



Margaret Nanninga
Vice-President Finance
mnanninga@kwhydro.on.ca

Tel: (519) 749-6177
Fax: (519) 745-2360
www.kwhydro.ca

August 28, 2013

BY COURIER & RESS

Ms. Kirsten Walli, Board Secretary
ONTARIO ENERGY BOARD
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

Re: Board File No. EB-2013-0147
Kitchener-Wilmot Hydro Inc. – Procedural Order #1

Dear Ms. Walli:

Attached is a non-confidential summary of the report prepared by Dion Durrell & Associates Inc. as requested by the Board in Procedural Order #1, dated August 22, 2013. The summary was prepared by Dion Durrell & Associates Inc. on August 28, 2013.

A copy of this submission has been electronically filed through the Board's RESS system. The original and one (1) copy have been couriered to the Board's offices.

Questions or concerns in this matter should be addressed to the undersigned.

Respectfully submitted,

Original Signed By:

Margaret Nanninga, MBA, CGA
Vice-President Finance

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Attachments
cc: All Intervenors

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MEMORANDUM

DATE: August 28, 2013
TO: Margaret Nanninga (Kitchener-Wilmot Hydro Inc.)
FROM: Patrick Kavanagh
RE: Kitchener-Wilmot Hydro Inc. ("KW Hydro") – Post-Retirement Non-Pension Benefit Plan figures
COPY: Stanley Caravaggio (Dion, Durrell + Associates Inc.)

The attached CY 2011 to CY 2013 post-retirement non-pension benefits plan figures were prepared in accordance with The Canadian Institute of Chartered Accountants (CICA) guidelines outlined in Employee Benefits, Section 3461 of the CICA Handbook – Accounting.

The accounting disclosure worksheets summarize the calculation of the CY 2011 benefit expense of approximately \$325,000 and the December 31, 2011 accrued benefit obligation of approximately \$4,984,000.

The projected figures for CY 2012 and CY 2013 are based on the same data, benefit provisions, methodology, and management's best estimate assumptions used in the actuarial valuation report at January 1, 2011, with the exception that the discount rate assumption was updated to 4.50% per annum as at December 31, 2011. A summary of the other significant economic and demographic management best estimate assumptions are listed below:

Salary Increase Rate – The rate used to increase salaries is assumed to be 3.30% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion.

Health Benefit Cost Trend Rate

- Initial Rate = 8.00%
- Ultimate Rate = 5.00%
- Year Ultimate Rate Reached = 2019

Dental Benefit Cost Trend Rate – The dental benefit cost trend rate is assumed to be 5.00% per annum.

Mortality Table – Mortality is assumed to be in accordance with the 1994 Uninsured Pensioner Mortality (UP-94) table, with a projection of mortality improvements to the year 2020 based upon Projection Scale AA.

Rates of Withdrawal – Termination of employment prior to age 55 is assumed to be equal to 2.00% per annum.

Retirement Age – All active employees are assumed to retire at age 59, or immediately if currently over age 59. The assumed retirement age will be increased, if necessary, to the minimum of the age at which 20 years of service is reached and age 65.

Kitchener-Wilmot Hydro Inc.

ESTIMATED BENEFIT EXPENSE (CICA 3461)

	Calendar Year 2011	Projected Calendar Year 2012	Projected Calendar Year 2013
Discount Rate - January 1	5.00%	4.50%	4.50%
Discount Rate - December 31	4.50%	4.50%	4.50%
Withdrawal Rate	2.00%	2.00%	2.00%
Assumed increase in Employer Contributions	actual	actual	expected*

A. Determination of Benefit Expense

Current Service Cost	126,207	145,802	152,363
Interest on Benefits	228,489	225,602	232,112
Expected Interest on Assets	-	-	-
Past Service Cost	-	-	-
Transitional Obligation/(Asset)	-	-	-
Actuarial (Gain)/Loss	(30,130)	-	-
Benefit Expense	324,565	371,404	384,475

B. Reconciliation of Prepaid Benefit Asset (Liability)

Accrued Benefit Obligation (ABO) as at December 31	4,983,834	5,122,729	5,273,093
Assets as at December 31	-	-	-
Unfunded ABO	(4,983,834)	(5,122,729)	(5,273,093)
Unrecognized Loss/(Gain)	(482,587)	(482,587)	(482,587)
Unrecognized Transition	-	-	-
Prepaid Benefit Asset (Liability)	(5,466,421)	(5,605,316)	(5,755,680)
Prepaid Benefit/(Liability) as at January 1	(5,381,064)	(5,466,421)	(5,605,316)
Benefit Income/(Expense)	(324,565)	(371,404)	(384,475)
Contributions/Benefit Payments by the Employer	239,208	232,509	234,111
Prepaid Benefit Asset (Liability)	(5,466,421)	(5,605,316)	(5,755,680)

* based on estimated employer benefit payments for those expected to be eligible for benefits.

Projected CY 2012 and 2013 results are provided for informational purposes only. Significant changes in 2012 or 2013 such as renegotiated benefits, increased benefit costs, or significant swings in demographics may require a full actuarial review.

Kitchener-Wilmot Hydro Inc.

ESTIMATED BENEFIT EXPENSE (CICA 3461)

	Calendar Year 2011	Projected Calendar Year 2012	Projected Calendar Year 2013
Discount Rate - January 1	5.00%	4.50%	4.50%
Discount Rate - December 31	4.50%	4.50%	4.50%
Withdrawal Rate	2.00%	2.00%	2.00%
Assumed increase in Employer Contributions	actual	actual	expected*

C. Calculation of Component Items

Calculation of the Service Cost

- Current service cost	126,207	145,802	152,363
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Interest on Benefits

- ABO at January 1	4,563,180	4,983,834	5,122,729
- Current service cost	126,207	145,802	152,363
- Benefit payments	(119,604)	(116,255)	(117,055)
- Accrued benefits	4,569,782	5,013,382	5,158,037
- Interest	228,489	225,602	232,112

Expected Interest on Assets

- Assets at January 1	-	-	-
- Funding	119,604	116,255	117,055
- Benefit payments	(119,604)	(116,255)	(117,055)
- Expected assets	-	-	-
- Interest	-	-	-

Expected ABO as at December 31

- ABO at January 1	4,563,180	4,983,834	5,122,729
- Current service cost	126,207	145,802	152,363
- Interest on benefits	228,489	225,602	232,112
- Benefit payments	(239,208)	(232,509)	(234,111)
- Expected ABO at December 31	4,678,667	5,122,729	5,273,093

Expected Assets as at December 31

- Assets at January 1	-	-	-
- Funding	239,208	232,509	234,111
- Interest on assets	-	-	-
- Benefit payments	(239,208)	(232,509)	(234,111)
- Expected Assets at December 31	-	-	-

* based on estimated employer benefit payments for those expected to be eligible for benefits.

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Kitchener-Wilmot Hydro Inc. **ESTIMATED BENEFIT EXPENSE (CICA 3461)**

	Calendar Year 2011	Projected Calendar Year 2012	Projected Calendar Year 2013
Discount Rate - January 1	5.00%	4.50%	4.50%
Discount Rate - December 31	4.50%	4.50%	4.50%
Withdrawal Rate	2.00%	2.00%	2.00%
Assumed increase in Employer Contributions	actual	actual	expected*

D. Actuarial (Gain)/Loss

(Gain)/Loss on ABO as at January 1			
- Prepaid Benefit/(Liability) as at January 1	5,381,064	5,466,421	
- Unamortized (Gain)/Loss	<u>(1,083,200)</u>	<u>(482,587)</u>	
- Expected ABO	4,297,864	4,983,834	5,122,729
- Actual ABO	<u>4,563,180</u>	<u>4,983,834</u>	<u>5,122,729</u>
- Total (Gain)/Loss on ABO	265,316	-	-
(Gain)/Loss on assets as at January 1			
- Expected assets	-	-	-
- Actual assets	<u>-</u>	<u>-</u>	<u>-</u>
- (Gain)/Loss on assets	-	-	-
Total (Gain)/Loss as at January 1	(817,884)	(482,587)	(482,587)
10% of ABO as at January 1	<u>456,318</u>	<u>498,383</u>	<u>512,273</u>
Total (Gain)/Loss in excess of 10%	(361,566)	-	-
Expected average remaining service life (years)	12	11	10
Minimum Amortization for current year	(30,130)	-	-
Actual Amortization for current year	(30,130)	-	-
(Gain)/Loss on ABO at December 31 due to change in discount rate assumption			
- Expected ABO - December 31	4,678,667		
- Actual ABO - December 31	<u>4,983,834</u>		
- (Gain)/Loss on ABO at December 31	305,167		
Unamortized (Gain)/Loss	(482,587)	(482,587)	(482,587)

* based on estimated employer benefit payments for those expected to be eligible for benefits.

Projected CY 2012 and 2013 results are provided for informational purposes only. Significant changes in 2012 or 2013 such as renegotiated benefits, increased benefit costs, or significant swings in demographics may require a full actuarial review.