# COMPENDIUM OF REFERENCES

## INDEX

# TAB 1

## 6.3 Pension and Benefits Costs

OPG is seeking recovery of pension and benefits costs associated with the regulated operations based on the amount of pension and benefits costs determined in accordance with GAAP.

### 6.3.1 Accounting Treatment of Pension and OPEB Plans

In accordance with GAAP, pension and OPEB costs for the current year are based on the measurement of benefit obligations and RPP fund assets at the end of the previous year. The full impact of events arising during a year is not immediately charged to pension and OPEB costs. Certain amounts are accumulated and amortized over future periods and therefore generally affect pension and OPEB costs in future years.

The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. Under this method, an equal portion of the total estimated future benefit is attributed to each year of service until the date the plan participant would be entitled to the full benefit. The obligation at a particular date is the actuarial present value of the benefits attributed to service rendered up to that date.

The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Under this method, the total estimated future benefit is attributed to the year of service in which a disability actually occurs.

Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions, both economic (inflation, salary escalation, health care cost trends, etc.) and demographic (mortality, termination rates, retirement rates, etc). The discount rates used in determining projected benefit obligations and the costs for pension and OPEB are based on AA corporate bond yields for the appropriate duration of the benefit obligation in accordance with GAAP.

For purposes of determining pension costs, RPP fund assets are valued using a market-related value of assets. The market-related value used by OPG recognizes gains and losses on equity assets relative to a 6 per cent assumed real return over a five-year period.

Pension and OPEB costs are made up of a number of components, including current service costs, interest costs on the obligations at the appropriate discount rate, the expected return on RPP fund assets using an estimated long-term rate of return, amortization of past service costs arising from plan amendments and amortization of actuarial gains or losses. Actuarial gains and losses consist of experience gains and losses, which arise because actual experience differs from that assumed (e.g., investment experience different than expected, fewer deaths or higher inflation), and adjustments for changes in assumptions (e.g., discount rate or a new mortality table).

Actuarial gains and losses are generally amortized over future periods and, therefore, affect recognized costs and the recorded obligation over a period of time. In accordance with GAAP, OPG's policy for accounting for pension and OPEB is to amortize the net cumulative unamortized gain or loss in excess of 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets over the expected remaining service life of the employees. This is known as the "corridor approach". Past service costs for pension and OPEB are amortized over the remaining service period to full eligibility, and therefore also affect recognized costs and the recorded obligation over a period of time.

As a result of the use of a market-related asset value, the corridor approach, and the amortization of actuarial gains and losses and past service costs, certain components of the actuarial gains and losses and past service costs are not being immediately charged to pension and OPEB costs.

6.3.2 <u>Assumptions and Budget Setting for Pension and OPEB Costs</u>

To project OPG's total pension and OPEB costs for business planning purposes, it is necessary to estimate the value of the obligations and the pension fund assets at the end of each year preceding each of the years in the forecast period. This requires making projections of the actual pension fund performance and of the assumptions that will be used to determine the costs.

The discount rates for projections are determined by the actuary based on the most recent AA corporate bond yields for the appropriate duration of the benefit obligation available at the time that the projection is being prepared. The discount rates used for projections may be adjusted by a maximum of 25 basis points if the AA corporate bond yields provided by the actuary are not indicative of historical trends or during a period of volatility in those yields.

The long term inflation assumption used for projections is based on the Ontario consumer price index for the final year in the most recent forecast from a publicly available economic report, subject to an adjustment if the rate is outside of the Bank of Canada's target range for inflation. The salary schedule escalation rate is equal to the long term inflation assumption plus 1 per cent.

The expected long term pension fund rate of return is calculated and updated as required by the actuary. It is based on the current and expected asset allocation and the long-term historical risks and returns associated with each of the asset classes, and includes a provision for additional return as a result of active fund management and a provision for administrative expenses.

The projected actual return on pension fund assets in the current year is based on the actual return up to the end of the month prior to the date on which the projection is being prepared. If the assumptions for the projection are selected during the first half of the year, the return on assets in the current year is based on the actual return up to the end of the month prior to the date the assumptions are determined, and the assumed annualized return for the remainder of the year is equal to the expected long term rate of return on pension fund assets. The projected actual return on pension fund assets in subsequent years is equal to the expected long term rate of return on these assets. Chart 8 presents the projected assumptions used to determine the forecasted pension and OPEB costs for 2010 to 2012 and the actual assumptions used for 2007 to 2009:

**Chart 8**

| Pension and OPEB Cost Assumptions | | | | | | |
|---|---|---|---|---|---|---|
| | **2007 Actual** | **2008 Actual** | **2009 Actual** | **2010 Budget** | **2011 Plan** | **2012 Plan** |
| Discount rate for pension | 5.25% per annum | 5.60% per annum | 7.50% per annum | 6.80% per annum | 6.80% per annum | 6.80% per annum |
| Discount rate for other post retirement benefits | 5.25% per annum | 5.60% per annum | 7.50% per annum | 7.00% per annum | 7.00% per annum | 7.00% per annum |
| Discount rate for long term disability | 5.0% per annum | 5.50% per annum | 7.25% per annum | 5.25% per annum | 5.25% per annum | 5.25% per annum |
| Inflation rate | 2.0% per annum | 2.25% per annum | 2.0% per annum | 2.0% per annum | 2.0% per annum | 2.0% per annum |
| Salary schedule escalation rate | 3.0% per annum | 3.25% per annum | 3.0% per annum | 3.0% per annum | 3.0% per annum | 3.0% per annum |
| Expected long-term rate of return on pension fund assets | 7.0% per annum | 7.0% per annum | 7.0% per annum | 7.0% per annum | 7.0% per annum | 7.0% per annum |
| Actual rate of return on pension fund assets in the prior year(s)[1] | N/A | N/A | N/A | 9.0% per annum in 2009 | 9.0% per annum in 2009 and 7.0% per annum in 2010 | 9.0% per annum in 2009; 7.0% per annum in 2010; and 7.0% per annum in 2011 |

[1] No assumption for actual rate of return on pension fund assets in prior year(s) is required for the calculation of actual pension costs because the actual prior year-end pension fund asset values are known.

As a result of OPG being required to make assumptions in forecasting pension and OPEB costs, significant variances may occur between the forecast and the actual pension and OPEB costs to the extent that the forecast assumptions are not adjusted to reflect various changes, such as those in economic conditions and demographics, between the forecast date and the beginning of a forecast year. Similarly, significant variances may occur between the forecast and actual pension and OPEB costs to the extent that the forecast is not adjusted to reflect the actual experience, such as the return on pension funds assets, to the beginning of the forecast year.

6.3.3 Pension and OPEB Cost Distribution

A portion of OPG's total pension and OPEB costs is charged directly to the business units via a payroll burden included as part of the standard labour rate (see section 7). The portion of pension and OPEB costs included in the standard labour rate is based on the budgeted current service cost. The remainder of pension and OPEB costs, which includes interest costs on the obligations, the expected return on pension plan assets, amortization of applicable past service costs, amortization of actuarial gains and losses, and any current service cost variance from budget, is recorded as a centrally-held cost (presented in Ex. F4-T4-S1 section 3).

The payroll burden component that is reflected in the regulated business units' OM&A is largely presented as part of labour costs in Ex. F2-T2-S1 and Ex. F2-T4-S1 for Nuclear and Ex. F1-T2-S1 for Regulated Hydroelectric. The payroll burden for corporate support groups is embedded in the costs of those groups. Corporate support groups' OM&A costs are directly assigned and allocated to the regulated business units in accordance with OPG's cost allocation methodology, as described in Ex. F3-T1-S1.

The centrally-held costs for pension and OPEB are directly assigned and allocated to the regulated business units in proportion to the pension and OPEB costs that are charged to the regulated business units based on direct charges via payroll burden plus the costs assigned and allocated from the corporate support groups. This methodology was reviewed as part of OPG's external cost allocation study presented in Ex. F5-T2-S1 and discussed in Ex. F3-T1-S1. The centrally-held costs for pension and OPEB attributed to the regulated businesses are recorded as OM&A costs.

6.3.4 Comparison of Pension and OPEB Costs

Chart 9 presents pension and OPEB costs attributed to regulated operations for the period 2007 – 2012.

## Chart 9

| Pension and OPEB Costs[1,2] ($M) | Nuclear | | | | | | Regulated Hydroelectric | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Budget | 2011 Plan | 2012 Plan | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Budget | 2011 Plan | 2012 Plan |
| **Pension – Burden Component** | 170.4 | 163.0 | 154.6[3] | 112.9 | 117.7 | 121.6 | 7.8 | 7.8 | 7.8 | 5.7 | 6.0 | 6.0 |
| **Pension – Centrally Held Component** | 13.3 | (22.7) | (103.8) | (18.8) | (3.7) | 41.2 | 0.6 | (1.1) | (5.2) | (1.0) | (0.2) | 2.1 |
| **Total Pension Cost** | **183.7** | **140.3** | **50.8[3]** | **94.1** | **114.0** | **162.8** | **8.4** | **6.7** | **2.6** | **4.7** | **5.8** | **8.1** |
| **OPEB – Burden Component** | 62.2 | 59.5 | 50.9[3] | 45.2 | 47.5 | 49.6 | 2.8 | 2.9 | 2.5 | 2.2 | 2.4 | 2.4 |
| **OPEB – Centrally Held Component** | 121.5 | 110.1 | 83.3 | 106.8 | 111.8 | 117.1 | 5.6 | 5.3 | 4.2 | 5.4 | 5.6 | 5.9 |
| **Total OPEB Cost** | **183.7** | **169.6** | **134.2[3]** | **152.0** | **159.3** | **166.7** | **8.4** | **8.2** | **6.7** | **7.6** | **8.0** | **8.3** |

[1] Pension and OPEB costs include allocations of costs related to corporate support functions

[2] Supplementary pension plans costs are included with OPEB costs

[3] Includes pension and OPEB costs totalling less than $1M related to the Nuclear Waste Management Organization consolidated into OPG's financial statements effective January 1, 2009

Pension and OPEB costs charged directly to regulated business units via payroll burden decrease significantly over the 2007 to 2010 period. The decreases are due mainly to the net impact of: successive increases in the discount rate assumption from 5 per cent in 2007 for both pension and other post retirement benefits to 6.80 per cent for pension and 7 per cent for other post retirement benefits in 2010, updated membership and claims data, and a change in the demographic and health care cost trend assumptions in 2009. The payroll burden amounts are expected to remain relatively stable over the 2011 to 2012 period as compared to 2010.

Pension and OPEB costs recorded as centrally-held costs directly assigned and allocated to the regulated business units decreased significantly over the 2007 - 2009 period. The main drivers of the net decrease are: the change in assumptions in the discount rates and the expected net growth in the cost components during the period, as well as a change in the demographic and health care cost trend assumptions, the loss on the RPP fund assets in 2008 and lower amounts of pension and OPEB costs being charged to the business units via payroll burden. The expected net growth in the cost components includes an increase in current service costs, higher interest costs on a higher benefit obligation, and a change in the expected return on the RPP fund assets due to the impact of certain gains and losses being reflected in the asset value as a result of using market-related values.

Centrally-held pension and OPEB costs are expected to increase in 2010 mainly due to the change in assumptions in the discount rates, the expected net growth in the cost components, and the lower amounts of pension and OPEB costs being charged to the business units via payroll burden. Centrally-held pension costs are expected to increase further in 2011 and 2012 mainly due to the expected net growth in the cost components. Centrally-held OPEB costs are expected to remain relatively stable over the 2010 to 2012 period. Specific period-over-period and budget-to-actual comparison of the centrally-held pension and OPEB costs is presented as part of the analysis of centrally-held costs in Ex. F4-T4-S2.

6.3.5 Accounting Treatment of Benefit Plans for Employees During Employment

The discussion above considers cost of benefits for employees post-employment with OPG. This section considers cost of benefits for OPG employees during employment.

Costs associated with plans that provide benefits, such as health and dental coverage, for current employees during employment are recorded for accounting purposes on the basis of actual benefit payments made by OPG to, or on behalf of, the employees. The costs are charged to regulated business units via the burden component of the standard labour rate (see section 7). The component of these costs reflected in the regulated business units' OM&A is largely presented as part of labour costs in Ex. F2-T2-S2 and Ex. F2-T4-S1 for Nuclear and F1-T2-S1 for Regulated Hydroelectric. Costs are also charged via payroll burden to corporate support groups and are embedded in the costs of these groups. Corporate support group's OM&A costs are directly assigned and allocated to the regulated business units in accordance with OPG's cost allocation methodology, as described in Ex. F3-T1-S1.

### 6.4 Pension and Benefits Summary

OPG has taken a number of steps to control pension and benefits costs. A less generous benefits plan now exists for newly hired Management Group employees and some of the previous benefits enjoyed by existing Management band employees are no longer available. In bargaining with both the PWU and the Society, OPG has been successful in placing maximums on a variety of benefits items and in eliminating coverage for others.

## 7.0 STANDARD LABOUR RATE

As part of its business planning process, OPG develops a standard hourly labour rate for each functional group within the company by job family (e.g., one labour rate is established for all nuclear operators). This rate is uploaded into the time reporting systems and is used to track and record costs for accounting and cost management purposes during the year. Separate standard labour rates are developed for job families within Nuclear, the Niagara Plant Group and R.H. Saunders. Separate labour rates are also developed for job families within each corporate support group.

# TAB 2

# ESTABLISHMENT OF NEW AND/OR CONTINUATION OF EXISTING DEFERRAL AND VARIANCE ACCOUNTS

## 1.0 PURPOSE

This evidence provides a summary of the deferral and variance accounts for which OPG is seeking approval to continue or establish for the test period.

## 2.0 OVERVIEW

OPG's deferral and variance account proposals are presented under the following two categories:

- The continuation of certain existing deferral and variance accounts
- New accounts

Unless otherwise stated, OPG proposes to record in the approved variance and deferral accounts the difference between the amounts included in the approved payment amounts and the actual costs and revenues. In addition, OPG proposes to record interest on both existing and new deferral and variance accounts. Interest will be applied to the monthly opening balances of these accounts at the interest rate set by the OEB from time to time pursuant to the OEB's interest policy for variance and deferral accounts.

During the portion of the test period before the effective date of new payment amounts (proposed to be March 1, 2011), OPG will record entries to the existing accounts using the same methods used to derive 2010 entries, pursuant to the Accounting Order in EB-2009-0174.

## 3.0 CONTINUED ACCOUNTS

The company requests approval to continue the following existing deferral and variance accounts:

**Accounts Common to Hydroelectric and Nuclear**

- Ancillary Service Net Revenue Variance Account – Hydroelectric and Nuclear Sub-Accounts
- Income and Other Taxes Variance Account
- Tax Loss Variance Account

**Hydroelectric Variance and Deferral Accounts**
- Hydroelectric Water Conditions Variance Account
- Hydroelectric Deferral and Variance Over/Under Recovery Variance Account

**Nuclear Variance and Deferral Accounts**
- Pickering A Return to Service Deferral Account
- Nuclear Liability Deferral Account
- Nuclear Development Variance Account
- Capacity Refurbishment Variance Account
- Nuclear Fuel Cost Variance Account
- Bruce Lease Net Revenues Variance Account
- Nuclear Deferral and Variance Over/Under Recovery Variance Account

The need for these accounts and their operation is described in further detail in the remainder of this section.

## 3.1 Accounts Common to Hydroelectric and Nuclear

### 3.1.1 <u>Ancillary Services Net Revenue Variance Account – Hydroelectric and Nuclear Sub Accounts</u>

The Ancillary Services Net Revenue Variance Account was established by O. Reg. 53/05 and approved by the OEB in EB-2007-0905. This account is required because ancillary services revenues are difficult to forecast accurately and the underlying circumstances leading to variances between forecast and actual revenues are beyond OPG's ability to manage or control since they are a function of changing demand and system/grid operating requirements. This account will record the difference between the forecast ancillary revenues included in the payment amounts and the actual ancillary revenues during the test period.

This account needs to continue in order to clear the 2010 year-end balance, and to record additions during the test period as a result of the forecast risks highlighted above.

3.1.2 Income and Other Taxes Variance Account

The OEB approved the establishment of this account in EB-2007-0905. A similar account is also available to electricity distributors. This account will capture the financial impact on revenue requirement due to variations from those assumed in the approved payment amounts during the test period, in municipal property taxes, payments in lieu of capital taxes, property taxes, and income taxes due to changes in tax rates or rules, new assessing or administrative practices of tax authorities, tax re-assessments for past periods, and court decisions for other taxpayers that affect OPG's tax position. OPG continues to be subject to tax audits from prior years dating back to 2000, which could result in changes to tax treatments that may impact similar transactions during the test period. This account needs to continue in order to clear the 2010 year-end balance, and to record additions during the test period as noted above.

3.1.3 Tax Loss Variance Account

The Tax Loss Variance Account was approved by the OEB in May 2009 in EB-2009-0038 as described in Ex. H1-T1-S1. This account needs to continue in order to clear the 2010 year-end balance, and to record additions during the test period before the effective date of new payment amounts (proposed to be March 1, 2011). Following the effective date of new payment amounts, the only entries in this account will be for interest and amortization.

## 3.2 Hydroelectric Variance and Deferral Accounts

3.2.1 Hydroelectric Water Conditions Variance Account

The Hydroelectric Water Conditions Variance Account was established by O. Reg. 53/05 and approved by the OEB in recognition of the fact that water conditions are subject to a high degree of forecast risk due to factors that are beyond OPG's ability to manage or control, such as weather. This account will record the financial impact of differences between the water conditions underpinning the approved payment amounts and the actual water conditions experienced during the test period. This account needs to continue in order to clear the 2010 year-end balance, and to record additions during the test period as a result of the risks indicated above.

3.2.2 Hydroelectric Deferral and Variance Over/Under Recovery Variance Account

The Hydroelectric Deferral and Variance Over/Under Recovery Variance Account was approved by the OEB in October 2009 in EB-2009-0174 to record the over collection of hydroelectric variance account balances that were recovered through the hydroelectric payment amount to be effective as of January 1, 2010. The projected over collection as at December 31, 2010 will be cleared by the end of 2012, however, this account needs to continue as OPG recovers variance and deferral account balances through payment riders based on production. Because forecast production is used to determine the rider, and the actual recovery in a particular year is based on actual production, there will be differences that will need to be cleared in a future period.

## 3.3 Nuclear Variance and Deferral Accounts

3.3.1 Pickering A Return to Service ("PARTS") Deferral Account

The PARTS Deferral Account was established pursuant to subsection 5 (4) of O. Reg. 53/05. This account needs to continue until the balance in it is cleared. In EB-2007-0905, the OEB established a 45-month clearance period which ends in December 2011. The only entries in this account during the test period will be for amortization and interest.

3.3.2 Nuclear Liability Deferral Account

The Nuclear Liability Deferral Account (transition) was established pursuant to section 5.1 of the Regulation and was used to record the revenue requirement impact of any change in OPG's nuclear decommissioning liability arising from a reference plan approved between April 1, 2005 and the effective date of the OEB's first payment order, as reflected in the audited financial statements approved by OPG's Board of Directors. The OEB authorized the clearance of the balance in this account as at December 31, 2007 in EB-2007-0905. This account will continue until the balance in it is cleared over the OEB-approved period of April 2008 to December 2010. OPG recorded additions to this account in the first quarter of 2008, and has only recorded interest and amortization since the second quarter of 2008. The balance in this account will be cleared by December 2010.

Section 5.2 of the Regulation also approved the establishment of a Nuclear Liability Deferral Account. This account will be used to record the revenue requirement impact of any change in OPG's nuclear decommissioning liability arising from an approved reference plan after the OEB's first payment order, which was in December 2008.

The Regulation defines nuclear decommissioning liability as the liability of OPG for decommissioning its nuclear generation facilities and the management of its nuclear waste and used fuel. OPG's current obligations relate to Pickering and Darlington that are operated by OPG, as well as Bruce A and B that are leased by OPG to Bruce Power. This account needs to continue to capture the revenue requirement impacts of future reference plan changes between rate applications.

3.3.3 Nuclear Development Variance Account

The Nuclear Development Deferral Account, Transition was established in accordance with section 5.3 of the Regulation. As provided in the Regulation, this account recorded development costs incurred and firm financial commitments made on or after June 13, 2006 up to the effective date of the OEB's first payment order. The OEB approved recovery of the $11.7M balance in this account as at December 31, 2007 in EB-2007-0905 and ordered that OPG transfer the balance in this account into the Nuclear Development Variance Account effective April 1, 2008. With the transfer of its balance this account ended.

The Nuclear Development Variance Account was established in accordance with section 5.4 of the Regulation and approved by the OEB in EB-2007-0905. This account ensures that OPG recovers the differences between the actual non-capital costs, and firm financial commitments incurred for planning and preparation for the development of proposed new nuclear generation facilities after the effective date of the OEB's December 2008 payment amounts order, and the amount included for these purposes in the payment amounts, along with the April 1, 2008 balance in the Nuclear Development Deferral Account, Transition that was transferred into this account in accordance with the OEB's order. OPG's nuclear development activities are described in Ex. D2-T2-S1. This account is required to continue during the test period in order to clear the balance as at December 31, 2010 and to record potential additions during the test period related to ongoing nuclear development activities. These potential additions will capture the difference between the nuclear development expenditures included in the approved payment amounts and the actual expenditures during the test period.

3.3.4 Capacity Refurbishment Variance Account

The OEB approved the establishment of the Capacity Refurbishment Variance Account in EB-2007-0905. This account needs to continue in order to clear the balance in it as at December 31, 2010. As discussed in Ex. D2-T2-S1 and Ex. F2-T2-S3, OPG intends to continue nuclear refurbishment activities over the next several years, and proceed with initiatives related to Pickering B continued operations. Potential variances in these projects will be recorded in the Capacity Refurbishment Variance Account.

OPG has proposed to recover financing costs associated with its Darlington Refurbishment project starting in the test period. The financing costs consist of a rate of return on capital applied to the projected capital expenditures. To the extent that actual expenditures differ from the forecast amounts included in approved payment amounts, OPG will record the variance in the Capacity Refurbishment Variance Account.

OPG is not currently planning to commence any refurbishment of its regulated hydroelectric facilities during the test period. Should OPG incur hydroelectric refurbishment costs for its regulated facilities, the costs will be recorded in a separate sub-account.

3.3.5 Nuclear Fuel Cost Variance Account

The OEB approved the establishment of this account in EB-2007-0905 in recognition of the fact that the primary driver of nuclear fuel costs is the commodity price of uranium which fluctuates for reasons beyond OPG's control and is difficult to predict. Using the methodology approved in EB-2007-0905, this account will record the difference between the nuclear fuel costs included in the approved payment amounts and the actual nuclear fuel costs during the test period. This account needs to continue in order to clear the 2010 year-end balance and to record additions during the test period. As described in Ex. F2-T5-S1, uncertainty in factors such as the schedules for new uranium production, liquidation of additional inventories, and the pace of worldwide nuclear expansion are expected to result in price volatility and a range of potential market prices.

3.3.6 Bruce Lease Net Revenues Variance Account

The OEB ordered OPG to establish this account in EB-2007-0905 in order to ensure that OPG recovers its actual costs associated with the Bruce facilities and adjusts the regulated payment amounts by the actual revenues earned from the Bruce Lease. Certain components associated with the Bruce lease, such as earnings on nuclear segregated funds, are market driven and therefore difficult to predict. The earnings or losses on these funds can have a significant financial impact on OPG's operations. During the test period, this account would record the difference between the Bruce costs and revenues included in the approved payment amounts and the actual Bruce costs and Bruce lease revenues realized. This account needs to continue in order to clear the 2010 year-end balance and to record additions during the test period.

3.3.7 Nuclear Deferral and Variance Over/Under Recovery Variance Account

The OEB approved establishment of this account, effective as of April 1, 2008, in EB-2009-0174 to capture any over or under recovery of approved nuclear deferral and variance account balances. Since these balances are recovered through payment riders (i.e., nuclear payment riders A and C) that are calculated on a per MWh basis, differences between forecast and actual production during the test period, including the portion of the test period before the effective date of new payment amounts (proposed to be March 1, 2011)., will create a variance. Because OPG is proposing to recover the balances in its variance and deferral accounts through the use of payment riders, the Over/Under Recovery Variance Account needs to continue as explained above in section 3.2.2.

The OEB approved new payment amounts for OPG in December 2008, which were effective as of April 1, 2008. As a result, OPG had a revenue shortfall for the period April 1, 2008 to November 30, 2008. Rider C was established to allow OPG to recover nuclear payment rider A (for recovery of nuclear variance and deferral accounts) for this period. With the exception of interest and amortization, no additional amounts will be recorded in this account during the test period related to nuclear payment rider C.

## 4.0 NEW ACCOUNTS

OPG requests approval to establish two new variance accounts:

- the IESO Non-Energy Charges Variance Account; and
- the Pension and Other Post Employment Benefits Cost Variance Account.

### 4.1 IESO Non-Energy Charges Variance Account

IESO non-energy charges are applied to all load customers in the Ontario wholesale market. They are made up of a number of different components including; Uplift Charges, Debt Retirement Charges, Rural Rate Assistance, Transmission Charges, Global Adjustment, etc. For a detailed description of IESO non-energy charges, please refer to Ex. F4-T4-S1.

These charges are incurred by OPG to operate the regulated facilities and cannot be avoided (while maintaining the ability to operate) nor can the energy to which the charges are attached be supplied cost-effectively by an alternate source. Further, they are beyond management's ability to control.

These charges are difficult to forecast for two reasons. First, the charges fluctuate based on the changes in the wholesale market (Global Adjustment being the largest and most volatile of the components). Second, they are based on consumption which itself can fluctuate hour-to-hour, or month-to-month. As a result of these two factors, the total amount of IESO non-energy charges is very difficult to accurately forecast.

As seen in Ex. F4-T4-S2 Tables 1 and 2, variances associated with both nuclear and regulated hydroelectric facilities have been material and have occurred in both directions in recent years. For example, in 2008 actual non-energy charges were under budget by 74 per cent or $7.9M for nuclear and 42 per cent or $1.8M for regulated hydroelectric. Conversely, 2009 saw actual charges exceed budget by 95 per cent or $17.6M for nuclear and 108 per cent or $6.6M for regulated hydroelectric. Further, the quantum of these charges has increased dramatically since 2007, largely driven by depressed market prices and a corresponding increase in Global Adjustment charges. A variance account for the total of IESO non-energy charges associated with both nuclear and regulated hydroelectric facilities will protect both OPG and ratepayers from over or under collection of these charges. Starting on the effective date of new payment amounts, proposed to be March 1, 2011, this account will record the difference between the IESO non-energy charges underpinning in the approved payment amounts and the actual IESO non-energy charges.

### 4.2 Pension and Other Post Employment Benefits Cost Variance Account

OPG requests approval to establish a new variance account to be called the Pension and Other Post Employment Benefits Cost Variance Account. This account would record the difference between the pension and other post employment benefits ("OPEB") costs reflected in OPG's approved payment amounts and the actual pension and OPEB costs for the prescribed facilities and associated tax impacts.

As discussed in EB-2007-0905, OPG's pension and OPEB costs are difficult to forecast and often result in variances that are material[1]. As indicated in the Impact Statement filed by OPG on September 30, 2010 (Ex. N-T1-S1, pages 2 to 4), the difference between the forecast included in this application for pension and OPEB costs and the updated projection of pension and OPEB costs is material (i.e., greater than $250M). This updated projection of pension and OPEB costs for the prescribed facilities is based on a projected actuarial accounting assessment of OPG-wide costs for the test period provided by OPG's external actuaries, Mercer, using data as of August 2010. The letter from Mercer setting out its updated OPG-wide projection is presented in Attachment 1 to this exhibit. This OPG-wide projection is then assigned to the prescribed facilities using the same methodology as was

[1] EB-2007-0905, Ex. J1-T3-S1, Page 13. Forecast variances of between $11M under-forecast and $130M over-forecast on a company-wide basis.

used in EB-2007-0905 and in this application. This methodology is described in Ex. F4-T3-S1, page 24, lines 4 through 27.

The main drivers of variance for pension and OPEB costs are discount rates and pension fund performance. These factors are both difficult to forecast and beyond OPG management's ability to control. As noted in pre-filed evidence at Ex. F4-T3-S1, pages 23 and 24, significant variability can occur between forecast and actual pension and OPEB costs due to changes in economic conditions, demographics and other actuarial assumptions used in determining these costs, as well as differences in actual experience, such as the return on pension fund assets.

In EB-2007-0905, OPG proposed a variance account to capture the financial impact of differences between forecast and actual discount rates used to determine pension and OPEB costs. The primary arguments against OPG's proposal in EB-2007-0905 were that "the Board should take the same approach for variances in OPG's pension and OPEB costs as it does for other entities regulated by the Board," and that OPG's focus on a single driver of pension and OPEB cost changes (i.e., the discount rate) without considering potential offsetting factors "amount[s] to single issue ratemaking.[2]" Although it rejected OPG's proposal in EB-2007-0905, the OEB noted that, "In the event that OPG's actual pension and OPEB costs during the test period are materially in excess of the amounts included in the revenue requirement, OPG would have the ability to apply to the Board.[3]" The currently forecast variance in these costs is in excess of $250M, as presented in Ex. N-T1-S1; an amount which is material.

In addition, on April 9, 2010 the OEB issued its Decision with Reasons in EB-2009-0096 which included approval of a Pension Cost Differential Account for Hydro One Networks Inc. "to track the difference between the actual pension costs booked using the actuarial assessment provided by Mercer, and the estimated pension costs used in this filing.[4]"

[2] EB-2007-0905 Decision with Reasons, November 3, 2008, page 125.
[3] Ibid. page 127.
[4] EB-2009-0096 Decision with Reasons, April 9, 2010, page 56.

In light of the OEB's findings in EB-2007-0905 and EB-2009-0096, OPG is proposing to establish an account to track, for its prescribed facilities, the difference between the actual pension and OPEB costs booked using the actuarial accounting assessments provided by OPG's external actuaries, and the forecast of pension and OPEB costs included in the OEB-approved payment amounts.

In addition to the differences between forecast and actual pension and OPEB costs, there is expected to be a difference between forecast and actual regulatory tax deductions for pension plan contributions and OPEB benefit payments. As OPG expects its pension plan contributions to be higher than those included in the application, capturing this difference in regulatory tax deductions in this account will partly offset the expected increase in pension and OPEB costs. (The portion of the forecast contributions and benefit payments attributable to the prescribed facilities per the May 26, 2010 filing is shown in response to interrogatory L-01-085.) Accordingly, OPG proposes that the proposed Pension and Other Post Employment Benefits Cost Variance Account also record the difference in the regulatory tax expense resulting from the difference in pension plan contributions and OPEB benefit payments included in determining the tax expense for the prescribed facilities in the OEB-approved payment amounts and the portion of actual pension plan contributions and OPEB benefit payments attributable to the prescribed facilities made by OPG.

OPG proposes to apply interest to the monthly opening balances of the account at the interest rates set by the OEB from time to time pursuant to the OEB's interest rate policy for variance and deferral accounts.

The proposed variance account is symmetrical and would apply equally to positive and negative variances and will result in payment amounts that are more accurate and fair to both OPG and ratepayers.

# LIST OF ATTACHMENTS

Attachment 1: Letter from Mercer dated October 8, 2010 re: Projected Pension and Non-Pension Benefit Expense for Fiscal Years 2011 and 2012.

# TAB 3

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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**Private & Confidential**
Nathan Reeve
Vice President, Financial Services
Ontario Power Generation Inc.
700 University Avenue, H7 F25
Toronto, Ontario M5G 1X6
Canada

08 October 2010

**Subject:** Projected Pension and Non-Pension Benefit Expense for Fiscal Years 2011 and 2012

Dear Nathan:

The purpose of this letter is to provide updated projections of pension and non-pension benefit expense for 2011 and 2012 requested by Ontario Power Generation Inc. ("OPG").

The projected employee benefit expense for 2011 and 2012 for the registered pension plan (RPP) and the other plans (i.e. the supplementary pension plans (SPP), non-pension post retirement plans, and post employment (i.e., long term disability) benefit plans) sponsored by OPG are summarized below. Further details are provided in Appendices A1 through A4 respectively.

**Projected Benefit Expense**

| **($millions)** | **2011** | **2012** |
|---|---|---|
| Registered Pension Plan | $284.7 | $331.9 |
| Other Plans[1] | 265.2 | 271.8 |
| **Total** | **$549.9** | **$603.7** |

As requested, for each plan we are providing projected benefit expense under Section 3461 of the Canadian Institute of Chartered Accountants Handbook ("CICA 3461") only, assuming CICA 3461 continues unchanged for fiscal 2011 and beyond. The projections do not take into account the transition to International Financial Reporting Standards in 2011 or 2012.

[1] The sum of the projected benefit expense for the SPP, the non-pension post retirement plans and post employment benefit plans. The breakdown by plan is shown in the enclosed appendices.

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A summary of the assumptions and methods used in these projections is provided in Appendix B.

Projected benefit expense for 2011 and 2012 has increased substantially from the estimated 2010 benefit expense. This increase is largely as a result of the decrease in accounting discount rates since December 31, 2009, which results in a projected increase in employer service costs as well as projected actuarial losses at December 31, 2010 that would be amortized into expense over the projection period. Actual discount rates and market conditions as at January 1, 2011 and January 1, 2012 may result in the 2011 and 2012 benefit expense being different than projected.

Should you have any questions or concerns, please call us.

Sincerely,

Michael Reid, FSA, FCIA
Principal
(in respect of pension arrangements)

Darryl Leach, FSA, FCIA
Partner
(in respect of non-pension arrangements)

Copy:
Ms Ann Edwards, Ontario Power Generation Inc.
Ms Colleen Sidford, Ontario Power Generation Inc.
Mr. Malcolm Hamilton, Mercer
Mr. Hrvoje Lakota, Mercer
Ms Cheryl Ibbotson, Mercer
Ms Winnie Guo, Mercer

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## Appendix A1:

# Ontario Power Generation Inc.

### Registered Pension Plan
### ($millions)

| | 2011 | 2012 |
|---|---|---|
| **Summary of Accounting Position at end of Previous Year** | | |
| Accrued benefit obligation | 10,546.9 | 11,051.6 |
| Market value of assets | 8,345.3 | 9,083.7 |
| Surplus (deficit) | (2,201.6) | (1,967.9) |
| Unamortized past service costs | 9.6 | - |
| Actuarial losses/(gains) not subject to amortization due to asset smoothing | 1,047.6 | 521.3 |
| Actuarial losses/(gains) not subject to amortization due to corridor | 1,054.7 | 1,105.2 |
| Actuarial losses/(gains) subject to amortization | 1,226.9 | 1,673.9 |
| Accrued benefit asset (liability) | 1,137.2 | 1,332.5 |
| **Components of Expense for the Year** | | |
| Current service cost | 230.7 | 237.6 |
| Interest cost | 604.9 | 633.9 |
| Expected return on plan assets | (662.7) | (679.1) |
| Amortization of past service costs | 9.6 | - |
| Amortization of net actuarial loss (gain) | 102.2 | 139.5 |
| Total | 284.7 | 331.9 |

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**Appendix A2:**

## Ontario Power Generation Inc.
### Supplementary Pension Plans
### ($millions)

| | 2011 | 2012 |
|---|---|---|
| **Summary of Accounting Position at end of Previous Year** | | |
| Accrued benefit obligation | 218.3 | 231.3 |
| Market value of assets | - | - |
| Surplus (deficit) | (218.3) | (231.3) |
| Unamortized past service costs | 0.5 | - |
| Actuarial losses/(gains) not subject to amortization due to asset smoothing | - | - |
| Actuarial losses/(gains) not subject to amortization due to corridor | 21.8 | 23.1 |
| Actuarial losses/(gains) subject to amortization | 31.4 | 27.5 |
| Accrued benefit asset (liability) | (164.6) | (180.7) |
| **Components of Expense for the Year** | | |
| Current service cost | 7.7 | 8.0 |
| Interest cost | 12.7 | 13.4 |
| Expected return on plan assets | - | - |
| Amortization of past service costs | 0.5 | - |
| Amortization of net actuarial loss (gain) | 2.6 | 2.3 |
| Total | 23.5 | 23.7 |

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**Appendix A3:**

## Ontario Power Generation Inc.
### Non-Pension Post Retirement Plans
### ($millions)

| | 2011 | 2012 |
|---|---|---|
| **Summary of Accounting Position at end of Previous Year** | | |
| Accrued benefit obligation | 2,113.4 | 2,228.6 |
| Market value of assets | - | - |
| Surplus (deficit) | (2,113.4) | (2,228.6) |
| Unamortized past service costs | 13.7 | 12.0 |
| Actuarial losses/(gains) not subject to amortization due to asset smoothing | - | - |
| Actuarial losses/(gains) not subject to amortization due to corridor | 211.4 | 222.8 |
| Actuarial losses/(gains) subject to amortization | 287.5 | 249.9 |
| Accrued benefit asset (liability) | (1,600.8) | (1,743.9) |
| **Components of Expense for the Year** | | |
| Current service cost | 57.3 | 59.9 |
| Interest cost | 121.9 | 128.5 |
| Expected return on plan assets | - | - |
| Amortization of past service costs | 1.8 | 1.8 |
| Amortization of net actuarial loss (gain) | 26.1 | 22.7 |
| Total | 207.1 | 212.9 |

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## Appendix A4:

# Ontario Power Generation Inc.
## Post Employment Plans
## ($millions)

| | 2011 | 2012 |
|---|---|---|
| **Summary of Accounting Position at end of Previous Year** | | |
| Accrued benefit obligation | 278.9 | 284.4 |
| Market value of assets | - | - |
| Surplus (deficit) | (278.9) | (284.4) |
| Unamortized past service costs | 2.0 | 1.6 |
| Actuarial losses/(gains) not subject to amortization due to asset smoothing | - | - |
| Actuarial losses/(gains) not subject to amortization due to corridor | 27.9 | 28.5 |
| Actuarial losses/(gains) subject to amortization | 14.9 | 12.9 |
| Accrued benefit asset (liability) | (234.1) | (241.4) |
| **Components of Expense for the Year** | | |
| Current service cost | 21.0 | 21.6 |
| Interest cost | 11.8 | 12.0 |
| Expected return on plan assets | - | - |
| Amortization of past service costs | 0.4 | 0.4 |
| Amortization of net actuarial loss (gain) | 1.4 | 1.2 |
| Total | 34.6 | 35.2 |

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## Appendix B: Assumptions and Methods

In our projection of the benefit expense for 2011 and 2012, we have assumed that the 2010 benefit expense for the supplementary pension plans, non-pension post retirement plans, and post employment plans, are the same as those provided in our Report on Pension Expense and Disclosure for the Fiscal Year Ending December 31, 2009 and in our Report on Non-Pension Post Retirement and Post Employment Benefit Expense and Disclosure for the Fiscal Year Ending December 31, 2009 respectively (both dated January 2010) (the "December 31, 2009 Disclosure Reports"). The 2010 benefit expense for the registered pension plan has been revised slightly from that shown in the December 31, 2009 Disclosure Reports to reflect that the employee contribution rate for members represented by PWU was increased part way through 2009.

With the exception of the changes outlined below, assumptions, data and methods for projecting the 2011 and 2012 expense are the same as those described in the December 31, 2009 Disclosure Reports.

In producing the projected benefit expense for 2011 and 2012 in respect of each of the benefit plans, we have made the following assumptions:

- The liability discount rate used in determining the estimated year-end liabilities for fiscal years ending December 31, 2010 and December 31, 2011 as well as the estimated benefit expense for fiscal years 2011 and 2012 will be 5.70% per annum for the pension and non-pension post retirement plans and 4.40% per annum for the post employment plan. The actual discount rates for the 2011 and 2012 expense will not be known until December 31, 2010 and December 31, 2011 respectively. These discount rates have been determined using the same model as was used to determine the discount rates at December 31, 2009. With respect to the discount rates, we note that the Canadian Institute of Actuaries ("CIA") is scheduled to release an educational note on methods for determining discount rates used for reporting under CICA 3461 in the latter part of 2010 which may result in a change to the method used to determine OPG's discount rates under CICA 3461. As instructed, we have not made any allowance for any possible changes to discount rates as a result of the CIA educational note.

- There will be no decontrol activities, plan changes, or any other significant events between January 1, 2010 and December 31, 2012 that would have an impact on pension and non-pension expense.

- The demographics of the plan population would remain stable and that the Expected Average Remaining Service Lifetime (EARSL) would remain at the current level of 12 years for the pension plans and 11 years for the non-pension plans as determined in the December 31, 2009 Disclosure Reports.

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The projected benefit expense in respect of the RPP also reflects the following:

- The projected market value of assets as at December 31, 2010 is based on the actual market value of assets at August 31, 2010 projected assuming that the fund will earn a rate of return, net of expenses, on a market value basis, of 0.0% during the last four months in 2010. From January 1, 2011 to December 31, 2012 the fund is assumed to earn, on a market value basis, 7.0% per annum net of expenses.

- In the calculation of the market-related value of assets at the end of 2010, we have taken into account the market conditions up to August 31, 2010 and assumed the market return on equities would be 0.0% during the last four months in 2010.

- The 2011 and 2012 employer contributions to the RPP were assumed to be $480 million and $530 million respectively. The increase from OPG's current funding level of approximately $270 million per annum is largely a result of declines in discount rates on both a going concern and solvency bases relative to those in the Report on the Actuarial Valuation for Funding Purposes as at January 1, 2008, dated September 2008 (the "2008 Funding Report") and asset returns being lower than assumed in that report.

- The employer contributions for 2011 are based on a projected financial position at January 1, 2011 under both a going concern and a solvency basis (i.e. the bases on which OPG's minimum contribution requirements are determined). Actual experience to January 1, 2011 and market conditions as at January 1, 2011 may result in the 2011 minimum contribution requirements being more or less than the $480 million assumed.

- Based on the estimated financial position of the RPP at January 1, 2011, it is likely that OPG will be required to file valuation reports for the RPP on an annual basis. Thus it is assumed that another valuation would be required as at January 1, 2012. Actual experience to, and market conditions at, that date may result in the 2012 minimum contribution requirements being more or less than the $530 million assumed.

- Going concern and solvency liabilities have been projected based on membership as at January 1, 2009 as summarized in the December 31, 2009 Disclosure Reports.

- For purposes of determining the financial position on a going concern basis, the assumptions and methods are the same as those described in the 2008 Funding Report except it is assumed that the discount rate will be 5.30%. The going concern real discount rate reflects market conditions as at August 31, 2010 using an assumed future rate of inflation of 2.0% per annum. This discount rate has been determined using the same methodology as was used in determining the discount rate for the 2008 Funding Report including the determination of any margins for adverse experience. The basis used to determine the discount rate is reviewed at each funding valuation date, thus the methodology used in determining the discount rate for future valuations may change.

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- For purposes of determining the solvency liabilities, the same methods have been used as outlined in the 2008 Funding Report with assumptions updated to reflect market conditions and guidance from the CIA on the cost of purchasing annuities as at August 31, 2010. Comments with respect to estimating the cost of purchasing annuities outlined in the 2008 Funding Report continue to apply.

- For purposes of determining the financial position on a solvency basis, it has been assumed that OPG will elect to smooth assets and liabilities, as currently permitted under Ontario regulations. It is our understanding that OPG will evaluate this option when the January 1, 2011 funding valuation is being prepared and will decide at that time whether to make such an election.

- For purposes of determining the solvency liabilities, is has been assumed that OPG will continue to elect to exclude the value of future indexing, as currently permitted under Ontario regulations.

- For purposed of determining the minimum required contributions, it has been assumed that OPG will not utilize any funding relief options, as currently permitted under Ontario regulations, when determining the minimum required special payments.

The estimated 2010 expense and the projected 2011 and 2012 expense for the post employment plan is based on a valuation as at December 31, 2009. The change in liabilities due to a change in the economic basis is deferred and amortized and the balance of the change is accounted for immediately in the year, therefore the annual expense for the post employment plan can only be finalized when a valuation using the year-end data has been completed (e.g., at the end of 2010 for the 2010 expense). To develop the projection of the post employment benefits expense for 2011 and 2012, we assumed service cost and benefit payments would both increase with inflation. As noted, due to the nature of the terminal accounting approach and the sensitivity of results to changes in demographic data it is difficult to project the post employment benefits expense and actual results will likely vary from those presented.

# TAB 4

January 2010

# Ontario Power Generation Inc. Registered Pension Plan and Supplementary Pension Plan

## Report on Pension Expense and Disclosure for the Fiscal Year Ending December 31, 2009 Under CICA Section 3461

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Filed: 2010-08-12
EB-2010-0008
L-01-084
Attachment 2

# D. Summary of Assumptions

The following assumptions were used in valuing the benefit obligations under the plan at December 31, 2009, the employer's 2009 net periodic pension cost, and the estimated employer's 2010 net periodic pension cost.

| | **2009 Expense** | **2009 Year-end Disclosure and estimated 2010 Expense** |
|---|---|---|
| *Measurement date* | December 31 | December 31 |
| *Discount rate* | 7.50% per annum | 6.80% per annum |
| *Long-term rate of return on assets* | 7.00% per annum | 7.00% per annum |
| *Increases in pensionable earnings* | The sum of a flat rate (see below) and promotion, progression and merit scale (see the table of rates below)<br>Flat rate: 3.00% per annum | The sum of a flat rate (see below) and promotion, progression and merit scale (see the table of rates below)<br>Flat rate: 3.00% per annum |
| *YMPE increases* | 3.00% per annum (projection basis: 2008 YMPE = $44,900) | 3.00% per annum (projection basis: 2009 YMPE = $46,300) |
| *Increases in maximum pension permitted under the Income Tax Act* | $2,333 in 2008, $2,444 in 2009 then 3.00% per annum starting in 2010 | $2,444 in 2009 then 3.00% per annum starting in 2010 |
| *Rate of Interest on Employee Contributions* | 6.50% per annum | 5.80% per annum |
| *Increases in Consumer Price Index* | 2.00% per annum | 2.00% per annum |
| *Indexation of pensions in payment* | 2.00% per annum | 2.00% per annum |
| *Mortality* | 85% of the Uninsured Pensioner 94 Mortality table, with full generational mortality improvement | 85% of the Uninsured Pensioner 94 Mortality table, with full generational mortality improvement |
| *Disability* | See table of rates below | See table of rates below |
| *Withdrawal* | See table of rates below | See table of rates below |
| *Retirement* | See table of rates below | See table of rates below |
| *Percentage with spouse* | 90% married at commencement of pension | 90% married at commencement of pension |
| *Age difference* | A male is assumed to be 4 years older than his spouse | A male is assumed to be 4 years older than his spouse |

# TAB 5

1 February 2010

# Ontario Power Generation Inc.

# Report on Non-Pension Post Retirement and Post Employment Benefit Expense and Disclosure for the Fiscal Year Ending December 31, 2009 Under CICA Section 3461

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expected average remaining disabled lifetime is currently 11 years based on our valuation of the Plan as at December 31, 2009.

OPG's fiscal year-end is December 31 and the measurement date of the company's obligations is December 31.

The Company recognizes curtailments before settlements.

## Summary of Assumptions

The following assumptions were used in valuing the benefit obligations under the Plan.

| | | |
|---|---|---|
| *Measurement date* | December 31 | |
| *Discount rate for non-pension post retirement* | ▪ 7.50% per annum for purposes of determining 2009 net periodic benefit cost<br>▪ 6.90% per annum for purposes of determining year end 2009 ABO | |
| *Discount rate for post employment* | ▪ 7.25% per annum for purposes of determining 2009 net periodic benefit cost<br>▪ 5.40% per annum for purposes of determining year end 2009 ABO | |
| *Salary increases – non-LTD members* | 3.00% per annum plus PPM (promotion, progression and merit, age and service-related scale) | |
| *Salary increases – LTD members* | 100% of CPI (assumed to be 2.00% per annum) | |
| *Post retirement health care cost trend rates for determining 2009 net periodic benefit cost* | Hospital | 4.50% per annum |
| | Prescription drugs | 7.80% per annum in 2009 grading down to 4.50% per annum in and after 2018 |
| | Other medical | 7.80% per annum in 2009 grading down to 4.50% per annum in and after 2018 |
| | Vision care | 2.00% per annum |
| | Dental | 7.06% per annum in 2009 grading down to 5.50% per annum in and after 2014 |
| *Post retirement health care cost trend rates for determining December 31, 2009 ABO* | Hospital | 4.50% per annum |
| | Prescription drugs | 7.43% per annum in 2010 grading down to 4.50% per annum in and after 2030 |
| | Other medical | 7.43% per annum in 2010 grading down to 4.50% per annum in and after 2030 |
| | Vision care | 2.00% per annum |
| | Dental | 6.75% per annum in 2010 grading down to 5.50% per annum in and after 2030 |

# TAB 6

# IMPACT STATEMENT

This exhibit has been prepared to show the impact of three changes since OPG filed its application in May 2010. The three changes are:

1. Increased fees for 2011 and 2012 from the Canadian Nuclear Safety Commission ("CNSC") which impact Nuclear Base OM&A;
2. Changes to Management compensation as a result of the *Public Sector Compensation Restraint to Protect Public Services Act, 2010* (the "Public Sector Compensation Restraint Act"); and
3. Changes to forecast pension and other post employment benefit ("OPEB") costs, primarily as a result of changes to forecasts of discount rates and actual pension fund performance.

Each of these matters is described separately below.

**CNSC Fees**

As indicated in the response to interrogatory L-12-027, OPG has been informed by the CNSC of increased regulatory fees for the test period. Licensing costs include the cost of CNSC staff directly involved with OPG issues, as well as an allocation for the associated regulatory support effort, indirect regulatory activities and overheads. The drivers of the increased fees include: alignment of regulatory practices to International Atomic Energy Agency guidance documents; the demand for CNSC attention to planning for industry-wide refurbishment activities and new nuclear; and the CNSC need to recruit and train staff to meet the anticipated demands.

The estimated revenue requirement impact of the increase in CNSC fees is $13M over the test period.

**Management Compensation**

The Public Sector Compensation Restraint Act was introduced after OPG's business plan for

2010-2014 had been approved. The Act addresses restrictions to increases in compensation for employees that do not collectively bargain compensation. For OPG, the Public Sector Compensation Restraint Act will impact Management employees.

As indicated in interrogatory L-01-075, OPG included an increase of 3 per cent in each of 2011 and 2012 in its Management compensation levels. As a result of the *Public Sector Compensation Restraint Act*, OPG is removing Management wage escalation for the period to April 1, 2012 from its test period revenue requirement for the regulated facilities, reducing costs by $12M.

**Pension and OPEB Costs**

As discussed in section 6.3.2 of Ex. F4-T3-S1, the projection of pension and OPEB costs requires an estimate of the value of the benefit obligations and the pension fund assets. Pension and OPEB costs are subject to significant variability to the extent that forecast assumptions, such as the discount rates, and assumed pension fund performance are different from actual values as of the end of the year preceding the forecast year.

The pension and OPEB costs forecasts in OPG's application for 2011 and 2012 were based on discount rates (presented in Chart 8 of Ex. F4-T3-S1) forecast during the 2010-2014 business planning process. Since the beginning of 2010, these discount rates have declined significantly. This decline has caused an increase in the forecast pension and OPEB costs for the test period. Specifically, the discount rates used to project pension, other post retirement benefits and the long-term disability plan costs have decreased from 6.80%, 7.00% and 5.25%, respectively, to 5.70%, 5.70% and 4.40%, respectively, as of the end of August 2010. The updated estimates of discount rates were provided by external actuaries.

Chart 8 of Ex. F4-T3-S1 also shows that pension cost forecasts were based on assumed rates of return on the pension fund assets of 9.0% in 2009 and 7.0% in 2010. The actual return for 2009 was approximately 15%, and the 2010 actual return as of the end of August 2010 is approximately 2.5%. The net effect of the updated returns for the two years is to offset, in part, the increase in pension costs due to changes in forecast discount rates.

OPG's updated total pension and OPEB costs for 2011 and 2012 have been projected by external actuaries as of the end of August 2010. The chart below shows the portion of these updated costs for 2011 and 2012 attributable to the prescribed facilities, as compared to the amounts included in the application per Ex. F4-T3-S1, Chart 9. The total projected increase over the two test years is $251.5M for nuclear and $12.7M for regulated hydroelectric.

**Updated Pension and OPEB Costs ($M)**

| | **Nuclear** | | **Regulated Hydroelectric** | |
|---|---|---|---|---|
| | **2011** | **2012** | **2011** | **2012** |
| **Pension Cost** | | | | |
| As per Chart 9, Ex. F4-T3-S1 | 114.0 | 162.8 | 5.8 | 8.1 |
| Projection as of August 2010 | 210.2 | 245.9 | 10.6 | 12.3 |
| Increase | 96.2 | 83.1 | 4.8 | 4.2 |
| | | | | |
| **OPEB Cost[1]** | | | | |
| As per Chart 9, Ex. F4-T3-S1 | 159.3 | 166.7 | 8.0 | 8.3 |
| Projection as of August 2010 | 196.5 | 201.7 | 9.9 | 10.1 |
| Increase | 37.2 | 35.0 | 1.9 | 1.8 |
| **Total Test Period Increase** | 251.5 | | 12.7 | |

[1]Supplementary pension plans costs are included with OPEB costs.

**Conclusion**

The first two changes considered in this impact statement are effectively offsetting and OPG does not propose to revise its revenue requirement or payment amounts to reflect them.

Given the potential for significant variability between the updated forecast and actual pension and OPEB costs, OPG is not proposing to revise its proposed payment amounts or payments riders to address the projected increase in these costs. Instead, OPG proposes to address the forecast change to pension and OPEB costs by requesting that the OEB establish a variance account to record the revenue requirement impact of differences between forecast and actual pension and OPEB costs. For the 2011-2012 test period, OPG would bring the balance in this account forward for disposition during its next payment amounts application. OPG will file additional evidence supporting this request when it files the update to its variance and deferral account evidence with updated forecasts of balances for December 31, 2010.

# TAB 7

the year. So come December 31st, 2010, that will shape the actual costs for accounting that we will book for 2011 and 2012.

MR. MILLAR: Right.

MR. REEVE: To your question in terms of how much subjectivity there is, we take the discount rates that we receive from the independent actuaries. Really what we do is we assess whether there has been any unusual market activity, and then we might make an adjustment for that activity. And that is described going into page 22 in lines 1 through 5. So that is F4-T3, schedule 1.

And you will see there in line 3:

"Discount rates used for projections may be adjusted by a maximum of 25 basis points..."

What I can tell you is that for purposes of the application, we did not deviate from what we received from our actuaries, and the same is true of the impact statement.

So we took the rates provided by actuaries. We deem there to be -- we didn't have better information, if you will, to deviate from that rate.

MR. MILLAR: Okay. So just to be clear, ultimately it is OPG's responsibility to --

MR. REEVE: Correct.

MR. MILLAR: -- set and determine the discount rate. You received independent advice from an actuary, and you went with the numbers they gave you?

MR. REEVE: That's correct.

# TAB 8

MR. MILLAR: That would be the alternative, right? If these are expenses for 2011, 2012, the ordinary course would be to recover them at that time.

So I am presuming you had reason to push them to a variance account, and maybe you could tell me what that reason is.

MR. BARRETT: Sure. There were a couple of reasons, principally.

One, we were bringing this forward fairly late in the day, in some respects. It was well along in our application process, and we thought that it would -- there would be significant resistance to kind of incorporating this amount into the payment amounts at this stage.

Also, as we have described in the impact statement, I think, in the testimony, the actual costs are going to be a function of two things, which remain to be discovered at this point, which is the final December 31, 2010 and December 31, 2011 discount rates, which haven't been fixed yet. We have a forecast of them, but they haven't been fixed yet.

Also, the knock-on effects on increased contributions.

So if you look at the kind of standard criteria that the Board applies to assessing whether or not there should be a variance account, is it material? Is there a material difference? Certainly, we expect a material difference.

Is it something that is within the control of OPG? No, because it is driven principally by discount rates, but there are other effects.

Did OPG cause this? No. Again, it is a function largely of discount rates, which are exogenous to the company.

And is it easily forecastable? And it is not, given that it is a function both of discount rates which are yet to be determined, which can have a very significant impact, and also the knock-on effects on the contributions.

MR. MILLAR: Okay. That is interesting and helpful.

You stated that there is a chance for a material variance here, and I want to make sure I understand what you are talking about.

It is your view that the -- let's just call it \$260 million for the purposes of this discussion, that that amount, there may be a significant variance from that amount?

MR. BARRETT: For two possible reasons.

One, because the discount rates could change again between now and when they get fixed at December 31, 2010, and subsequently December 31, 2011.

And again, we haven't reflected, at this point, the impact on the contributions, because those have not been finally determined.

MR. MILLAR: Okay. So you will be updating the discount rates?

MR. KOGAN: We have to use the discount rates for accounting purposes at the end of the year.

MR. MILLAR: Okay. And to the extent those discount rates go back to where they had been previously, this balance may disappear, I suppose? Or I guess it could get bigger, it could get smaller? We have to wait to see?

MR. BARRETT: It will change. We don't expect it will disappear. We are significantly off the forecast expense which underpins the rate proposal.

MR. KOGAN: The discount rates have significantly declined since the time that we had prepared the original forecast. So we expect that there is going to be still a material difference.

MR. MILLAR: Higher than $260 million? Is that more likely than lower $260 million?

MR. KOGAN: On that, I couldn't speculate.

MR. MILLAR: Okay. You would be investing in the stock market if you had that kind of information.

MR. KOGAN: Exactly.

MR. MILLAR: Okay. Could you turn to page 74 of the booklet, please?

This is a copy of a letter from two ministers dated December 17th, 2009. I think it was provided as part of an undertaking response. Are you familiar with this letter?

MR. BARRETT: Yes, we are.

MR. MILLAR: At the bottom paragraph, I guess it is the last -- well, I will read the whole paragraph:

> "This letter constitutes our concurrence with the business plan. Concurrence is given subject to the realization that the plan, including the projected financial performance, may change from time to time and have to be adapted to reflect

changing circumstances, and that any such changes
will be discussed in advance with staff at the
Ministries of Energy and Infrastructure and
Finance."

Do you see that?

MR. BARRETT: I do.

MR. MILLAR: Did you discuss this change with the Ministries?

MR. BARRETT: Sorry, which change, sir?

MR. MILLAR: The variance account for the $260 million.

MR. BARRETT: I didn't.

MR. MILLAR: Did anyone at OPG?

MR. BARRETT: Not as far as I am aware.

MR. MILLAR: Would your reading of the letter require such a discussion?

MR. BARRETT: Not in the context of OPG's overall business operations.

MR. MILLAR: And why is that?

[Witness panel confers]

MR. BARRETT: Sorry, sir, if you could just restate your question?

MR. MILLAR: Well, the letter says that any changes will be discussed in advance with staff at the Ministries of Energy and Infrastructure and Finance. I understand that no such discussions took place, and I guess the answer is -- why not?

MR. BARRETT: I think the logical conclusion is we didn't think it gave -- it was raised to a level of significance that required those discussions. That must have been the business judgment.

MR. MILLAR: So it was not a -- I shouldn't say not material amount -- not material enough to raise with the ministries?

MR. BARRETT: Not to this level, no.

MR. MILLAR: Okay. If you could flip back to page 73, this is from transcript volume 12. It was a discussion I was having with Mr. Pugh. I was asking him about, for example, why -- just to provide you with the context, why there was going to be an update to the ROE number, but not the short-term debt numbers.

And Mr. Pugh responds at line 21:

"I think a lot of intervenors would accuse us of cherry-picking if we took selected things and updated them."

Do you see that?

MR. BARRETT: I see that, sir, yes.

MR. MILLAR: Mr. Pugh, I understand, was a former Board Staffer, so he is very prescient into the mind of Board counsel, but if I could...

[Laughter]

MR. MILLAR: What would you say if I suggested to you that your update for these pension costs is cherry picking?

MR. BARRETT: I would disagree with that.

MR. MILLAR: And why is that?

MR. BARRETT: Well, two things. When we prepared the impact statement, we cast our net broadly. We asked all of the business units and corporate groups to identify to us things that had materially changed, and only three things came out of that process.

So we didn't cherry pick. We cast our net broadly. Of the three things, two of which are essentially offsetting - that is, the CNSC fee increase and the reductions to management compensation pursuant to the government policy - this is the one that remains.

MR. MILLAR: So I don't know if you defined "material", but I think the CNSC and the management compensation were something around $12 million, without having it in front of me?

MR. BARRETT: That's right.

MR. MILLAR: Did you give a threshold for materiality?

MR. BARRETT: I think when we talked to people, we were talking in the order of I think $10 million, if memory serves.

MR. MILLAR: So throughout the entire application, there would be no other variances since filing that would lead to an impact of greater than $10 million?

MR. BARRETT: That is what we were advised.

MR. MILLAR: When did you make this enquiry?

MR. BARRETT: It was in the period preceding the filing of the impact statement. So I don't know whether it was --

MR. MILLAR: When was that filed, if you could remind me?

MR. BARRETT: I think the discussions we had with the business units and corporate groups was in August. The impact statement was filed --

MR. SMITH: The update was filed on September 30th.

MR. MILLAR: And your enquiries would have been in August, perhaps early September?

MR. BARRETT: Yes, I think that is right.

MR. MILLAR: Okay. Thank you for that.

Madam Chair, I am actually moving along a bit more quickly than I had anticipated. I am on to my last area. As a final treat for the panel, just a few follow-up questions on incentive regulation mechanisms.

MR. BARRETT: Sure.

MR. MILLAR: Perhaps the best place to turn to would be page 84 of the booklet. This is a Staff interrogatory, No. 150, Exhibit L, tab 1, schedule 150.

And we asked you some questions, as you will recall, about your plans going forward for IRM, understanding of course that the IRM mechanism itself is not an issue in this proceeding, but next steps, if I can put it that way, are before the Board.

MR. BARRETT: Yes.

MR. MILLAR: You provided a very helpful response, so thank you for that.

Just to review some of the timelines that you are looking at, I understand that your proposed schedule, at least at this point, would be that OPG would file an application some time in 2011, and that application would

# TAB 9

2007-0905 that: "In the event that OPG's actual pension and OPEB costs during the test period are materially in excess of the amounts included in the revenue requirement, OPG would have the ability to apply to the Board" (Decision with Reasons, EB-2007-0905, p. 127), OPG submits that its request for a Pension and Other Post-Employment Benefits Cost Variance Account should be approved.

If the OEB were to reject the requested variance account, OPG's revenue requirement for the test period should incorporate the most up to date estimates of its test period pension and OPEB costs, whether on an accrual or a cash basis. The Impact Statement provides an estimate of these costs for the prescribed assets as of August 31, 2010 (Ex. N-T1-S1, page 3). In the section above on the cash versus accrual method of recovery, OPG provided the amount of updated cash costs for the prescribed assets, based on the actuarial assessment underlying the Impact Statement.

**The impact of changes in the forecast pension expense on tax**

Board staff states that the forecast increase in accrual pension and OPEB costs for the test period "have not been identified by OPG to cause any income tax expense consequences." (Board staff argument, p. 96). This is not correct. The consequences are explicitly identified in the evidence for the Pension and Other Post Employment Benefits Variance Account (Ex. H1-T3-S1, p. 11):

> In addition to the differences between forecast and actual pension and OPEB costs, there is expected to be a difference between forecast and actual regulatory tax deductions for pension plan contributions and OPEB benefit payments. As OPG expects its pension plan contributions to be higher than those included in the application, capturing this difference in regulatory tax deductions in this account will partly offset the expected increase in pension and OPEB costs. ...Accordingly, OPG proposes that the proposed Pension and Other Post Employment Benefits Cost Variance Account also record the difference in the regulatory tax expense resulting from the difference in pension plan contributions and OPEB benefit payments included in determining the tax expense for the prescribed facilities in the OEB-approved payment amounts and the portion of actual pension plan contributions and OPEB benefit payments attributable to the prescribed facilities made by OPG.

Contrary to Board staff's estimation (Board staff argument, pp. 96-97) that "the undisclosed (grossed-up) tax impact is approximately $91.6M for the two test periods (sic)," OPG has indicated that there will be a reduction in tax as a result of the increase in tax deductions associated with increased pension contributions (Tr. Vol. 15, p. 97).

Consistent with the argument above regarding the Pension and Other Post Employment Benefits Variance Account, OPG submits that it is appropriate to include the tax impacts associated with the variance in pension and OPEB costs in the entries in the variance account, as per OPG's proposal.

**Selection of Discount Rates**

Board staff submits that OPG should provide evidence that discusses other alternatives to its methodology for selection of discount rates used in calculating accrual pension and OPEB costs in accordance with GAAP (Board staff argument, p. 101).[44] OPG uses representative AA corporate bonds to forecast the discount rates to determine the accrued benefit obligation. OPG's use of AA corporate bonds complies with the criteria stated in the CICA Handbook, paragraphs .050 to .054. Furthermore, the use of AA corporate bonds is cited in the Employee Future Benefits Implementation Guide, published by the CICA in 1999. This guide is identified as a primary source of GAAP in paragraph .21 within Section 1100 of the CICA Handbook.

In addition, as the criteria for determining the appropriate discount rate under Canadian GAAP is similar to the criteria under U.S. GAAP, OPG looked to U.S. guidance and noted that on November 16, 2006, the U.S. Securities and Exchange Commission Staff restated their view that the use of fixed-income security that receives a rating of Aa or higher from Moody's Investors Service, Inc. is an appropriate example of a high-quality fixed-income investment that may be used in determining the discount rate.

In summary, based on the evidence from the secondary sources of GAAP, OPG's use of AA corporate bonds to forecast the discount rate is appropriate.

[44] In its argument, Board staff cites Section 3461 of the CICA Handbook at paragraphs .063 to .065 as the source of the definition of the selection criteria for a discount rate. OPG believes that Board staff meant to refer to paragraphs .050 to .054.

# TAB 10

aggressive business planning process, including aggressive targets for Pickering A operation and maintenance costs.

**Board Findings**

Despite the disagreements amongst the parties as to the extent of OPG's claimed savings to date, the Board concludes that OPG has made progress in controlling costs and the growth of costs, but the benchmarking evidence and compensation evidence demonstrate that further progress is warranted. Rather than selecting specific cost per MWh targets for each of the stations, the Board has focused its attention on compensation costs. Compensation costs are one of the key drivers of OM&A expenditures and hence overall cost performance. That issue is addressed in Chapter 6. The Pickering B Continued Operations project is addressed separately below.

The Board will make no additional adjustments to the forecast Base, Project or Outage OM&A levels, with one exception. In its Impact Statement filed on September 30, 2010, OPG identified a $13 million increase over the test period for Canadian Nuclear Safety Commission ("CNSC") fees. OPG did not request recognition of this increase because it is largely offset by a freeze on management salaries. However, the Board is adjusting the provision for compensation costs in Chapter 6 and is including the impact of the management wage freeze in that adjustment. The Board will therefore allow the increased cost associated with CNSC costs as well.

### 4.3.2 Pickering B Continued Operations

OPG has proposed a continued operations program to extend the life of the four units at Pickering B from 2014-2016 to 2018-2020. OPG noted the program must be undertaken in the test period or the units will start to close and the potential benefits will be lost. There is also the consideration that OPG does not plan to operate the two units at Pickering A with Pickering B shut down due to significant technical and economic challenges. Therefore extending the service life at Pickering B until 2020 will allow the two Pickering A units to operate until at least 2020.

OPG stated that the project is covered by O. Reg. 53/05 section 6(2)4 as the program will increase output, and OPG has requested variance account treatment. The program includes maintenance to improve plant condition, inspections, some feeder replacement and the fuel channel life cycle management project.

# TAB 11

of the company. For the nuclear business the evidence is clear that overall performance is poor in comparison to its peers and the staffing levels and compensation exceed the comparators. On this basis an adjustment is necessary to ensure the payment amounts are just and reasonable.

Lastly, the Board directs OPG to conduct an independent compensation study to be filed with the next application. As noted above, OPG's compensation benchmarking analysis to date has not been comprehensive. The Board remains concerned about compensation costs, in light of the company's overall poor nuclear performance, and would be assisted by a comprehensive benchmarking study comparing OPG's total compensation with broadly comparable organizations. The study should cover a significant proportion of its positions. Compensation costs are a signification proportion of the total revenue requirement; OPG's position that such a study would be too expensive and of little value is therefore not reasonable. Consultation with Board staff and stakeholders concerning the scope of the study, in advance of issuing a Terms of Reference, is advised. The costs of the study are to be absorbed within the overall revenue requirement allowed for in this Decision. This has been already accounted for in the Regulatory Affairs budget, which anticipates studies in support of the company's next application.

## 6.2 Pension and Other Post Employment Benefits

Costs related to Pension and Other Post Employment Benefits ("OPEB") for the test period were forecast based on discount rates and assumptions in OPG's 2010-2014 business plan. The total amount requested for the test period is approximately $633 million. On September 30, 2010, OPG filed an Impact Statement in which it identified a significant decline in discount rates causing an increase in forecast pension and OPEB costs for the test period. Rather than revising the proposed revenue requirement, OPG requested approval for a variance account, "to record the revenue requirement impact of differences between forecast and actual pension and OPEB costs." The total forecast increase as a result of the update is $264.2 million, as summarized in the following table.

**Table 18: Updated Pension and OPEB Costs ($ million)**

| | Nuclear | | Regulated Hydroelectric | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 |
| **Pension Cost** | | | | |
| As per Chart 9, Exh.F4-3-1 | $114.0 | $162.8 | $5.8 | $8.1 |
| Projection as of August 2010 | 210.2 | 245.9 | 10.6 | 12.3 |
| Increase | 96.2 | 83.1 | 4.8 | 4.2 |
| **OPEB Cost[1]** | | | | |
| As per Chart 9, Exh.F4-3-1 | 159.3 | 166.7 | 8.0 | 8.3 |
| Projection as of August 2010 | 196.5 | 201.7 | 9.9 | 10.1 |
| Increase | 37.2 | 35.0 | 1.9 | 1.8 |
| **Total Test Period Increase** | | **$251.5** | | **$12.7** |

Note 1: Supplementary pension plans costs are included with OPEB costs
Source: Exh. N-1-1

Board staff submitted that it would be more appropriate for OPG to determine pension and OPEB costs on a cash basis because costs determined on that basis are more stable for ratemaking purposes than those calculated on an accounting basis. In support of its position, Board staff provided a table in its submission that illustrated pension and OPEB payments on an accounting basis as well as a cash basis. On a cash basis, the table identified a total amount of $568 million. This position was supported by CCC, CME, and SEC.

In reply, OPG noted that the Board had approved the accrual method in the previous case and argued that no evidence had been introduced on the cash method in the current proceeding. OPG pointed out that the Board staff tables did not reflect updated pension contributions for 2011 and 2012, as provided by Mercer. OPG maintained that including the updates demonstrates that the cash basis is no more stable than the accounting basis. As noted in OPG's reply submission, there are utilities regulated by the Board using the cash basis and others using the accounting basis.

Board staff further submitted that the variance account request should be denied, and its position was supported by CCC, CME, SEC and VECC. Board staff raised two materiality arguments in its submission. Staff noted that OPG had not informed its shareholder of the increased forecast cost as OPG suggested the increase was not material, and that balances in the Hydro One transmission pension variance account for the last two proceedings have not been material. On the first point, OPG replied that seeking shareholder approval before applying for a variance account is not an established requirement. On the second point, OPG maintained that there is no evidence that OPG's variances will be similar to the immaterial balances recorded by Hydro One.

VECC submitted that the Hydro One pension and OPEB variance accounts for its distribution business and its transmission business were established under specific and unique circumstances and should not be accepted as precedents by the Board. VECC maintained that the accounts are "not the result of decisions wherein the Board actually turns its mind to the appropriateness of allowing HONI to be fully protected from the risk associated with its pension cost forecasts."[42] OPG challenged this view and argued that the Hydro One decision confirmed that balances in the variance account would be subject to a prudence review.

In the previous proceeding the Board denied OPG's request for a pension and OPEB variance account. Board staff submitted that had the account been approved, an estimated $314 million credit to ratepayers would have been recorded for the period 2008 to 2010. This led staff to conclude that the request in the current proceeding should be denied because the pension and OPEB amounts included in the current application are lower than what OPG now believes it will incur in the test period. OPG responded that staff's conclusion amounts to retroactive ratemaking and further, that the staff analysis is not correct. Staff's analysis reflects a full year for 2008, but in OPG's view should reflect only 9 months. OPG also argued that staff has grossly overestimated the 2010 variance.

OPG also disagreed with the Board staff submission on pension and OPEB in three other areas:

- Board staff submitted that if the Board allows OPG to collect the forecast accounting OPEB costs, the variance should be placed in a segregated fund. OPG doubted whether the Board has jurisdiction to implement the proposal. SEC also disagreed with staff, expressing its concern with the precedent;
- Staff submitted that the undisclosed tax impact related to the amount to be tracked in the variance account is approximately $91 million. OPG responded that Board staff is incorrect in submitting that the consequences of taxes

[42] VECC Argument, para. 134.

regarding the update have not been identified, citing updates to the pre-filed evidence; and

- Board staff submitted that OPG should provide evidence that discusses alternatives to AA bond yields to forecast discount rates. In reply, OPG cited sections of the CICA handbook and asserted that the use of AA bond yields was appropriate.

**Board Findings**

OPG correctly points out that there is currently no consistency amongst utilities in the use of either the cash or accrual method to setting pension and other post employment benefit expenses. Both methodologies have been approved by the Board. The Board in this case sees no compelling reason to change OPG's existing approach of using the accrual method. Consistency in accounting treatment, in order to compare results year to year, is advantageous for purposes of assessing the level of costs for reasonableness. A consistent approach over time also ensures a greater level of fairness for ratepayers and the company.

The request for a variance account is denied. Pension and OPEB costs should be included in the forecast of expenses in the same way as other OM&A expenses, and then managed by the company within its overall operations. The Board finds that the forecast included in the pre-filed evidence was more rigorous because it was based on a set of internally consistent assumptions, while the update is based on the AA bond yields which will change. Accordingly, the Board finds that the allowance for pension and OPEB expenses in the pre-filed evidence is appropriate, as it is the best evidence on this matter.

The Board is reluctant to make selective updates to the evidence. The bond yields have changed, and will continue to change, as noted by the actuary in the updated statement. Further, the Board notes that the financial market conditions are variable and have indeed improved since the impact statement was filed. The Board concludes that an adjustment to the allowance is not warranted.

The Board sees no reason to depart from the use of AA bond yields at this time, with the exception of using more current data. However, OPG is directed to provide a fuller range and discussion of alternatives to the use of AA bond yields to forecast discount rates in its next application.