

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule. B;

AND IN THE MATTER OF an application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* for an Order or Orders determining payment amounts for the output of certain of its generating facilities;

AND IN THE MATTER OF a motion by Ontario Power Generation Inc. pursuant to Rule 42 of the Ontario Energy Board's *Rules of Practice and Procedure* for an Order or Orders to vary the Decision with Reasons EB-2010-0008 dated March 10, 2011.

**SCHOOL ENERGY COALITION
COMPENDIUM**

June 2, 2011

Jay Shepherd Professional Corporation

2300 Yonge Street, Suite 806
Toronto, Ontario M4P 1E4

Jay Shepherd

Tel: 416-483-3300
Fax: 416-483-3305
jay.shepherd@canadianenergylawyers.com

Counsel to the School Energy Coalition



Jay Shepherd

Professional Corporation
2300 Yonge Street,
Suite 806
Toronto, Ontario M4P 1E4

BY EMAIL and RESS

May 24, 2011
Our File No. 20110090

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2011-0090 – OPG Payment Amounts – Motion for Review

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1, these are SEC's submissions with respect to OPG's Motion for Review of pension and OPEB costs.

In these submissions, we will deal only with three issues:

- Has the threshold test been met in this motion?
- What is the appropriate test for the Board to apply on a motion for review in dealing with an alleged "error of fact"?
- Has any error of fact actually occurred?

Threshold Test

1. SEC submits that the threshold test has not been met with respect to this motion, and a consideration on the merits is neither required nor appropriate.
2. This motion raises the question of what the moving party has to show, on a *prima facie* basis, to proceed on the merits when an "error of fact" is the sole ground for the review.
3. As Board Staff correctly point out in their submissions, a good recent explication of the considerations in play is found in the NGEIR Decision [EB-2006-0322/338/340]. As noted in OPG's Factum, OPG does not appear to challenge in any way any of those considerations.

Tel: (416) 483-3300 Cell: (416) 804-2767 Fax: (416) 483-3305
jay.shepherd@canadianenergylawyers.com
www.canadianenergylawyers.com

4. The difficulty, in the case of an alleged error of fact, is that in most cases in which the Board does not accept the Applicant's budget in total, the Board finds as a fact something different than the Applicant has proposed. In simple terms, the Applicant says "We think that expenses in category X will cost us \$10 million", and the Board, after reviewing all of the evidence, says "We believe that a more reasonable budget for category X is \$8 million". It is at the heart of what Board panels do in rate cases – assess the evidence and come to a reasonable conclusion on the facts.
5. But alleged errors of fact can span a broad range of possibilities. At the one extreme, the Board panel could say "The undisputed evidence is that the applicant needs to buy 10 widgets at \$1 million each", when the evidence in fact says that the applicant actually needs to buy 100 widgets over ten years, but twenty in the first year. That sort of simple misunderstanding sometimes occurs, and any motion to review that seeks to correct that kind of misunderstanding on the face of the record is a legitimate motion.
6. At the other extreme, the Applicant leads expert evidence as to the future cost of widgets, alleging \$1 million each, and intervenors lead expert evidence that widgets will cost \$500,000 each. The Board assesses the evidence, and concludes that the likely future cost of widgets is \$700,000 each. A motion to review this conclusion is ill-founded, in our submission. Complete evidence has been presented. The Board has assessed it fully and made its decision. Full stop.
7. In our submission, for a motion for review to proceed based on an error of fact, the test should be whether, on the face of the decision, the Board appears to have believed a fact to be true that, on the evidence, could not reasonably be true. "We will allow an increased fleet budget because of the long distance between the depot and the main facility", when in fact the depot and the main facility are within a short distance, for example. Or, "we understand the evidence of Mr. Jones to be that copper prices will rise steadily over the year", when in fact Mr. Jones disagreed with that proposition when it was put to him. These are errors of fact that should be corrected on a motion for review.
8. On the other hand, as the NGEIR Decision points out [p.18], "It is not enough to argue that conflicting evidence should have been interpreted differently".
9. In this case, that is precisely what is alleged. OPG takes the position that it filed an Update, and the Board's decision to prefer the prefiled evidence to the Update was incorrect and should be overturned. That is, the Board had two conflicting pieces of evidence – a pension and OPEB forecast that was part of the overall business plan, and internally consistent with it, and a subsequent pension and OPEB forecast which used new assumptions not consistent with the rest of the business plan. The Board had to trade off consistency against more current information, and chose the former, giving reasons for doing so.
10. OPG seeks to get around the "conflicting evidence" problem by arguing that, once they filed the Update, that effectively amended the prefiled evidence, so that the prefiled evidence was in essence no longer part of the record [OPG Factum, para. 23].



11. This is a surprising proposal, not only inconsistent with Rule 11.02, but also inconsistent with the Board's normal practice in proceedings. Yes, amendments mean that the Applicant is presenting new evidence, different from its previous evidence. However, it does not mean the Applicant is entitled to say, like the Wizard of Oz, "Pay no attention to the man behind the curtain."
12. In practical terms, Applicants and their witnesses update their evidence on a regular basis. When that happens, the Board and other parties look at the changes, and seek to understand why those changes occurred. It is common, for example, to cross-examine a witness on changed evidence, to determine whether the change has been properly justified, and to assess whether the change undermines the witness' credibility. Under OPG's new theory of amendments, that sort of cross-examination would not be allowed, because the previous evidence would have magically ceased to exist.
13. An example may be appropriate. An Applicant files a rate application with a capital plan supported by an independently-developed Asset Condition Assessment from two years earlier. During the proceeding, the Applicant leads a new and very different Asset Condition Assessment, and proposes to dramatically increase their capital spending in the test period. The question is: Is the Board thereafter prohibited from looking at the previous Asset Condition Assessment, because it is no longer "part of the evidence on the record"?
14. In our submission, the answer in this example is obviously no, yet the example is on all fours with the situation in this case.
15. This case appears to us to be nothing more than OPG disagreeing with the Board panel's interpretation of conflicting evidence. As noted in NGEIR, such a motion should fail the threshold test.

Errors of Fact – Appropriate Test

16. Assuming that a motion alleging error of fact is considered on the merits, it is appropriate for the Board to identify with precision the test that should be employed in dealing with that alleged error of fact.
17. There are two basic possibilities: correctness, or "palpable and overriding error". In the former, the review/appeal panel essentially reconsiders the impugned "fact", and makes a new determination. In the latter, the review/appeal panel shows substantial deference to the original Board panel, and intervenes only in the most obvious of cases.
18. In support of the former test is the actual wording of Rule 44.01, which refers to "a question as to the correctness of the order or decision". It is at least arguable that the word "correctness" in that context is meant to import the legal test of "correctness" that applies in certain types of judicial review proceedings.
19. In support of the latter test is the practice in the courts that appeal courts do not interfere on findings of fact unless the original decision contains a "palpable and overriding error", i.e. something so obvious that they have to overturn it.

20. In our view, the interpretation of Rule 44.01 as implying a particular legal test is unlikely. The concept of a “correctness” test in judicial review is based on the notion that certain types of issues are within the special expertise or ability of the administrative tribunal, and other issues are of a more general nature. In the case of those specialized issues, the reviewing court shows deference to the administrative tribunal’s special knowledge or position. In the other cases (issues of general law, for example), the court feels free to substitute its own views, thus applying the correctness test.
21. It is clear that a review panel is not in as good a position as the original panel was to assess the facts on which the decision is to be based. The original panel sees the witnesses, and has a chance to question them. The original panel also sees the totality of the evidence, not just the narrow subset put before the review panel. These advantages mean that the original panel is in a significantly better position to determine the facts in the case than any review panel could be.
22. There is also a practical reality to this. If the correctness test is applicable, then almost every motion for review that is predicated on an alleged error of fact would have to be considered on its merits, because only after considering those merits would the review panel be in a position to consider whether its view of the facts is different from that of the original panel. The threshold test and the merits would, in effect, become almost merged. This is not the intended result of Rule 44.01.
23. Nor, in our view, is it good regulatory practice for the Board’s original decisions on factual issues to be so easily supplanted. There must be some level of finality to Board decisions. The fact that Rule 44.01 provides a relief valve does not mean that the Board’s original decisions are merely practice rounds, with the main event happening later on a motion for review.
24. It appears to SEC that the motion for review should, like an appeal to court, require jumping a fairly substantial hurdle. A correctness standard for errors of fact would be inconsistent with that goal.
25. The entire discussion in the NGEIR Decision is consistent with this view. As well, we believe that the Board should consider and adopt the comments of Vice-Chair Kaiser, in dissent, in the LIEN Review Decision [EB-2006-0021]. While the dissent of the Vice-Chair was on whether the threshold test had been met (the other two panel members believed it had not), the issue of the appropriate test for errors of fact was not the subject of any disagreement, i.e. the Vice-Chair concurred in the result but decided against the moving party on the merits rather than on the threshold test. The Vice-Chair described the “error of fact” test this way:

“40. Absent constitutional questions or issues of procedural fairness, the courts for the last 25 years have been reluctant to interfere with the factual findings of administrative tribunals⁴ unless the factual findings are patently unreasonable. This level of deference has continued in recent decisions with the most recent Supreme Court of Canada decision in Via Rail introducing the concept that the factual findings must be

"demonstrably unreasonable".⁵ This deference is founded on the premise that administrative tribunals exist because specialized fact-finding expertise is often required.

41. Appellant courts are also reluctant to interfere with findings of fact by trial courts unless there is clear error. This is based on the premise that the trial judge heard the evidence and saw the witnesses. I believe the same principle applies to a review under Rule 45. The reviewing panel should not reverse the findings of the original panel unless they are clearly wrong. This is particularly true in cost cases. Appellate courts are very reluctant to interfere with cost awards by trial judges.⁶ That is because a cost award often depends on the conduct of a case by counsel. I believe that principle should also apply to reviews by Ontario Energy Board panels under Rule 45.

42. A reviewing panel should not set aside a finding of fact by the original panel unless there is no evidence to support the decision and is clearly wrong. A decision would be clearly wrong if it was arbitrary or was made for an improper purpose or was based on irrelevant facts or failed to take the statutory requirements into account. That is not the situation here." [Footnotes omitted]

26. A copy of the full decision has been attached to these submissions.

27. In SEC's submission, therefore, the test on a motion for review applicable to a claimed error of fact should be, as the Vice-Chair noted, "demonstrably unreasonable" or "clearly wrong". This is similar to the old test of "palpable and overriding error", and in our submission means that the error of fact must be plain and obvious on the face of the record.

Has an Error of Fact Occurred?

28. In our submission, whatever the test, no error of fact has occurred in this case.

29. OPG points to three indicia in the Decision that lead it to conclude that the Board misdirected itself [OPG Factum, para. 12-14]:

- a. "Internally consistent".
- b. "Change of only one variable".
- c. "Selective update".

The first and the third of these in fact appear to be the same point, as we discuss below.

30. The Board's decision says *"the update is based on the AA bond yields which will change"*. OPG interprets this to mean that the Board did not realize that the updated pension and OPEB evidence reconsidered and updated all variables.

31. Exhibit B to the Affidavit of Mr. Reeve is helpful in this respect. In that Exhibit, Mr. Reeve looks at each of the variables in the pension and OPEB analysis. Of the six variables



identified, four were left as is. Two were changed: the discount rate, based on the “AA bond yields”, and the assumed current year return on assets.

32. In the case of the current year return, the assumed return changed because, under the methodology, the return up to the time of the analysis was assumed to be the return for the entire current year. In the fall of 2009, that current return was 9% on a YTD basis. 2010 was a future year, and so the 7% long term return assumption was applied. When the update was done in August 2010, the 2.5% return to date was assumed to be the return for the entire year, and the prior year actual return of 15% was used. Together these figures are used to forecast the balance of assets in the fund as of the end of 2010, which is a factor in determining the pension and OPEB expense for 2011 and 2012.
33. We note that, in Exhibit N1-1-1, OPG itself characterized the current return adjustments as follows [p. 2]: *“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.”* Thus, it appears clear that this was not the primary factor driving the change in pension and OPEB costs.
34. (We also note, as Board Staff have pointed out in their submissions, the August assumption of the value of the plan as of the end of 2010 turned out to be wrong. The actual value was \$9.118 billion, an increase of 11% during 2010, not 2.5%.)
35. It therefore appears to us that the Board’s reference to the AA bond yields was not misdirection at all, nor any error, but simply a recognition that the driving force behind the proposed increase in the pension and OPEB costs was the bond yield change. The moving party admits that was the primary factor.
36. The broader point OPG proposes on the basis for the error is the notion of “internally consistent” updating. OPG goes on at some length about the fact that the same methodology was used in the August Update as in the Prefiled Evidence on this issue, but, with respect, that entirely misses the point. The Board was not concerned with whether the assumptions within the pension/OPEB analysis were consistent. It was, instead, concerned with whether the assumptions used in that analysis were consistent with the assumptions used in forecasting the other aspects of the revenue requirement. OPG had emphasized again and again that the 2010-2014 business plan was an integrated planning exercise, and everything worked with everything else to make it consistent. The Board, quite correctly, said that if you are going to change the discount rate for pension and OPEB costs in this integrated plan, then why are you not making the same discount rate change for all other aspects of the business plan?
37. Again, this is not an error. It is correct. When an assumption in an integrated plan changes, and the change is not carried through to all aspects of the plan that it impacts, that change is “selective”. The Board correctly identified this as a problem, and opted to take the internally consistent evidence. Its only other “correct” alternative would have been to require OPG to refile the entire application, applying the updated assumption to all aspects of it. That was not really practical.

38. The Board's role in a payment amounts proceeding is not to determine the pension and OPEB forecast. The Board's job is to get the payment amounts right. In opting to rely on an internally consistent set of evidence, rather than superimposing on a subset only of its analysis an updated but inconsistent assumption, the Board was correctly focusing on getting the total number right, i.e. the forest rather than the trees.
39. We have three other comments on the question of whether there was an error at all.
40. First, the Affidavit of Mr. Reeve, in para. 18, provides new evidence to the effect that, as of February 2011, the 2011 forecast pension and OPEB expense had changed again. Instead of being \$264.2 million higher than the Prefiled Evidence, the most recent forecast is \$207.7 million higher than the Prefiled Evidence. In other words, it has in those six months dropped by \$56.5 million.
41. One of the reasons why the Board didn't accept the update in August 2010 is that [p. 91]:
- "The update is based on the AA bond yields, which will change. ...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."*
42. It currently appears that the Board did in fact get this right, and at least some of the additional forecast expense would not have been warranted in any case.
43. Second, the motion from OPG fails to identify another key factor that may be relevant: the difference in pension/OPEB accounting policy between OPG and other regulated entities. OPG uses an accrual approach that is susceptible to changes in discount rates and other variables, and is thus inherently volatile. Other regulated entities recover for regulatory purposes their pension and OPEB contributions, which in the case of OPG would be substantially lower amounts than the accruals [see Reeve Affidavit, para. 15].
44. Both Board Staff and SEC, in Final Argument in EB-2010-0008, suggested that the Board consider applying the more usual contribution rule in determining the amount recoverable in rates for pension/OPEB costs, in order to reduce volatility. While the Board rejected those submissions, the Board did recognize that accrual based expensing of this kind of cost will go up and down as the financial markets change. By sticking with the original forecast, consistent with the rest of the business plan, the Board also opted for less volatility.
45. Third, we note that OPG expressly elected not to ask the Board to change its pension/OPEB forecast. In their attachment to their Factum, OPG include the excerpt from their opening statement dealing with pension/OPEB costs, but they only include two of the three relevant pages. On the third page [Tr.1:14, but starting at the bottom of 13], they say:

"Instead, OPG proposes to -- instead of passing these through into revenue requirement, 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 2012 -- sorry, 2011-2012 test period."

46. Thus, the error that OPG is actually alleging is that the Board failed to grant their request for a variance account for these costs. As Board Staff point out in their submissions, nothing in the OPG Factum speaks to a reviewable error in the refusal to grant a variance account. Given that everyone else who has requested a variance account for this purpose has been unsuccessful, with one narrow exception, this refusal is not likely to be an error.
47. In short, the Board panel accepted the Applicant's evidence on the amount of pension and OPEB costs that should be included in revenue requirement. Unless OPG can show a nexus between an error of fact in the Decision, and the refusal to grant the same variance account that was denied to others, the motion for review should fail on that ground alone. It does not lie in the mouth of a moving party to complain that the Board panel at first instance gave them what they asked for.

Conclusion

48. It is therefore submitted that:

- a. The motion should be denied on the basis that it fails to meet the threshold test.
- b. In the alternative, the motion should be denied on the merits because no "demonstrably unreasonable" error of fact exists in the Decision.
- c. In the further alternative, the motion should be denied on the merits because the facts determined by the Board panel in the Decision are correct.
- d. In the further alternative, the motion should be denied on the merits because the Board accepted the Applicant's evidence on the pension and OPEB costs to be included in revenue requirement, and the moving party has not alleged any reviewable error in the denial of the variance account.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

 A handwritten signature in black ink, appearing to read 'Jay Shepherd', is written over a light blue rectangular background.

Jay Shepherd

cc: Wayne McNally, SEC (email)
 Charles Keizer, Torys (email)
 Interested Parties (email)

Case Name:
Ontario (Energy Board) (Re)

**IN THE MATTER OF the Ontario Energy Board Act, 1998,
S.O. 1998, c. 15, (Schedule B);
AND IN THE MATTER OF a generic proceeding
initiated by the Ontario Energy
Board to address a number of current
and common issues related to demand
side management activities for natural gas utilities;
AND IN THE MATTER OF a motion by the Low
Income Energy Network to review and
vary certain aspects of the Ontario Energy
Board's Decision on Cost Awards
EB-2006-0021 dated November 6, 2006.**

2007 LNONOEB 74

No. EB-2006-0302

Ontario Energy Board

**Panel: Gordon Kaiser, Presiding Member
and Vice Chair; Pamela Nowina, Member
and Vice Chair; Cathy Spoel, Member**

Decision: October 29, 2007.

(46 paras.)

DECISION AND ORDER ON MOTION TO REVIEW COST AWARDS

1 This is the decision of Vice-Chair Nowina and Board Member Spoel. The dissenting opinion of Vice-Chair Kaiser follows the majority decision.

2 On August 25, 2006, the Ontario Energy Board (the "Board") issued its Decision with Reasons in relation to a generic proceeding that addressed a number of current and common demand side management issues for natural gas utilities.

3 The Low Income Energy Network ("LIEN") requested and received intervenor status in that proceeding. LIEN was also found eligible for an award of costs.

4 In its August 25, 2006 Decision with Reasons, the Board stated that Enbridge Gas Distribution Inc. ("EGDI") and Union Gas Limited ("Union") were to pay, in equal amounts, the intervenor costs that would be awarded by the Board.

5 On November 6, 2006, the Board issued its Decision on Cost Awards in which LIEN's legal and consultants/witnesses costs were awarded at a level of two thirds of the amount submitted for recovery. LIEN's disbursement costs were awarded in full for the amount submitted.

6 On November 27, 2006, LIEN filed a motion and requested that the Board review the November 6, 2006 Decision on Cost Awards.

7 Rule 44.01 of the Board's Rules of Practice and Procedure state that every motion made shall:

set out the grounds for the motion that raise a question as to the correctness of the order or decision, which grounds may include:

(i) error in fact;

(ii) change in circumstances;

(iii) new facts that have arisen;

(iv) facts that were not previously placed in evidence in the proceeding and could not have been discovered by reasonable diligence at the time.

8 Rule 45.01 of the Board's Rules of Practice and Procedure state that in respect of a motion, the Board may determine, with or without a hearing, a threshold question of whether the matter should be reviewed before conducting any review on the merits.

9 In the matter at hand, the Board determined the threshold question without holding a hearing. The Board has decided that the motion to review does not pass the threshold question for the reasons set out below.

10 The decision regarding the quantum of cost awards is a discretionary matter for the panel presiding over the specific process. In the November 6, 2006 Decision on Cost Awards, the panel decided that:

LIEN's evidence and participation was limited to a few issues pertaining to its constituency. LIEN's cost claim does not reasonably correlate to what would be expected for such focused intervention relative to other intervenor claims whose participation covered either all issues or was much broader. This is not an implication that the issues LIEN focused on are not important or that the Board was not assisted by its evidence. This partial award is simply a reflection of what the Board considers reasonable for the relatively limited scope of LIEN's participation and contribution to the issues the Board needed to decide in this proceeding.

Board Finding:

11 It is within the original panel's decision as to what factors it will take into account when determining the amount of the cost awards. The reviewing panel has no basis for determining whether the statements above are correct or not because this reviewing panel was not presiding over the process that led to the cost awards decision.

12 LIEN's motion to review did not raise grounds that would lead this reviewing panel to question the correctness of the original panel's decision on a discretionary, matter such as cost awards. It cannot be said that there was an error in fact in the original panels' decision since it is a discretionary matter. Also, there is no change in circumstance nor any new facts. None of the grounds in Rule 44.01 of the Board's Rules of Practice and Procedure have been met.

13 Since the original panel clearly articulated its reasons for disallowing a portion of LIEN's claimed costs and since none of the appropriate grounds were met, this reviewing panel is dismissing the motion at the threshold question.

14 LIEN has asked for cost eligibility in this motion to review proceeding. The Board grants LIEN's cost eligibility request on the basis that LIEN was eligible for cost awards in the original proceeding and will therefore be eligible for cost awards in this motion to review proceeding. The process for the cost awards for the motion to review proceeding is set out below.

15 THE BOARD THEREFORE ORDERS THAT:

1. This motion to review is dismissed at the threshold question. No adjustment will be made to the level of costs awarded to LIEN as specified in the November 6, 2006 Decision.

2. LIEN shall submit its cost claim for the motion to review proceeding by November 12, 2007. A copy of the cost claim must be filed with the Board and one copy is to be served on each of Union and Enbridge. The cost claims must be done in accordance with section 10 of the Board's Practice Direction on Cost Awards.
3. Union and Enbridge will have until November 26, 2007 to object to any aspect of the costs claimed. A copy of the objection must be filed with the Board and one copy must be served on LIEN.
4. LIEN will have until December 3, 2007 to make a reply submission as to why its cost claim should be allowed. Again, a copy of the submission must be filed with the Board and one copy is to be served on each of Union and Enbridge.

DATED at Toronto, October 29, 2007.

Original signed by

Pamela Nowina
Member and Vice-Chair

Original signed by

Cathy Spoel
Member

DISSENTING DECISION

16 I am unable to agree with the majority that the applicant's motion should be dismissed because it does meet the threshold test. However, for the reasons stated, I would dismiss the application on its merits.

17 This motion concerns an application by the Low Income Energy Network (LIEN) requesting the Board to review a decision of an earlier panel that disallowed certain costs claimed by LIEN. The motion was filed in response to the Board's decision of November 6, 2006 which reduced LIEN's legal and witness costs to 2/3 of the amount submitted for recovery. For the reasons set out below, I would dismiss the application.

The Hearing

18 This proceeding concerned an application by two utilities, Enbridge and Union for approval of

certain demand management and conservation activities. The hearing involved 12 hearing days with 11 witnesses, the names of the intervenor witnesses are set out in Schedule A.

19 In its August 25, 2006 Decision, the Board set out the process for dealing with cost awards stating:

Intervenors eligible for cost awards shall file their cost claims by September 15, 2006. The utilities may comment on these claims by September 22, 2006. The cost award applicants may respond to the utilities' comments by September 29, 2006. Union and Enbridge shall pay in equal amounts the intervenor costs to be awarded by the Board in a subsequent decision, as well any incidental Board costs.

20 Ten Intervenors were found to be eligible for cost awards in this proceeding, and requested 100% recovery of costs. Energy Probe Research Foundation ("Energy Probe"), Canadian Manufacturers & Exporters ("CME"), Pollution Probe, the Vulnerable Energy Consumers Coalition ("VECC"), the Green Energy Coalition ("GEC"), the Consumers Council of Canada ("CCC"), the Industrial Gas Users Association ("IGUA"), the School Energy Coalition ("SEC"), the London Property Management Association ("LPMA"), and the Low Income Energy Network ("LIEN"). The cost claims filed by the parties are set out in Schedule B.

21 Enbridge replied that it had no objection to the amounts claimed by the parties, while Union did not comment on the claims. Subsequently, the Board awarded Energy Probe, Pollution Probe, VECC, GEC, CCC, IGUA, SEC, and LPMA, 100% of their costs but disallowed certain costs for LIEN and CME. With respect to LIEN, the Board stated:

LIEN's evidence and participation was limited to a few issues pertaining to its constituency. LIEN's cost claim does not reasonably correlate to what would be expected for such focused intervention relative to other intervenor claims whose participation covered either all issues or was much broader. This is not an implication that the issues LIEN focused on are not important or that the Board was not assisted by its evidence. This partial award is simply a reflection of what the Board considers reasonable for the relatively limited scope of LIEN's participation and contribution to the issues the Board needed to decide in this proceeding. LIEN's legal and consultants/witnesses costs are awarded at a level of two thirds of the amount submitted for recovery. LIEN's disbursement costs are awarded in full for the amount submitted.

The Threshold Test

22 In considering a motion to vary a decision under Rule 45 of the Board's Rules of Practice, the Board must first determine (with or without a hearing) the threshold question; should the matter be reviewed? The second step is a review on the merits.

23 Rule 44.01 of the Board's Rules of Practice states that the Notice of Motion shall set out grounds for the motion that raise a question as to the correctness of the decision. Those grounds may include (i) error in fact; (ii) change in circumstances; or (iii) new facts.

24 The first issue in this application is whether as Rule 44 states, the applicant has raised a question as to the correctness of the decision. Lien says the Board has made the following two errors of fact in its decision:

1

The Board erred in concluding that LIEN's evidence and participation was limited to a few issues pertaining to its constituency, and

2

The Board erred in concluding that LIEN's cost claim does not reasonably correlate to what would be expected for such focused intervention relative to other intervenor claims whose participation covered either all issues or was much broader.

25 It is not enough that an applicant merely allege an error of fact. There must be some reason to believe based on a review of the motion material that there was an error of fact. That is, has the applicant established a prima facie case?

26 LIEN filed a detailed factum containing an Affidavit of Tracy Hewitt sworn November 27, 2006 which supported various arguments that an error of fact had been made. I accept that LIEN has met the threshold test. I also accept that an applicant cannot simply re-argue a case and there must be something beyond bare assertion of factual error.

27 The Board has considerable discretion regarding the threshold test. This discretion has been supported by the courts which have concluded that a tribunal can review a decision even when no new facts are presented.¹ In fact, the Board has granted a review on a number of occasions simply on the basis of fairness.²

28 Fairness is relevant here. It is important to remember that LIEN did not have an opportunity to make submissions on its cost claim. The opportunity to make submissions is a substantive right³. The procedure adopted by the Board provided an opportunity for LIEN to make submissions, but only if there was an objection to the cost award. Here there was no objection and the Board proceeded to reduce the costs without hearing submissions. It seems strange that an intervenor would have more rights when someone objects to the cost award.

29 The majority would dismiss this application at the threshold level. In the result the applicant has no opportunity to argue the merits before or after the decision. This in my view fails to meet the required standard for fairness and transparency.

30 On a review of the motion material including the Affidavit sworn on November 27th, it is clear that LIEN at least has an arguable case that the Board erred in concluding that LIEN's evidence and participation was limited to a few issues related to its constituency and that the Board erred in concluding that LIEN's cost claim did not reasonably relate to such a focused intervention. Accordingly I would hear the motion on its merits.

The Lien Interests

31 The motion filed by LIEN in this matter is supported by an Affidavit of Tracy Hewitt. Exhibit "A" of that Affidavit is LIEN'S Intervention Statement filed on April 18, 2006. That statement provides a lengthy summary of LIEN's interest in this proceeding and its grounds for intervention:

LIEN is an organization of more than 50 member organizations from across Ontario including: energy, public, health, legal, tenant housing, education and social and community organizations. LIEN is managed by a Steering Committee, having as members: Advocacy Centre for Tenants, Ontario's Canadian Environmental Law Association, Centre for Equal Rights in Accommodation, Income Security Advocacy Centre, Share the Warmth, Toronto Disaster Relief Committee, and Toronto Environmental Alliance. As an umbrella organization, LIEN offers the opportunity for one entity to represent the similar interest of many organizations that have come together under LIEN. A description of its organization in greater detail can be found on its web site (www.lowincomenergyu.ca) and in previous submissions to the Board. LIEN has been a recognized intervenor in other proceedings before the Board, in particular concerning the issue of DSM.

LIEN's written "mission statement" is itself a statement of its interest in DSM, whether for electricity or for gas:

"The Low-Income Energy Network aims to ensure universal access to adequate, affordable energy as a basic necessity, while minimizing the impacts of health and on the local and global environment of meeting the essential energy and conservation needs of all Ontarians. LIEN promotes programs and policies which tackle the problems of energy poverty and homelessness, reduce Ontario's contribution to smog and climate change, and promote a health economy through the more efficient use of energy, a transition to renewal sources of energy, education and consumer protection."

LIEN seeks to ensure universal access to adequate levels of affordable energy -- for all, not only for those who can afford it. In doing so, LIEN also seeks to

minimize impacts on health and environment that result from all Ontarians seeking to meet energy needs. LIEN advocates and supports programs and policies that address poverty and homelessness, that reduce environmental degradation and climate change, and that promote a healthy economy through energy efficiency, through transition to renewal sources of energy, through education and through consumer protection.

Together with the interest of its numerous individual members and supporting organizations, in our submission, LIEN has a clear and significant interesting Demand Side Management ("DSM") for natural gas markets in Ontario and, hence, within the meaning of Rule 23.02, a substantial interest in the issues in EB-2006-0021. In LIEN's view, its grounds for participating, referenced in the same Rule, are to advance its views, to protect its interests and to bring knowledge and experience to the making of better decisions.

LIEN intends to participate actively and responsibly in the proceeding by submitting interrogatories, evidence and argument as it appears appropriate to LIEN to do so, and so too to cross-examine witnesses and to submit argument (ref. Rules 23.02 and 23.03(b)).

32 LIEN was accepted as an intervenor. There were no restrictions on its participation. The Board's order with respect to LIEN was identical to that issued to the other intervenors.

33 It is not clear from the Board's decision exactly what issues LIEN's participation was limited to, but LIEN's intervention statement suggests that it did have a specific constituency namely low income individuals whose principal concern was matters of energy poverty and homelessness and more generally universal access to adequate levels of affordable energy.

The LIEN Submissions:

34 LIEN makes a number of arguments regarding the scope of its participation. First, LIEN claims it participated on a "broad range of issues, but in accordance with Board's Practice Direction on Cost Awards, co-operated with other intervenors with similar issues to avoid duplication". LIEN then argued that such compliance with the Board's practice direction was the reason that the panel did not see LIEN's participation in this proceeding as broadly focused.

35 Put simply, LIEN claims that its intervention was not limited in scope as was evidenced by its letter of intervention, its interrogatories, and its participation in the settlement discussions. LIEN further claims that its intervention letter filed April 18, 2006 identified a broad range of interests. LIEN claims that it raised interrogatories at the technical conference on broad DSM issues including credit for DSM savings, length of DSM plans, and societal and energy consumption

benefits of DSM plans, as well as the utilities' low income DSM programs.

36 LIEN also raised the issue of their participation in the settlement conference. LIEN argued that without having considered all of the issues, it could not have agreed on a partial settlement. The Board does not agree with this submission. LIEN's position, if correct, would dictate that all parties to any portion of a settlement would need to engage on discussions on all issues discussed in the entire settlement process. Parties with discrete interests in a proceeding can, and should, take no position on certain aspects of a settlement that does not concern their interests.

37 LIEN then argues that because discussions during the settlement conference were confidential, the Board has not been able to ascertain the extent of their interest. That is certainly true but it is reasonable for the Board (as this panel did) to assume that an intervenor's interest in a settlement conference would be consistent with the objectives stated in its intervention statement, and its subsequent participation in the hearing.

38 LIEN also argued that its cross examination and participation at the hearing, while focused, was broader than low income programs. LIEN also cross examined and presented argument on total DSM budget and proportionality across rate classes. This panel accepts that submission but this does not necessarily mean that costs above the two thirds allocation are warranted. The issue for a panel to consider in assessing an application for costs is not the actual level of participation of the applicant intervenor, but rather the appropriate scope of participation, given the intervenor's demonstrable interests in the proceeding and the level of assistance to the Board provided through its participation. The Board relies upon intervenors to exercise appropriate discipline in determining where their participation is; a) required in order to properly represent their constituency; and b) likely to be of assistance to the Board.

39 LIEN also argued that non duplication in the hearing room does not mean lack of interest or lack of necessary preparation by an intervenor. LIEN argued that the Board cannot assume that by not cross-examining on an issue an intervenor lacks interest, or that it has not prepared in respect of the issue. The Board does not question that proposition. The Board is entitled however in determining cost awards to take notice of the scope of interest that a party declared in its original intervention statement. In this proceeding a number of parties promoted DSM activities. It was represented in LIEN's intervention statement at the beginning of this proceeding that LIEN's interest was somewhat narrower than others because it related to DSM activities for low income consumers as opposed to DSM generally. That was the basis upon which the Board allowed LIEN as an intervenor and granted it eligibility for costs. Had LIEN's declared interests been duplicative of those of other intervenor groups advocating DSM programs, the Board's determination of LIEN's intervenor and cost eligibility might have been different.

The Standard of Review:

40 Absent constitutional questions or issues of procedural fairness, the courts for the last 25 years have been reluctant to interfere with the factual findings of administrative tribunals⁴ unless the

factual findings are patently unreasonable. This level of deference has continued in recent decisions with the most recent Supreme Court of Canada decision in *Via Rail* introducing the concept that the factual findings must be "demonstrably unreasonable".⁵ This deference is founded on the premise that administrative tribunals exist because specialized fact-finding expertise is often required.

41 Appellant courts are also reluctant to interfere with findings of fact by trial courts unless there is clear error. This is based on the premise that the trial judge heard the evidence and saw the witnesses. I believe the same principle applies to a review under Rule 45. The reviewing panel should not reverse the findings of the original panel unless they are clearly wrong. This is particularly true in cost cases. Appellate courts are very reluctant to interfere with cost awards by trial judges.⁶ That is because a cost award often depends on the conduct of a case by counsel. I believe that principle should also apply to reviews by Ontario Energy Board panels under Rule 45.

42 A reviewing panel should not set aside a finding of fact by the original panel unless there is no evidence to support the decision and is clearly wrong. A decision would be clearly wrong if it was arbitrary or was made for an improper purpose or was based on irrelevant facts or failed to take the statutory requirements into account. That is not the situation here.

43 While the decision by the original panel could have been more explicit, the Board's concerns in this cost award are clear. There were ten intervenor groups with a substantial potential for overlapping interests. While these costs are paid by the utility applicants, those costs find their way into rates paid by all consumers. The Board has an obligation to make sure there are not duplicate interests represented. Virtually all of these intervenors represent consumer groups of some description. IGUA represents industrial users. CME represents the commercial users. The School and Energy Coalition represents schools. But a number represent either environmental concerns or low income groups. Environmental interests are represented by Pollution Probe and the Green Energy Coalition and Energy Probe Research Foundation. Low Income residential consumers are represented by the Vulnerable Energy Consumers Coalition, the Consumers Council of Canada and the Low Income Energy Network. The Board came to the conclusion that the interests of the residential consumers were well represented but multiple representation was justified because some of them such as LIEN represented important sub-groups such as low income consumers.

44 The legitimate concern the Board has with intervenor costs is best seen in Schedule "B" of this Decision which records total costs of some \$764,000. LIEN recorded total costs of \$109,000 which was reduced by the Board to approximately \$76,000. Even at the reduced level, the LIEN costs were significantly higher than a number of other intervenors and substantially higher than the Vulnerable Energy Consumers Coalition which represented a similar constituency of low income consumers. In the circumstances, the disallowance of some of LIEN's costs has merit.

45 There must be clear evidence that the factual finding was clearly wrong. I am unable to conclude that that is the case in this situation. It may be that I would have decided the case differently, but that is not the test. The test is whether the decision was clearly wrong. For the

reasons set out above, I would dismiss the motion. I would award the applicant its costs for this motion.

46 I would also add that this case demonstrates the need to more clearly define an intervenor's scope of participation in advance of the hearing when the Board considers cost eligibility.

DATED at Toronto, October 29, 2007.

Original signed by

Gordon Kaiser
Member and Vice-Chair

* * * * *

Schedule A

Witnesses called by the intervenors at the oral hearing or participated at the technical conference:

EB-2006-0322

EB-2006-0338

EB-2006-0340

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF a proceeding initiated by the
Ontario Energy Board to determine whether it should
order new rates for the provision of natural gas,
transmission, distribution and storage services to gas-
fired generators (and other qualified customers) and
whether the Board should refrain from regulating the
rates for storage of gas;

AND IN THE MATTER OF Rules 42, 44.01 and 45.01 of
the Board's *Rules of Practice and Procedure*.

BEFORE: Pamela Nowina
Vice Chair, Presiding Member

Paul Vlahos
Member

Cathy Spoel
Member

DECISION WITH REASONS

May 22, 2007

Section C: Threshold Test

Section 45.01 of the Board's Rules provides that:

In respect of a motion brought under Rule 42.01, the Board may determine, with or without a hearing, a threshold question of whether the matter should be reviewed before conducting any review on the merits.

Parties were asked by the panel to provide submissions on the appropriate test for the Board to apply in making a determination under Rule 45.01.

Board Staff argued that the issue raised by a moving party had to raise a question as to the correctness of the decision and had to be sufficiently serious in nature that it is capable of affecting the outcome. Board Staff argued that to qualify, the error must be clearly extricable from the record, and cannot turn on an interpretation of conflicting evidence. They also argued that it's not sufficient for the applicants to say they disagree with the Board's decision and that, in their view, the Board got it wrong and that the applicants have an argument that should be reheard.

Enbridge submitted that the threshold test is not met when a party simply seeks to reargue the case that the already been determined by the Board. Enbridge argued that something new is required before the Board will exercise its discretion and allow a review motion to proceed.

Union agreed with Board Staff counsel's analysis of the scope and grounds for review.

IGUA argued that to succeed on the threshold issue, the moving parties must identify arguable errors in the decision which, if ultimately found to be errors at the hearing on the merits will affect the result of the decision. IGUA argued that the phrase "arguable errors" meant that the onus is on the moving parties to demonstrate that there is some reasonable prospect of success on the errors that are alleged.

CCC and VECC argued that the moving parties are required to demonstrate, first, that the issues are serious and go to the correctness of the NGEIR decision, and , second, that they have an arguable case on one or more of these issues. They argued that the moving parties are not required to demonstrate, at the threshold stage, that they will be successful in persuading the Board of the correctness of their position on all the issues.

MHP argued that the threshold question relates to whether there are identifiable errors of fact or law on the face of the decision, which give rise to a substantial doubt as to the correctness of the decision, and that the issue is not whether a different panel might arrive at a different decision, but whether the hearing panel itself committed serious errors that cast doubt on the correctness of the decision. MHP submitted that a review panel should be loathe to interfere with the hearing panel's findings of fact and the conclusions drawn there from except in the clearest possible circumstances.

Kitchener argued that jurisdictional or other threshold questions should be addressed on the assumption that the record in NGEIR establishes the facts asserted.

School Energy Coalition argued that an application for reconsideration should only be denied a hearing on the merits in circumstances where the appeal is an abuse of the Board's process, is vexatious or otherwise lacking objectively reasonable grounds.

Findings

It appears to the Board that all the grounds for review raised by the various applicants allege errors of fact or law in the decision, and that there are no issues relating to new evidence or changes in circumstances. The parties' submissions addressed the matter of alleged error.

In determining the appropriate threshold test pursuant to Rule 45.01, it is useful to look at the wording of Rule 44. Rule 44.01(a) provides that:

Every notice of motion... shall set out the grounds for the motion that raise a question as to the correctness of the order or decision...

Therefore, the grounds must "raise a question as to the correctness of the order or decision". In the panel's view, the purpose of the threshold test is to determine whether the grounds raise such a question. This panel must also decide whether there is enough substance to the issues raised such that a review based on those issues could result in the Board deciding that the decision should be varied, cancelled or suspended.

With respect to the question of the correctness of the decision, the Board agrees with the parties who argued that there must be an identifiable error in the decision and that a review is not an opportunity for a party to reargue the case.

In demonstrating that there is an error, the applicant must be able to show that the findings are contrary to the evidence that was before the panel, that the panel failed to address a material issue, that the panel made inconsistent findings, or something of a similar nature. It is not enough to argue that conflicting evidence should have been interpreted differently.

The applicant must also be able to demonstrate that the alleged error is material and relevant to the outcome of the decision, and that if the error is corrected, the reviewing panel would change the outcome of the decision.

In the Board's view, a motion to review cannot succeed in varying the outcome of the decision if the moving party cannot satisfy these tests, and in that case, there would be no useful purpose in proceeding with the motion to review.

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

Filed: 2010-09-30
EB-2010-0008
Exhibit N
Tab 1
Schedule 1
Page 2 of 4

1 2010-2014 had been approved. The Act addresses restrictions to increases in compensation
2 for employees that do not collectively bargain compensation. For OPG, the Public Sector
3 Compensation Restraint Act will impact Management employees.

4
5 As indicated in interrogatory L-01-075, OPG included an increase of 3 per cent in each of
6 2011 and 2012 in its Management compensation levels. As a result of the *Public Sector*
7 *Compensation Restraint Act*, OPG is removing Management wage escalation for the period
8 to April 1, 2012 from its test period revenue requirement for the regulated facilities, reducing
9 costs by \$12M.

10 11 **Pension and OPEB Costs**

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

17
18 The pension and OPEB costs forecasts in OPG's application for 2011 and 2012 were based
19 on discount rates (presented in Chart 8 of Ex. F4-T3-S1) forecast during the 2010-2014
20 business planning process. Since the beginning of 2010, these discount rates have declined
21 significantly. This decline has caused an increase in the forecast pension and OPEB costs
22 for the test period. Specifically, the discount rates used to project pension, other post
23 retirement benefits and the long-term disability plan costs have decreased from 6.80%,
24 7.00% and 5.25%, respectively, to 5.70%, 5.70% and 4.40%, respectively, as of the end of
25 August 2010. The updated estimates of discount rates were provided by external actuaries.

26
27 Chart 8 of Ex. F4-T3-S1 also shows that pension cost forecasts were based on assumed
28 rates of return on the pension fund assets of 9.0% in 2009 and 7.0% in 2010. The actual
29 return for 2009 was approximately 15%, and the 2010 actual return as of the end of August
30 2010 is approximately 2.5%. The net effect of the updated returns for the two years is to
31 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 Cost¹				
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	

¹Supplementary 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

Filed: 2010-09-30
EB-2010-0008
Exhibit N
Tab 1
Schedule 1
Page 4 of 4

1 between forecast and actual pension and OPEB costs. For the 2011-2012 test period, OPG
2 would bring the balance in this account forward for disposition during its next payment
3 amounts application. OPG will file additional evidence supporting this request when it files
4 the update to its variance and deferral account evidence with updated forecasts of balances
5 for December 31, 2010.
6
7

EB-2010-0008

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an application by Ontario
Power Generation Inc. pursuant to section 78.1 of the
Ontario Energy Board Act, 1998 for an Order or Orders
determining payment amounts for the output of certain of
its generating facilities.

BEFORE: Cynthia Chaplin
Presiding Member & Chair

Marika Hare
Member

Cathy Spoel
Member

DECISION WITH REASONS

MARCH 10, 2011

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 significant 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 Cost¹				
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.

EB-2010-0008

THE ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act*, 1998 for an order or orders determining payment amounts for the output of certain of its generating facilities.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Monday, October 4th, 2010,
commencing at 9:36 a.m.

VOLUME 1

BEFORE:

CYNTHIA CHAPLIN	PRESIDING MEMBER AND VICE-CHAIR
CATHY SPOEL	MEMBER
MARIKA HARE	MEMBER

1 will also avoid the rate shock for ratepayers that would be
2 experienced under the traditional regulatory approach of
3 addition to rate base.

4 OPG is of a view that the OEB should be commended for
5 its openness to regulatory treatment for large
6 infrastructure investments.

7 As well as, the OPG board of directors approved an
8 initiative to extend the operating life of Pickering B for
9 four years from their current nominal end-of-life of 2011
10 to 2016 to 2018 to 2020. This initiative was also endorsed
11 by the province on February 4, 2010, and the OPA on
12 April 1, 2010, and the OPA indicated in its letter that it
13 believes the substantial benefits could potentially arise
14 from the continued operation of Pickering B and supports
15 OPG's decision to proceed with expenditure of funds in the
16 2010-2012 period.

17 Those are the three components. If I could just
18 advise you that OPG did file last week on September 30th an
19 impact statement with the Board to show the impact of three
20 changes since OPG's filed its application in May 2010.

21 The first change was an increase in regulatory fees
22 for the test period for the CNSC, having an impact of
23 \$13 million increase on revenue requirement. The second
24 change arises from the Public Sector Compensation Restraint
25 Act. As a result of that legislation, OPG is removing
26 management wage escalation for the period to April 1, 2012
27 from its test-period revenue requirement for regulated
28 facilities, which is a reduction of \$12 million.

1 The increase in revenue requirement arising from
2 regulatory fees then is largely offset by the decrease in
3 management compensation levels.

4 The third element of the impact statement relates to
5 pension and OPEB costs -- and for the record, that's O-P-E-
6 B -- which are subject to significant variability to the
7 extent that forecast assumptions, such as discount rates or
8 assumed pension-fund performance, differ from actual
9 values.

10 Since the beginning of 2010, discount rates have
11 declined significantly. Pension costs forecasts are based
12 on assumed rates return on the pension-fund assets of
13 9 percent in 2009 and 7 percent in 2010. The actual return
14 in 2009 was 15 percent, but the actual return in 2010 at
15 the end of August is approximately 2.5 percent.

16 As a result of these changes, OPG has updated the
17 total pension and OPEB costs for 2011 and 2012, and have
18 projected the -- which have been projected by external
19 actuaries as of the end of August 2010.

20 Given the potential significant variability between
21 the updated forecasts and the actual pension and OPEB
22 costs, OPG is proposing to revise its proposed payment
23 amounts or payment riders to address the projected increase
24 in these costs.

25 Now, the impact statement was filed last week. I'm
26 not sure whether or not that had been provided to the
27 Panel, and as a result -- it has. Okay. Thank you.

28 Instead, OPG proposes to -- instead of passing these

||

1 through into revenue requirement, OPG proposes to address
2 the forecast change to pension and OPEB costs by requesting
3 that the OEB establish a variance account to record the
4 revenue requirement impact of differences between forecast
5 and actual pension and OPEB costs for the 2012 -- sorry,
6 2011-2012 test period. OPG would bring the balance in this
7 account forward for disposition during its next payment-
8 amounts application.

9 So in conclusion, fundamentally, this case is about
10 the evaluation of the costs and revenues arising from the
11 operation of OPG's prescribed assets, and a fair return on
12 those assets to establish a rate that's just and
13 reasonable.

14 OPG is a large corporation. It has many employees,
15 which operate, you know, and maintain very sophisticated
16 and intricate facilities. But I think what's important is
17 what underlies OPG's application, is the fact that,
18 notwithstanding the challenges that OPG has of being a
19 corporation of the nature and size that it is, that OPG has
20 begun to take on significant strides to find efficiencies,
21 and lower cost and stay true to the priority of providing a
22 safe, reliable, and effective cost effect -- supply of
23 electricity.

24 The case is not, as some parties will propose, about
25 evaluating OPG's regulated costs and revenues or
26 establishing required payment amounts relative to charges
27 such as global adjustments, HST, transmission and
28 distribution rates that are established independent of