

**Board Staff Interrogatories for
West Coast Huron Energy Inc.
2009 Electricity Distribution Rates Application
Supplemental Evidence, September 17, 2009
EB-2008-0248**

As identified in the Procedural Order No. 6 issued on September 18, 2009, the Board has determined that the review of supplemental evidence filed by the West Coast Huron Energy Inc. ("West Coast Huron") on September 17, 2009 on the specific issue of post-retirement non-pension benefits ("PRNPB") will begin with a series of interrogatories or questions to the applicant on the supplemental evidence. The following Board Staff interrogatories contain questions relating to specific aspects of the application.

1 Ref: Exhibit(s) General

West Coast Huron is requesting the Board to approve for the inclusion in rates an obligation related to PRNPB. Of the total \$343,000 being claimed, \$150,000 is for prior fiscal periods for which Board decisions have been issued.

- a. Please state if any PRNPB have been included in the compensation and benefits being paid for by rate payers in current and past rates as part of payroll burden in OM&A using the cash accounting method?
 - PRNPB has not been included in the compensation and benefits being paid for by rate payers in current and past rates.
- b. If these costs have been so included, what was the expense in the 2006 rates?
 - Not applicable.
- c. If these costs have been so included, please explain why PRNPB need to be adjusted now.
 - Not applicable.

- d. If these costs have not been included using the cash accounting method, were the cost for PRNPB expensed using the accrual accounting method?
- The PRNPB expenses were first accrued in the 2007 financial statements in the amount of \$150,000 as an estimated expense by management. The accrual was not setup prior to this. An actuarial report was commissioned in 2008 to give a better estimate of the liability and to obtain a clean audit opinion.
- e. If the accrual method was used what expense was built into the 2006 rates?
- Nothing was built into the 2006 rate for PRNPB.
- f. If these costs have not been included as expenses in the past in any form, please explain why they now should be.
- The costs should be included in now even though they were not expensed in the past because the liability represents a true unfunded future liability to West Coast Huron Energy Inc. The liability was a direct result of understating the true cost of labour in the LDC. The cost of labour for West Coast Huron Energy Inc. was understated in previous years' financial statements. As a result, the rates charged for distribution by WCHE were lower than they should have been. The total revenues were then also lower than needed to get the target rate of return for the LDC.
 - The PRNPB should be included now because the utility has effectively and efficiently managed the utility over the years and should receive the appropriate rate of return for doing so. To simply fund PRNPB on the cash basis in the future would effectively pass on the expense to future consumers for obligations incurred in past years. Just as the Canada Pension Plan increased contribution rates in the 1990's to fund the future liability that CPP would have so should WCHE increase the rates to fund the liability related to PRNPB. Ultimately, once the liability is fully funded the true cost of labour will be included in distribution rates each year.

- g. Was any of the \$150,000 for PRNPB expensed in 2007 for existing retired employees?
- The \$150,000 for 2007 was an initial estimate of the PRNPB cost and the amount setup has no direct connection with existing retired employees. It was merely a first attempt by WCHE at estimating the liability before an actuary was hired.
- h. If management has already expensed the \$150,000 in 2007, please state why this amount should now be collected in electricity rates over 4 years starting in 2009.
- The \$150,000 was never setup as an expense to be recovered in rates in past years. PRNPB expenses should be recovered in the rates. WCHE has never been compensated for the accumulation of PRNPB in its distribution rates. Therefore, the \$150,000 should be recovered thru the rates. The OEB suggested amortizing the amount of 4 years. WCHE felt that recovering the \$150,000 would be reasonable and would mitigate the increase in the rates as a result of the PRNPB.
- i. Is the \$150,000 expense out-of-period for rate making purposes?
- WCHE does not believe this expense is not out of period for rate making purposes.

2 Ref: Exhibit(s) Report on the Actuarial Valuation of Post-Retirement Non-Pension Benefits prepared by Dion Durrell + Associates Inc. page 1

In the Executive Summary on page 1, it states:

“As per our discussion with the Corporation, we understand that CICA Section 3461 is being implemented for the first time as at January 1, 2008 in respect of post-retirement non-pension benefits. Furthermore, the recommendations under CICA Section 3461 are being applied on a prospective basis, giving rise to a transitional obligation as at January 1, 2008”

- a. Please explain the purpose of CICA Section 3461 accounting standard.
 - The objective of section 3461 of the CICA accounting standard is to give information about the effect of employee future benefits on the entity's financial statements and plan obligations and assets for defined benefit plans.
- b. The CICA Section 3461 accounting standard has existed since 2000. Please explain why it is just now being applied.
 - The standard had not been applied until now due to error. The PRNPB was not setup because management did not realize that extent and material liability that existed. The auditors' pointed out the problem during the 2007 audit. Management immediately addressed the issue and decided to accrue the liability to meet the accounting standard.
- c. Please confirm that by using the accrual accounting method, rate payers will be paying for an item that has no actual current cost.
 - There is certainly a cost in the current period because benefits and the earning of a future benefit reflects the true cost of labour of the current period. But, there is no cash outlays for these benefits until such time as employees retire and the utility is left with the obligation to pay the benefits.

3 Ref: Exhibit(s) Report on the Actuarial Valuation of Post-Retirement Non-Pension Benefits prepared by Dion Durrell + Associates Inc. page 2

Board staff would like to make the record clear as to the evidence supporting West Coast Huron's request to include the PRNPB costs in rates. On page 2 of the actuary's report is a table. Please explain in detail the meaning and purpose of each line and the resulting impacts on the costs for the 2009 test year.

Table definitions are as follows:

a) People in receipt of benefits \$191,000

This represents the unrecorded liability related to employees who are currently receiving the PRNPB benefits.

b) Fully eligible actives \$ 91,000

This represents the liability related to the PRNPB for employees who are fully eligible to receive all of the PRNPB benefits when they retire.

c) Non fully eligible actives \$ 61,000

This represents the liability related to PRNPB for employees who have are not yet fully eligible to receive the PRNPB because they have not yet reached the eligibility requirements.

Current service cost \$ 4,000

This represents the cost of PRNPB benefit in the current year for active employees for the current year.

Benefit Expense \$ 42,000

This represents the cost of servicing the current obligations of the benefit plan and amortizing the PRNPB unfunded liability over 10 years.

4 Ref: Exhibit(s) Report on the Actuarial Valuation of Post-Retirement Non-Pension Benefits prepared by
Dion Durrell + Associates Inc. page 11

Board staff would like substantiation for Management's Best Estimate Assumptions, found on page 11 of the actuary's report.

- a. Please provide supporting data and the reasons for selecting a consumer price index of 2.3%.

- The consumer price index of 2.3% was recommended by the actuary and as indicated in the report is the historical cpi rate at the time of the report. The actuary explained that this is rate that was being used in the industry.
- b. Please explain why choosing the long term yield on bonds is an appropriate indicator for the Discount Rate.
- The actuaries indicated that this is an appropriate rate to use and was the current industry standard.
- c. Please provide the source(s) and explain the rationale for determining 5% as the Discount Rate.
- The actuaries utilized this rate as an appropriate rate to use.
- d. What were the sources and please provide rational for developing the table of Claims Cost Trend Rate
- The actuary provided the claims cost trend rate based on industry averages. The costs have been increasing and these costs ultimately will be passed on to the customers in the form of premium increases.
- e. For the Withdrawal Rate please provide an explanation of the appropriateness of a 2% rate.
- It is a best guess. It is a relatively low rate because WCHE has a very low historical rate for employees leaving before retirement. The Electrical Utility also has a low rate of turnover prior to retirement. The industry attracts long term employees thru a combination of better than average compensation, job security and better than average job environments.
- f. The electricity sector is concerned about staff retirements and the lack of skilled replacements, suggesting that utilities should consider retaining employees nearing traditional retirement age. Recognizing this is not just a problem in the electricity sector; the Canada Pension Plan penalizes those that retire before age 65 with a reduced pension while it also provides an incentive to work longer by increasing pension income after 65. Given these facts,

please comment on the appropriateness of assuming a normal retirement age of 60.

- Full employment pensions would be earned by most WCHE employees by the time they reach 60 years of age. Full pensions would provide a reasonable living standard for WCHE employees. History has shown that most employees retire soon after they have earned their “full” pension benefit. An employee could significantly increase their annual total income by retiring and collecting their pension benefit and then start working again at their previous employer’s or a similar employer in the industry. As the OEB has indicated there is expected to be a shortage of skilled labour in the future in the industry. It should be relatively easy for the retired employee to find another job if they so desired. This is not a current issue it has been happening for years. The teaching profession has had to address this issue recently by limiting the number of days a retired teacher can teach after they retire.
- The CPP benefit reduction as a result of taking the benefit earlier is not so much a penalty but an adjustment to account for the additional years of collecting the benefit. Some one who starts to claim CPP at age 60 would effectively receive 60 months(5 years X 12 months) of CPP payments more than someone who started collecting at age 65 over their lifetime. The adjustment is about fairness as a contributing member to CPP not about penalizing CPP contributors for collecting benefits early.

5 Ref: Exhibit(s) Report on the Actuarial Valuation of Post-Retirement Non-Pension Benefits prepared by
Dion Durrell + Associates Inc. page 3

Dion Durrell + Associates Inc.state in their Actuarial Certification that the next actuarial evaluation should be performed no later than January 1, 2011. Will West Coast Huron comply with this advice?

- WCHE expects that it will have the acturial report updated on or before January 1, 2011. The results would be used to determine the liability as at December 31, 2010.

6 Ref: Exhibit(s) Estimated Benefit Expense (CICA 3461) prepared by Dion Durrell + Associates Inc.

Attached to the letter from Dion Durrell + Associates Inc. dated February 9, 2009 are schedules determining the estimated benefit expense. Board staff would like a better conceptual understanding of this exhibit. Please explain the meaning and purpose of the "expected*" value for the Assumed Increase in Employer Contribution.

- The expected value is the estimated employer benefit payments for those expected to be eligible for benefits.
- The actuary indicated that the premiums on benefits tended to increase at a higher rate than inflation and payroll growth. They indicated that this was a result of enhancements in benefit plans as a result of labour negotiations and the aging work force increasing the claims by employees.
- The trends of past years at WCHE were similar to what the actuary recommended so WCHE decided those numbers were reasonable. Of note, the actual 2008 was approximately \$4,000 per year and the actuary estimated \$3,883.

7 Ref: Exhibit(s) Supplemental Evidence pertaining to the Decision, Page 4

On page 4 of the supplemental evidence, West Coast Huron explains their proposed treatment of the PRNPB. It appears that the same obligation, totalling \$343,000 is being treated in two separate ways. West Coast Huron is requesting that the \$150,000, which was estimated by management and claimed on the 2007 financial statements, be collected over 4 years at \$37,500 per year, and that the residual amount, \$193,000 to collected over 9 years. Nine years is the actuary's estimate of the Average Working Lifetime of Current Active Employees.

- a. Please define Average Working Lifetime of the Active Employees.
 - Average working lifetime of active is the number of years of work expected for existing employees before retirement.
- b. Please explain why the entire amount of the future obligation of \$343,000 should not be amortized over 9 years.
 - WCHE would find it acceptable to amortize the full \$343,000 over 9 years. WCHE used the \$150,000 over 4 years because that was suggested appropriate by the OEB.

8 Ref: Exhibit(s) Supplemental Evidence pertaining to the Decision,
Page 12

Please show the derivation of Net Income for 2009 Test Interim, and 2009 Test Final.

2009 TEST INTERIM	Deemed	Percentages
Rate Base	\$5,107,346	
Equity Portion	\$2,213,013	43.33%
Debt Portion Long Term	\$2,690,039	52.67%
Debt Portion Short Term	\$204,294	4.00%
Equity Return	\$177,262	8.01%
Debt Return Long Term	\$204,981	7.62%
Debt Return Short Term	\$2,717	1.33%
Proposed Return	\$384,960	

2009 TEST FINAL	Deemed	Percentages
Rate Base	\$5,116,121	
Equity Portion	\$2,216,815	43.33%
Debt Portion Long Term	\$2,694,661	52.67%
Debt Portion Short Term	\$204,645	4.00%
Equity Return	\$177,567	8.01%
Debt Return Long Term	\$205,333	7.62%
Debt Return Short Term	\$2,722	1.33%
Proposed Return	\$385,622	