the method that best satisfies the above principles, with a minimum administrative burden. The assumptions used in expense calculations and the values resulting from those calculations are highly scrutinized by multiple parties, including independent auditors. In the case of CNPI and

API, this scrutiny applies to both the Section 3461 and Section 3462 approaches. Any deviation or change in accounting policy that the OEB may require may affect the level of review and the comfort gained over these numbers on a go forward basis.

Given the range of possible combinations of pension plan type, OPEB's, and accounting standards, CNPI and API submit that a universal approach is neither practical, nor desirable. In providing any direction or guidelines related to pension and OPEB cost recovery, the OEB should retain the flexibility to address LDC-specific issues on a case-by-case basis.

Views on Set-Aside Mechanism

As requested in the Board's letter of August 10, 2016, CNPI and API views are focused on the latter two options for a set-aside mechanisms proposed by KPMG (reduction to rate base and a tracking account).

CNPI and API do not support the inclusion of any set-aside mechanism on the basis that it would expect little, if any, net benefit to ratepayers. As outlined by the EDA, the adoption of any set-aside mechanism is likely to negatively impact LDC's in terms of restricting funds and negatively impacting credit ratings. To the extent that this increases an LDC's cost of borrowing, or requirements to borrow, ratepayers will be negatively impacted.

In addition, the reduction to rate base and tracking account mechanisms as proposed do not satisfy the rate making principle of fairness. To the extent that excess recoveries reduce rate base or attract interest to the ratepayers benefit, then a counter-mechanism should be applied to situations where a shortfall exists.

Notwithstanding the above objections to a set-aside mechanism of any kind, CNPI and API submit that *if* the Board decides to adopt a set-aside mechanism, the tracking account option seems to be the only appropriate mechanism. CNPI and API submit however that the Board should seek further input on value-for-money of such a proposal, and should consider the merits of implementing this mechanism on a case-by-case basis, where objective evidence shows that the amounts are material and the benefits offset the costs, rather than mandating an industry-wide implementation.