London Hydro Inc.
111 Horton Street
P.O. Box 2700
London, ON
N6A 4H6

May 16, 2014

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: Application for Accounting Order

Dear Ms. Walli:

Please find accompanying this letter, two copies of our Application for an Accounting Order to establish deferral and variance accounts to record transitional adjustments to retiree life insurance benefits.

Electronic copies of the Application have been submitted via the Board's Regulatory Electronic Submission System.

Yours Truly,

Martin Benum
Director of Regulatory Affairs
London Hydro
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email: benumm@londonhydro.com

London Hydro Inc.

Request for Accounting Order

Date Filed: May 16, 2014

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Application

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by London Hydro Inc. for an Order or Orders pursuant to Section 78 of the Ontario Energy Board Act, 1998 for an accounting order authorizing the use of additional deferral and variance accounts.

1. The applicant is London Hydro Inc. ("LH" or the "Applicant). The Applicant, an Ontario corporation with its head office in London, Ontario, carries on the business of owning and operating electricity distribution facilities within Ontario; Electricity Distribution Licence # ED-2002-0557. The Applicant carries on its distribution business in The City of London as at January 1, 1993.

2. LH hereby applies to the Ontario Energy Board (the "Board" or the "OEB"), pursuant to section 78 of the Ontario Energy Board Act, 1998 as amended (the "OEB Act") for an Order or Orders authorizing LH to establish deferral and variance accounts to record adjustments to retiree life insurance benefits. These matters are discussed in the Manager's Summary attached hereto.

3. LH's most recent cost of service review was EB-2012-0146 in which the Board approved electricity distribution rates for LH's electricity distribution customers effective May 1, 2013.

4. LH requests that the Board dispose of this proceeding without a hearing in accordance with subsection 21(4)(b) of the OEB Act, which provides:

   Despite section 4.1 of the Statutory Powers Procedure Act, the Board may, in addition to its power under that section, dispose of a proceeding without a hearing if,

   a. no person requests a hearing within a reasonable time set by the Board after the Board gives notice of the right to request a hearing; or
   b. the Board determines that no person, other than the applicant, appellant or licence holder will be adversely affected in a material way by the outcome of the proceeding and the applicant, appellant or licence holder has consented to disposing of a proceeding without a hearing.

   The grounds for this request are:

   - No person can be adversely affected by the creation of a deferral and variance account. A deferral account is simply an accounting mechanism to record costs, and
   - the dispersal of the requested deferral and variance account will be the subject of a future rates proceeding.
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5. As signatory to this Application, I, Martin Benum, CPA, CMA, Director of Regulatory Affairs, do certify that the evidence filed in this Application is accurate, consistent and complete to the best of my knowledge.

DATED at London, Ontario this 16th day of May, 2014.

LONDON HYDRO INC.

Martin Benum CPA, CMA, BBM

Contact Information

LH's contact information for this Application is as follows:

The Applicant:

Mr. Martin Benum
Director of Regulatory Affairs
London Hydro Inc.

Mailing Address: 111 Horton Street
P.O. Box 2700
London, ON
N6A 4H6

Telephone: (519) 681-5800 ext. 5750

Email Address: benumm@londonhydro.com

Manager's Summary

Background

LH has a grandfathered retiree life insurance benefit program that existed until 1998, when it was negotiated out of the collective agreement. Currently the program provides term life insurance coverage for 121 existing retirees and 2 qualified future retirees. The plan is designed to pay death benefits ranging from a flat $2,000 to amounts based on 70% of their active life benefit coverage, the largest amount being $137,200. The total insured volume is $4,564,960. As of January 1, 2014 the average age demographics of this group was 78 and the majority of those covered by this plan are male.

LH normally goes to market every five years to ensure optimal least cost coverage for benefits. LH benefits were last marketed in 2010 and the retiree life insurance program was only bid on by only two insurance providers.[1] In September 2013 LH renewed the retiree life insurance benefit program for an additional term ending December 31, 2014. The insurance provider proposed a 69.9% increase to the plan, settling for a 36.5% increase. LH 2013 cost of service application (EB-2012-0146) included an annual premium expense of $210,000 for this coverage. LH is paying $285,000 with the recent renewal.

LH is concerned about the future of this benefit program as it exists. The current plan is a “non-refund” plan, where in the event that claims and expenses exceed the premiums the insurance company assumes the loss and cannot recoup any deficit from LH. When the current contract expires it is unlikely that LH will be able to renegotiate a similar contract without significant further increases in costs. LH anticipates that future contract proposals may even require a “refund accounted” plan which could require LH to absorb some component of the risk. Worse case, LH may not be able to find any future insurance providers willing to underwrite this coverage. The current insurance provider has the right to terminate this contract with 31 to 60 days’ notice.

[1] The successful insurance provider has now acquired the competing provider.

As mentioned LH current premiums paid to the insurance provider for this coverage is $285,000 per year with the next renewal date of January 2015. As a conservative estimate, LH had a forecast prepared by Mercer (Canada) Limited where the premiums grow by approximately 10% per year, countered with the projection that the number of insured individuals covered declining by an average of 8.5 per year. This forecasts suggests that the premiums in 2019 could total $472,971 (a 66% increase) even though there would only be 72 (a 42% decrease) individuals covered by the plan. By 2024, the premiums would cost LH in excess of $650,000.

Action taken

LH requested Mercer (Canada) Limited to review this plan and provide alternate options for consideration in order to mitigate future costs. Mercer has proposed the following options:

- Voluntary Buy-Out
- Purchase Paid-Up Life
- Self-insure
- Combinations of the above

With the voluntary buy-out option, London Hydro would offer a cash payout to each retiree, based on the present value of the insured amount. If accepted; no further insured benefit would be payable at death. Mercer has estimated the cost of the liability to determine the "buy-out" option for the retiree term life benefit is approximately $3.8 million, as at January 1, 2014, or on average approximately 80% of the life face amount.

With the paid-up life insurance option, London Hydro purchases paid up life policies for the retirees, who receive a certificate issued by the insurance company. Once purchased, London Hydro no longer has an ongoing financial liability for this coverage. The Paid-up life insurance option is estimated to cost approximately $4.3 M to purchase paid up policies for all retirees.

LH could consider the self-insure option where LH is responsible for the first $10,000 of the total amount of the policy for the retiree. No initial cash outlay is required in this situation, although Mercer expects that the premiums would decrease. For the first couple of years, the total cash outlay would be expected to remain consistent as the "new" premium and the self-insurance amount would be approximately the same as the current premium. As the premiums continue to increase, this option could provide some moderate savings.

LH is interested in pursuing the least cost option; voluntary buy-out. However, depending on the acceptance, this may require LH to expend a large amount of money in the near future. This money is significantly beyond what is currently recovered in LH's revenue requirement.

LH Request

LH is requesting the Board to provide LH with an accounting order allowing LH to place settlement amounts paid in a deferral account. LH would propose disposition of this deferral account in a future cost of service proceeding.

LH is also requesting two variance accounts to record the future changes to the accounts that record the annual expenses related to the retiree life insurance benefit program. One account records the annual premiums paid to the insurance provider. The other records the annual changes in the Accrued Benefit Obligation liability. LH anticipates that the adjustments to these accounts will reduce the amount requested in the deferral account.

Saving to ratepayer

Ultimately LH anticipates that the proposed change to the retiree life insurance benefit program will be to the benefit the ratepayer. By not pro-actively addressing this LH believes that escalating premium costs and company assumed risk will be incurred which will be progressively borne by the ratepayer. It is LH's desire to mitigate this situation by taking immediate action.