**Other Post-Employment Benefit Adjustments**

**Request for New Deferral Account**

**Accounting Order**

As directed by the Ontario Energy Board (the “Board”), in its decision in EB-2012-0033, the following is a request for a new deferral account to be used for future re-measurements (future actuarial gains or losses) relating to Other Post-Employment Benefits (“OPEB”) which will be recorded in Other Comprehensive Income (“OCI”) under MIFRS instead of being amortized in OM&A using the corridor approach under CGAAP.

Actuarial gains and losses result from increases or decreases in the present value of the defined-benefit obligation because of changes in actuarial assumptions and experience adjustments. Some examples of causes of actuarial gains and losses include:

* unexpectedly high or low rates of employee turnover, early retirement, or mortality, or increases in salaries, benefits (if the formal or constructive terms of the plan provide for inflationary benefit increases), or medical costs;
* the effect of changes to assumptions concerning benefit payment options;
* the effect of changes in estimates of future employee turnover, early retirement or mortality, or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases), or medical costs; and
* the effect of changes in the discount rate.

The Board’s Filing Requirements for Electricity Transmission and Distribution Applications, revised on June 28, 2012, states that the following eligibility criteria must be met when seeking to establish a new deferral/variance account:

* Causation - The forecasted expense must be clearly outside of the base upon which rates were derived.
* Materiality – The forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
* Prudence - The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

Enersource proposes that the requested new deferral account satisfies the eligibility criteria:

* Causation – Enersource has not included an amount of actuarial gains or losses relating to its post-employment obligation in its proposed 2013 base revenue requirement as future actuarial gains and/or losses cannot be predicted. Future re-measurements are the result of the change in actuarial assumptions and experience adjustments at the future valuation date.
* Materiality – The materiality of the actuarial gains and losses are undeterminable at this point in time. Depending on the change in actuarial assumptions, the quantum of the amount to be deferred may be material in one year and not in the next. As approved by the Board in its Decision in EB-2012-0033, Enersource will defer the actuarial gains and losses related to OPEB, on a prospective basis, subject to the materiality threshold being met. Enersource will not defer the actuarial gains and losses incurred prior to 2013.
* Prudence – The recording of actuarial gains and losses in OCI is in accordance with IAS 19R and is therefore prudent.

Subject to the materiality threshold being met, Enersource will continue to defer OPEB actuarial gains and losses in the approved deferral account until the earlier of:

* A decision by the Board to implement a policy in respect to the OPEB which differs from the approach approved here, and
* Enersource’s next rebasing application.

If the cumulative balance is material, Enersource may request disposition in a future application for the amount accumulated in the deferral account.

In the event that an actuarial gain is recorded and is material, Enersource proposes that the following general ledger entries be recorded (assuming a $100 actuarial gain):

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **Post-employment Liability** | **$100** | **Balance Sheet** |
| Credit | OCI – Post-employment Adjustment | ($100) | Income Statement |
| *To record actuarial gain in OCI.* | | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **OCI – Post-employment Adjustment** | **$100** | **Income Statement** |
| Credit | Proposed Deferral Account – OCI MIFRS Post-employment Adjustment | ($100) | Balance Sheet |
| *To record refundable amount in proposed deferral account.* | | |  |

In the event that an actuarial loss is recorded and is material, Enersource proposes that the following general ledger entries be recorded (assuming a $100 actuarial loss):

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **OCI – Post-employment Adjustment** | **$100** | **Income Statement** |
| Credit | Post-employment Liability | ($100) | Balance Sheet |
| *To record actuarial loss in OCI.* | | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **Proposed Deferral Account – OCI MIFRS Post-employment Adjustment** | **$100** | **Balance Sheet** |
| Credit | OCI – Post-employment Adjustment | ($100) | Income Statement |
| *To record recoverable amount in proposed deferral account.* | | |  |

Based on the Board’s Decision, given that the actuarial gains and losses are non-cash items, interest carrying charges shall not apply to the balance in this account.

Enersource believes that the deferral of the post-employment adjustments will prevent both Enersource and its customers from bearing any gain or harm from an actuarial adjustment.