BOARD STAFF INTERROGATORY #14

INTERROGATORY

D - Operating Costs
Issue 4: Is the forecast of Employee Future Benefit costs which will be incurred under USGAAP appropriate, including the request to recover Pension Expense and Other Post-Employment Benefits ("OPEB") Expense on an accrual basis commencing January 1, 2013?

Ref(1): Ex. A2/Tab3/Sch 1/Appendix 4 Mercer Report, Updated Estimated 2013-2017 Cash Costs – EGD Non-Pension Post-Retirement Plans – 19 January 2012

Ref(2): Ex. A2/Tab3/Sch 1/Appendix 5 Mercer Report, Updated Estimated 2013-2017 Accrual Funding Costs – EGD Non-Pension Post-Retirement Plans – 19 January 2012

EGD updated its assumption of the discount rates for OPEB costs to 4.80% for the accrual basis of recording OPEB.

As per page 12 of Appendix 5, Mercer stated:

> The discount rate assumption has been updated from the rate used in the December 31, 2010 valuation to reflect market conditions as at October 31, 2011 and new CIA guidance released in September 2011.

Mercer did not disclose the discount used for the cash basis of recording OPEB costs in Appendix 4.

a) Please disclose the discount used for the cash basis of recording OPEB costs in Appendix 4.

b) Please provide the yield curve to show that the discounted rates used is supported by the yield curve of long term bonds. Please describe the yield curve used. Please explain.

c) Please provide the discount rate used in the December 31, 2011 valuation and the supporting documentation.

Witnesses: K. Culbert
S. Chhelavda

d) Please also demonstrate that the long term bonds selected by EGD covering a time period horizon approximate the period of EGD's future benefit payments for its OPEB plans.

e) Please explain why the discount rate used for the valuation on the accrual basis is 4.80% in Appendix 5 and is presumably different than that used on the cash basis in Appendix 4 as at December 31, 2011.

i) Please explain why two different rates are used as at December 31, 2011.
ii) Please reconcile the differences.
iii) Please explain the implications of these two different discount rates on the 2013 Test Year OPEB expense calculated on an accrual basis and the 2013 Test Year OPEB expense calculated on a cash basis.

RESPONSE

a) The OPEB costs on the cash basis disclosed in the Mercer Report represent expected future benefit payments in the year of reporting. They do not reflect present value of the payments and therefore are not dependent on a discount rate.

b) Please see response to part a) above.

c) The discount rate used in the December 31, 2011 accounting valuation report for valuing the OPEB funded status was 4.5%. Please refer to the Attachment provided /c in the response to Board Staff Interrogatory #13 at Exhibit I, Issue D4, Schedule 1.13 for a copy of the report.

d) EGD's OPEB plan is not pre-funded and is on a pay-as-you-go-basis. Therefore there are no long term bonds or any other type of investments selected as part of an asset pool used to fund future benefit payments.

e)
i. Please see response to part a) above.
ii. Please see response to part a) above.
iii. Please see response to part a) above.

Witnesses: K. Culbert
S. Chhelavda